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MODERNIZATION OF KAZAKHSTAN – IN THE CONTEXT OF MODERNIZATION THEORY

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Abstract

The problem of modernization was in all ages of human existence. In this article author convincingly substantiates the concept of evolutionary development of different areas of modernization. Multifaceted study of modernization process indicates the presence of many diverse opinions in all areas of knowledge, which differ in disciplinary approaches. The author did an analysis of successful political modernization in Southeast Asia. Particularly important in the article has the ability to use and adapt in Kazakhstan positive experiences of Southeast Asian countries. Studying the experience of these countries reveals the main trends of development that lead to the transformation of society.

Key words: modernization, westernization, linear, partial, actor, multi-line models, endogenous factor, “soft authoritarian”, Asian model.

Modernization of problems has been actively developed in 50-60 years of XX century, when the problem of development of political strategies was appeared towards developing countries. Its researchers have relied on the theoretical legacy of such researches as M.Weber, F. Tennis and E.Dyurkgeym. Modernization theory developed by scientists U.Moore, G.Yalmonom, L.Pay, S. Eisenstadt, S.P. Huntington, S. Verboy, K. Deutsch, F. Riggea, A. Nikelson, Zh.Marlellandom, M. Levi and others, became an interdisciplinary concept, in which representatives of different sciences (historians, sociologists, political scientists, philosophers, psychologists ...) explore the mechanism of transformation of traditional societies into modern societies.

Originally modernization was understood as copying of the western political and sociocultural foundations by backward or underdeveloped countries. During this period in political sciences the idea of linear development dominates: one countries lag behind others on level of social, political and economic development; however as a whole they move on one way of modernization, repeating a way of more developed countries.

In this case the concept "modernization" describes movement from the periphery to the center of modern society. [1] According to W. Moore «modernization is total transformation of traditional pre-modern society in such social organization which is characteristic for "advanced", economically prospering and in the political plan of rather stable nations of the West». [2]
Political modernization was understood mainly as loan by the countries of a political system released from colonial dependence and political culture of the western countries, first of all by the USA. As the main directions of political modernization were considered democratization of political system on the western sample (the centralized state, parliament, multi-party system, general election), active cooperation of developing countries with the West countries, i.e. idea modernization was reduced to idea of loan by the countries of Asia, Africa, Latin America technologies of the sociopolitical device of the West European countries and USA.

Positions of supporters of this theory of modernization are based on such concept as a universalism, namely development of all countries is considered as universal, occurring in one direction, having the same stages and regularities. Therefore, modernization is something other, rather than spontaneous development in the progressive direction; first of all, it means the realized copying of the western societies which are representing itself as "countries samples" [3], «the countries to which refer» and «which establish speed of movement». [4]

According to supporters of this direction «modernization is not self-supported, self-progressing process more likely it is transferring of samples, models and achievements of the developed countries in own». [5]

S. Eisenstaedt notes that the theory of modernization considered as a synonym of a westernization or Americanization, offered as aim movement to existing in the concrete territory and concrete time to societies. «Historically modernization is process of the changes conducting to two types of social, economic and political systems which developed in Western Europe and North America during the period between XVII and XIX centuries and extended on other countries and continents». [6]

It is necessary to distinguish westernization as model of modernization and westernization as a part of any other model, since loan of the western samples always inevitably at modernization. The West became the initiator of such form of modernization as westernization, usually, the western values are often imposed by force, and colonization was a form of its implementation mainly.

According to westernization model, value of national features admits, but it is considered that they are of secondary importance. Modernization is represented as linear development from traditional society to modern. In these models into the forefront there is a criticism of traditional society, and its institutes and culture are considered as an obstacle to forward development of society. Orientation in political practice on this radical modernization and discredit of traditional values led to serious negative consequences. Results of modernization processes testify that this model promotes fixing of the subordinated position of not western countries in the world market, leads to destruction of traditional values without their high-grade replacement new, blasting a sociocultural basis of society.

According to the concept of westernization there are certain universal values which can get accustomed in any country of the world regardless of sociocultural distinctions. Limited approach of the western culture, aggressive imposing of values and forms of market liberalism, construction in a rank of a reformation of complete discredit of previous cultural experience is supposed mass nothing. «Historically modernization is process of change in the direction of those types of social, economic and political systems which developed in Western Europe and North America with seventeenth on the nineteenth century and then extended on other European countries, an in the nineteenth and twentieth centuries - on the South American, Asian and African continents». [6]

System of sociopolitical orientation and cultural values of not western countries collapsed during a westernization without replacement by their western culture. The reason of it is absence of social groups which could become a basis of modernization, contradictions between imposed western...
political values and national system of ideals, submission of overall objectives of such modernization to practical problems of extraction of profit from colonies. The westernization model of modernization destroyed traditional character of these societies, but didn't make them western, it provided development, but in an inconsistent and drama form, by loss national the state independence. After crash of colonial system the majority of Third World countries left attempt of a westernization of the countries, officially declaring too high price of such development.

Political events of the 60th years of the last century showed insolvency of a westernization approach. The idea of modernization underwent serious criticism in the late sixties and the beginning of the 70th years and it was already noted that attempts to modernize society don't lead to the promised results more often. As a result of the carried-out modernization, poverty and hunger were not liquidated in the backward countries, but, moreover, its scales increased. Widely extended authoritative and dictatorships, arose new forms of religious fundamentalism, nationalism etc. «All this didn't stimulate (especially in the political sphere) development of institutional systems capable to adapt for the proceeding changes, new problems and requirements». [7]

The majority of researchers recognized as inefficient this approach to modernization. As it was correctly noted, as the western countries in the course of modernization relied on own national traditions that makes incorrect tradition and present opposition. In this regard, the direction considering criticism from developing countries, and also the left movement in the West, believing actively began to develop that modernization on the western sample justifies colonization, not only not considering feature of cultures of traditional societies, but also not explaining the reason of rejection of carried-out reforms. Researchers legally considered that modernization on the western sample conducts to preservation of backwardness, dependence, and the social and ethnic conflicts.

In the 70-90th years of the XX century the concept of development and modernization were reconsidered. It was noted that modernization not always was a part of development, as results of modernization can be negative for society. Obviously, modernization can be a part of transformation that means ambiguity, insolvency of its results.

Practical insolvency of this approach resulted in need of reconsideration of theories of the modernization based on idea of a universalism and a priority of the western model. of social and economic and political structures which could be carried out and out of the western model was called the priority purpose of modernization. The priority objective of modernization has been called the change of socio-economic and political structures that would be outside the Western model. Emerging concept of "partial modernization", "dead-end modernization," "modernization crisis syndrome"; were investigated in more detail the specific political processes, taking into account the specific historical and national conditions, cultural characteristics of countries. Transition to modernization began to represent as complete, rather long stage, on which it is possible not only development and simple reproduction of existing structures, but also their destruction which can lead to disintegration of social system as a whole.

According to the concepts which have been put forward by S. Chodak, D. Apter, E.Tirakyan, modernization processes should be based on sociocultural and historical features of society, first of all. There is a possibility of implementation of modernization by different ways and methods depending on launching sites of these or those societies and problems which they face.

Researchers noted that direct opposition of tradition and the present leads to irreversible negative consequences. Moreover, using as the sociocultural basis of modernization of traditional values allows carrying out modernization in the form most effective and accepted for this society. «Not only modern
societies include many traditional elements, but also traditional societies, in turn, quite often possess such lines which are considered as the modern. Besides, modernization is capable to strengthen tradition». [8] «Traditional symbols and forms of leadership can appear the vital part of valuable system on which modernization is based». [9]

Attempts of overcoming of shortcomings of the theory led to qualitatively other understanding of essence of process of political modernization. This concept of development based on a principle of preservation of sociocultural traditions, has further development in works of A. Abdel-Malek, A. Turen, the Village of Huntington, S. Eisenstaedt.

According to the concept of S. Eisenstaedt, there was an understanding of that fact that destruction old not necessarily promotes emergence of the new. Often the rupture of traditional ties and loss of traditional values conducts to disintegration, a disorientation and chaos, instead of to rooting of new values and institutes. [10]

In his opinion, the concept of modern modernization should be based on the following provisions:

- The developed sociocultural types as a basis of stability, independence of societies;

- Stability of valuable and semantic factors in regulation in political and economic life;

- Big variability of the institutional, symbolical, ideological interpretations, which various societies give to real processes of modernization.

Modernization began to be considered as difficult, often an inconsistent social phenomenon. Within this concept universality of social and political development isn't denied. At the same time the principle of a universalism is combined with a particularism, and their organic synthesis is considered as the key to success of modernization process. Thus, it is possible to draw a conclusion that the modernization concept constantly developed, taking into account experience of world processes.

Depending on the used mechanism of modernization in a political science it is accepted to allocate primary, secondary and partial modernizations.

Primary or "organic" modernization is characteristic for the West European countries, the USA and Canada and corresponds to an era of the first industrial revolution. First of all, it captured spiritual the ideological sphere of Europe (the Renaissance, the Reformation, Education), then underwent transformation economy, on the basis of new values. It became the precondition for formation of civil society that in turn, led to change of political system and fixing of representation of social interests. In these countries modernization was carried out by mainly evolutionary way on the basis of own cultural traditions and samples.

Secondary modernization represents "catching-up" modernization. The major factor, that defining the process, are sociocultural and economic relations of the countries which have lagged behind in the development with the international leaders. For this model of modernization the situation is characterized when one elements of social and political system "escaped" forward and more or less correspond to development of the countries - leaders, and others didn't "ripen" yet in the development, or in general are absent. Experts carry here Mexico, Turkey, Russia, and Brazil.

Partial modernization is characterized by conflictness, opposition of innovations and traditions. Separate traditional institutes at all aren't an inevitable obstacle of modernization; on the contrary, they can promote successful political development. However invasion of ready samples of institutes and practice of the modernized world into a welfare
context of the society which is yet ready to a given form of modernization, can lead to conflict situations, and even to modernization paralysis.

The problem of modernization has the further development, and in a political science there is a classification of the following types of modernization:

- endogenic, i.e. carried out on own basis;
- endogenic-exogenous, carried out on own basis, no less than on the basis of loans;
- exogenous modernization (imitating, imitating simulation and situational options), carried out on the basis of loans in the absence of own bases.

From the point of view of the methodological analysis of modernization processes, the interesting thing is classification of models of modernization in which differ: linear, partial, multi-line and Actor model.

In this model, the process of modernization was seen as revolutionary, associated with the radical and comprehensive transformation of human existence and patterns of activity during the transition from traditionalism to modernity. Assigned a sign of the complexity of modernization, which means it cannot be reduced to a single dimension. Proponents of linear model (Rostov, A. Organskyii, M. Levy, D. Lerner, N. Smelser, C. Black, S. Eisenstaedt, and others) recognized that modernization causes changes in almost all areas of human thought and behavior, generating processes of structural and functional differentiation, industrialization, urbanization, commercialization, social mobilization, secularism, national identification, propagation media literacy and education, development of modern political institutions, the growth of political participation. Under the linear model of modernization was seen as an immanent process of the system, integrated into a coherent whole the factors and attributes of modernization, which should appear in clusters, rather than in isolation.

The linear model generated idea of modernization as global process which was provided as distribution of modern ideas, institutes and technologies from the European center worldwide, and endogenic development of non-European communities. All societies, according to supporters of this model, it was possible to distribute along an axis going from traditional character to the present.

This model offered standard criteria of modernization which were developed usually on the basis of comparison ideal - typical images of traditional character and the present. So in one of S.Eysenshtaedt's early works formulated a feature set, characteristic for this model.

In the social sphere social-demographic aspects of modernization, according to the scientist, are rather precisely described by concept of social mobilization during which there is destruction of old models of behavior and socialization and emergence of the new. In the economic sphere modernization is accompanied by technological growth, development of the industrial system based on technologies of high level.

In the political sphere the following features of modernization are allocated: growth of territorial scale of political activity owing to an intensification of imperious capacities of political institutes; change of traditional models of legitimation of the Supreme power; recognition of responsibility of government before citizens.

In the culture sphere modernization, according to the researcher, was characterized by distribution of literacy and secular education; creation of difficult intellectual and initialized system for preparation for implementation of specialized roles; distribution of means of the international communication.
According to critics of this theory, the lack of this model is, first of all, that it didn't consider constantly changing conditions of the international environment for concrete societies.

The following model - model of partial modernization. Idea of modernization as long transition from «rather not modernized» to "rather modernized" societies, stated in one of early works on problems of the theory of modernization (M. Levi, 1966), has profound development in later concept partially (or partial, "fragmented") modernizations. "In many societies - the author of the concept D. Ryushemeyer wrote, - the modernized and traditional elements are woven into freakish structures. Often such social incongruities represent the temporary phenomenon accompanying accelerated social changes. But quite often they are fixed and remain throughout generations.

The essence of partially model is reduced to recognition of possibility of "jamming" of some societies at a stage of "partial" modernization. Thus, this approach meant providing the right to existence to one more way (branch), startup defective, from traditional character to the present. In a certain degree promotion of model of partially modernization was a step from linear vision of historical process towards a paradigm meaning possibility of multiple line dynamics.

The Partial model, as well as linear, was guided by studying of the macrolarge-scale social phenomena and processes and was based on a structural and system approach, however, it called into question a set of signs of linear model (revolutionary, complex, system, global, stadial, convergence, irreversible nature of modernization). The most important characteristic of linear model connected with rigid ordering of societies by a principle of reference to "traditional character" or to "present", was thoroughly revised within the partially model reducing traditional and modernized elements in special interrelation. Thus the partially model couldn't represent itself as elementary replacement of linear model. Its designing became reaction to deficiency of universalism's claims of linear model. The Partially model allowed to remove a number of the theoretical contradictions arising at research with a support on linear model of those cases of development which were blocked by too big distinctions between traditional and modern (ordinary borrowed of environment) values and institutes (such situations quite often are called as catching-up, inorganic modernization).

The multiple-line model is connected with P. Shtompka, U.Bek, A.Turen's names, Huntington.

This model relies on the following provisions:

- refusal of unilateral linear treatment of modernization as movements towards the western institutes;
- recognition of a national way of the development having the sociocultural coloring;
- recognition of a positive role of sociocultural tradition;
- attention strengthening to the international factor;
- value of a role of actors;
- refusal of treatment of modernization as uniform process of system transformation;
- refusal of rigid determination.

The wide circulation in a political science was found by actor model of modernization which was developed in the concept of the Finnish researcher Timo Piiraynen with a view of a transition explanation from planned to market economy.

According to the researcher, possibility of a choice is updated during the periods of big historical transformations to which number modernization process belongs. During this period the political and social order is formed as collective result of individual elections and actions. Society restructuring in a
similar situation can be considered as interaction of old collective achievements and new elections and the actions which are carried out by individual members of society.

According to this theory, the research attention should be concentrated to an everyday life of ordinary people, to identification of the main ways and strategy, which they use to cope with difficulties of a transition period. Elections for certain vital strategy which do concrete families problems with which they face become a subject of the analysis of T. Piiraynen at the first stage of research.

The author investigates how actions of individual actors unite to make social results. In its concept the concept of optimization is central: it is supposed that actors will aspire to choose action which maximizes a difference between benefits and expenses.

Popular scientific P. Shtompka, on the basis of research of various approaches and theories of modernization put forward the thesis according to which it is necessary to reconsider basic provisions of the concept of modernization taking into account a changing social-political situation:

- instead of uniform, universal model of the present, which to the arsenal backward societies as an example should (in the classical theory it more often model of the USA) add entered idea of «moving epicenters of the present» and as a wreath its concept «exemplary societies». The countries not so surely should follow the American model and as a whole the western model of development not the unique sample to which needs to be imitated in everything. As acceptable examples are called Japan and «Asian tigers»;

- if earlier efficiency of modernization was deduced from economic growth, the important role of values, the relations, symbols and cultural codes without which modernization now admits can't be successful;

- early theories are corrected now by the instruction that local traditions can conceal in themselves important modernization potentialities.

- as a motive power of modernization the political elite operating "from above" isn't considered any more. The main agents of modernization spontaneous social movements and leaders nowadays admit;

- modernization isn't treated any more as decisions accepted by educated elite and imposed to the population which clings to traditional values and way of life. It is a question about mass aspiration of citizens to change conditions of the existence according to the western standards under the influence of mass media or personal contacts;

- understanding of exogenous actors comes to change of emphasis of endogenic, immanent factors of modernization, including world geopolitical alignment of forces, external economic and financial support, openness of the international markets and the last in a place, but not on importance - availability of convincing ideological means; political and social doctrines and the theories proving and supporting modern values (individualism, discipline, labor ethics, ability to rely on itself, responsibility, reason, a science, progress, freedom);

- the unified process of modernization is replaced with its more various process. Everything is more clearly realized that rates and modernization consequences in various areas of social life are various and that lack of synchronism in efforts on modernization is actually observed.

Specificity of political modernization in Kazakhstan has its features. For the first time political modernization processes in the Kazakh society have arisen in the beginning of XX century. Party “Alash”, judging by program documents, aspired to modernization of the Kazakh society in autonomy of "Alash" - historically to the first Kazakh republic. The resolution of the whole-Kazakh congress
which was passing in Orenburg on December, 5-13th, 1917, supposed proportional representation in the government of Russian and other people, including - by means of allocation it 10 of 25 places in "Alash-Orda" - the government of an autonomy of "Alash". [11]

The second Kazakh republic (1920-1936) established «dictatorship of the proletariat and the labor peasantry». Former public institutes – local government, the common law, traditional land-using – were liquidated, one by one.

The regime carried out unprecedented transformation on scales of all public, political, cultural and economic institutes.

The third Kazakh republic (1937-1977) balanced all in lawlessness in the conditions of a totalitarian regime. Not casually its beginning belongs to the period of scope of repressions of the end of the 1930th, and end – by times of board of Brezhnev.

The fourth Kazakh republic (1978-1989) - a mold of the Brezhnev's Constitution of «the developed socialism». Instead of the state «dictatorships of the proletariat» the Constitution fixed existence of the socialist public state, without having offered anything new concerning political, economic and cultural modernization. The fifth republic (1990-1995) — emergence and strengthening of institute of presidency, transformation of purely formal sovereignty of the federal republic into political independence, the statement in the Constitution of 1993 of statehood of the Kazakh nation. [12]

The sixth republic (since August, 1995) — establishment of statehood of the Kazakhstan people on the Kazakh earth. The declared constitutional principles, including: secular character of the state, the democratic, constitutional, social state — quite correspond to the European norms.

From the moment of independence finding in Kazakhstan, as well as in other countries formed in the territory of the former USSR, there were huge changes. As the majority of them affirmed and there were habitual many democratic values, bases of market economy were created. However a process of transformations passed difficult and is inconsistent. After disintegration of the USSR before the leadership of Kazakhstan there was a question of reforming of all system of the government and management. In spite of the fact that at an initial stage the priority was given to reforming of the economic sphere, the political component had also important value.

Unlike many other countries Kazakhstan had a choice of ways of transformation of political system though the republic didn't begin copying another's experience, and tried to emphasize on the accounting of local specifics. Certainly, reference points of political development are set by the developed states, but the country leaders always emphasized about identity of political development of Kazakhstan: «We form the model of political reforms, the «Kazakhstani way» of political transit. [13]

By the time of disintegration of the USSR Kazakhstan belonged to traditional society. But a number of modernization transformations was carried out to the late Soviet ("Perestroika") and Post-Soviet period in the republic, thanks to which the ruling elite of Kazakhstan in rather short terms managed to approve the western forms of democracy and the free market (to guarantee to being formed middle class and other propertied groups a leading position in the management and decision-making even if for it, it was necessary to pay sharp social polarization and inequality deepening; to import from abroad the capitals, technology, the goods, professional knowledge; gradually to pass to the western model of consumption). In turn the Kazakhstan society showed adaptable ability to new circumstances that allowed certain Kazakhstan political scientists to argue that influence modernization in the 90th years in the Kazakhstan society affected more than many other civil societies of the former republics of the USSR. [14]
Basis of ideology of the Kazakhstani model of modernization is the program «Kazakhstan – 2030» and «Strategy of occurrence of Kazakhstan in number of 50 most competitive countries of the world», offered by the President in 1997 and 2006.

As the first feature of the Kazakhstani way it is possible to allocate a systematic of carried-out political reforms. The country leaders chose a way of gradual modernization of separate components for achievement of a main goal – creation of the state working in interests of society and achievement of necessary balance in relationship of the leading device and citizens. So, at the initial stage the essence of reforms consisted in demolition of totalitarian system. Dismantle of old system became possible thanks to adoption of the new Constitution, establishment of a post of the President, definition of functions between executive and representative branches of the power. It opened possibility to the republic to define the democratic way of development.

The following step of the country leaders became forming of party system, in particular, it was headed for creation of a multi-party system. Certainly, the first political parties couldn't occupy that situation which is allocated for them in democratic political systems. But the formed parties impulsed further development of party system. Besides, it is not excluded that in the conditions of accruing liberalization of a political regime people had an interest to self-realization, self-affirmation, and active participation in political life. [15]

Framework of system of public administration was defined, reforms in this direction made basic changes to vertical structure of administration. In particular, laws on local executive and representative bodies of the country were adopted. A lot of work was also done in the direction of development of the mass media, acting in democratic societies by the fourth estate. The first independent mass media and sprouts of the competitive information market started to appear. [16]

Further political development of the country showed in need of modification of structure of parliament which didn't reflect interests of regions. In this regard there was a course was taken on formation of a two-chamber parliament, allocation of a presidential vertical from executive and on liberalization of an electoral system, definition of procedures of elective process. All this allowed to stabilize a political situation and to concentrate on the solution of the major problems. [17]

As the following feature that reforming of political system has the constitutional character acts. As criterion of definition of reforming stages of a political regime it is possible to allocate modification of the main document of the country — the Constitution. Significant changes were brought in components of system with the constitutional amendments — a two-chamber parliament, a multi-party system, extension of powers of the President etc. Thereby the constitutional reforming in Kazakhstan is one of the main instruments of political modernization.

As other feature of the Kazakhstan reforming it is possible to allocate that fact that as the initiator of reforms the President of the country acts. N. Nazarbayev became the recognized national leader, the political intermediary connecting the past and the future. Its role in ensuring political stability is rather high. The head of state managed to mobilize economic, political resources for implementation of national projects at the head of which there was a President.

Process of political modernization in the Republic of Kazakhstan is carried out by detailed consideration of theoretical practices and practical experience of the foreign states. Introduction of a certain type of political modernization and a choice of that model which most is suitable for conditions of Kazakhstan, are the interconnected and interdependent problems.
Thus the state which is the main subject of democratic transformations in the country, still considers the most acceptable model of democracy: «Now in the world there are three models of democracy that operate: the European, classical and new, being formed Afro-Asian model. And Kazakhstan should choose what of these models to our conditions, to our culture, to our population, to our traditions to pick up. And this process, it extended, of course, will be in time. We will turn out the experience». [18]

In search of optimum model of democracy and a suitable example of the political modernization, the highest leading persons of the state, rather often use model so-called «Asian democracy» which introduction occurred in the countries of the Asian and Pacific region in the second half of the XX century. In this sense today the states of South East Asia, such as Singapore, Malaysia, Indonesia, Philippines, Thailand, South Korea, Japan, etc. are considered in Kazakhstan not so much from taken positions of the modernization experience saved up in them, but already in comparative aspect.

In recent years in the political development Kazakhstan passes through the same "stages", which countries of South East Asia crossed rather recently. For example, democratization on Philippines began with public performances (1986); by means of negotiation processes and demonstrations in Thailand (1992), Indonesia (1998), and also at the forced international intervention – in East Timor (2001).

Political interest to Asian Pacific region as a whole and to East Asia in particular is caused by a certain similarity in development of many countries of this region, on the one hand, and the Republic of Kazakhstan, with another. Both there, and there, during the transit period (post-colonial for Southern Asia and Post-Soviet for Kazakhstan) strengthening of the presidential power and mobilization of all resources for economic modernization while questions of democratization of society remained for the time being on the second plan took place.

Special interest in this context was represented by the NIS group countries where the state wheel long time had political regimes of various types, not always democratic which, despite not democratic essence, promoted rapid technological and economic growth of these states. Political scientists in this regard most often consider Singapore, Malaysia, and Indonesia.

The political system of Singapore was created at the moment of independence finding (1963-65gg.) after secession of Malaysian Federation. In spite of the fact that under the constitution of 1963 Singapore is the parliamentary republic, in reality in the country there is so-called «a semi-party system» Lee Kuan Yew - the founder of the independent Singapore state was which founder. The concept Lee Kuan Yew assumed formation so-called «the educated authoritarianism» and the appreciable role in this system was played by party «National action», stretch in power from the moment of formation of the independent state. Originally PNA was based by politicians of the left sense in 1954-55gg., supporting finding of independence of the country, but after leaving of the British administration the most part of the left wing of the party left its structure and formed so-called «The socialist front». After independence finding leaders of PNA kept many methods of management which were used even at the time of the British sovereignty, for example, the law on internal security which allowed making arrests without a charge to apply measures of physical impact on prisoners, to carry out press censorship, to supervise actions of trade unions. Wide economic freedoms to business owners were at the same time provided at preservation of the state control of strategic spheres of the Singapore economy. The political scientist D. Bell entered concept of “soft authoritarianism” for the characteristic of party political system of Singapore. This term designated a mode at which the ruling clique holds monopoly for the power, but, thus, provides realization of liberal principles in the economic sphere.
Thus, it is visible that at the beginning of transit to reach growth of economy and to provide interests of all society, the strong authoritative power is necessary. Other essential factor, the Kazakhstan management which has served to preference of "Asian experience" all another, was that the population of many Southeast Asian countries as well as in Kazakhstan was heterogeneous on the ethnic and religious structure. This in itself can serve as an obstacle for development as it is frequent in the conditions of democracy in the multi-confessional and polytechnic states «citizens vote proceeding from a religious and ethnic origin, instead of proceeding from economic and social interests» [19] that serves as a destabilizing factor and serves as the precondition for the internal conflicts.

Rapid economic growth of the East Asian states drew attention of world community to features of their sociopolitical device. The paradox took place that the former colonies, the states of "Asian model" which rejected the western recipes of political and economic development, in 70-x-80-x years of the last century achieved bigger growth of economy, than their former mother countries. Thus, in these states the economy first of all was modernized, and transformation of political system later was carried out. So, for today South Korea, Thailand, Malaysia and Singapore can be considered as the democratic states providing fundamental principles of democracy. At the same time their democratic systems differ from democratic systems of the West as there are cardinal distinctions in culture, traditions and mentality.

Disagreements between "Asian model" and western occur in the tideway of a problem of a ratio of a role of an individual and a state role. Whether Kuan Yew so expressed a difference between Asian society and western: «In East Asia believe that the individual exists in a context of a family (society), it isn't faultless and independent... in the West, the state assumed society and family duties". It should be understood so that the right of the personality doesn't admit the majority of the Asian countries to be free and individual, the citizen is an inseparable part of society. The main liberal value of the western society - "the right of the personality means to be free" isn't suitable for the Asian countries.

Among other differences of «Asian values» which underlie distinction of «Asian democracy» from western, it is possible to allocate a wide circulation of traditions of Confucianism, especially in the countries where the most part of the population Chinese (make Singapore, Malaysia). Confucianism doesn't correspond with many democratic and liberal values as regards as of paramount importance discipline, obedience, authority of seniors. In a political context it means subordination of personal interests before state, for the purpose of achievement of the common goals put by the head of the country.

It is rather popular approach to a role of the citizen and the state which is used in the authoritative countries and, of course, contradicts installations of the western democracy. As, in the East Asian countries the religion isn't necessary separately from the state, many countries of the region much less secularized, than the democratic countries of the West. And though in the East Asian countries different religions - Christianity, the Buddhism, Islam are preached, all of them still play an essential role in political and social life. In a complex with Confucianism, the religion as can play consolidating and mobilizing role in the East Asian states.

Thus, at research of world experience of modernization it is possible to allocate some features of political modernization of the Republic of Kazakhstan.

The changes occurring in modern Kazakhstan can be considered as the next modernization, as the next transit, but carried out essentially in other historical situation when the most developed countries of the world already entered the new stage of development defined as post-industrial or information society. Occurring process of political modernization in Kazakhstan can be carried as a whole to endogenous-
exogenous type (loan of some elements of a civilization of the western type without radical change of the sociopolitical relations which keep traditional character). Characteristic of the Kazakhstan type of modernization is the combination of various own and borrowed institutes and traditions (partial modernization) to imitation of results. Because of weakness of civil society and an exclusive role which plays the state in Kazakhstan, modernization of society is in many respects substituted for state modernization – its military power, officialdom, repressive bodies, public sector of economy, etc.

Thus, it is possible to note that new judgment both historical, and modern experience of modernization as a complete and natural stage in development of societies, represents now one of actual problems of a modern domestic political science, and research of processes in the light of the theory of the modernization, occurring in modern Kazakhstan, as well as in other countries of the former Soviet Union, are exclusively priority tasks. And in our opinion it is necessary to support the main forecast of the theory of modernization completely: economic development is in any case connected with the most serious changes in system of base values and belief.

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KAZAKHSTAN POST-CRISIS ECONOMY TO A NEW LINE THROUGH ACCELERATED ECONOMIC MODERNIZATION AND BOOST INNOVATIVE INDUSTRIALIZATION

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Abstract

The paper examines causes of the global financial crisis in Kazakhstan, adoption of anti-crisis measures, which revealed some new positive developments and ways which have been solved by modernization and industrialization of the country's economy. Describes the main direction of state policy which oriented on increasing the competitiveness of national economy, supporting small and medium businesses, formation of highly qualified human resources capable to build a smart economy.

Key words: global financial crisis, industrialization, modernization, diversification

The economic policy of the state firm is heading towards its strategic priorities. Today, Kazakhstan's economy is entering a new stage in its development. Taking a new course of industrialization, we can say that Kazakhstan's economy has passed its test of stability. World economic crisis has not spared our state. The global financial crisis has caught Kazakhstan during recovery (average GDP growth in 2005 – 2007 was 9.5%). Industry, real estate, construction, banking market (the first half of 2007 bank loans the economy grew by 47%, deposits of residents - 24%) developed in high rates (Annual Reports of the National Bank of RK, 2005-2008).

Kazakhstan's economy is integrated into the global economy, so the process of global financial collapse affected the country's economy. The causes of the crisis are manifold: first, the raw material orientation of the economy, resulting in high dependence on world prices of raw materials mined in the country. Secondly, the excess free cash flow and lack of sufficient opportunities for investment, particularly because of underdevelopment of the stock market in the country, and as a result of speculative sentiment in the property market, leading to high rising prices in this market, and overheating in the final the end. Third, aggressive lending policies of most commercial banks, which led to a high external debt of the country in a relatively short period of time. Instability has brought in many countries in 2009: a decline in production, mass unemployment, falling oil prices, the collapse of the banking system. None of this happened in the economy of Kazakhstan, in fact, in addition to the adoption of anti-crisis measures, revealed some new positive developments, among which is a significant reduction in inflation. Finally, it was practically proved the correctness of the previous years on the accumulation of petrodollars in order to stabilize the economy during the crisis. National Bank in 2008 to provide financial stability measures have been taken to provide short-term liquidity, as well as to improve the banks' refinancing. Were lowered the refinancing rate (from 01.01.2009 up to 10%), twice declined an MRI (respectively internal and external obligations of up to 2% and 3%). Was increased the amount of guaranteed compensation for deposits of individuals from 700 thousand to 5 million tenge.
In total, the economy was sent one trillion 87.5 billion, of which nearly half went to the direct recapitalization of banks. Of these, 120 billion tenge has been allocated the Halyk’s Bank and CCB to acquire shares and crediting the real sector of the economy; 212.1 billion tenge is directed to purchase shares of JSC "BTA Bank", and 24 billion earn on a deposit of JSC "Alliance Bank". Today, the state controls 85% stake in BTA Bank and Alliance 67% of the shares of the bank, about 25% - in KKB and Halyk Bank.

The state has allocated to banks from the National Fund (in the form of credits on a return basis) for a program of refinancing mortgages - 120 billion, to support small and medium-sized businesses - 120 billion, to address the problems of shared construction - 23.6 billion tenge, the implementation of innovative, industrial, infrastructure projects - 27, 2 billion (Annual Reports of the National Bank of RK, 2005-2008).

Although carried out anti-crisis policy has to stabilize the situation and prevent the uncontrolled development of events to date cannot be said that Kazakhstan's economy is completely out of the crisis.

The global crisis has underlined the need for comprehensive technological, economic, and social modernization of our country. Kazakhstan's economy has been the most volatile in terms of performance and production (GDP decline and the industry). This imbalance creates a serious threat to sustainable development. This requires tools to ensure its stability. This problem can be solved by modernization and industrialization of the country's economy.

Drawing the eyes of history, we can say that Kazakhstan has already passed on the path of industrialization. The apparent crisis of industry all over the USSR in the first half of the 20s led to the realization of the need to accelerate industrial development. But there is controversy about the ways and methods of its implementation sparked in Moscow. Several alternatives industrialization proposed to develop light industry and the rapidly developing heavy industry. The funds required for modernization and construction of new plants were obtained by "pumping" from the private sector, i.e. from the peasants through taxation, unequal exchange of goods and collectivization. Since 1926, the country is taking a course of accelerated industrialization.

Overall, the results of industrialization evaluated ambiguously. It was carried out by lowering the standard of living of the people, especially the peasantry for five years (1929-1934). There was considerable inflation, money supply increased by 180%, retail prices for manufactured goods rose by 250% -300%. Many points of the Plan, especially in light industry, were not fulfilled. However, there was a significant increase in industrial production and an increase in the share of industrial output of the economy of Kazakhstan.

Since the Second World War, the international community has witnessed the repeated efforts of governments of various countries to implement the ambitious program of industrialization. For many years, the industrialization of the countries analyzed and caused heated debate.

Today, given the history of industrialization of Kazakhstan to develop not only the extraction of raw materials, but also to develop the deep processing to manufacturing of final products.

An important step in building results-oriented economy is the adoption of macro-level strategic document - the Strategic Plan of the Republic of Kazakhstan until 2020, and the second phase of the Strategy "Kazakhstan - 2030", which is aimed primarily at ensuring macroeconomic stability. During the first half of the Strategic Plan - 2020 will be accelerated diversification of the economy through rapid industrialization.

Ten-year plan includes training for post-crisis economic development, ensuring steady growth of the economy by increasing industrialization and infrastructure development, improving the competitiveness of human capital, the provision of quality social services and housing to the population of the Republic of Kazakhstan and, last but not least, through the strengthening of
international relations to improve global security (Decree of the President of the Republic of Kazakhstan, 2010).
Sustainable and balanced development in the next decade will be provided in the context of rapid diversification and competitiveness of national economy. This is the realization of 162 projects with total investment of $ 6.5 trillion tenge, this amount represents more than 40% of GDP, and these funds will create more than 200 thousand jobs in the next 3 years.
Plans for the industrialization of Kazakhstan will be formed in compliance with principles based on the experiences of other countries:
1) is initially well-defined role of public and private sectors;
2) maximizing the transparency of companies and government agencies to prevent corruption;
3) promoting competition as the leading factor productivity growth and reduce the cost of goods (works, services) in all sectors of the economy;
4) maintaining the possibility of failure: the state can help, but should not become the owner. For the state of the company "too big or too politically important companies who cannot tolerate failure" should not be considered.
At the present stage of the State Program for accelerated industrial-innovative development of Kazakhstan for 2010-2014, program development of the territory until 2015, as well as sectorial programs until 2015. Program was developed in accordance with the key directions of the Strategic Plan of Development of Kazakhstan till 2020, which is the second phase of the Development Strategy of Kazakhstan until 2030.
Programs are aimed at ensuring sustainable and balanced economic growth through diversification and increase its competitiveness.
Program is a logical continuation of a policy to diversify the economy and integrate itself into the main approaches of the Strategy of Industrial-Innovative Development for 2003-2015, the Program "30 Corporate Leaders of Kazakhstan", as well as other policy instruments in the field of industrialization.
In 2015 the main priority policy of forced industrialization will be the implementation of major investment projects in the traditional export sectors of the economy, with a cartoon of new business opportunities for small and medium-sized businesses through targeted development of local content, subsequent redistribution and recycling.
The initiators of progress of major projects will be JSC "National Welfare Fund" Samuryk-Kazyna" (hereinafter - JSC" Fund "SK"), backbone of the company's fuel and energy and metallurgical sectors, as well as strategic foreign investors.
In parallel, will be the formation and strengthening of economic sectors, non-commodity sector and the domestic-oriented, and subsequently to the regional markets (countries of the Customs Union, Central Asia).
The State will support the initiative of Kazakh small and medium businesses, to transfer advanced technology to attract foreign investors to set up modern import-substituting industries, with the prospect of development of their export orientation. Policy of industrialization by 2015 will have an internal consistency with the resource, infrastructure, institutional and technological constraints. This policy will allow the economy to go to a new milestone in its development, the so-called "miracle of Kazakhstan".
Kazakhstan will conduct an effective trade policy in order to build a reliable system for the protection and promotion of economic and political interests of the country, for the creation of domestic goods and services, access to external markets and to eliminate unfair competition.
In the first phase (2010-2014 years) economic diversification of Kazakhstan will be provided, primarily due to rapid development in the seven priority areas, five of which relate to the industrial
area, and two to the infrastructure. The development of the tourism industry, Space and Engineering is a priority program of forced industrial-innovative development of Kazakhstan for 2010-2014. In the second phase (2015-2019 years) due to the dynamic economic development of the above areas will form new branches of the second phase of diversification, including supporting and auxiliary production, as well as high-tech industry. Today, Kazakhstan is based on the established priorities for development, forming a new economic policy, where the key should be the implementation of programs of economic, social and political modernization. Modernization is not only to diversify the economy and the active introduction of innovations, but also improve the political system, in other words, success in implementing economic plans must be backed by consistent economic modernization aimed at the formation of highly qualified human resources capable to build a smart economy.

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EVALUATION OF MARKETING PROCESSES IN CONTEXT OF MARKETING MIX TOOLS IN CHOSEN SLOVAK ENTERPRISES

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Abstract

Authors of this paper aim at pilot survey of marketing activities and marketing processes. They try to show the using of tools of marketing mix in chosen Slovak enterprises. On the basis of results evaluation by one-dimensional statistic method the fragmental results were found. These results will become a database for evaluation of marketing processes and evaluations of tools of marketing mix in the next project research. Pilot survey shows the results of financial and non-financial, mainly innovative and marketing indicators of performance measurement of enterprises.

The paper is a part of first phase of project VEGA. 1/0900/12 ”Improving innovation performance and innovation entities through a system of open innovation with support of integrated marketing communication”

Key words: marketing mix, marketing research, marketing mix tools audit

1. INTRODUCTION

The Ministry of Economy states that Slovakia lags behind the developed countries because of several main reasons such as the low expenditures of public and private sector on research and development. While the average expenditures of EU countries are 1.82% of gross domestic product (GDP), in Slovakia it is only 0.48% of GDP, while public funds represent 55% of total expenditures on science and research. "The main causes of this the government sees in a weak research base, without specific goals, lack of large enterprises that invest in research, ineffective support from the public sector, low motivation of researchers etc., " The Ministry of Economy presents in the Report on the implementing the measures of the Innovation Strategy and Innovation Policy of the SR in 2010 and first quarter of the year 2011 (http://www.rokovania.sk, 2011).

Considering the long-term unfavorable results our research team decided to aim its research activities on marketing, especially marketing mix tools audit in Slovak small and medium enterprises. Partial results of the research are the subject of this chapter.

2. GOAL AND METHODOLOGY

The research was performed by a questionnaire. In its introduction there were identification data of the business, followed by research questions, divided into specific areas, mapping the marketing and innovative activities of the enterprise. The first phase of the research was realized in April - May 2011 by visiting the responders directly in enterprises.
The target group was enterprises producing or providing services acting on their behalf (for themselves) and producing their own products (products or services) and their customers are business partners, respectively final consumers. In terms of size there were questioned micro, small, medium and large enterprises.

When evaluating the data by the one-size analysis data the main variables were headquarters, number of employees at year-end 2010 (we were also interested in the number of university-educated employees and number of R&D employees), the turnover achieved in 2010 (optional indicator) and legal form of business.

3. RESULTS AND DISCUSSION

Regarding the limited space we present only partial results from the first stage of research, obtained by evaluation of 335 complete questionnaires, without distinction the enterprises size.

The research questions of the questionnaire were divided into 3 main areas:

- Marketing orientation and customers,
- Marketing mix,
- Innovation and innovation process.

3.1 Evaluation of identification data

The graph 1 presents the respondents (enterprises) structure according to their size.

![Graph 1: Enterprises structure according to their size](image)

Analyzed results of research showed that from the total number of businesses - 335, the largest representation had micro and small enterprises (82.7 %), medium-sized enterprises were represented at 6.3 % and large enterprises accounted for 11 %.
This result of the survey sample corresponds to the statistical structure of enterprises in the SR, where about 80% of businesses are classified by number of employees among the micro and small enterprises (http://portal.statistics.sk, 2011).

The legal form of business is mostly presented by public limited company - 266 companies (80 %), followed by a joint stock company - 52 companies (16 %), tradesmen - 10 companies (3 %) and cooperative company - 1 % of businesses

From the total number of sample, the 48 companies (14.3%) do not employ the university-educated employees. 193 companies employ university-educated staff in the range varying from 1 to 10 employees.

3.2 Evaluation of the Marketing mix area

The results of the research in this area followed the audit of marketing mix tools using and marketing activities, which could lead to the evaluation of business performance toward satisfying customer needs.

From the answers result the following facts:

- 28 % enterprises use all marketing mix tools,
- 54 % enterprises use only some marketing mix tools, (within communication, price),
- 17 % do not use any marketing mix tools.
The graph presents that more than 82% enterprises use marketing mix tools, which is positive.

Through the next question we investigated whether enterprises monitor costs on the marketing mix.

- 48.3% companies monitor costs on selected marketing mix tools, mainly to support product and marketing communication,
- 20% companies monitor costs on all tools of marketing mix,
- 31% companies do not monitor costs on marketing mix.
53.1% respondents think that using the marketing mix tools can increase sales just partially, because their effect is uncertain,

33.4% respondents claim that through using the marketing mix tools can increase their sales.

Graph 5  Opinions on increasing the sales by the marketing mix tools

From the point of view of individual tools of marketing mix, the product is considered to be the superior tool, the products offer complies the customer requirements – 71% of companies follow the needs of customers.

46% respondents differ their products from the competitors’ products, for example, additional services,

36% of businesses access differently products to differ their products from the competition.

When determining the price - as a tool of the marketing mix, 59% of enterprises reported that the price is calculated from the costs and expected profit and 38.5% of companies try to set a price that would be accepted by customers.

52% of companies has developed the system of discounts (quantity, loyalty discounts),

28% of companies provide discounts based on the "push" of customers.

An interesting finding was that 41% of respondents think that price is the most powerful tool when negotiating with customers and 42% of companies deny this claim. 15.8% of enterprises were unable to comment this statement.
From our point of view, the right price can be included among the indicators that measure the performance of marketing activities, as it is a profit tool that brings sales for sold products.

In terms of marketing communication tools, the following tools of communication mix are used (% shares from the highest achieved frequencies):

- internet (www pages, internet advertisement) - 74.6 %,
- advertisement (leaflets, posters, magazines, electronic media, billboards) - 54.3 %,
- direct marketing (offers addressed by mail, post) - 49.2 %,
- public relations (PR activities – sponsoring, fairs, expositions, events) - 38.2 %,
- personal selling (by salesmen) - 35.2 %,
- sales support (stock prices, competitions) - 32.2 %.

24.2% respondents plan marketing communication activities for one year ahead, 73.7% of business enterprises implement them as necessary.

The PR activities of companies can achieve non-economic indicators of business performance that reflect the corporate culture, corporate identity, design, and company image.

The research results showed that the company’s symbol (logo, brand, corporate identity, design) has up to 91% of these enterprises.

- 72 % of companies believe that image is one of the indicators to measure the company performance and 70 % of companies indicated that a positive image can bring more sales.
- 82 % of enterprises considered image to be important and contributing to better position of the company among customers and competitors, 10 % of companies think otherwise.
From this point of view 81.5 % companies consider their employees to be holders and contributors of the positive image towards business partners and customers. The last group of questions from this survey was the indicators, which companies can measure their performance or success in the market.

Table 1  Performance indicators of the enterprise in the market

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Absolute frequency</th>
<th>Percentage of responses of all questionnaires (335)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit</td>
<td>284</td>
<td>84.78</td>
</tr>
<tr>
<td>Sales</td>
<td>267</td>
<td>79.70</td>
</tr>
<tr>
<td>Customer satisfaction and loyalty</td>
<td>223</td>
<td>66.57</td>
</tr>
<tr>
<td>Economical result</td>
<td>146</td>
<td>43.58</td>
</tr>
<tr>
<td>Financial indicators</td>
<td>138</td>
<td>41.19</td>
</tr>
<tr>
<td>Product quality</td>
<td>121</td>
<td>36.12</td>
</tr>
<tr>
<td>Sales size</td>
<td>118</td>
<td>35.22</td>
</tr>
<tr>
<td>Market share</td>
<td>117</td>
<td>34.93</td>
</tr>
<tr>
<td>Employees satisfaction</td>
<td>106</td>
<td>31.64</td>
</tr>
<tr>
<td>Image</td>
<td>100</td>
<td>29.85</td>
</tr>
<tr>
<td>Total costs of the process</td>
<td>86</td>
<td>25.67</td>
</tr>
<tr>
<td>Labor productivity</td>
<td>79</td>
<td>23.58</td>
</tr>
</tbody>
</table>
The results can be divided into 2 groups of indicators for measuring business performance - financial and non financial. Among financial variables, we included the following ones:

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Percentage of responses of all questionnaires - 335</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit</td>
<td>84,7</td>
</tr>
<tr>
<td>Sales</td>
<td>79,7</td>
</tr>
<tr>
<td>Economical result</td>
<td>43,6</td>
</tr>
<tr>
<td>Profitability, liquidity, debts</td>
<td>41,2</td>
</tr>
<tr>
<td>Sales size</td>
<td>35,2</td>
</tr>
<tr>
<td>Market share</td>
<td>34,9</td>
</tr>
<tr>
<td>Total costs</td>
<td>25,7</td>
</tr>
<tr>
<td>Labor productivity</td>
<td>23,6</td>
</tr>
<tr>
<td>Cash flow</td>
<td>22,9</td>
</tr>
<tr>
<td>Costs of customer acquisition</td>
<td>11,6</td>
</tr>
<tr>
<td>Implementation of performance standards</td>
<td>10,4</td>
</tr>
</tbody>
</table>

Among non-financial variables, we included the following ones:
Table 3  Non-financial indicators of business performance in the market

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Percentage of responses of all questionnaires - 335</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer satisfaction and loyalty</td>
<td>66,6</td>
</tr>
<tr>
<td>Product quality</td>
<td>36,1</td>
</tr>
<tr>
<td>Employees satisfaction</td>
<td>31,6</td>
</tr>
<tr>
<td>Image</td>
<td>29,8</td>
</tr>
<tr>
<td>Certificates (e.g. quality)</td>
<td>23,6</td>
</tr>
<tr>
<td>Added value</td>
<td>21,2</td>
</tr>
<tr>
<td>Response speed to market changes</td>
<td>17,9</td>
</tr>
</tbody>
</table>

Financial indicators analysis, that enterprises consider to be measurable indicators, we concluded that the profit, sales, profitability, market share and sales size are the result of marketing and business activities of enterprises.

This means that the level of these indicators achievement is directly connected to the intensity and activity of marketing operations, which support the certain effects of an integrated marketing mix.

Analysis of non-financial indicators showed that customer satisfaction and his loyalty has the highest credit (66.6 %) which is reflected in the repetition of purchase. Enterprises focus their attention on the achievement of product quality (36.1 %), which provides competitive advantage, including certificates of quality (23 %) and added value (21.2 %).

A significant result in the research was finding that a positive image of companies is considered to be an advantage in the business environment (29.8 %). It is also supported by corporate culture and employee satisfaction 31.6 %. We can state that the observed non-financial indicators that can measure performance of the company are the result of marketing processes and can significantly contribute to business success.

4. CONCLUSION

Small and medium enterprises are a very important part of the business environment, influencing the development of the region where they operate and the state as well. To measure the performance of the enterprises we must carry out an audit of marketing processes, regarding marketing mix tools efficiency.

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THE IMPORTANCE OF FAIR TAX COMPETITION IN MODERN ECONOMIES

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Abstract

In modern times, full of uncertainty and differences of interests at the international arenas, governments search for solutions that help to protect their national tax bases, with simultaneous attempts to build the competitive States and stimulate the economic development. The matters of fair tax competition, as other forms of competition, help to create an environment conducive to growth and improve the functions of economy. But this matters also cause questions, what exactly “competitive and fair tax system” means, and in which way governments can act towards attractive tax environment – to be effective, but not to reach for the measures considered harmful.

The aim of the paper is presenting the most relevant issues connected with fair tax competition. Soft-law initiatives, successfully implemented and refined, can improve the States’ fiscal management and – in the future – enhance the international cooperation in tax matters.

Key words: fair tax competition, good tax governance, international tax policy

1. INTRODUCTION

Recent years have brought the shift in studies concerning taxation issues. Traditional focus on maximising tax revenues, efficiency and compliance has been extended to the role of taxation in supporting the strategy for State-building. Governments still are conscious that the core aim of tax policy is ensuring sufficient tax revenues to finance public expenditure with simultaneous maintaining sustainable budget deficits and public debt ratios. But they have also started to look at the taxation system from a broader perspective.

Implementing new standards to the taxation system can have a positive effect of increasing States’ responsibility and accountability in the eyes of their citizens. It also leads to strengthening the State-society relationships and improving the State capacity. This approach seems to be essential in the modern world, as strengthening national dialogues around taxation and supporting the effectiveness of administrative structures are indispensable to any long-term strategies for achieving revenue stability and self-sufficiency. Effective tax system should also help minimising the distortions of the market and focus on creating as few obstacles as possible to investment, innovation, entrepreneurship and other drivers of the economic growth.

The fiscal system comprises the politics, laws and regulations that set out a country’s tax policy, combined with the administrative reality of how the policy is actually applied. According to the OECD (2010), appropriate standards in taxation can improve governance by:

- Developing a shared interest for economic growth – Governments which depend on taxes are more eager in implementing some incentives for supporting the economic development;
Developing the State apparatus – One of the conditions for effective tax collection is well-functioning administration. The process of improvement of the bureaucratic apparatus can also affect the positive changes in State capacity elsewhere;

Developing accountability and responsiveness – States have incentives to improve governance in order to engage taxpayers in the politics and – by increased tax compliance – sustain tax revenues (Citizen-State Relations..., 2010, p. 9).

2. THE IMPORTANCE OF GOOD TAX POLICIES

According to Moore (2007), the taxation issues can have an influence on States, citizens and their relations and as such affect the quality of governance. As States become focused on obtaining revenues by taxing citizens, at the same moment they are motivated to promote citizens’ prosperity and to develop bureaucratic apparatuses and information sources to collect taxes effectively. Good governance brings a direct outcome in the form of more responsiveness and more bureaucratic capability of the States. At the same time the tax governance has an effect on citizens, as the experience of being taxed engages their attention. Some taxpayers mobilise to resist tax demands – they monitor the mode of taxation and the way of using the tax revenues by the States. As such, increasing the citizens’ activity brings the direct outcome – more accountability.

The biggest influence on strengthening the process of good tax policies has the interaction between States and citizens. Taxpayers comply with tax demands in exchange for some institutionalised influence over the level and form of taxation and the uses of revenue. As a result they have their share in creating the tax policy. Taxes levied in the country are perceived as more acceptable, the taxation process is gaining more efficiency. Better public policies result from debates and negotiations. There is wider and more professional scrutiny of how public money is spent and the legislature is strengthened relative to the executive. All this has direct outcome on governance – more responsiveness, political and bureaucratic capability, and more accountability (Moore, 2007, p. 85.).

The World Bank Group and the UK Department for International Development (DFID) in the study concerning reforming fiscal systems (2007), provide the principles for a sound taxation system based on strengthening State legitimacy and the “fiscal social contract”:

- **Political inclusion** – Paying taxes gives citizens a powerful incentive to engage with government and the political process. Democracy is thus stronger and more effective in States where a higher proportion of people pay taxes. This matters a lot across the whole State as its territorial reach is essential to State-building since the tax systems of sub-national government are frequently highly coercive;

- **Accountability and transparency** – The usage of tax revenues is justified to taxpayers, who demand to know if tax revenues are properly used;

- **Perceived fairness** – Within a strong tax system, taxpayers perceive that they are treated equally and justly by the State. Perceptions of unfairness, such as failure to address widespread tax exemptions or the informal economy, limit both revenue and “willingness to pay”;

- **Effectiveness** – The administrative capability that translates increased public revenues into better public goods, more capable government, and increased political stability;
Political commitment to shared prosperity – Successful State-building demands political leadership with a vision of tax as delivering a “national purpose” that taxpayers (the actual and potential ones) will support (and pay for). The tax system component of the State-building effort must explicitly link to a national strategy for promoting economic growth (DFID/FlAS, 2007, p.150).

Tax systems and individual taxes should be as predictable, simple and transparent as possible, be internally consistent, and be accepted as just. In the more executive dimension, looking at the fiscal system from the perspective of the State-building shows the need of promoting:

- **Accountability**, by strengthening:
  1. Parliamentary and other institutional oversight of the tax authority;
  2. Media and civil society attention to tax (especially the importance of a sound tax system for poverty reduction and development);
  3. Taxpayers associations, to demand better accountability;
  4. Greater visibility of direct taxation that appear particularly important in promoting political representation;
  5. Link taxes paid and benefits and services received (as compliance rates go up when citizens and businesses know what they are getting in return for their payments);

- **Responsiveness**, by balancing the discretionary powers of the tax authority with taxpayer rights, a customer service attitude to taxpayers, and better appeals process to improve trust;

- **Transparency**, by enhancing:
  1. Private sector associations formally engaging with government over tax policy and its administration;
  2. Transparent laws, regulations and procedures;

- **Capacity**, by developing:
  1. International networks of tax administrators, to raise professional standards and ethics;

In 2011 Y. Altunbas and J. Thornton tried to provide some support to the notion that policies aimed at mobilising tax revenues may be justified on the basis of the greater accountability of governments that may result. As the indicator of governance they used the quality of governance index based on a composite of three indicators - **index of bureaucratic quality, an index of corruption in government, and an index of the rule of law**. All three indices were clearly linked to governance, with the latter index aimed at reflecting the government’s administrative capacity in enforcing the law, and the potential for rent-seeking associated with weak legal systems and insecure property rights.

Authors adopted the approach, that if taxation improves the quality of governance, then countries with higher tax revenues should record better scores on the quality of governance index over time. By using the data from the International Monetary Fund (IMF), Government Finance Statistics and World
Economic Outlook databases they traced the changes in 117 developed and developing economies for the period 1984–2006. Their analysis proved that phenomenon in two of free governance indicators. Whereas the tax revenues occurred to be positively and significantly correlated to improvements in bureaucratic quality and the rule of law, they were not significantly related to corruption. The theses was also proved by other analysis – changes in GDP per capita and in population were also positively and significantly related to improvements in bureaucratic quality and the rule of law, but not to the corruption. By the above presented study Altunbas and Thornton have provided some empirical support for the view that taxation can strengthen the quality of governance and public sector institutions by making governments more responsive and accountable to their citizens, by building capacity, and by improving public policy, e.g. by so called fair taxation system (Altunbas, Thornton, 2011).

3. THE DIFFICULT ASPECTS OF INTERNATIONAL RELATIONS

Fair domestic taxation system promotes the effective democratic governance on which the development depends. Good governed tax system can be economically efficient, as it allows raising most revenue with the least cost and effort, delivering the desired policy objectives at minimum administrative and compliance cost. Fair tax system should be as predictable, simple and transparent as possible, be internally consistent and be socially accepted as just (Everest-Philips, 2011).

Taking into account all above mentioned aspects places the taxation in the centre of discussed issue. The perceived “fairness” of the tax system is crucial for building an effective State based on citizens’ consent. Willingness to pay taxes is perceived as a good indicator of the legitimacy of the State, building compliance is a central incentive for the State to engage with society. The “fairness” of the tax system, however, extends far beyond the national dimension.

In considering how tax policy can help in generating economic growth and prosperity, no country’s tax system can be considered in isolation. In modern times the openness of global economy makes tax regimes and tax rates significant factors in the process of the international investment decisions. The liberalisation of trade and capital markets increases the international competition and – as a consequence – augments the mobility of capital, transferred internationally in search of maximum profitability. OECD points out that last years witnessed the sharp increase of capital flows. In years 1990-2009 the ratio of outward foreign direct investments to GDP, examined in the OECD area, rose from 10% to 39%. In the same time the corresponding ratio of inward FDI increased from 8% to 31%, whereas the inward and outward portfolio equity investments grew from 1% to 7% of GDP (Owens, 2011).

The increased mobility of capital causes changes in States’ tax policies. Countries wanting to attract cross-border investments act under the pressure to reduce taxes on investment returns, in order to keep their competitive positions. They also face the growing problem of international tax optimisation, as more businesses (especially multinational corporations) start to use aggressive tax planning practices. Enterprises can maximise their post-tax profits by using transferring earning to low-tax countries through their subsidiaries (by internal group leverage or special purpose vehicles). They also can shift profits by using mispricing practices, e.g. setting prices for intra-group transactions in a way, which is inconsistent with the market transactions between unrelated parties. Finally, multinational companies can use methods leading to double-non-taxation, through exploiting differences in different tax systems (by using “hybrid” instruments).
The increasing globalisation induced the major developed countries to focus their attention on the problems of domestic tax base erosion resulting from international tax avoidance and tax evasion through the use of offshore jurisdictions. They have pointed out that maintaining confidentiality of information and excessive use of harmful tax competition strengthens the phenomenon of fraud, thereby helping to diminish the tax base in countries with transparent financial systems.

The size of offshore capital flows is hard to measure precisely, as the nature of undeclared money and the culture of secrecy make it hard to trace. OECD analysis (2008) indicated that tax havens have attracted considerable amounts of USD 5-7 trillion, of which the private offshore capital valued at almost USD 1 billion, a figure five times higher than two decades ago (Report on Promoting..., 2010, p. 6, 12). The numbers from tax authorities of developed countries confirmed the significant scale of "flight capital": United States have estimated that each year suffered losses due to loss of tax revenue amounting to USD 54-70 billion, United Kingdom identified the amount lost due to tax evasion of GBP 100 billion a year (The shirts off..., 2005, p.10). German tax office indicated that tax evasion costs the State budget EUR 30 billion per year (Benoit, 2008). Further assumptions of American and British tax authorities showed that only about 5% of funds invested in tax havens were reported in their home country (USB case in the USA, US Senate (2008), Sullivan (2007) in the UK) (Tax havens...,2009, p.11).

More recent IMF analysis (Lane, Milesi-Ferretti, 2010) proved that the scale of undisclosed money held offshore has not diminished. Research based on IMF figures showed a significant gap between investments and assets reported in offshore financial centres. In Luxembourg portfolio assets held by foreigners were worth USD 1.5 trillion at the end of 2008, whereas the investment liabilities USD 2.5 trillion. Cayman Islands’ data from 2007 showed USD 2.2 trillion of equity liabilities and only USD 750 billion of portfolio assets. The figures showed big discrepancy and – according to Milesi-Ferretti – “were unlikely to be entirely accounted for by the fact that some countries do not report their portfolio investments or their destination to the fund. And the fact that many undeclared funds in offshore accounts are held in cash deposits, not in portfolio investments, means the sum is likely to be much higher”. Switzerland – the biggest private offshore financial centre – admitted to have USD 600-700 billion of undeclared assets (mostly held in cash). Liechtenstein was believed to keep at least USD 200 billion of assets with offshore origin (Bain, 2011). All that led the IMF to the conclusion, that the sum of the external assets and liabilities of all the offshore financial centres except Switzerland can reach the amount of USD 18 trillion.

Another subject of the IMF’s research was the scale of illegal money flows (2001), with estimates of the amounts involved in money laundering at USD 600-1 800 billion (e. g. 3-5% of global gross domestic product). When analysing the growing problem of dirty money IMF pointed out, that saturation of that kind of money into legitimate financial sectors and national accounts could threaten economic and political stability, also by: wrong policies and inefficient allocation of budget expenditures, due to measurement errors in national account statistics and misreporting of income; increased volatility of exchange and interests rates, caused by increased vulnerability to external shocks and to capital flight; and the reduce in the scale of legal transactions as a consequences of fear of being associated with crime (Money Laundering...,2008).

Quite similar conclusions came out from R. Baker study (2005). He estimated the flows of dirty money into a global financial system at USD 1 trillion. Half of the amount (USD 500 billion) was supposed to come from developing countries and transition economies. The rest of money came from tax avoidance and criminal activity of individuals (USD 250 billion), from “profit laundering”...
practices of multinational companies (USD 200 billion) and from the corruption of individuals and business entities (USD 50 billion) (Baker, 2005).

4. FAIR TAX COMPETITION

In the situation of increased mobility of financial flows States realise that their tax systems’ shape and the comparison to tax systems of other territories have an influence not only on the size of investments, but also on their taxable profits. The phenomenon of tax competition encourages States to shape their business tax regimes in more attractive way – not only in absolute terms, but also in relation to other countries. The competition is recognised as the element relevant for functioning of free markets and stimulating the economic development. Tax competition, like other forms of competition, helps to create an environment conducive to growth and improves the functions of economy. The question arises, what exactly “competitive and fair tax system” means, and in which way governments can act towards attractive tax environment – to be effective, but not to reach for the measures considered harmful. There is also a question on a kind of international actions which can be taken in order to achieve the full benefits of tax competition.

FID/FIAS Programme on Promoting Investment, Growth, and Governance through Tax Systems (2007) lists a set of guidelines to promote the good governed and pro-growth tax system. In the field of tax rates the programme recommends broadening the tax base and lowering tax rates (in order to encourage economic activity), with simultaneous process of reducing exemptions and incentives. The next outlines are: improving tax administration by simplifying laws and regulations and streamlining payment procedures, supporting taxpayer and business associations’ engagement with the State on tax issues, carrying out tax compliance cost surveys (to identify the full extent of the burden of the tax system on different types of business) and removing barriers to formalisation (such as retroactive taxation for businesses that formalise or incentives for informal firms to register as legal firms) (DFID/FIAS, 2009, p. 70).

The OECD’s view is similar, although looks at the phenomenon of fair tax competition from much broader perspective. In OECD’s opinion the way to create the fiscal environment that encourages investment and entrepreneurship leads through the combination of low rates and broad tax bases. Low tax rates make the location attractive, as business perceives the tax burden which has to bear as “reasonable”. Simultaneous broadening of the tax base protects the inflow of revenues. This combination should ensure that taxes distort business and private decisions as little as possible. The next important issue is sustaining the taxpayers’ confidence in the integrity of tax systems by ensuring fairness, simplicity and transparency of the tax collection process. The “fairness” condition means that taxpayers should be sure that similar situations will cause obligation of paying similar amounts of taxes and that tax burdens will be shared among the taxpayers in a fair and appropriate manner. “Simplicity” requires that the procedure of paying tax duties is maximally simplified, and costs of collecting taxes are kept at minimum – in order to protect taxpayers from additional and unnecessary burdens. “Transparency” should be assured by clear rules that help understanding the operation of the tax system and provide the certainty for economic decisions (Owens, 2011).

There is one condition indispensable for getting the benefits from fair tax competition – standards and solutions should be put in a framework and agreed not by one State, but by international community. Owens identifies a number of preparatory actions that should be taken in order to augment the fair tax competition:
Improving transparency of tax incentives – States should publish the list of incentives aimed at attracting investments and the terms of their availability. Governments should also, on regular basis, publish the outcome of assessments of the incentives’ effectiveness;

Setting best practices guidelines in the field of investment tax incentives – Notwithstanding the scepticism about the effectiveness of such measures, States seem to be convinced of the idea of using tax incentives to attract the foreign capital. There is a need to set the best practices guidelines for tax incentives, that could be followed by countries;

Encouraging States to support the idea of “enhanced relationship” – This concept supports the shift in relations between major players – tax authorities and multinational corporations. Enhanced cooperation, if implemented, will change the character of relations from mistrust and lack of transparency to constructive dialogue and openness. It will help – on the basis on cooperation – to set measures acceptable by both sides. Those measures will create a business friendly environment with simultaneous protection of the tax base. States, by implementing the concept of “enhanced cooperation”, will become more attractive for international investments;

Developing measures to protect the tax base – protecting the tax base can act at two areas. At the national level there can be measures like Controlled Foreign Corporations (CFC) legislation or the special taxation rules for passive income. Those unilateral means should have a specific anti-abuse goal and should not be applied on general basis. Their effectiveness can be strengthened by international measures, used by wider group of countries. Enhanced cooperation in the field of joint audits, detection of aggressive tax planning trends, and the consistent responses of States can change the attitude of multinational companies.

5. CONCLUSIONS

Improving transparency of tax incentives, setting best practices guidelines in the field of investment tax incentives, encouraging States to support the idea of “enhanced relationship” and developing measures to protect the tax base – this is a set of actions which, if implemented, can strengthen the fair tax competition. The above mentioned tools will assure taxpayers that aggressive tax planning – which for a long time allowed shifting the tax burden to other, less mobile groups – is no longer a good option. The reduction of distortions in tax systems can augment the certainty and, as a consequence, can enhance multinational companies to the shift in their strategies – from aggressive tax planning to the tax compliance, which in the future can become a part of their good corporate governance. This would assure the win-win situation, when States take care of fair, transparent and effective tax systems, and taxpayers choose the path of the compliance, getting in return the certainty and stability of conditions and good cooperation at the taxpayer-tax authority level. What is important – eliminating non-compliance with tax laws should not lead to limitation of the taxpayers’ ability to engage in legitimate tax planning such as using certain vehicles (co-ordination centres and holding companies). It would be a task for governments to monitor, whether such corporate vehicles are not misused.

In order to achieve maximum effectiveness there is a strong need of joint coordination in setting the international guidelines for fair tax competition. Creating the consistent and universally accepted list of recommendations would help in gaining the full benefits of tax competition and decrease the scale of distortions in tax matters. According to Owens, the bases for fair tax competition rules are
already set in the international initiatives. Owens mentions two initiatives: of the OECD (Harmful Tax Practices) and the European Union (Code of Conduct).

The OECD 1998 Report identifies four main criteria for identifying harmful tax practices in relation to geographically mobile services:

- No or low taxation on the relevant income;
- Lack of transparency;
- Lack of effective exchange of information;
- The regime which is ring-fenced from the domestic economy (Harmful Tax..., 1998).

The EU Code of Conduct for Business Taxation deals with similar, but more detailed criteria:

- Effective level of taxation which is significantly lower than the general level of taxation in the country concerned;
- Tax benefits reserved for non-residents;
- Tax incentives for activities which are isolated from the domestic economy and therefore have no impact on the national tax base;
- Granting of tax advantages even in the absence of any real economic activity;
- The basis of profit determination for companies in a multinational group departed from internationally accepted rules, in particular those approved by the OECD;
- The lack of transparency (Code of Conduct…, 1998).

During the last two decades the initiatives led to the abolition or modification of over 160 regimes within OECD and EU. The process of developing transparency and good standards migrated then towards peer review mechanism. The new initiative would strengthen the effects of activities of Global Forum on Transparency and Exchange of Information for Tax Purposes. It could also be used in the process of verifying the “non-harmfulness” of new introduced regimes. The effectiveness of the measures could be increased by extending the OECD initiative to non-OECD countries – not only in the field of exchange of tax information, but also with preferential tax regimes. What is a very important, the above mentioned proposals would not influence on the States’ powers to design their tax systems in a way that meets their unique political, economic and social objectives. Implementing the fair tax competition rules would not demand harmonisation of tax systems or minimising tax rates – as long as minimum standards of transparency and non-discrimination were fulfilled. Setting one consistent system of guidelines would let countries protect their tax bases and – simultaneously – gain the full benefits of globalisation (Owens, 2011).

Further development of the idea of fair tax competition will provide a level playing field in tax area for cross-border activities. That will also ensure that all taxpayers meet their tax obligations. As a consequence, entities will benefit not from aggressive tax planning practices, but from the substantial reduction of the non-compliance scale. This will also let governments implement tax reforms towards reductions of tax rates and widening the tax bases (Hammer, Owens, 2000). Future years should bring more discussions on the issues of good standards in taxation matters.
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SOCIAL AND ECONOMIC ENVIRONMENT OF PERSONNEL MANAGEMENT OF COMPANIES IN THE CZECH REPUBLIC AND STATUS OF CZECH EMPLOYEES

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Abstract
The aim was to describe the social and economic conditions of the labor market, employment and personnel management and to assess trends that are pushing. It appears the longer-term trend towards more flexible employment and work. It should be ensured both by legislative measures and organizations in general HR activities. The second trend is towards greater loyalty and commitment of employees in the organization at a lower indebtedness of the employer. The internationalization of work takes a somewhat different form than originally envisaged. Movements of the large number of individuals took place, but not in the proportions that significantly affected the labor markets. Important factor in the labor markets are competitive labor markets of individual countries as a result of shifts in global capital markets.

Key words: employment, legal environment, social status, demography, social migration, personnel management.

1. INTRODUCTION

In a situation where we evaluate events in the economy and the labor market place, research efforts are usually focused on a thorough description of one aspect, a fact that area. We believe that this concentration of attention on one thing escapes the nature of the wider environment and to lose perspective and understanding of the fact that we do. In the following, we try to position themselves next to a few facts from the labor market and employment. Even in the simple comparison may prove little more than give a thorough, but narrowly focused analyzes of important, but partial analyzes.

Certainly in our case this is not an exhaustive list of the various factors that affect the labor market, employment and personnel management. In the Czech Republic there are no comprehensive studies that would address the list of conditions and factors affecting the labor market. There are only sparse data, each page depicting the observed facts. In addition, these data are qualitatively very different and certainly do not provide the possibility of quantitative comparison, a measurement. All you can do is to compare the meanings of the facts in terms of interpretation.

Nevertheless, we believe it is important to make such a comparison. First, the human effort to come directly to the bottom of things, to gain insight and understanding, even in a situation where a person does not have enough information. It is an effort to see things in their mutual conditional, on the whole. First, the interpretation of one man's motive for thinking about another man, searching for logical insufficiency, criticism and discussion. And those criticisms and discussion can be the source of the shift of our knowledge.
In the text we focus on a number of conditions and factors that affect the labor market, employment and personnel management. We are engaged in shaping legislation, labor market and employment, in particular the Labor Code and the Employment Act. Further changes are contained in the social status of employees and understanding of the importance of work. The text descriptions of the demographic and employment groups in the Czech Republic. The last topic is the internationalization of labor and labor migration.

This work used a number of findings obtained in writing the chapters The human factor in the new economy of book "New Economy, New Opportunities" (Kislingerova, 2011).

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2. THE CHARACTER OF CZECH SOCIO-ECONOMIC ENVIRONMENT IN LAST YEARS

Zygmund Bauman (2002) characterizes contemporary society in the concept of liquid modernity. Liquid modernity comes when we release the past against the network of interpersonal relations and especially the institutions that shaped these relationships as morals, traditions, roles. In liquid modernity the social environment loses its stability and ability to act in accordance with the requirements of society. The hearing is individualized in the sense that it depends only on individuals, including his responsibility for their own actions. Although there may be external reasons or causes of negotiations, the final decision is a matter for the individual. Interest outweighs the interest of individuals and promotes mainly instrumental rationality. This is reflected in a significant economization of all spheres of human life.

From this follows the concept of liquid modernity:

- The interest of the organization is a priority. Care worker is the subject.
- Different groups of people in the organization will try to solve their own interest and will be difficult to find consensus in favor of "greater whole" or "higher values".
- Existence of an organization without common values goals, norms and feelings of reciprocity is threatened. The establishment and maintenance management requires a lot of effort.
- Individualization and uncertainty in an environment in which the individual moves, strengthen environmental strategy "carpe diem". The prevailing current benefits. Opportunities then people understand the dynamic, creative, but not always appropriate for the performance of long-term strategies.
- We are time and space constraints. At least they are in space and time are limited elite of elites, including managerial or professional. The high degree of flexibility is the person's competitive advantage in the labor market. Flexibility is another source of social differentiation. The high degree of flexibility, however, people generally means a higher degree of uncertainty.
- Changes are coming in rapid succession. Long-term stabilization is associated with lagging, though sometimes only imagined.
The Responsibility for the employability and employment is on the shoulders of the individual, he must worry about interest and professional growth and career development (Mummford, 1993, cited by Letiche, Van Hatten, 2000). On the one hand, this may alleviate the problems in the organization, on the other hand has a number of difficulties, such as departures of competent personnel shortage in the labor market in the desired professions, a small staff of indebtedness, rapid promotion of the competing projects, etc.

In the aftermath of social change in 1989, in the Czech Republic (formerly Czechoslovakia and) promote new economic order. The market economy, how the final result of changes in name, is reflected in all areas of the economy, including employment and employment. Generally, these changes can be characterized as a reduction of indebtedness to the employer's employees, reduced job security and increase the momentum in employment, both in the sense of the employer more frequent exchanges and development within the profession or the creation of new jobs. At the level of cultural, social and psychological changes were mainly due to legislative changes, but also the transformation of customs and atmosphere in the workplace.

Did not attempt, of course, only the changes caused by social transformation of the Czech Republic, but also the changes of civilization in general, related to farming systems (eg in connection with the movement of prices of raw materials or energy and globalization), the concept of organizations and their structures (eg, due to the introduction of information technology ) increase in labor productivity, etc. Separate individual effects, to isolate their effects, however, is very difficult or even impossible. It can not therefore say whether changes in the use of human factors, particularly in employment and employment are the result of social transformation mainly centrally planned economies into market, or rather the general development of civilization. In any case, the impact of the crisis and complement each other to strengthen or weaken.

Another important factor which promoted changes in employment, the economic crisis of 2008-2009 and subsequent economic development. In the area of employment and employment of the crisis did not bring any radical reversals in the general trends (eg, do not consider here the course of unemployment). Just some processes deepened or discovered another reason for the tendency remained unchanged. So already in the pre-crisis period was as clear efforts to promote more flexible forms of employment and this trend with the onset of the economic crisis has not changed. There was, however, changes in the use of flexible forms of work and employment.

1. Before the crisis were flexible forms of employment in response to a shortage of workers in the labor market, especially in the qualification-demanding professions. In times of crisis, flexible forms of employment have been used primarily to facilitate the release of workers. Flexibility is a time of crisis, especially in the lower level of indebtedness against an employee organization.

2. Employee motivation has shifted from the intrinsic motivation (ie, motivation based on the work itself as a useful and creative activities) to extrinsic motivation (ie, external motivation conditions) acting primarily as a fear of losing their jobs.

3. Occurs during the crisis to increase the intensity of work, mainly in the tribal workers. It extends the number of registered (and possibly unrecorded) overtime hours.

We can say that because of the economic crisis of 2008 - 2009 changed the relationship of employer and employee towards smaller employers to employees indebtedness on the one hand, and higher "forced" loyalty and greater exploitation of the work effort of employees on the other. Clearly promoted (even during the pre-crisis) to use tendency on the part of organizations - employers'
comparative advantages, which bring the various "national" labor markets. This in turn leads to greater competition between workers within a single 'national' labor markets. The competition will then be seen not only comparison between workers of the same profession, but there are also tendencies to promote individual groups of workers over others through the acquisition or withdrawal of certain benefits.

Significant changes in employment and personnel management, which are enforced in the Czech economy will be dealt with in two directions, can be grouped into four basic areas:

a) The social status of employees, changes in legal relationship of employer and employee.

b) Internationalization of labor markets.

3. SOCIAL STATUS OF STAFF, LEGAL CHANGES RELATED EMPLOYEES AND EMPLOYERS

The social status of employees or positions can be characterized in two ways. Relatively simple and sophisticated way of determining through a series of objective indicators, such as living or position in the control hierarchy. The second way is to define the position as the difference, which is revealed to man in his position a subjective comparison with others in the same profession, the profession or social classes and between classes. This assessment of the situation is purely subjective and objective values of differences obtained in this case is not possible. In terms of operation of individual organizations and to set up incentive programs are probably more important limit state salaries and labor market information on living standards, etc. Practical use of the latter is obviously more complex.

The social status of employees will be reflected primarily in the law. Legislative changes that directly affect the relationship of employees and employers concerning the Labor Code.

Currently, new entry into force, which includes a number of changes from the previous Code. According to the analysis of the Czech-Moravian Confederation of Trade Unions (Overview, 2012) was the intention of the new arrangements to increase flexibility in labor relations and increase the motivation of employers to create new jobs. Changes that have occurred over the previous law are substantive in nature, there is a clarification of terms and their interpretation. Change is in the concept of law.

To characterize the legal environment in the Czech Republic is typical of how often changes are made to the Labour Code. The new Act No. 365/2011 Coll. is effective from the 1st January 2012. Previously, the Act No. 262/2006 Coll. in 2006 and was subsequently amended in 2008. Of course, the amendment of the laws necessary in a situation where the conditions change and the Old Testament does not. This is not the example. In our case it was to remedy shortcomings in the approval of the laws given in the text. Is not the purpose of this text to discuss bills and approval process, because this text is not to debate the law. We follow rather the consequences that this entails for the labor market and employment. As a result of these changes is to reduce the orientation of stakeholders in the legal environment, particularly in terms of entities using the right lay.

From new text, from previous codification and changes from the proposals is possible to observe a trend that is in society and in the atmosphere of the time restored. This trend can be described as expansion space for negotiation and, therefore, increasing demands on the qualifications and responsibilities of the negotiating parties and to increase flexibility in labor relations.
The position of trade unions is defined under the act so that trade unions are entitled to act in labor relations, including collective bargaining under this Act, as provided by law or negotiated in the collective agreement\textsuperscript{1}. This remains their role, and does not significantly change. In this context it is worth noting that in the long-term empirical research tendency of gradual reduction of trade union organization of workers recorded in the Czech Republic but also in other European Union countries, including countries with strong trade union tradition (Mansfeldová, Kroupa, 2005). It is unclear how the economic crisis of 2008 - 2009 resulted in a trade union organization, but given the general trend of increase would mean only a temporary diversion. So the question arises, what is the trade union representation of workers’ interests, from which date the trade unions no longer represent and what is the legitimacy and functions of trade unions in the event that there will be no representation.

Significant is the law on employment. To some extent the changes in this Act may be characterized as changes in the Labor Code. Due to the previous rule, there were no radical shifts. Significant adjustments are related to the functioning of the labor office. Edit an effort to monitor both administrative simplification and cost savings for the operation. If this happens, time will tell. Importantly, the long term are the administrative offices moved administration of social aid, and at the expense of consulting, advisory and brokerage activities offices. Along with limited financial support for employment of disabled people can say that the amendments to the law are in the direction of reducing its proactive role. Regarding changes in the law, although in this case are not as fast (2004, 2008, 2012).

The economic crisis of 2008 - 2009 has considerably strengthened the position of human consciousness, depending on whether it worked or not. In various empirical studies shows enhancing characteristics such work, such as job security or stability of employment status.

According to the results of Labor Force Survey of the Czech Statistical Office published on the website of the Ministry of Labor and Social Affairs (the following figures are based on the analysis) in 2010, total employment fell in all spheres of national economy of the Czech Republic\textsuperscript{2}. Unlike 2009, when employment decline affected mainly men, with the fall in employment contributed both men and women almost equally, and the representation of men (57.3\%) and women (42.7\%) between the employed did not change.

The decline in employment was mainly employed at the time work for an indefinite period (by 58.3 thousand.) And full-time (about 64.4 thousand.). The number of people working on shorter working hours (by 15.5 thousand, i.e. 5.7\%) and persons working on temporary work, including temporary, casual and seasonal or other temporary contracts increased (by 9.6 thousand, i.e. 2.8\%).

Extrusion of some population groups from the labor market is a long term problem of the labor market in the Czech Republic. This trend strengthened in times of crisis. The problems are primarily the older persons (the group has over 50 years, but problems with the working application can be younger), women with children and persons unskilled or low skilled.

Is apparent unfavorable demographic trend in the Czech Republic. Documented by the following data. Population of the Czech Republic under the age of 14 years from 1989 to 2009 changed from 2.253


\footnote{\url{http://www.mpsv.cz/files/clanky/10811/analyza.pdf}}
miles to 1.194 people and the population over 65 years from 2292 million to 1599 million people. No dramatic increase in the elderly, is a dramatic reduction in the number of young persons.

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4. INTERNATIONALIZATION OF LABOUR MARKET

The internationalization of the labor market is reflected especially in the movements of workers between countries, ie., Reflected in the application of immigration and foreign workers in the Czech Republic and departures of Czech citizens to work abroad. The attention of researchers and practitioners is focused mainly on the employment of foreign workers in the Czech Republic, including illegal employment. The immigration problem is complicated and ambiguous inclusion arrivals into mainstream society. These differences in values and standards and the whole way of life that arise from diversity of cultures and the specific situation prevailing immigrant or profession and its traditions (Gedes, 2002). An important moment of cultural encounters in organizations terminating in the cultural enrichment of the range of problems known as diversity management.

From the perspective of the Czech Republic is an important replacement migration. It is filling and decreases in population migration has to solve the problem, including funding the pension scheme. As evidenced by many authors (Drbohlav at all, 2005; Jerabek, 2003) replacement migration is only a small contribution to the correction of unfavorable demographic development and can not be her focus to a large extent. In 2003 the government adopted a program on CR acquisition of skilled workers from Eastern and Southeastern Europe and the students - foreigners studying in the country. To get the staff created a legislative instrument. The result obtained thousands of workers, but in terms of demographic result is negligible.

The economic benefits of immigration is estimated, the exact dates are not available. The estimate is considerably complicated by the ignorance of the size of illegal migration. Migration is an instrument of economic policy and can fill gaps in the labor market. Common experience shows that some professions are largely filled by foreigners. For example, construction workers are often Ukrainians, Polish workers in engineering or English teachers English, Irish or Americans. The employment of immigrants is more common in some professions (construction, engineering, textile industry) in areas with high economic potential (Prague and large cities and industrial zones). The proportion of immigrants with higher education levels than the base is low, the less qualified.

During the economic crisis of 2008 - 2009 was the policy of the Czech Republic adopted some measures to strengthen the protection of the internal labor market, but the number of foreign workers has not decreased significantly. In 2010, the number of foreign nationals as employees decreased by 15.4 thousand. to 215.4 thousand. people. In 2009, the decline accounted for 53.8 thousand. people. At the same time, however, increased the number of foreign nationals doing business under trade
licenses, bringing the total share of employed foreign nationals in employment in 2010 fell by 0.2 percentage points to 6.3%.

Huber (2007) Overview of empirical work on migration in transition economies reaches the conclusion that migration in different countries bring different effects. We can not therefore combine the effect of migration and unemployment does not affect the reduction of interregional disparities. In Europe, strongly manifested as migration barriers of language and cultural differences and strong family ties and friendship between people.

From the foregoing it appears that migration primarily as a personal tool for personal development workers. As a way to improve the economic status, increased knowledge and skills and gain a general insight and experience. Therefore, we consider migration as part of the career of contemporary man.

As for Czech citizens and their work abroad, interested in working abroad is approximately 10% of Czech citizens over 15 years. At least half of them are young people under the age of 20 years, this is mostly for students. Three quarters of those who are considering working abroad, people are single, childless and living without a partner. The most important reasons for leaving are better in a foreign language, learning something new, new job skills or obtain job skills, increase income and improve the possibility of self-realization (Horakova, 2003).

Out of Czech workers abroad are not exactly covered and nesoustavných data can be obtained only an approximate idea. According to data available in the FRG works around 1000. In the Slovak Republic, for approximately 2000 persons (Horakova, 2011). From these examples it is clear that the departure of Czech citizens abroad to work has a mass character.

5. CONCLUSIONS

In the area of employment to promote longer-term trends during the crisis 2008 - 2009 rather enhance, but not directly caused by the crisis. In particular, the pressure for greater flexibility in employment and labor. It should be ensured both by legislative measures and organizations in general HR activities. Related to this second trend, the second change, which is greater pressure on the loyalty and commitment of employees in the organization and the course of work, but at a lower employer indebtedness to them. This trend has been significantly strengthened during the crisis years 2008 - 2009, because the real concept of job loss due to forced termination of employers' organizations has increased the value of job security and increase indebtedness employee against the employer.

The internationalization of work takes a somewhat different form than it is for example considered at the time when the countries of Central and Eastern Europe into the European Union and the opening of labor markets. Mobility of large number of individuals took place, but not in the proportions that significantly affected the labor markets (now do not consider question of the coexistence of different cultures, but the area of employment of foreigners). Important factor in the labor markets are competitive labor markets of individual countries as a result of shifts in global capital markets. The global economy leads to the need for comparison and adjustment of local labor markets to competition from local labor markets and this can lead to the promotion of greater networking and global labor market.

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PPP AS A MEANS OF IMPROVING INDUSTRIAL INFRASTRUCTURE IN KAZAKHSTAN
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Abstract
The use of PPPs for development of industrial infrastructure in the Republic of Kazakhstan (in housing and communal services, energy, transport infrastructure), based on experience in implementing similar projects in other countries. Development concessions and project financing in Kazakhstan. Expansion of the "product line" of PPPs. Investments of institutional investors in infrastructure projects.

Key words: public–private partnership, project financing, concession, infrastructure, investments?

1. INTRODUCTION
The quality of the infrastructure depends competitiveness of each country. Modernization of the infrastructure in most countries of the world is moving towards the development of PPPs. Their funding is from the state budget as well as by the private sector and commercial banks, as well as the issue of infrastructure bonds.

In recent years, Kazakhstan's economy for infrastructure projects becoming more widely used are the mechanisms of public-private partnership. There was a realization that without the development of effective institutions for interaction between government and business can not achieve sustainable economic growth, and therefore study of problems of public-private partnership necessary to attract investment in infrastructure projects. For Kazakhstan, the infrastructure development is more than relevant, because the housing and utilities, the road sector, engineering facilities need renovation and modernization.

In general, public-private partnership (hereinafter referred to as PPP) is system of medium- or long-term relationship between the government and the private sector to provide the private sector on behalf of the State socially significant services for design, financing, construction, reconstruction, rehabilitation, operation or maintenance of infrastructure facilities.

2. STAGES OF PPP’ DEVELOPMENT IN KAZAKHSTAN
The development of infrastructure as one of the conditions for sustainable development of Kazakhstan's economy, there should be an end in itself. Its function is actually help to change the economic structure in favor of knowledge-based industries, to increase production efficiency and competitiveness of regions, etc. This problem can be solved successfully only with the active participation of business in the investment process, including their financial participation in public-private partnership, which creates guarantees the effectiveness of such projects.
As stated the President Nursultan Nazarbayev in his Address "New Decade - New Economic Growth - New Opportunities for Kazakhstan", the mechanism of public-private partnership has great potential to attract private investment. The partnership between the state and private business for the last open access to new sources of income, and the state has an opportunity to use of resources and intellectual potential of the private sector in projects related to the traditional area of state responsibility.

In this regard, most recently in the Republic of Kazakhstan is an active development of new economic and legal and institutional environment, and in particular, the public-private partnership in full form. In this brief excursion into the past of sovereign Kazakhstan suggests that the very public-private partnership for the country is not new. In the period since Kazakhstan gained independence, the individual elements of the public-private partnership is actively used at different stages of economic development.

Thus, in post-Soviet Kazakhstan, possessing great asset to the natural and energy resources, industrial and transport capacity were used principally for the new country, but in the world classic mechanisms of public-private partnerships, such as:

- The corporate form of governance (government involvement in corporate equities, along with private individuals);
- Asset management of state property (rent);
- Public procurement (service contracts);
- Privatization.

Noteworthy is the fact that the use of these mechanisms was accompanied by the presence of a clear regulatory framework, as well as timely policy documents of the Government and local executive bodies.

Since the period from 1993 to 2005, was considered state-private partnership primarily as a control of state assets, the main legal acts were laws of the Republic of Kazakhstan "About privatization," "About Joint Stock Companies", "About public procurements". We remember that in the early 90th, during the budgetary deficit and the search for long-term investment inflows into the economy, the state, being the main integrator of economic processes, has taken several measures to create conditions for the realization of private initiatives, some of which were large-scale development (above - the development of the corporate sector of the economy, privatization), while others realized in individual projects.

Among those processes, which remained at the idea stage and have not received a large-scale applications is a key element of public-private partnerships - concession. However, the legislative regulation of concession relations was not reflected in a separate law, as has been mentioned as one of the sub-tenancy in the Civil Code of the Republic of Kazakhstan. However, the development of economic relations in particular industries are not standing still, and private initiative with the use of concession instruments are widely implemented in the energy sector, particularly in the subsoil. Later, in a limited manner concessions have already been used in major projects in transport infrastructure and energy.

New round of incentives and specific public-private partnerships has become a global reform of the course of economic development initiated by the Government of the country since 2003. Rejecting the usual raw material orientation dominated the export model, the Government committed itself to an
entirely new direction - the diversification of the economy, the downstream processing of mineral resources sector and high-tech production with high technology and unique innovations.

Implementation in Kazakhstan under such scenarios require huge investments, excessive budget financing. For this purpose, the state has developed a range of investment instruments, which combined the state and created by the state contribution to development institutions, national companies, after holding structures, as well as some ways to optimize target-simplified the use of budgetary funds. The basis of this complex was built experience of developed countries, taking into account the characteristics of a "national" model. As one of the main mechanisms for attracting investment has been chosen public-private partnership.

The advantages of public private partnership are visible, namely, today public private partnership mean:

- Attraction the private finance for investment to national important objects;
- Reduction of public expenditure on maintenance (service) infrastructure;
- Division of project risks between the government and private investors;
- Providing cost-effective management of the project by transferring administrative functions to the private investor;
- Attraction of modern, highly efficient technologies to the development of infrastructure;
- Improving the investment climate;
- Improving the business culture.

The attractiveness of PPP for the business community:

- Access to traditionally public sphere;
- Direct government support and participation;
- The use of foreign experience;
- The possibility of long-term placement of investments under appropriate safeguards;
- The ability to select from a large number of projects.

The attractiveness of PPPs for the State:

- Addressing systemic problems of development (underdevelopment of infrastructure, energy, utilities, etc.);
- Reduction of budget expenditures by attracting funds;
- Improving the quality and efficiency of operations and services;
- Increase in revenue from taxes and other payments to the budget;
- Increased investment and innovation activity;
- Increased competition, lower tariffs - to strengthen social stability;
- The ability to share risks, to shift them to the partners.

It should be noted that, in view of the world experience, public-private partnership, namely, its the hottest item at the present time – concession – applies, when the state is interested in private
investment, while maintaining ownership of an object. Among the advantages of public private partnership of its versatility: it can be used in most industries, it can be used to develop rail, water, underground transport, to build facilities engineering, municipal infrastructure, energy, telecommunications, health care, education, culture, tourism and sports. To actively promote innovation in the Kazakhstan government with the help of consultants, the World Bank have been prepared and legal framework. In 2006 was passed long-awaited Law of the Republic of Kazakhstan "About Concessions", which legalized the opportunity for private investors to invest financial and technological resources, experience and new technologies in state-owned assets. This was also interested government agencies, and private initiative, as without the help of the private sector, the state is unable fully and to realize the scale effect of large-scale projects that have socio-economic importance, and without government guarantees and risk sharing business community to invest investment in the public sector.

Notable is the fact that this year in order to accelerate the development of transport and communication sector of the country and to give attractive concession projects have been adopted amendments to existing legislation on concessions, namely, the Budget and Tax Codes, the Law "About Concessions". These amendments are aimed at increasing state support for the concessionaires, strengthening institutional framework, changes in procedures for the transfer of objects in the concession.

Thus, at this moment in the country formed the legal base, allowing a greater or lesser degree to realize some major concession projects.

3. GOVERNMENT REGULATION OF PPP IN KAZAKHSTAN

The state's role as a subject of enhancing the investment process in partnership with the business we see it in two ways. First, it is important to the active state involvement in the completion of the formation of Kazakhstan's corporate sector with an emphasis on optimization and structural evolution of large companies, as well as the development of their competitiveness. The second area of state regulation is the infrastructure in the broadest sense, which remains a significant part of the state as an active subject and source of funds. For example, when creating industrial zones to attract new industries to the area allocated to investors, public authorities may contribute to infrastructure development of these territories. This type of partnership has already proved its effectiveness, including by implementing similar projects in Kazakhstan, such as project "railway line Station “Shar - Ust-Kamenogorsk" (today this railway line is already actively exploited), the project "Construction of the passenger terminal of Aktau International Airport" and "Building inter-regional power transmission line "North Kazakhstan - Aktobe region". The role of government in this case is in the gradual transformation from a provider of infrastructure services to the independent regulator of the expanding range of services delivered by the private sector. Here, an effective alternative to privatization of strategic infrastructure networks can be various forms of public - private partnerships, while maintaining state control over them. The combination of the design approach to national economic and social problems with innovative organizational and legal schemes PPP may then become the basis for a wide range of policy issues.

Development of public-private partnerships in each country can be divided into three phases: preparation, implementation and improvement. Currently, Kazakhstan is almost completed the preparatory stage. In addition, some activities implementation phase indicates the beginning of the active phase of the second phase. In particular: the legal framework developed for the concession,
operates Kazakhstan's Center for Public-Private Partnership as a specialized organization for the concession, the preparation and implementation of concession projects. In world practice, specialized organizations, similar to Kazakhstan Center for Public-Private Partnership, created in order to improve the planning and implementation of PPP projects - they are developing guidelines for their training, expertise, support and assessment. The main focus of the Centre is the economic expertise at all stages of concession projects developed by ministries or akimats from the examination of the concession proposal to review the concession agreement. In addition, the Center is developing recommendations to the authorized body and concerned government agencies to improve the institutional framework for PPPs. For example, Kazakhstan's Center for Public-Private Partnership in conjunction with the Ministry of Economic Development and Trade of the Program of PPP development in 2011-2015, taking into account the best international experience of PPPs and the experience of implementing the first concession projects in Kazakhstan. In this program goals and objectives, basic principles and general approaches to the development of PPP in the Republic of Kazakhstan for 2011-2015, also addresses the use of tools of project financing, taking into account the creation of financial support in the implementation of concession projects, as well as the expansion of forms and fields of application of PPP.

The implementation of the measures laid down in the Programme at the legislative level, will create the legal framework of new types of contracts for social services and housing and communal services, as well as project financing tool used as an additional source of capital for PPP projects. Will be able to use tools such placement project debt as syndication and refinancing, allowing the concessionaire to use additional tools to attract investment. It will also create financial security in the form of future cash flows, which ultimately will have a multiplying effect on the economy. In general, the involvement of local and international investors to provide load reduction on the budget. For the implementation of these tools are developed appropriate amendments to the legislation.

As for recommendations, the foreign experts consider the most promising for use of public-private partnership in Kazakhstan such areas as water purification, including remote areas, recycling and disposal of solid waste. Experts also point out a good prospect of application of the PPP during the construction of housing for civil servants and the construction of office buildings, schools, kindergartens, health facilities, public utilities. Draft partnership of government and business have developed and implemented in the field of Transport, Innovation, Housing, Energy, and others are being planned to implement the following concession projects, worth over 90 bln tenge:

- Reconstruction of the road "Almaty-Khorgos";
- Reconstruction of the road "Almaty-Kapshagay";
- Reconstruction of the road "Astana-Karaganda";
- Construction of the road "Big Almaty Ring Road";
- Construction and operation of gas turbine power station in the city of Aktobe region Kandyagash;
- Construction and operation of the railway line "Yeralievo - Kuryk."

But this potential is not limited to the PPP. The mechanism can and should be applied elsewhere. For example, to provide citizens with affordable and comfortable housing in the development of agro-industrial sector and education, in developing and manufacturing medical equipment and other areas. PPPs can be a form of attracting business to the solution of large-scale national and regional programs. For this purpose, the State program of forced industrial-innovative development of Kazakhstan for
2011-2015 is planned to attract investment in the construction and reconstruction of public property using public-private partnership mechanism with total value over $1 trillion tenge, including:

- In the road sector more than 700 billion tenge;
- The rail industry about 180 billion tenge;
- In the energy sector more than 20 billion tenge;
- in the field of urban transport about 130 billion tenge.

Sectoral structure of investment projects received in 2010-11 years on economic expertise in the National Center for Public-Private Partnership, as following:

- Science and education 3.1%
- Production and distribution of gas, electricity, water 44.1%
- Health care and social services 6.8%
- Transportation 5.1%
- Agriculture 6.4%
- The judicial system, law enforcement and defense 10.8%
- Public administration and public services 13.2%
- Tourism and Sports 5.4%
- Housing and utilities 5.1%

For further promotion of public-private partnership now needs to improve and develop the legislative framework, the establishment of an appropriate institutional environment and the education system, the analysis of domestic and foreign experience, and distribution of public administration, development and launch of "pilot" projects.

In order to increase attractiveness for investors, infrastructure projects and to ensure to minimize the risks of insolvency of the issuer's infrastructure projects must meet the following conditions:

- transparent scheme of cash flows as part of the infrastructure project;
- feasibility study for infrastructure projects that meet the requirements concerning the reliability of the calculations made on the projected cash flow and profitability, as well as the requirements for quality and reliability projects;
- ensuring financial stability of the issuer and its main shareholders in order to provide additional sources of funding for the infrastructure project.

In international practice, there is no universally accepted classification of PPP forms, as well as their standard pattern of use. Because each country independently determines them for yourself, based on the principle of suitability for its own economy.

In our opinion, the World Bank’s classification deserves special attention. Adopted by the World Bank practice, except for the classification of the most common PPP models in infrastructure projects, characterizes all the basic principles of risk allocation between government and the private sector, and differentiates them according to the following four categories:
1. **Management and Lease Contracts.** It is PPP model, when a private company takes over management of public infrastructure facilities for a fixed period of time. In this case the property right and the duty to remain with the state funding. In this group fall into the following varieties of this model:

- **Management Contract** - the state pays a private company to manage its costs of its assets, for operational risks is the responsibility of the state;

- **Lease Contract** - BoE State has the property to rent to a private operator on a reimbursable basis, the operational risks of a private company takes over.

2. **Concessions** - PPP model where the private sector takes over the management of state-owned property and a significant investment risk during a certain period. This group includes the following types of models:

- **Rehabilitate, Operate, and Transfer - ROT** - a private investor recovers (reconstructs) an existing object, and then carries out its operation during the specified contractual period, taking on the risks involved, and then returns it to the state;

- **Rehabilitate, Lease or Rent, and Transfer - RLT** - a private investor recovers (reconstructs) an existing object, then rent or takes it from a public owner to lease for a specified period of time in the contract, assuming all the risks associated with, and then returns it to the state;

- **Build, Rehabilitate, Operate, and Transfer - B(R)OT** - a privately held company provides new construction (reconstruction) of an infrastructure facility, and then exploit it for a period of the contract, assuming all the risks associated with, and then returns it to the state.

3. **Greenfield Projects** - Projects with a clean slate - a private company or a joint public-private venture is building and operating a new infrastructure facility during the contract period, after which the object can be returned to the state. This group includes the following types of models:

- **Build, Lease, and Transfer (BLT)** - Construction, lease and transfer - a private investor is building a new infrastructure facility, taking on their own risk until the expiration of the lease. The state usually provides the company with a guaranteed minimum income for repayment of services of infrastructure facilities for a long period («take-or-pay-contracts») or a minimum payment of traffic;

- **Build, Operate, and Transfer (BOT)** - Construction, operation and transfer - a private investor is building and operating a new infrastructure facility, taking the risk, then the object is passed to the State upon the expiration of the contract. A private investor may be entitled to ownership of the objects created during the contract period. The state usually provides the company with a guaranteed minimum income for repayment of services of infrastructure facilities for a long period («take-or-pay-contracts») or a minimum payment of traffic;

- **Build, Own, and Operate (BOO)** - The construction, ownership and operation - a private investor carries out the construction, ownership and operation of a new infrastructure facility, assuming all the risks. The state usually provides the company with a guaranteed minimum income for repayment of services of infrastructure facilities for a long period («take-or-pay-contracts») or a minimum payment of traffic;

- **Merchant** - private investor is building a new infrastructure facility, winning the competition in a free competitive auction, under which the state does not provide an income guarantee to a private investor. Private company takes over all construction, operational and other risks of the project;
• **Rental** - private investor carries out the construction, ownership and operation of a new infrastructure facility, assuming all the risks, and then sends it out to the state, usually for a period of 1 year to 15 years. The state usually provides a private partner to guarantee a minimum income through the purchase of services of infrastructure facilities for a short period («short-term purchase agreements»);

4. **Divestitures** or Transfer of assets - private company buys stake in state-owned enterprise that owns the infrastructure projects through public sale of assets, privatization programs and other mechanisms. This group includes the following models:

• "**Full**" - Full - State has 100% stake in state-owned enterprise to a private company;

• "**Partial**" - Partial - State has a stake in state-owned enterprise to a private company. This may involve the transfer of management of infrastructure facilities of a private company.

According to the World Bank’s methodology the infrastructure object can be considered as a project of public-private partnership, only if a private company takes over part of the operational risks, along with operating costs and associated risks.

The choice of a particular form of public-private partnership depends on several factors, among which are:

• The structure of ownership in the project;

• Risk allocation for object creation and exploitation;

• Features of competitive procedures;

• The available forms of support and financial support from the public sector.

So far, Kazakhstan, concessions are the most popular, namely the model of BOO. The practice of its application in Kazakhstan guarantees to private investors a return of investment costs by the state, regardless of the results of operation.

4. **PROSPECTS OF PPP IN KAZAKHSTAN**

Now Kazakhstan is seeking a reasonable balance between the interests of risk allocation in PPP projects in terms of Kazakh law and international practice. Gradually progress go to the application of classical project finance schemes.

Currently, the diversity of projects being developed jointly by government and business in Kazakhstan, can be divided into several models, the most common of which are as follows. First, the agreements between state or local executive authorities and private companies, concluded on the basis of equal partnership, with some contribution from each side of the project is implemented. Note that this model is the most common. Such projects can be implemented on the basis of concession agreements, production sharing agreements, leasing, investment and other forms of contracts, which include special conditions on the participation of state parties with their obligations and rights of the volume of the project and the distribution of rights created by the project facilities, products and services.

Second, the major projects implemented at the initiative of private business, having the character of strategically important for the state, by virtue of which the state directs funds in these projects from the Investment Fund of the RK and other sources of public funding. The Investment Fund of the RK will implement new approaches to the creation of infrastructure, lack of development which is one of the
major obstacles to economic growth. The fund is also proposed to direct the development of innovation infrastructure.

As can be seen today in the implementation of public private partnership in Kazakhstan, the main emphasis placed on the development of concession relations. However, international experience, as well as past experience shows that in itself a concession without a broad set of instruments of financial and technological support, state support will not give the proper multiplier effect to the economy.

Analysis of the current situation shows that in a relatively short period of time in Kazakhstan created quite versatile and progressive system of public-private partnership (tools and actors) - namely, that:

- State support (loans, guarantees, preferences and privileges, financial instruments);
- Contractual instruments (concessions including different types of service contracts);
- Infrastructure tools (free-economic zones, industrial zones and parks, etc.);
- Corporate tools (state participation in the capital of legal entities - holding companies, national companies, other joint-stock company and limited liability partnerships, development institutions, and social-entrepreneurial corporations, venture capital and investment funds);
- The stock market (infrastructure bonds);
- Other (criteria for transfer to the privatization, post-privatization control, etc.).

By the degree of staffing the system is rapidly approaching the investment systems of the developed and the most successful foreign countries. Each instrument of public-private partnership has objectives and the implementation of the algorithm. Despite the use of a broad list of tools in general, all problems of public-private partnership are not solved. This tasks such as allocation of risks in investing in capital-intensive facilities (infrastructure, energy, etc.), the unloading of the state budget, moving perspective of fiscal policy on the implementation of socially important areas and functions of the state (health, medicine, education, science, etc.) and the establishment of effective management of state property by private capital using.

5. CONCLUSION

The system approach is required for successful development of public private partnership in Kazakhstan, precisely:

- To identify a single state agency responsible for implementing the policy of public private partnership, with the commensurate authority (it will be possible to personalize and secure the proper responsibility for the personality, which has corresponding political support and charisma);

- To develop a single policy document - the stages of concept, strategy and a clear plan for the short and long term, providing consistent and balanced application of the most recent PPP instruments, with its binding to the strategic document of the country (for example, programs to further implement the strategy "Kazakhstan - 2030").

- To develop proposals to improve the legislation in terms of state support of private initiative (investment law), separation of powers and responsibilities of public authorities (central executive bodies, local executive bodies, the activities of regulators), the legislation on the securities market;

- Continuously monitor and analyze the elements of the public private partnership to possible adjustments to their future development.
Only comprehensive, systematic and deliberate implementation and realization of PPP policy, according to international experience provides positive effect for the economy and society in general. On how complete, consistent, quality will be the legal framework, institutional environment, economic and organizational study of all aspects of the formation of PPP in Kazakhstan depends largely on the success or failure of implementation of this major social, political and economic transformation of economic relations.

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USING DATA ENVELOPMENT ANALYSIS TO EVALUATE THE EFFICIENCY OF HIGHER EDUCATION EXPENDITURE IN EUROPE

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Abstract

Nowadays, knowledge has become a key source of social and economic growth and prosperity. The general trend in higher education is an increase of incomes from private sources while incomes from public sources decrease. Nevertheless, incomes from public sources are still highly represented with a share of around 70% in Europe. As the interest for higher education has increased worldwide, the governments stimulate more efficient use of funds in higher education institutions (HEIs). The goal of this paper is to measure and compare the relative efficiency of higher education in 23 European countries using Data Envelopment Analysis (DEA). DEA is a linear programming approach that measures the efficiency of multiple decision-making units (DMUs) which produce multiple inputs and outputs. The research results indicate that countries with inefficient higher education can make better use of funds to improve their efficiency.

Key words: efficiency, higher education, data envelopment analysis, public expenditure

1. INTRODUCTION

In the nowadays modern society, knowledge is the fundamental source of economic development and growth while educational institutions represent a key sector in every country. By definition, the prime role of the public sector is satisfying the public needs. The public sector is non-profit oriented, although the general public is increasingly concerned about its functioning and funds spending. The recent global financial crisis stressed the situation in the public sector as it became even more important to spend wisely public funds. However, input and output prices are hard to identify in higher education institutions (HEIs) because profit is not the main goal there. In addition, HEIs produce multiple inputs and outputs and that makes difficult to measure their efficiency accurately (Johnes 2006a). Higher education is still strongly dependent on the public sector but, on the other hand, there is growing interest for improving its quality. This is the principal reason why researchers study how to enhance the efficiency of HEIs.

Although the efficiency of higher education is studied by a large number of papers, there are very few analysis implemented on a national level. Usually, investigations are carried out on university level. Several authors measured the relative efficiency of universities worldwide using different methodologies, mostly data envelopment analysis (DEA). For example, Johnes and Yu (2008) used DEA to measure the efficiency of universities in the People’s Republic of China. The same methodology was used by Agasisti and Pérez Esparrells (2008) for Italian and Spanish universities as well as by Abbott and Doucouliagos (2003) for Australian universities. Horne and Hu (2008) also investigated Australian universities but they used stochastic frontier analysis (SFA). The SFA method is used with DEA by Johnes, Camanho and Silva Portela (2008) for measuring the efficiency of
Portuguese universities. Due to the heterogeneity of English HEIs, Thanassoulis, Kortelainen, Johnes and Johnes (2011) divided them into 4 subgroups and applied DEA. Johnes (2010) used random effects and stochastic frontier techniques to measure the efficiency of English HEIs. Johnes (2006b) used DEA and multilevel modeling (MLM) to measure and compare the studying efficiency of 54564 graduates in the United Kingdom universities. The resulting individual student’s efficiency is then used to estimate the efficiency on a university level. DEA is also used by Taylor and Harris (2004) for measuring the efficiency of South African universities, by McMillan and Datta (1998) for Canadian universities and by Wolszczak-Derlacz and Parteka (2011) for universities from several European countries. A few investigations have been carried out on a department level such as the study of Halkos, Tzeremes and Kourtzidis (2010), Giménez and Martínez (2006) and Dundar and Lewis (1995). Casu and Thanassoulis (2006) analysed the efficiency of central administration in the United Kingdom universities.

The papers studying the efficiency at national level and using non-parametric approach indicate that there are significant differences between countries. Afonso, Schuknecht and Tanzi (2003, 2006) measured the overall efficiency of the public sector expenditure in OECD countries and emerging markets. Gupta, Verhoeven and Tiongson (1999) studied health and education sectors (excluding tertiary education) in Africa and concluded that governmental expenditure improves education and health indicators. Gupta, Honjo & Verhoeven (1997) measured the efficiency of health and non-tertiary education sectors in Africa. The efficiency of higher education on national level was studied by Tóth (2009), Aristovnik (2011a, 2011b) and Aristovnik and Obadiü (2011). They made a comparison between EU and OECD countries to understand how the public expenditure affects the efficiency of higher education.

This paper investigates the governmental funding of higher education as well as the relative efficiency of higher education in 23 European countries. After the introduction, an overview on financing of higher education institutions in Europe is given. Further on, the application of data envelopment analysis for measuring the efficiency of higher education is briefly described. Next, DEA analysis for evaluating the efficiency of higher education in 23 European countries is carried out and research results are presented. Last, some concluding remarks are drawn out from the research.

2. EXPENDITURE ON HIGHER EDUCATION

In the last decades, higher education has experienced a constantly increasing interest from the general public and consequently its efficiency became a key issue for the governments. The overarching objective of the European higher education, through the Bologna process, is creating a so-called “European higher education area” in which quality standards and academic degrees would be compatible and comparable (European Commission, 2012).

The European commission has named five main objectives for measuring innovative mechanisms of funding in higher education: increasing the total expenditure on higher education, diversifying funding sources for HEIs, increasing the efficiency, ensure additional sources for research and training excellence and for increasing international attractiveness and augment student financial support (European Commission, 2004).

Regarding higher education financing, the role of every country is extremely important given that governmental funding is the major source of incomes for higher education, both globally and in Europe. Certainly, each country is responsible for using efficiently its own financial resources. One of
the main indicators for higher education financing is the expenditure on HEIs as percentage of GDP because it is generally accepted that developed countries spend most on education.

Table 1 lists the values of total expenditure on HEIs as percentage of GDP in 23 European countries between 2003 and 2008. In the observed period, Scandinavian countries had the highest expenditures on higher education institutions. Although public expenditure on higher education institutions shows a decreasing trend in Scandinavia (except Norway), it is still significantly above the EU average. As expected, the developed West European countries (except Italy) have their expenditures on HEIs above the EU average while East European countries have their expenditures on HEIs under the EU average.

<table>
<thead>
<tr>
<th>Country</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU-19, EU-21(2008)</td>
<td>1.3</td>
<td>1.3</td>
<td>1.4</td>
<td>1.3</td>
<td>1.3</td>
</tr>
<tr>
<td>OECD average</td>
<td>1.4</td>
<td>1.5</td>
<td>1.3</td>
<td>1.5</td>
<td>1.5</td>
</tr>
<tr>
<td>Austria</td>
<td>1.2</td>
<td>1.3</td>
<td>1.3</td>
<td>1.3</td>
<td>1.3</td>
</tr>
<tr>
<td>Belgium</td>
<td>1.2</td>
<td>1.2</td>
<td>1.3</td>
<td>1.3</td>
<td>1.4</td>
</tr>
<tr>
<td>Croatia</td>
<td>0.71</td>
<td>0.76</td>
<td>0.88</td>
<td>0.81</td>
<td>0.95</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>1.1</td>
<td>1.0</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>Denmark</td>
<td>1.8</td>
<td>1.7</td>
<td>1.7</td>
<td>1.7</td>
<td>1.7</td>
</tr>
<tr>
<td>Estonia</td>
<td>0.9</td>
<td>1.1</td>
<td>1.1</td>
<td>1.3</td>
<td>1.3</td>
</tr>
<tr>
<td>Finland</td>
<td>1.8</td>
<td>1.7</td>
<td>1.7</td>
<td>1.6</td>
<td>1.7</td>
</tr>
<tr>
<td>France</td>
<td>1.3</td>
<td>1.3</td>
<td>1.3</td>
<td>1.4</td>
<td>1.4</td>
</tr>
<tr>
<td>Germany</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
<td>1.2</td>
</tr>
<tr>
<td>Hungary</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
<td>0.9</td>
<td>0.9</td>
</tr>
<tr>
<td>Iceland</td>
<td>1.2</td>
<td>1.2</td>
<td>1.1</td>
<td>1.2</td>
<td>1.3</td>
</tr>
<tr>
<td>Ireland</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.4</td>
</tr>
<tr>
<td>Italy</td>
<td>0.9</td>
<td>0.9</td>
<td>0.9</td>
<td>0.9</td>
<td>1</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1.3</td>
<td>1.3</td>
<td>1.5</td>
<td>1.5</td>
<td>1.5</td>
</tr>
<tr>
<td>Norway</td>
<td>1.4</td>
<td>1.3</td>
<td>1.2</td>
<td>1.3</td>
<td>1.7</td>
</tr>
<tr>
<td>Poland</td>
<td>1.5</td>
<td>1.6</td>
<td>1.3</td>
<td>1.3</td>
<td>1.5</td>
</tr>
<tr>
<td>Portugal</td>
<td>1.0</td>
<td>1.4</td>
<td>1.4</td>
<td>1.6</td>
<td>1.3</td>
</tr>
<tr>
<td>Slovak Republic</td>
<td>1.1</td>
<td>0.9</td>
<td>1.0</td>
<td>0.9</td>
<td>0.9</td>
</tr>
<tr>
<td>Slovenia</td>
<td>1.4</td>
<td>1.3</td>
<td>1.3</td>
<td>1.3</td>
<td>1.1</td>
</tr>
<tr>
<td>Spain</td>
<td>1.2</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
<td>1.2</td>
</tr>
<tr>
<td>Sweden</td>
<td>1.8</td>
<td>1.6</td>
<td>1.6</td>
<td>1.6</td>
<td>1.6</td>
</tr>
<tr>
<td>Switzerland</td>
<td>1.6</td>
<td>1.4</td>
<td>1.4</td>
<td>1.2</td>
<td>1.3</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1.1</td>
<td>1.3</td>
<td>1.3</td>
<td>1.3</td>
<td>1.2</td>
</tr>
</tbody>
</table>
The financing sources of higher education can be divided into two groups: public sources from central, regional and local authorities and private sources from non-governmental bodies and households (European Commission 2004).

Although the share of public and private financing sources varies from country to country, higher education institutions are still mostly government-funded in Europe. Despite this, an increasing trend of private funding in higher education is noticed, as shown in Table 2.

Traditionally, in all the observed countries higher education is financed mostly by public sources; however, there is a decreasing trend of public financing and an increasing trend of private financing. The share of public and private financing varies largely among the 23 observed countries. The share of public financing in total financing reached 78.2% in the EU in 2008. In Scandinavian countries the share of public financing is higher and topped a 96.9% in Norway in 2008. On the other hand, again in 2008, United Kingdom had a private financing share of 34.5%. It is important to note that independently of the ratio between public and private financing, private sources strengthen their presence in higher education in almost all the 23 observed countries. In Portugal, the share of private financing increased from 14% in 2004 to 37.9% on 2008. In other countries the share of private financing is increasing more slowly but steadily.

Table 2. Percentages of public and private expenditure on higher education institutions

<table>
<thead>
<tr>
<th>Country</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU (19), 2008 (21)</td>
<td>84.0</td>
<td>16.0</td>
<td>82.5</td>
<td>17.5</td>
<td>81.1</td>
</tr>
<tr>
<td>OECD average</td>
<td>75.7</td>
<td>24.3</td>
<td>73.1</td>
<td>26.9</td>
<td>72.6</td>
</tr>
<tr>
<td>Austria</td>
<td>93.7</td>
<td>6.3</td>
<td>92.9</td>
<td>7.1</td>
<td>84.5</td>
</tr>
<tr>
<td>Belgium</td>
<td>94.0</td>
<td>9.6</td>
<td>90.6</td>
<td>4.4</td>
<td>90.6</td>
</tr>
<tr>
<td>Croatia</td>
<td>70.0</td>
<td>30.0</td>
<td>71.0</td>
<td>29.0</td>
<td>72.0</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>84.7</td>
<td>15.3</td>
<td>81.2</td>
<td>18.8</td>
<td>82.1</td>
</tr>
<tr>
<td>Denmark</td>
<td>96.7</td>
<td>3.3</td>
<td>96.7</td>
<td>3.3</td>
<td>96.4</td>
</tr>
<tr>
<td>Estonia</td>
<td>n/a</td>
<td>n/a</td>
<td>69.9</td>
<td>30.1</td>
<td>73.1</td>
</tr>
<tr>
<td>Finland</td>
<td>96.3</td>
<td>3.7</td>
<td>96.1</td>
<td>3.9</td>
<td>95.5</td>
</tr>
<tr>
<td>France</td>
<td>83.9</td>
<td>16.1</td>
<td>83.6</td>
<td>16.4</td>
<td>83.7</td>
</tr>
<tr>
<td>Germany</td>
<td>86.4</td>
<td>13.6</td>
<td>85.3</td>
<td>14.7</td>
<td>85.0</td>
</tr>
<tr>
<td>Hungary</td>
<td>79.0</td>
<td>21.0</td>
<td>78.5</td>
<td>21.5</td>
<td>77.9</td>
</tr>
</tbody>
</table>

Iceland | 90.9 | 9.1 | 91.2 | 8.8 | 90.2 | 9.8 | 91.0 | 9.0 | 92.2 | 7.8
Ireland | 82.6 | 17.4 | 84.0 | 16 | 85.1 | 14.9 | 85.4 | 14.6 | 82.6 | 17.4
Italy | 69.4 | 30.6 | 69.6 | 30.4 | 73.0 | 27 | 69.9 | 30.1 | 70.7 | 29.3
Netherlands | 77.6 | 22.4 | 77.6 | 22.4 | 73.4 | 26.6 | 72.4 | 27.6 | 72.6 | 27.4
Norway | n/a | n/a | n/a | n/a | 97.0 | 3.0 | 97.0 | 3.0 | 96.9 | 3.1
Poland | 72.9 | 27.1 | 74.0 | 26.0 | 70.4 | 29.6 | 71.5 | 28.5 | 69.6 | 30.4
Portugal | 86.0 | 14.0 | 68.1 | 31.9 | 66.7 | 33.3 | 70.0 | 30.0 | 62.1 | 37.9
Slovak Republic | 81.3 | 18.7 | 77.3 | 22.7 | 82.1 | 17.9 | 76.2 | 23.8 | 73.1 | 26.9
Slovenia | 75.7 | 24.3 | 76.5 | 23.5 | 76.9 | 23.1 | 77.2 | 22.8 | 83.8 | 16.2
Spain | 75.9 | 24.1 | 77.9 | 22.1 | 78.2 | 21.8 | 79.0 | 21.0 | 78.9 | 21.1
Sweden | 88.4 | 11.6 | 88.2 | 11.8 | 89.1 | 10.9 | 89.3 | 10.7 | 89.1 | 10.9
Switzerland | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a
United Kingdom | 69.6 | 30.4 | 66.9 | 33.1 | 64.8 | 35.2 | 64.2 | 35.8 | 65.5 | 34.5

(1) Public expenditure  (2) Private expenditure


In order to increase the efficiency and quality of higher education it is important to spend the available funds responsibly and to achieve the best possible output. Data envelopment analysis is a frequently used methodology for measuring the efficiency of the public sector.

3. METHODOLOGY

DEA is non-parametric method based on linear programming that “envelopes” the observed data in order to determine the best practice frontier. DEA is commonly used to evaluate the efficiency of institutions such as hospitals, banks, schools and universities. It measures the relative technical efficiency (getting the best possible outputs from the available inputs) by calculating the ratio between weighted inputs and weighted outputs for every decision-making unit (DMU). DMUs convert multiple inputs into multiple outputs and their efficiency is measured by DEA. A DMU having the relative efficiency equal to one is considered to be efficient. Otherwise, the DMU is considered to be inefficient.

Farrell (1957) presented a new approach, later called DEA, for estimating the efficiency. Though, he did not succeed to obtain a single virtual input and a single virtual output by taking into account multiple inputs and multiple outputs. Based on Farrell’s research, the currently used form of DEA was first introduced by Charnes, Cooper and Rhodes (CCR model) (1978). They have applied linear programming to estimate the relative efficiency frontier in production technology. Their model used an input orientation and assumed constant returns to scale (CRS). CRS implies that doubling each DMU input doubles every output. This methodology has soon been recognized by the scientific
community as an excellent and easy-to-use tool for efficiency evaluations. Banker, Charnes and Cooper (BCC model) (1984) upgraded the methodology by proposing variable returns to scale (VRS). In VRS the doubling of each DMU input does not necessarily double every output. Depending on the orientation, DEA models can be input or output oriented. The DEA orientation should be chosen depending on the goals of the organization whose efficiency is evaluated. A goal could be to produce the existing outputs from the lowest possible inputs or the highest possible outputs from the existing inputs.

Higher education is a component of the public sector and cost minimization cannot be performed under the conditions on the market. This is why output-oriented DEA is chosen over input-oriented DEA in the present research. Also, the VRS model is suitable because it cannot be assumed that economies of scale do not change. The formulation of the VRS output-oriented model is given by Ozcan (2009) as

\[
\begin{align*}
\text{Maximize } & \phi_k - \varepsilon \left( \sum_{i=1}^{m} s_i^- + \sum_{r=1}^{s} s_r^+ \right) \text{ supposing that} \\
\sum_{r=1}^{s} \lambda_j x_{ij} + s_i^- &= x_{ik} \text{ for } i = 1, \ldots, m \\
\sum_{j=1}^{n} \lambda_j y_{rj} - s_r^+ &= \phi_k y_{rk} \text{ for } r = 1, \ldots, s \\
\sum_{j=1}^{n} \lambda_j &= 1 \text{ where } 0 \leq \lambda_j \leq 1 \text{ for } j = 1, \ldots, n
\end{align*}
\]  

In eq. (1) \(m\) represent the number of inputs and \(s\) represent the number of outputs. \(x_{ik}\) is the sum of \(i\) inputs and \(y_{rk}\) is the sum of \(r\) outputs of the \(k\) production unit. \(\lambda_j\) stands for the weighted values while the input and the output slacks are represented with \(s_i^-\) and \(s_r^+\) where the superscript minus sign indicates an input reduction and the superscript plus sign indicate an output augmentation. The value \(\phi_k\) defines the output efficiency and the DMU is efficient if \(\phi_k\) equals one.

DEA is a powerful tool because it can accommodate multiple inputs and outputs which can be expressed with different units. The functional form that relates the inputs to the outputs does not require an explicit specification. DMUs are compared against each other and the efficient DMUs are used as benchmark for the inefficient ones. Despite the advantages, DEA has also some limitations such as potential results sensitiveness on the selected inputs and outputs. The discriminatory power of DEA is limited when a lot of inputs and outputs while few DMUs are present in the model. DEA is useful for estimating the relative efficiency, though it cannot evaluate the absolute efficiency. Some limitations can be overcome by choosing only fundamental inputs and outputs for the analysis.

4. RESEARCH RESULTS AND DISCUSSION

The present study applies DEA for assessing the relative technical efficiency of higher education in 23 European countries. In this research one input – the expenditure per student, tertiary (% of GDP per capita) and two outputs are used – the population that has attained tertiary education and employment rates (tertiary education). The input and output data are provided by OECD (2011) and EUROSTAT (2009) and technical efficiency of selected DMUs is calculated using DEA-Solver Pro 6.0 program.
To confirm the choice of VRS, data was tested with the CCR model that assumes CRS and with the BCC model that assumes VRS. Both models were output oriented. The results comparison of these two models indicates significant differences. On the first hand, the number of efficient DMUs according to the BCC model is twice the number of efficient DMUs according to the CCR model. On the second hand, the CCR model produces significantly lower efficiency results than the BCC model. With this kind of results the use of the BCC model is recommended. The relative efficiency of higher education in 23 European countries evaluated by the VRS output-oriented model and the reference set for each country is shown in Table 3.

**Table 3:** The relative efficiency of higher education in 23 European countries

<table>
<thead>
<tr>
<th>DMU</th>
<th>Efficiency score</th>
<th>Rank</th>
<th>Reference set</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>0.9625</td>
<td>16</td>
<td>Iceland, Norway</td>
</tr>
<tr>
<td>Belgium</td>
<td>0.943676</td>
<td>18</td>
<td>Iceland, Norway, United Kingdom</td>
</tr>
<tr>
<td>Croatia</td>
<td>0.937885</td>
<td>19</td>
<td>Iceland, United Kingdom</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>0.96936</td>
<td>14</td>
<td>Iceland, United Kingdom</td>
</tr>
<tr>
<td>Denmark</td>
<td>0.966814</td>
<td>15</td>
<td>Norway</td>
</tr>
<tr>
<td>Estonia</td>
<td>0.991157</td>
<td>9</td>
<td>Slovak Republic, United Kingdom</td>
</tr>
<tr>
<td>Finland</td>
<td>1</td>
<td>1</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>France</td>
<td>0.937781</td>
<td>20</td>
<td>Iceland, Norway</td>
</tr>
<tr>
<td>Germany</td>
<td>0.97011</td>
<td>13</td>
<td>Iceland, Norway</td>
</tr>
<tr>
<td>Hungary</td>
<td>0.911348</td>
<td>23</td>
<td>Iceland, United Kingdom</td>
</tr>
<tr>
<td>Iceland</td>
<td>1</td>
<td>1</td>
<td>Iceland</td>
</tr>
<tr>
<td>Ireland</td>
<td>0.972973</td>
<td>12</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>Italy</td>
<td>0.914619</td>
<td>22</td>
<td>Iceland, United Kingdom</td>
</tr>
<tr>
<td>Netherlands</td>
<td>0.980699</td>
<td>11</td>
<td>Iceland, Norway</td>
</tr>
<tr>
<td>Norway</td>
<td>1</td>
<td>1</td>
<td>Norway</td>
</tr>
<tr>
<td>Poland</td>
<td>0.952573</td>
<td>17</td>
<td>Iceland, Norway</td>
</tr>
<tr>
<td>Portugal</td>
<td>0.991715</td>
<td>8</td>
<td>Iceland, United Kingdom</td>
</tr>
<tr>
<td>Slovak Republic</td>
<td>1</td>
<td>1</td>
<td>Slovak Republic</td>
</tr>
<tr>
<td>Slovenia</td>
<td>0.996411</td>
<td>6</td>
<td>Iceland, Norway</td>
</tr>
<tr>
<td>Spain</td>
<td>0.924656</td>
<td>21</td>
<td>Iceland, United Kingdom</td>
</tr>
<tr>
<td>Sweden</td>
<td>0.980957</td>
<td>10</td>
<td>Iceland, Norway</td>
</tr>
<tr>
<td>Switzerland</td>
<td>0.996352</td>
<td>7</td>
<td>Iceland, Norway</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1</td>
<td>1</td>
<td>United Kingdom</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>0.969634</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Five countries have $\phi_k$ equal to one which defines them as efficient. These countries are Finland, Iceland, Norway, Slovak Republic and United Kingdom. However, there are only four efficient countries since, by definition, a DMU is efficient only if $\phi_k = 1$ and $s_i^-, s_r^+ = 0$. Finland’s input slack $s_i^-$ which reflects the excess of expenditure per student, tertiary (% of GDP per capita) and output slack $s_r^+$ (2) which reflects the shortage of employment rates for tertiary education are not equal to zero. Consequently, higher education in Finland is only weakly efficient. Finland’s higher education could become efficient if the average higher education expenditure per student reduces by 31.68% and if the employment rate of the tertiary educated population increases by 1.07%, all with the aim of reaching United Kingdom as benchmark. Other countries are considered to be inefficient.

Hungary is placed at the last ranking position and, if it aims to become efficient, it should target the positions of Iceland and United Kingdom as benchmark. In other words, Hungary should both increase the number of tertiary educated population by 77.23% and the employment rate of tertiary educated population by 9.73%. With Hungary at the very end of the ranking, Italy, Spain, France and Croatia are identified as the five most inefficient countries in higher education expenditure.

Considering the frequency of the efficient DMUs in appearing as reference set to the other DMUs, Iceland was benchmark for 15 countries, Norway and United Kingdom were benchmarks for 10 countries while Slovak Republic was benchmark only for Estonia.

According to the presented empirical analysis, higher education expenditure is inefficient in the majority of the observed countries. In these countries the key issue is to increase the outputs according to the existing input because that would lead to multiple positive effects for their future development.

5. CONCLUSION

Higher education is fundamental for economic growth and prosperity of every country. The competitiveness of a country strongly depends on the quality of its workforce. Because of that, the importance of education is constantly increasing, especially in higher education which is a key generator of highly skilled professionals. Nowadays, during a financial crisis, most of the countries have limited funds but the public demand for education is increasing. Consequently, great attention is given to the efficiency in the public sector and, specifically, to the efficiency of public expenditure on education.

In this research the relative efficiency of public spending on higher education in 23 selected European countries was measured using VRS and output-oriented DEA methodology. Four countries have proved to be efficient: Iceland, Norway, Slovak Republic and United Kingdom while other nineteen countries have not reached the efficiency frontier. A calculated frontier provides a benchmark to the inefficient DMUs. It also provides quantitative projection information about input reducing and output increasing with the aim of improving the efficiency.

Although higher education expenditure is crucial for the development of higher education, its growth and quality, it is not the only influencing factor. For HEIs, it is also very important to spend funds as efficiently as possible. In order to improve the performance, HEIs should be more favourable to results comparison, especially among HEIs having similar profiles. This research implemented DEA for evaluating the efficiency of higher education at national level. Although DEA is proven to be a valuable methodology, it has some limitations. Differences among higher education of different countries can cause results to deviate. Also, the choice of inputs and outputs can influence the results. Because of that, future studies are necessary in order to eliminate these potential sources of deviations.
Comparisons between HEIs having similar profile would yield more detailed results and useful recommendations for improving the use of available inputs. This represents a possible starting point for further researches which could give theoretical and practical contributions for increasing the efficiency and the quality of HEIs.

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MANAGEMENT OF CHANGE IN PERFORMANCE OF BUSINESS PROCESSES
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Abstract
Among basic strategic goals of each enterprise a competitiveness and business process performance increase belong. To increase performance of business process means to make the change. A necessary condition for successful realization of change is its effective management. The paper deals with methodology of management of business processes change with aim to increase their performance. Presented model of management of change is based on process principles by respecting important factors influencing a success of change realization.

Key words: change management, performance, business process, enterprise

1. INTRODUCTION
Traditional way of following business performance comes out from evaluation of achieved financial indicators: profit, turnover, market share. The company is evaluated as productive by reaching planned financial results. In the present time have been supported new approaches to watching business performance which come out traditional system and fill up them in further qualitative and timing indicators. A modern way of performance evaluation is based on prerequisite that a company is productive by ability to reach defined strategic goals not only financial. In practice are applied two basic approaches: Balanced Scorecard as a system for evaluation of strategic goals in four basic areas (financial, customer, internal processes and learning and growth. The second approach is based on measurement of performance through measurement of business processes performance and it is known as Performance Management.

Increasing process performance with aim to increase an added value for customers belong among basic strategic goals in modern enterprises. The effort to keep a competitive position in present market environment evokes a permanent pressure on improvement and change realization in enterprise. Change management is in modern enterprise a basic prerequisite for survival competitive environment. That is why a belonging part of process performance management a management of changes in internal business processes has become. Each change should be anticipated and effectively performed. A necessary condition for successful realization of change is its management. Change management in enterprise should be considered as a project by using methods and instruments of project management. According to type of change several types of projects exist. The most frequent forms of changes are radical, transforming or slow, tactical changes. In following text of this paper are closely specified types of changes in business processes and a model for management of change with its basic phases.
2. TYPES OF BUSINESS PROCESS CHANGES

Changes performing in enterprises can be different as for depth, time period and influence on internal and external environment. To decision for change realisation with aim to increase performance of enterprise and its internal processes lead several external and internal grounds evoking a change need. On the base of identified impulse to change it is possible to determine a needed range and contents for changes in internal business processes.

According to change range can be performed following types of changes in business processes:

- **Business process reengineering (BPR):** radical change of business processes in purpose to dramatic performance improvement. The main principle of reengineering is identification of outdated rules, methods and processes and their radical change to new, more effective. [4,12]

- **Continual improvement of processes:** never ending process whereat repeating small improvements in production and trade processes are achieving and company is becoming more competitive. This conception can be applied in functional enterprises without permanent problems. Among methods of continual improvement belong: Kaizen, TFM, TQM, JIT, Lean production. [8]

According to change content can be recognized: [1, 9]

- **Technical changes:** changes in technologies, technical parameters, product innovations,

- **Organizational changes:** changes in division and organization of labour, in competencies, responsibilities, in information flows,

- **Social changes:** changes in skills, qualification level, motivation, employees thinking and behaviour, communication, corporate culture.

According to character the changes in business processes can be characterized as: [1,8]

- **Planned changes:** predictable and awaiting changes,

- **Emergent changes:** unpredictable changes resulting from uncertain changes in market environment.

In connection with performance of changes a manager must make a correct decision in aim to reduce a risk of failure in maximal range. To reach the goal and keep competitiveness of enterprise, each change must be planned and managed.

3. THE MODEL FOR MANAGEMENT OF CHANGE IN BUSINESS PROCESSES

Presented model for management of change represents a methodology for process of change based on process principles by respecting important factors influencing a success of change realization. Suggested model consists of four basic phases: determination of starting points for the project of change, elaboration of change project, implementation of suggested changes in business processes, monitoring of changed processes. [8]

3.1 Starting points for the project of change

The basis by performing any changes in a company is to frame up the feel of change urgency because otherwise there are appearing powers creating a number of barriers by changes realisation. To create a positive power field with stronger powers supporting changes is needed.

The basic starting point for elaboration of project is identification of business internal processes, their parameters and internal structure, measurement and analysis of processes.
Process identification

Process identification means determination of key valuemaking processes and main supporting processes, visualization of processes in their internal structure with subprocesses and activities within each subprocess. The aim of process identification is to analyze their running and mutual connections and to visualize these flows in process maps. It is recommended to make following classification of business processes: [5,8]

**Main processes:** these processes directly contribute to fulfilling the mission of a company, their final output is addressed to external customers and they directly share the added value for customers. Among main processes belong:

- **marketing process:** it is standing at the beginning and the end of the whole valuemaking chain of a company, the main sense are analyses of customers and markets, enforcing products on markets via different forms, evaluation of customer,
- **innovation process:** it comes out from marketing analyses and from customer demand, the output is a production of innovated product and its allocation on the market,
- **production process:** it starts in the case of customer order, the output is produced product,
- **delivery process:** it covers sale of products to customers, reclaimation processing.

**Subsidiary process:** its output is associate product as additional product to main one, it is addressed to external customer. This process indirectly create added value for customer (e.g. valuation of material waste, providing additional services by and after product sale).

**Supporting management processes:** their role is to create maximally effective and simple system for management of main processes responding the goals determined by process owners. The output of management processes is addressed to external customer and it indirectly share on added value for external customers. Among management processes can be included strategic management, quality management, information management, human resources management, financial and investment management, logistic management, supply chain management, management of health safety and protection.

**Supporting service processes** present functional processes necessary for main processes working, they are addresses for internal customer and they can be outsourced. Supporting service processes include reparation and maintenance, control and testing, acquisition, purchase and warehousing of stock, internal logistics, IT support.

Defining process parameters

After creation of business processes list for each process its parameters are defined as follows (see figure 1): [1, 9]

**Process purpose:** there are determined key factors through which the process conduces to achieving stated strategic success factors and to achieving a competitive advantage. Among these factors belong quality, customer satisfaction, product delivery, productivity, safety, financial efficiency, price, quality suppliers. It is also determined a priority of internal processes to key success factors of a company.

**Inputs using by process:** material, financial, information, personnel, managerial including knowledge needed for work in process.
Process costs: amount of sources for process inputs; the most frequent using costing method oriented to activities the model Activity Based Costing (ABC) is. It is calculation method based on processes where the main principle is that not product but activities bring up costs.

Outputs produced by process can be production prescription, prototype, product and information to whom are outputs addressed – who is external or internal customer.

Indicator of process performance: it is measurable parameter for process evaluation. Indicator can be connected to whole process or only to activity in process or integrally to process and also activity. Possible indicators for process evaluation are: process costs, quality, productivity, time, number of innovations, provided knowledge, added value.

Process owner is a person responsible for optimal running, output and development of process, it is manager of process team.

Relations among processes: determination of previous and following process, point where process starts a point where is a process end.

Process duration is determined on the base of total duration of all activities in the process.

Responsibility for the process: determination of process owners, duplicate responsibility for process is not allowed.

**Figure 1 Identification of process parameters**

- Process purpose
- Process duration
- Process owner
- Process costs
- Performance indicator

Input processes can be made it internal structure as follows (see figure 2): [8, 9]

Identification and visualization of particular subprocesses and activities within each subprocess. It is the base for measurement, evaluation and improvement of process.

Identification and visualization of sequential steps within activities of subprocesses means description of each activity operating.

 Determination of each activity duration: what time is spent by duration and among particular activities.

 Determination of interactions between activities: it means to determine previous and following activities in subprocesses.

Defining inputs and outputs between activities: they must be exactly named and can represent material or information flow between activities.
Identification of sources and limiting for activity realization: by sources it is focused on identification of human sources and technical tools, restrictions are rules for activity running such as organizational norms, legislative prescriptions, internal procedures and certification conditions.

Figure 2 Process structure

Measurement and analysis of processes

After identified parameters and internal structure of processes a measurement of each process follows with aim to find out achieved parameters in process, especially achieved values of determined indicators of process performance.

Analysis of processes presents more detailed description of process working and measurement in effort to find out bottlenecks and critical points. The basis for process analysis is its measurement performed according to time view during process or after process finish and according to business cases. Types of process analyses can be as follows: [8, 10]

- analysis of process running: finding out where is the process incorrect as for logic side,
- analysis of process versions: finding out differences of one process in different cases or locations,
- analysis of critical points: identification of key problems in process,
- time analysis: finding out points of process delay,
- analysis of process output: finding out what product of process a customer really requires,
- analysis of added value creation: finding out activities in process without creation of added value,
- analysis of process servicing: finding out if the process has an optimal personal structure to be bale of effective functioning,
- process costs analysis: identification of unproductive activities in process,
- make or buy analysis: finding out profitability by making process in a company or by its purchase from external supplier.

3.2 Elaboration of change project

Elaboration of change project is a preparation phase for change process. The aim of this phase is systemic and effective elaboration of change project where the principles and details of changes are processed. The starting point is understanding the processes and problem areas. The result is a
detailed plan of actions for reaching a determined goal. Sequential steps in this phase of model are as follows: [8, 11]

- formation of project team,
- determination of project goal and strategy
- determination of desired performance parameters of processes
- identification of needed changes in individual processes,
- elaboration of frame time schedule
- identification of sources for change realisation

‣ Formation of project team

Project team is a group of workers who share on the project preparation and realisation, they have common goal, presumptions for qualification complemention. The project team should have following composition: [8,12]

- Leader: his role is to secure smooth flow, to achieve maximal result a to eliminate barriers created by people who doesn’t agree with a change.
- Preparing and managing team is a conception organ consisting of higher managers which elaborates whole strategy, project of change and monitors realisation process. The leader is on the top of this group. An important role in preparing team plays a methodist who is responsible for techniques and tools used by change realisation.
- Realising teams are formed for every area of change or for every process. Teams are working collectives who will perform activities after change realisation. On the top of each realisation team is process owner with responsibility for process running.

‣ Determination of project goal and strategy

Project goal should be compliant with stated strategic goals of a company in order to create prerequisites for their reach. The goal of change project is achievement of key performance indicators of a company so as to increase its internal potential and competitiveness on the market. Creation of change strategy indicates a way to reach goals, information what an how should be changed for ability to realise business strategy.

‣ Determination of desired performance parameters of processes

Target desired values of process performance indicators can be found out on the base of determined critical points by process analysis or according to achieved values of the strongest competitors or by transfer of enterprise key performance factors into targets of each process performance.

The aim of process analysis is to provide verified information about process performance. On the base of found out data from process measurement about achieving parameters and problems in process flow are defined target values of performance indicators forward to elimination of problem points and process performance increase.

Benchmarking of process means process measurement and comparison with achieving level by the best enterprises in the branch. Target values of performance indicator are determined on the base of actual process performance with the leading enterprises on the market. A starting point for benchmarking is to have processes with their structure and parameters for comparison identified. Then an importance and priority of process is determined. The process importance is defined thorough indicators such as cycle period, level of generated added value, number of employees and process costs.
Identification of needed changes in individual processes

Needed change in processes is possible to identify through comparison of actual achieved value with desired, target value of process parameters. If there is on the base of data obtained by process measurement, defaults are identified it is an impulse to proposal and realization of changes in processes. Internal processes is suitable to arrange according to change necessity in term of functioning, value and costs as follows: [8]

- **Functioning processes with less defaults** in connection to delivery or custom processes: application of continual improvement methods focused on improvement of performing parameters for customer, technical quality of product, service quality, timing quality and on complex process costs lowering.
- **Ineffective processes** with low flexibility to changes on the market and tight points in sources: radical change through reengineering or outsourcing of process.
- **Elimination of duplicate carried out activities and processes without created value for customer**.
- **Implementation (replacement) of missing processes**: to define new process is needed when it is found out that some activity performing in a company doesn’t belong to any process. In large companies with complicated structure it is suitable to implement two metaprocesses: creation and management of processes and management of changes in processes.

Procedure for identification of needed changes in processes shows figure 3:

![Figure 3 Identification of needed changes in processes](image-url)
In this step it is needed to elaborate a detailed plan of actions for particular processes, so called action plans including:

- **Detailed description of changed process** including personnel assurance (work organization, tasks, required skills and knowledge), tools for process management, technology, required information technology and systems,

- **Identification of concrete actions** and their sequence for realization of changes in process.

**Identification of sources for change realization**

Last step in the projecting phase is identification of source types needed for process of change and calculation of total costs connected with sources arrangement. There should be specified following sources: [6, 12]

- **Time Schedule**: survey of main activities and their duration, key time points and time reserves.

- **Human resources** represented by members of project team.

- **Requirements for information technologies**: suitable information systems and technologies needed for realization of proposed changes.

- **Financial sources** present total costs at project. A prerequisite for correct identification of costs is to make a sufficient plan of particular activities and to determine responsibility for their performance. Then it is possible at each step to define wages, direct material consumption, technical equipment including information technologies and software support. Financial sources present labour costs, material costs, investment costs, other overhead costs connected with process of change.

- **Radicality of target costs**: determination of change impacts from financial view, that means to calculate savings possible to achieve by change realization.

3.3 **Implementation of suggested changes in processes**

For change realization the process owners with their process teams are responsible. In this phase a company should have prepared and implemented an effective motivation program on the base of results from motivation factors analysis. Implementation process includes three basic steps: defrosting, change and freezing.

**Defrosting** means preparation of suitable environment for change realization on the base of power field analysis and arrangement of needed sources. The key factor for successful realization of restructurialization changes seems to be preparation of people to changes in effort to achieve maximal association themselves with changes on all levels. Effective Instruments for people preparation to changes are extensive information campaign about necessity and impacts of changes, explaining obscurities and remarks of employees, proposal of education and training new required skills, creation of effective motivation programm. Defrosting includes activities such as preparation of available information, attention to faults, aversion elimination, tangible assurance of process. [4, 9]

**Change realization** means application of suggested changes into enterprise life: [2,3]

- **Process optimization** presents serial change in achieving parameters to desired values. Optimization changes are focused on aspects such as change of process structure, change of source allocation, cost lowering and activity duration shortening.
- **Reengineering** presents a radical form of process innovation, that means a radical process redesign in aim to achieve a dramatic improvement in term of key performance factors such as costs, quality and speed.

- **Process outsourcing** means to buy process outputs from external supplier. Outsourcing is mostly suitable for supporting service processes with low added value for customer.

**Freezing** presents fixing of changed processes, consolidation a stabilization of performed changes. The aim of this step is to eliminate risk of return to previous process and activities realisation. After changes a company used to be unstable and apt to same problems therefore process fixation is needed.

### 3.4 Monitoring of changed processes

The aim in this phase is to verify if aims of change project were achieved and to fixate running of changed organization. Stabilization of changed system of enterprise running should be based on positive motivational factors, not on sanctions for infringement of new procedures. Evaluation of achieved effects and application of this knowledge in management is a feature of learning organization. Evaluation of changed processes and divergences elimination is an integrated part of last fourth phase. This phase is also an opportunity to form new goals and to propose new changes. Mostly control mechanism are applied. Monitoring presents following activities: [3,11]

**Monitoring keeping changed required process parameters:** all new processes must be regularly evaluated to secure achieving required results. In this case a monitoring enables early detection of divergences from desired state and to perform corrective actions.

**Monitoring output feedback of processes to strategic frame** means monitoring achieved effects of changes, through development of managerial information system to every process position to mediate output feedback to strategic frame in a real time.

**Taking initiative of next improving changed processes:** a company should permanently perform self-valuation, to detect reserves and possibilities for improvement. It includes a challenge to improve management procedures, process efficiency and working procedures. Among basic impulse for process improvement belong product change, strategy change, impulse from customer, financial analysis, audit.

### 4. CONCLUSION

Presented management model of process change presents a guide for successful realisation of change in business processes in effort to increase their performance. On the base of presented model conditions of an efective change management can be characterized as follows:

**Early capture of impulse to change:** the enterprise should change faster than environment and competition to keep a competitive position on a market. Early capture of impulsu is enabled by using systemic methods of searching and predicting changes (e.g. patching method based on permanent monitoring conditions of enterprising environment).

**Creation of suitable power field:** powers supporting a change have to be stronger than powers blocking a change. To create a suitable power field it is needed to reduce blocking powers by degrading fear from change, to overcome aversion to change protest through intensive communication, informing about prepared changes and their goals, education.
Change project preparation and management of its realisation: change management must be considered as a project applying principles of process and project management. Very important is a solid project preparation and detailed analysis of source situation.

Monitoring achieved effects of change: performed changes have to be stabilized and there is a need to monitor keeping changed processes, procedures, to suggest possibilities of next improvement.

An effective change management enables a company to reach the changeability which is in present globalized market of permanent changes considered for a competitive advantage of a company.

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EXAMINATION OF SELECTED VARIABLES RELATIONSHIP TO THE SEARCH RESULTS POSITION IN THE UNIVERSITY SECTOR IN SLOVAKIA

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Abstract

This study evaluates the selected outcomes of the research aimed at determining on how the economically oriented Slovak University faculties perform in the realization of their e-marketing activities. The aim of the study is to prove if there is any direct correlation between selected search engine optimization (SEO) factors. We applied statistical methods on the gathered data and the analysis led to confirmation / declination of the four hypotheses set in the beginning of the research.

Key words: e-marketing, search engine marketing, university marketing

1. INTRODUCTION

Search engine marketing (SEM) is an important tool of the Internet marketing and e-marketing activities. Marketing managers are aware of the importance of positioning in the search results to acquire more traffic from the search engines. Search engine optimization (SEO) as the preferred method of gaining sustainable growth in traffic to the targeted web site.

The experts on search engine marketing and particularly search engine optimization are arguing on the importance of partial variables or factors on the performance in search engines. In our empirical study we aim at providing exact evidence supporting these hypotheses. The objective of the article is to prove if there is a direct relationship between:

- the compatibility of the web page code regarding the W3C standards and
- the number of total links (external and internal) on the web page and the SERP positions

and

- the SERP (search engine results page) positions and
- Google PageRank (GPR) of the web page.

To confirm or exclude the existence of mutual connection between these variables, we evaluated the results of primary data collection on a sample of all 21 faculties of universities in Slovakia, providing economically oriented education. Based on our previous research and experience in this area we formulated these 4 hypotheses:

**H1:** There will not be a significant correlation between the web page code compatibility to W3C standards (HTML and CSS) and the positioning of the web page in search engines.
H2: There will be a significant correlation between the total number of back links (internal and external) and the positioning of the web page in search engines.

H3: There will not be a significant correlation between the web page code compatibility to W3C standards (HTML and CSS) and the Google PageRank of the web page.

H4: There will be a significant correlation between the total number of back links (internal and external) and the Google PageRank of the web page.

2. EXAMINING THE RELATIONSHIP OF TWO SELECTED INDICATORS TO THE SERP POSITIONS

2.1 Methodology

In January and February 2012 we realized a complex collection and analyses of primary data for the research study. We analyzed the selected indicators of 21 web pages of faculties with economically oriented educational programs in Slovakia. The research was accomplished in two major phases:

- PHASE 1 – data gathering and processing,
- PHASE 2 – data analyses and findings summarization.

PHASE 1

For the research purposes we collected the data in four groups:

1. Compatibility of web page coding to the W3C standards (further as W3C).
2. Ranking in search engine results for selected key words (further as SERP).
3. Number of links pointing to the web pages (further as back links).

The objective of this phase of data gathering and processing was to determine the value (performance) of each web page for each of the indicators group, on the scale from 0 (no performance) to 100 (best performance). We describe the methods used to acquire and process the data in these four indicator groups as following:

Compatibility of web page coding to the W3C standards

This indicator consists of four sub-indicators. We measured the values of all of them for the title page of each web site. The first one is number of HTML errors. This number indicates the serious problems in the code which make the site incompatible to the recent W3C xHTML 1.0 Transitional standard. The second indicator is the number of HTML warnings. They refer to a potentially problematic part in the code. To collect the data for these two indicators we used the Markup Validation Service from the World Wide Web Consortium (W3C, 2012b). The third indicator was number of CSS errors. We measured the errors according to the CSS v 2.1 standards. As the fourth indicator we took the number of CSS warnings. To collect the data from these 2 indicators we used the CSS Validation Service from the World Wide Web Consortium (W3C, 2012a).

After collecting the source data we processed them to fit to the scale. We rotated the number ranges so the web page with most errors gets 0 points and the solution with 0 errors receives maximum number of points. After that we scaled the number ranges to the 0-100 scale. As we are aware of the different
importance of each of this four sub-indicators, we applied weights to calculate the final score in this indicator. The weights reflect the seriousness of the potential issues which can be caused by the incompatibilities with HTML or CSS:

<table>
<thead>
<tr>
<th>Sub-indicator</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of HTML errors</td>
<td>40 %</td>
</tr>
<tr>
<td>Number of HTML warnings</td>
<td>20 %</td>
</tr>
<tr>
<td>Number of CSS errors</td>
<td>25 %</td>
</tr>
<tr>
<td>Number of HTML warnings</td>
<td>15 %</td>
</tr>
</tbody>
</table>

Table 1. Sub-indicators and their weights within the W3C indicator

**Ranking in search engine results for selected key words**

We decided to measure the ranking in the search engine Google solely. The reason lies in its market share, which is currently over 98 %. No other full text search engine is being really used at the moment to search for web pages and information. The performance in Google (www.google.sk) was measured through identifying the SERP ranking of each faculty web site for the defined set of keywords. We decided to use 8 key words which are closely connected to the faculties and courses they are offering. The other criteria to select these key words was based on identifying how potential customers (students) think when trying to find the appropriate faculty for their future studies on the Internet. The list of applied key words is shown in the table 2. In the data gathering we used Slovak originals of the key words, however for understanding and comparability of the study results we are listing their English translations.

<table>
<thead>
<tr>
<th>Keyword ID</th>
<th>Keyword - English equivalent</th>
<th>Keyword - Slovak original</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>University</td>
<td>Univerzita</td>
</tr>
<tr>
<td>B</td>
<td>College</td>
<td>Vysoká škola</td>
</tr>
<tr>
<td>C</td>
<td>University (abbrev.)</td>
<td>VŠ</td>
</tr>
<tr>
<td>D</td>
<td>Faculty</td>
<td>Fakulta</td>
</tr>
<tr>
<td>E</td>
<td>Economic Faculty</td>
<td>Ekonomická fakulta</td>
</tr>
<tr>
<td>F</td>
<td>Economy studies</td>
<td>Štúdium ekónomie</td>
</tr>
<tr>
<td>G</td>
<td>Faculty+management</td>
<td>Fakulta+manažment</td>
</tr>
<tr>
<td>H</td>
<td>University studies</td>
<td>Univerzitné štúdium</td>
</tr>
</tbody>
</table>

Table 2. Key words used to determine the SERP position
There were 3 functional methods of determining the SERP position available: manual counting in the web browser, using the position identification tool available at Seotools (Seotools, 2012) and using the SERP tool from SEOMoz (SEOmoz, 2012a). We analyzed the results and differences using these 3 methods on a sample of 5 faculties and determined the most appropriate method of manual counting which enables us to reach precise results and search for the results within the positions 1-50.

We checked the position for every keyword and every faculty, in total 400 positions. We processed the values into a table. If the faculty positioned 51+ in SERP, we used the value 51 which is 1 more than the worst position taken into account. This enabled us to evaluate average values and determine the overall development.

After collecting the source data we processed them to fit to the scale as well. We rotated the number ranges so the web page with best positioning in Google (position number 1) 100 points and the solution with no positioning (51+) receives 0 points. The final score in this indicator was calculated as an arithmetic average of the partial 8 values, which were calculated for each key word separately.

**Number of links on the web pages**

We supposed the number of links pointing to the web page to determine its performance in search engines significantly. We counted the total number of internal links (links pointing to other sub page within the analyzed domain) and external links (links pointing to the web site from other domains – external back links). We also gained the number of total linking root domains (unique root domains containing at least one link to the analyzed web page). We used the analytic tool Open Site Explorer to obtain the source data (SEOmoz, 2012b). We abstracted from differences between follow and no-follow links. The acquired data were processed to fit to the 0-100 scale.

**Google PageRank of the title page**

We collected the data of GPR for each of the analyzed domains. The data were modified from the 0-10 scale to the desired 0-100 scale.

**PHASE 2**

In the second phase we analyzed the final data and calculated their interdependence. We used the statistical tools to calculate the correlation in the acquired values for each of the criteria. We list the final indicator values which were used to analyze the correlation and the validity of the defined hypotheses.

<table>
<thead>
<tr>
<th>Faculty ID</th>
<th>Acronym</th>
<th>W3C</th>
<th>SERP</th>
<th>Back links</th>
<th>GPR</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>OF</td>
<td>81.46</td>
<td>18.33</td>
<td>22.94</td>
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</tr>
<tr>
<td>2</td>
<td>NHF</td>
<td>48.93</td>
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<td>85.71</td>
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<tr>
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<td>FMV</td>
<td>77.56</td>
<td>41.67</td>
<td>35.64</td>
<td>85.71</td>
</tr>
<tr>
<td>4</td>
<td>FHI</td>
<td>97.02</td>
<td>35.00</td>
<td>35.64</td>
<td>71.43</td>
</tr>
<tr>
<td>5</td>
<td>FPM</td>
<td>100.00</td>
<td>63.33</td>
<td>38.53</td>
<td>85.71</td>
</tr>
</tbody>
</table>
2.2 Results

We analyzed the partial results to be able to confirm or reject the four major hypothesis we set:

H1: There will not be a significant correlation between the web page code compatibility to W3C standards (HTML and CSS) and the positioning of the web page in search engines.

We supposed that the coding of the web site which is according to the standards, will not significantly help the web page to position in Google. To process the evidence regarding this hypothesis we analyzed the correlation between the two data ranges – W3C and SERP. To provide more evidence we took the 5 best web pages with minimum HTML and CSS errors. We calculated how they score in Google in average and compared this to the average score of the rest, less successful faculty web sites. We list the results in the table 4. The best web pages according to W3C reached the average score in SERP 39, on the other hand the less successful pages according to W3C reached better positions in SERP. This was also confirmed by calculating the correlation coefficient, which was -0.2195.
Based on the presented results we accept the hypothesis **H1**. There is no positive correlation between the web page code compatibility to W3C standards (HTML and CSS) and the positioning of the web page in search engines. Moreover the correlation is negative, meaning the positive results in W3C may affect the SERP performance negatively. However the negative correlation is low (over CC=- 0.3).

**H2**: There will be a significant correlation between the total number of back links (internal and external) and the positioning of the web page in search engines.

Based on our knowledge and the opinion of key SEO experts we expected the number of back links being a significant factor of good placement in the search engines results. We analyzed the data ranges Back links and SERP. From the Table 5 it is clear that the web pages having most back links perform in Google much better compared to the rest of the web pages. We calculated the correlation coefficient, which is at the level 0.3027. This confirmed that there exists a moderate positive correlation between the number of Back links and the search engine rankings.

<table>
<thead>
<tr>
<th></th>
<th>BACK LINKS</th>
<th>SERP</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOP 5</td>
<td>70.76</td>
<td>56.33</td>
</tr>
<tr>
<td>6-21</td>
<td>42.63</td>
<td>23.33</td>
</tr>
</tbody>
</table>

Table 5. TOP 5 web pages in Back links vs. the rest – SERP performance comparison

We also tested the correlation between the number root linking domains and the SERP. We expected the number of root linking domains to have higher impact on the positioning in search engines than the total number of back links. The correlation coefficient in this case was 0.3044 which is very similar to the 0.3027 by number of total links.

Based on the presented results we accept the hypothesis **H2**. The correlation between the indicators Back links and SERP is positive with medium significance level.

**H3**: There will not be a significant correlation between the web page code compatibility to W3C standards (HTML and CSS) and the Google PageRank of the web page.

When formulating this hypothesis we expected the efforts in cleaning the web page code and aligning it to the standards to have a minimum impact on the Google PageRank of the web page. The Google PageRank is calculated based on the number of important criteria. SEO experts do not include the code W3C compatibility among this criteria.
The correlation coefficient between the data ranges W3C and GPR is -0.0386. The coefficient is negative however the number is so low that we can state that there is no correlation between these indicators. They proved to be independent. Thus we accept the hypothesis H3.

**H4:** There will be a significant correlation between the total number of back links (internal and external) and the Google PageRank of the web page.

Finally, according to the generally accepted opinion that back links do influence the search engine rankings positively, we expected that they would have a positive impact on the Google PageRank score as well.

The correlation coefficient calculated with the data from Back links and GPR data ranges is -0.2195. This low negative correlation means that no significant correlation between these indicators has been proved. Furthermore we can expect slightly negative impact on Google PageRank when trying to build masses of back links from the same root domains.

We reject the H4 hypothesis. The correlation is negative with low significance.

Because of this interesting result we calculated the correlation coefficient between the scores in number of linking root domains and the Google PageRank as well. In this case a positive correlation can be observed. The correlation coefficient is 0.1058.

### 3. DISCUSSION

The results of the empiric study have proven that there is a correlation between the total number of back links and the performance in search engines. This positive correlation was proved in the SEOmoz research published in 2011. At the other hand we have confirmed that the back links do not influence the Google PageRank value positively at all. We think these results are interesting to be further compared by other researchers using data in different sectors and countries. Our methodology is universally applicable and we expect further discussions and research studies in this area.

### 4. CONCLUSIONS

We can summarize the following main conclusions of our study:

- Generally SEO experts tend to point out at the errors in the web page HTML and CSS. However our results have proved that these errors do not affect the positions in search results nor the Google PageRank reasonably.

- SEO experts think that the number of linking root domains is much more relevant for good SERP results than the number of total back links pointing to the web page. In our study we have proved that these factors are important, however there is no significant difference between their importance.

- Building a back link campaign has to be managed reasonably. We proved that acquiring back links from many different root domains affects not only the SERP rankings but also the Google PageRank positively. However gaining many back links from the same domain can affect the Google PageRank negatively.
Marketing communication is an inseparable part of everyday existence for individual participants of the respective markets. According to Matušíková, all kinds of changes have occurred influencing both the way and range of supply and demand for goods as well as speed and promptitude of moving goods from the manufacturer to the final consumer. It is therefore necessary to constantly work on improving communication methods and channels (Matušíková, 2011)

The article originated as the output of the project VEGA no. 1/0418/11 Sustainable marketing and sustainable consumption.

APPENDIX 1 COMPLETE LIST OF FACULTIES INCLUDED IN THE EMPIRICAL STUDY

<table>
<thead>
<tr>
<th>Faculty ID</th>
<th>Faculty name</th>
<th>Acronym</th>
<th>Web site URL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Obchodná fakulta Ekonomickej univerzity v Bratislave (EU)</td>
<td>OF</td>
<td>obchodnafakulta.sk</td>
</tr>
<tr>
<td>2</td>
<td>Národohospodárska fakulta EU</td>
<td>NHF</td>
<td>nhf.euba.sk</td>
</tr>
<tr>
<td>3</td>
<td>Fakulta medzinárodných vzťahov EU</td>
<td>FMV</td>
<td>fnv.euba.sk</td>
</tr>
<tr>
<td>4</td>
<td>Fakulta hospodárskej informatiky EU</td>
<td>FHI</td>
<td>fhi.sk</td>
</tr>
<tr>
<td>5</td>
<td>Fakulta podnikového manažmentu EU</td>
<td>FPM</td>
<td>fpm.euba.sk</td>
</tr>
<tr>
<td>6</td>
<td>Podnikovohospodárska fakulta EU v Košiciach</td>
<td>EUKE</td>
<td>euke.sk</td>
</tr>
<tr>
<td>7</td>
<td>Ekonomická fakulta UMB</td>
<td>EFUMB</td>
<td>efumb.sk</td>
</tr>
<tr>
<td>8</td>
<td>Fakulta manažmentu UK v Bratislave</td>
<td>FMUK</td>
<td>fm.uniba.sk</td>
</tr>
<tr>
<td>9</td>
<td>Fakulta ekonomiky a manažmentu Slovenskej poľnohosp. univerzity</td>
<td>FEMUNIAG</td>
<td>fem.uniag.sk</td>
</tr>
<tr>
<td>10</td>
<td>Ekonomická fakulta, Univerzita J. Selyeho</td>
<td>SELYE</td>
<td>selyeuni.sk</td>
</tr>
<tr>
<td>11</td>
<td>Fakulta masmediálnej komunikácie UCM v Trnave</td>
<td>FMKUCM</td>
<td>fmk.ucm.sk</td>
</tr>
<tr>
<td>12</td>
<td>Ekonomická fakulta Technickej univerzity v Košiciach</td>
<td>EFTUKE</td>
<td>eftu.te.sk</td>
</tr>
<tr>
<td>13</td>
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<td>FMUNIPO</td>
<td>unipo.sk/fm</td>
</tr>
<tr>
<td>14</td>
<td>Fakulta sociálno ekonomických vzťahov Trenčianskej univ. A. Dubčeka</td>
<td>VSEVTUNI</td>
<td>tnuni.sk</td>
</tr>
<tr>
<td>15</td>
<td>Fakulta verejnej správy Univerzity Pavla Jozefa Šafárika</td>
<td>FVSUPJS</td>
<td>fvsupjs.sk</td>
</tr>
<tr>
<td>16</td>
<td>Fakulta ekonóme a podnikania Bratislavského vysokoškolského práva</td>
<td>PANEURO</td>
<td>paneuromi.com</td>
</tr>
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<td>17</td>
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<td>18</td>
<td>Vysoká škola manažmentu v Trenčíne</td>
<td>VSM</td>
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<tr>
<td>19</td>
<td>Vysoká škola medzinárodného podnikania ISM Slovakia v Prešove</td>
<td>ISMPO</td>
<td>ismpo.sk</td>
</tr>
<tr>
<td>20</td>
<td>Sales Manager Akademie</td>
<td>SM</td>
<td>sales-manager.sk</td>
</tr>
<tr>
<td>21</td>
<td>Bankovní institut vysoká škola</td>
<td>BIVS</td>
<td>bivs.sk</td>
</tr>
</tbody>
</table>
REFERENCES


GENDER DIFFERENCES IN MONEY ATTITUDES AMONG UNIVERSITY STUDENTS IN THE REPUBLIC OF MACEDONIA

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Abstract
The purpose of this study is to ascertain students' attitudes toward money and debt and to identify gender differences in money and debt attitudes in Macedonia. Attitudes toward money have been examined by employing factor analysis. The respondents were required to complete a 20 item money attitude scale. By employing factor analysis, 3 dimensions of the money attitude scale were identified (power-prestige, anxiety and distrust). Furthermore, t-test and chi-square test were employed to see if male and female students differ significantly in their attitudes toward money on the dimensions of the money attitude scale and in their general attitudes toward debt. Results of the t-test confirmed the existence of gender differences in power-prestige and anxiety dimensions of money attitudes. Results of chi-square test showed no statistically significant relationship between male and female students in their general attitudes toward debt/credit. Recommendations may help financial institutions and other companies in designing appropriate marketing strategies.

Key words: attitudes, money, debt, gender

1. INTRODUCTION
Money is important in a modern society especially to students as a population preoccupied with money issue. In favor of this conclusion goes the fact that students want to be highly educated as a precondition to earn more money in the future. Besides seeing money as medium of exchange that has objective functions (Furnham and Argyle, 1998), money has subjective and affective meanings as well. People develop attitudes and behavioral tendencies toward it. (Michell and Mickel, 1999, p.568). Different people perceive, value, and treat money differently. Wernimont and Fritzpatrick (1972) claimed that money have a symbolic value and means different things to different people.

Interest among researchers for money and attitudes toward money appeared long time ago. So far topic of money have been analysed from different perspectives such as impact of money on the people perceptions (Beutler, Beutler, McKoy, 2008), factors influencing money attitudes (Du, Tang, 2005; Norviliitis et al., 2006), individual differences perspectives (Michell and Mickel, 1999), money as pay and how pay affects motivation, job attitudes and action (Tang, 1995), relationship between self-esteem and money attitudes (Harley and Wilhelm, 1992), relationship between materialism and money (Watson, 2003; Durvasula and Lysonski, 2010) etc. The topic of money attitude and the topic of debt/credit attitude also received lot of attention so far.

Although the findings from money and debt analysis contribute to better understanding of the topic regarding money, there are limited studies that focus on determining the demographic differences on different components of attitudes toward money and attitudes toward debt/credit. Thus, the first aim of this paper is to investigate the attitudes toward money and general attitudes toward debt in the
Republic of Macedonia. The paper further explores the influence of gender on the components of money attitudes and on the general attitudes toward debt. In addition, as the attitudes toward money have been widely examined on student population in different countries in the world, the present study advances the knowledge on this subject by focusing on the student population in the Macedonian context, thus contributing to a better understanding of attitudes toward money in developing countries. Regarding Macedonia, this study is the first attempt to explore attitudes toward money by relying on MAS (money attitude scale) adjusted on student population (developed by Roberts and Jones, 2001).

Accordingly, this study is aimed at answering the following research questions: (1) what are the underlying dimensions of attitudes toward money?; (2) what are the general attitudes toward debt? and 3) are there differences between males and females in their attitudes toward money and debt?

2. LITERATURE REVIEW

In this section, the literature review on money attitudes and the influence of gender on money and debt/credit attitudes will be presented.

2.1. Money attitudes

In 1970-ies and 1980-ies several researchers tried to develop scale for measuring attitudes toward money. In 1972, Wernimont and Fritzpatrick (1972) analysed the differences in meaning of money and values of money among different groups of people and identified seven factors. Yamauchi and Templer (1982) developed 29-item Money attitude scale (MAS). On the basis of 62 items they identified 5 factors: power-prestige, retention-time, distrust, quality and anxiety. In designing the final instrument they decided not to include items from quality factor since quality and power prestige dimensions did not seem to be motivationally different. As a result, final form of MAS was developed consisting of 29 items with 4 dimensions identified: power-prestige, retention-time, distrust and anxiety. In 1984, Furnham (1984) developed a useful multifaceted instrument to measure money beliefs and behaviour called Money Beliefs and Behavior Scale (MBBS) and identified five final factors: obsession, power-spending, retention, security-conservative and inadequate. Forman (1987) developed so called Money Madness Scale and identified five types of people regarding their money attitudes: miser, spender, tycoon, bargain hunter and gambler. By using money madness scale, Furnham (1996) identified six types of money madness similar to those identified by Forman (1987): money sanity, miser, spender, tycoon, bargain hunter and gambler. Tang (1990, 1992) developed Money Ethic Scale (MES) comprised of 30-items and examined the meaning of money in a sample of full-time employees. By employing factor analysis he identified 6 factors: good, evil, respect, budget, and freedom/power. Consequently it can be concluded that attitudes toward money can be categorised into three components: the affective component (good and evil), the cognitive component (achievement, respect and freedom/power) and behavioural component (budget). Later, 12-item Money Ethic Scale (short Money Ethic Scale) was developed for measuring people’s attitudes toward money (Tang, 1995). The author identified three factors: success, budget, and evil. By using MAS, Gresham and Fontenot (1989) found four dimensions of money attitudes: power-prestige, distrust-anxiety, retention-time, and quality. The same factors were identified in the study of Medina et al. (1996). Roberts and Sepulveda (1999) revealed five factors on the basis of MAS: power-prestige, retention-time, distrust, anxiety and bargain-conscious/compulsive. Baker and Hagedorn (2008) identified 4 dimensions of attitudes toward money by using original MAS: power-prestige, frugality/distrust, planning/saving, anxiety. Li et al. (2009) found three underlying dimensions of money attitudes: power-prestige, retention-time and quality.
Roberts and Jones (2001) modified the Yamauchi and Templer’s original 29-item MAS to fit to the student context. Their new MAS adjusted to the student population consisted of 20 items. They identified three factors: power-prestige, anxiety and price sensitivity (distrust). Moore and Carpenter (2009) in their research on money attitudes and their impact on credit responsibility among undergraduate students revealed the same dimensions of money attitudes (anxiety, distrust, power-prestige). All these findings confirmed that attitudes toward money are multidimensional.

2.2. Attitudes toward debt and gender differences

According to the Financial Stability Report for the Republic of Macedonia published by the National bank of the Republic of Macedonia in 2010, household debt grew at a significantly faster pace (seven times higher annual growth rate) comparing to 2009, which is result of the relaxation of credit conditions by banks, recovery of domestic economy and the relaxation of monetary policy in 2010. Loans from banks represent the largest share of total household debt. The largest part of the total indebtedness of households to the banks (of 72.1%), refers to the debt for consumption (consumer loans, car loans, current accounts, credit cards and other loans). The household debt is 18.7% of GDP leaving Macedonia at the bottom of the list of European countries in terms of household debt. Despite the relatively low level of debt, low living standard in Macedonia (the share of the basket for food and beverages in the average net-wage in Macedonia is much higher comparing to the most of the European countries, (in December 2011 - 59.2%)) may have significant effects on the ability to timely servicing of debt and on the potential for further debt increase. The low level of households’ debt leads to the conclusion that Macedonian people are very careful when taking credit and living in debt.

The growth of debt is result of various factors among which attitudes toward borrowing and debt are very important (Godwin, 1997; Park, 1993). Previous studies investigating the influence of gender on debt report different research findings. According to Yieh (1996) households headed by individuals who were female and married, were more likely to have a negative attitude toward installment borrowing. Xiao et al. (1995) revealed that male students had more positive attitude toward credit cards than female students. Davies and Lea (1995) found that men are more likely to be in debt than women. On the other hand, Norvilitis et al. (2006) found that gender is a demographic variable that is not predictive of debt. Also, Watson (2003) found that individuals with high levels of materialism scored higher on the spending tendency scale and they had more favorable attitudes toward borrowing money than individuals with low level of materialism, but found no significant relationship between materialism (importance of possessions and acquisition, their role in the pursuit of happiness and their role as an indicator of success) and gender.

2.3. Gender differences in attitudes toward money

Wernimont and Fritzpatrick (1972) found that sex influences people attitudes toward money. Furnham (1984) found that comparing to females, men are more likely to be obsessed with money while females are more concerned about retaining money for future use. Lynn (1991) analyzed national differences in money attitudes in 43 countries claiming that males tend to give more value to money than females. The same conclusion was made (Lynn, 1993) in the research about valuation of money in 20 countries. Furnham and Argyle (1998) claimed that men are obsessed with money regarding power-prestige outcome. Bonsu (2008) came to similar conclusions. He claimed that men and women in Ghana differ significantly in their attitudes toward money on two dimensions (power-prestige and distrust) of the four dimensions of the MAS. He found that men have a higher tendency to use money as an expression of influence, power and status, as well as they tend to have a lower sense of confidence in their market-related decisions comparing to women (p.175). Oleson (2004) also claimed that there are gender differences for some attitudes toward money particularly obsession, power,
budget and achievement. The research of Tang (1993) based on Money ethic scale (MES) showed significant sex differences among students in some of the components of attitudes toward money (achievement and respect). Men, as compared with women, generally think of themselves as being charitable, they are likely to associate money and possessions as symbols of status and power, and they want to have a control over their finances. Du and Tang (2005) revealed no sex differences in the attitudes toward money in China. Baker and Hagedorn (2008, p.1812) claimed that gender is strongly related to either anxiety or planning-saving factors, but females scored significantly lower on power-prestige and on frugality-distrust. Li et al. (2009) found significant difference between males and females only on power-prestige money attitudes dimension.

3. RESEARCH METHODOLOGY

The research presented in this paper relies on the money attitude scale (MAS) developed by Roberts and Jones (2001) who adapted Yamauchi and Templer’s (1982) original scale for the college student context. The survey instrument used consisted of two parts. The first part gathered information about gender, age and general attitudes toward debt, and the second part included 20 five-point Likert statements related to money attitudes ranging from “strongly disagree” to “strongly agree”. The general attitude toward debt was analysed by asking SCF (US Survey of Consumer Finances) question: “Do you think it is a good idea or a bad idea for people to buy things on the installment plan?”. The twenty statements related to money attitudes reflect the different dimensions of money attitudes. In total, the questionnaire used in the paper consisted of 23 statements.

The sample for this study comprises 170 respondents aged from 18 to 22. Respondents were university students enrolled at the largest University in Macedonia (Faculty of Economic), who study economy and business. They were informed about the purpose of the research and asked to complete the questionnaire. Of 180 received responses, 10 questionnaires were rejected because of incomplete data and were removed from the data set, leaving a total 170 participants (94.4%). Among the 170 people who gave exploitable responses, 43% were male students and 57% were female students reflecting the gender structure of the student population at the Faculty of Economic in the Republic of Macedonia (in 2011 36% were males and 64% were females). The sample size is above the recommended minimum level of at least five times as many observations as the number of variables to be analyzed. (Hair et al., 2006).

Given the fact that the average household debt in Macedonia is low, and the propensity to take credits among young people is higher than among the old people, (Yieh, 1996), the sample for this research consists of young people from Macedonia. The profile of the sample is presented in the table below.

<table>
<thead>
<tr>
<th></th>
<th>(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>43</td>
</tr>
<tr>
<td>Female</td>
<td>57</td>
</tr>
<tr>
<td>Age (average years)</td>
<td>20.3</td>
</tr>
</tbody>
</table>

Respondents profile, N=170
4. DATA ANALYSIS AND RESULTS

4.1 Factor analysis

Responses to the 20 item money attitude scale were subject to axis factoring analysis with Oblimin rotation. There were three factors, with 63.2% of explained variance.

<table>
<thead>
<tr>
<th>items</th>
<th>Factor</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>power-prestige</td>
<td></td>
<td></td>
</tr>
<tr>
<td>item 1</td>
<td>0.796</td>
<td>0.002</td>
</tr>
<tr>
<td>item 2</td>
<td>0.786</td>
<td>0.053</td>
</tr>
<tr>
<td>item 3</td>
<td>0.675</td>
<td>0.016</td>
</tr>
<tr>
<td>item 4</td>
<td>0.815</td>
<td>-0.027</td>
</tr>
<tr>
<td>item 5</td>
<td>0.747</td>
<td>-0.058</td>
</tr>
<tr>
<td>item 6</td>
<td>0.775</td>
<td>0.024</td>
</tr>
<tr>
<td>item 7</td>
<td>0.652</td>
<td>0.034</td>
</tr>
<tr>
<td>anxiety</td>
<td></td>
<td></td>
</tr>
<tr>
<td>item 8</td>
<td>-0.169</td>
<td>0.095</td>
</tr>
<tr>
<td>item 9</td>
<td>-0.070</td>
<td>-0.053</td>
</tr>
<tr>
<td>item 10</td>
<td>-0.053</td>
<td>-0.014</td>
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<tr>
<td>item 11</td>
<td>0.214</td>
<td>-0.014</td>
</tr>
<tr>
<td>item 12</td>
<td>0.225</td>
<td>-0.010</td>
</tr>
<tr>
<td>item 13</td>
<td>-0.083</td>
<td>-0.003</td>
</tr>
<tr>
<td>distrust</td>
<td></td>
<td></td>
</tr>
<tr>
<td>item 14</td>
<td>-0.077</td>
<td>0.604</td>
</tr>
<tr>
<td>item 15</td>
<td>-0.015</td>
<td>0.511</td>
</tr>
<tr>
<td>item 16</td>
<td>0.167</td>
<td>0.864</td>
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<td>item 17</td>
<td>0.138</td>
<td>0.824</td>
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<tr>
<td>item 18</td>
<td>0.113</td>
<td>0.764</td>
</tr>
<tr>
<td>item 19</td>
<td>-0.065</td>
<td>0.801</td>
</tr>
<tr>
<td>item 20</td>
<td>-0.165</td>
<td>0.749</td>
</tr>
</tbody>
</table>

Factor analysis results, factor loadings.

Reliability of scales was assessed using Cronbach alpha coefficients. Table below shows the results of reliability analysis.
Cronbach’s coefficient alpha for the overall scale was 0.820, whereas subscale reliability measures for dimensions 1, 2 and 3 were 0.898, 0.870 and 0.887, respectively. All reliability measures are above the recommended minimum level of 0.60 (Hair et al., 2006). Cronbach alpha coefficients of the power-prestige, anxiety and distrust dimensions of the money attitudes and overall reliability coefficient indicate high internal reliability of the data collected.

As shown in the table above, three factors were extracted. The number of factors was obtained from a scree plot which showed that three factors had eigen values of 1 or higher. The factors are interpreted as: power prestige (7 items), distrust (7 items) and anxiety (6 items). Factor 1 accounts for 24% of the total explained variance and consists of 7 variables which relate to status and superiority that money provides. Factor 2 accounts for 20.4% of the total explained variance and refers to nervousness and concerns regarding money. Factor 3 accounts for 18.8% of the total explained variance and consists of 6 variables which relates to the doubts, mistrust and insecurity that people have regarding money.

The conclusions regarding multidimensionality of MAS and particularly about three constituent attitude dimensions are in line with the conclusions regarding the dimensions identified by Moore and Carpenter (1999) and by Roberts and Jones (2001).

4.2 Gender differences in attitudes toward money and debt

To reveal the gender differences among students on factors (dimensions) of money attitudes previously identified through factor analysis, t-test was used. First, the mean score for males and females were calculated for each dimension of MAS. Then, t-test was used to compare the mean scores for males and females on three dimensions of MAS. The gender was independent variable and money attitude was dependent variable. Table below shows gender comparison of money attitude scale (means, standard deviation and t-test)

<table>
<thead>
<tr>
<th>subscales</th>
<th>sample</th>
<th>males</th>
<th>females</th>
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<td></td>
<td>mean</td>
<td>SD</td>
<td>n</td>
<td>mean</td>
</tr>
<tr>
<td>power-prestige</td>
<td>2.37</td>
<td>1.07</td>
<td>170</td>
<td>3.20</td>
</tr>
<tr>
<td>distrust</td>
<td>2.73</td>
<td>0.80</td>
<td>170</td>
<td>2.67</td>
</tr>
<tr>
<td>anxiety</td>
<td>3.04</td>
<td>0.92</td>
<td>170</td>
<td>3.30</td>
</tr>
</tbody>
</table>

SD=standard deviation

Gender differences in money attitudes
The t-test showed that there are significant differences between males and females (p<0.05) on 2 factors (power-prestige and anxiety). Therefore, we can conclude that the attitudes toward money vary according to gender regarding power-prestige dimension and anxiety dimension of MAS.

Males show above average concern on power-prestige and anxiety aspects of money, whereas females show below average level of concern on those dimensions and slight above average distrust. Comparing to females, males have a higher tendency to use money as a sign of prestige and success, as a basis for showing respect toward others, and as mean for influencing other people to do things as they (males) desire. Males agree more that money is ultimate symbol of success, and consequently they use money to show that by purchasing things to impress others. These findings are consistent with Bonsu’s (2008, p.175) findings that “men have a higher tendency to use money as an expression of influence, power and status”, and with findings of Furnham (1984); Lynn (1991); Furnham and Argyle (1998); Tang (1993); Li et.al. (2009). Regarding anxiety dimension of MAS, males show above average concern about being financial secure, they worry more about the future finances, spend more on things that make them feel better and surprisingly they are more bargain and sale hunters comparing to females. Regarding the distrust dimension of MAS, results show that there are no statistically significant differences between males and females, meaning that both males and females have equal sense of confidence in spending money. Males and females don’t differ in terms of their tendency to be suspicious when buying things, to make complaints regarding the price of the products bought, and cost made for purchasing the products, as well as in their tendency to express worrisome behavior when it comes to money. These findings are contrary to the findings of Bonsu (2008) who found significant differences in attitudes toward money on distrust dimension and no significant differences in money attitudes on anxiety dimension.

Regarding gender differences in attitudes toward debt, research showed that 42% of the respondents said that it is a good idea to buy things on installment plan, 26% answered that it is bad idea to buy things on credit and the rest of 32% said it is good in some way and bad in others. Respondents who answer “good idea” and “bad idea” are classified as having favorable and unfavorable attitudes towards credit use respectively, while respondents who answer “good in some way, bad in others” are classified as having neutral attitudes. Thus, general attitude included three categories: favorable, neutral and unfavorable (Chien and DeVaney, 2001, p.170). To see if gender influences the attitudes toward debt, chi-square test was employed.

<table>
<thead>
<tr>
<th>Gender</th>
<th>debt attitude</th>
<th>Chi-Square test</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>favorable %</td>
<td>neutral %</td>
</tr>
<tr>
<td>male</td>
<td>37 50.7</td>
<td>18 24.7</td>
</tr>
<tr>
<td>female</td>
<td>34 35.1</td>
<td>37 38.1</td>
</tr>
<tr>
<td>Total</td>
<td>71 41.8</td>
<td>55 32.4</td>
</tr>
</tbody>
</table>

Gender differences in debt attitudes
In general, students have more positive attitudes toward money. The number of students with favorable attitudes (41.8%) is bigger that the number of students with neutral (32.4%) and unfavorable attitudes toward money (25.9%). More females have neutral and favorable attitudes toward debt (73%) comparing to males who mostly have favorable attitudes toward debt. (50.7%) The chi square test results show that there is no significant gender differences in attitudes toward debt ($p<0.05$).

5. CONCLUSIONS

This paper investigated the attitudes toward money among university students in Macedonia. The factor analysis revealed that money attitude scale was highly reliable instrument for measuring attitudes toward money in the Republic of Macedonia. The results of the analysis showed three dimensions of money attitudes named as power-prestige, distrust and anxiety and all three had high Cronbach alpha coefficients indicating the satisfactory reliability. The three identified dimensions of attitudes toward money in the Republic of Macedonia were previously identified in studies conducted in different countries. Consequently, it can be concluded that the results of this research regarding dimensions of money attitudes are largely consistent with the results of other studies and dimensions identified by other authors. Nevertheless, these studies identified some additional factors not revealed in this study. This discrepancy can be explained by different cultural, demographic and psychographic characteristics of the people, as well as by the time period of the studies.

The findings from this study indicate that gender showed differences in two of the three components of the money attitudes. Gender displayed the differences in terms of power-prestige and anxiety dimensions of attitudes toward money. Additionally, the results showed that there are no significant gender differences in attitudes toward debt.

Financial and non-financial institutions should take advantage of the fact that people from different gender have different attitudes toward money. For example, since gender groups differ in terms of their attitudes toward money, if the bank/financial institution wants to create more positive attitudes toward money among females, it can use messages to convince females to become more relaxed and avoid nervousness regarding money pointing out that banks/financial institutions are always there for them. Retailers for example, can decrease postpurchase tension (anxiety) about past decision by stressing the positive sides of the decisions made and by providing more information to assist the application and use of the product bought. Regarding males, it will be useful for financial institutions to stress power/prestige aspects of money use in their marketing activities directed toward males. Additionally, retailers can use appropriate marketing activities in postpurchase phase in order to convince buyers that the right choice regarding money spending has been made since a state of psychological tension or postpurchase doubt may be experienced by the consumers after making a purchase decision. This tension often leads the consumer to attempt to reduce it by seeking supportive information which can be provided in this case by various retailers.

The research has several limitations which are important to be recognized. Concerning the sample, changes can be made regarding using general adult population and not just university students who study business. Regarding the questionnaire, and especially if the sample comprises of general adult population, MES (money ethic scale) or MBBS (Money Beliefs and Behavior Scale) instead of MAS (money attitude scale) adjusted to student context might be used, although the Love of Money Scale (LOM) as a subset of MES has already been used in Macedonia in studying unethical behaviour intentions (Sardžoska and Tang, 2009). Future research can investigate the differences among people on the basis of other demographic as well as socio-economic and behavioural characteristics of the
people. As there is a difference between general debt attitudes and specific debt attitudes, future research could focus on investigating specific debt attitudes regarding borrowing money for different purposes and for buying different products. Also, future research could focus on finding gender and other types of differences in specific attitudes toward debt.

Appendix

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Although I should judge the success of people by their deeds, I am more influenced by the amount of money people have</td>
</tr>
<tr>
<td>2</td>
<td>People who know me tell me I place too much emphasis on the amount of money people have, as a sign of their success</td>
</tr>
<tr>
<td>3</td>
<td>I use money to influence other people to do things for me</td>
</tr>
<tr>
<td>4</td>
<td>I seem to find that I show more respect to those who have more money than I have</td>
</tr>
<tr>
<td>5</td>
<td>I behave as money were the ultimate symbol of success</td>
</tr>
<tr>
<td>6</td>
<td>I must admit that I purchase things because I know they will impress others</td>
</tr>
<tr>
<td>7</td>
<td>In all honesty, I own nice things in order to impress others</td>
</tr>
<tr>
<td>8</td>
<td>I show signs of nervousness when I don’t have enough money</td>
</tr>
<tr>
<td>9</td>
<td>I show worrisome behavior when it comes to money</td>
</tr>
<tr>
<td>10</td>
<td>I worry that I will not be financially secure</td>
</tr>
<tr>
<td>11</td>
<td>I spend money to make myself feel better</td>
</tr>
<tr>
<td>12</td>
<td>I am bothered when I have to pass up a sale</td>
</tr>
<tr>
<td>13</td>
<td>It is hard for me to pass up a bargain</td>
</tr>
<tr>
<td>14</td>
<td>I automatically say, “I can’t afford it, whether I can or not</td>
</tr>
<tr>
<td>15</td>
<td>When I make a major purchase, I have a suspicion that I have been taken advantage of</td>
</tr>
<tr>
<td>16</td>
<td>When I buy something, I complain about the price I paid</td>
</tr>
<tr>
<td>17</td>
<td>I argue or complain about the cost of things I buy</td>
</tr>
<tr>
<td>18</td>
<td>I hesitate to spend money even on necessities</td>
</tr>
<tr>
<td>19</td>
<td>After buying something, I wonder if I could have gotten the same for less elsewhere</td>
</tr>
<tr>
<td>20</td>
<td>It bothers me when discover I could have gotten the same for less elsewhere.</td>
</tr>
</tbody>
</table>

REFERENCES


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MEDICAL PATRONAGE IN HOME CONDITIONS
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Abstract

In the modern conditions of health-demographic and economic crisis combined with continuing reform and inefficiency of health care system, the need to introduce alternative methods for meeting the health needs of the population is exacerbated. This alternative is the "Medical home patronage." It will provide care with greater accessibility and quality and higher quality of life for population. This article presents and analyzes the activity "Medical home patronage" as the process of providing the service.

Key words: medical patronage, health needs, service, quality

The worsened national economic environment places the modern Bulgarian healthcare in front of the need of new strategies for coping with the amplitude of the spent resources and the obtained result. Health and demographic condition of the population has been changed in the last few years, as the observed features are ageing of the population, chronical disease ratio and invalidity, which is a prerequisite for rapid increase of the costs for treatment and support of the health condition of the people. The lack and shortage of appropriate medical institutes for follow-up treatment and continuous cares puts challenges in front of the Bulgarian healthcare. The problems related with the diminishment of the medical personnel (shortage of nurses, doctors, rehabilitators etc.), mainly in the small and remote settlements, limits the access to medical assistance and the quality of healthcare services for the patients in need in these regions.

In the modern conditions of health and demographic and economic crisis combined with continuous reform and inefficiency of the health system the necessity of introducing alternative methods for satisfaction of the health needs of the population in the country becomes more important. Such alternative is the service „medical patronage in home conditions“. It shall provide cares with bigger availability and quality, as well as higher quality of life of a big group of the Bulgarian population.

The adequate care taking and their provisioning for the people in need represents a big challenge for our social system. The consequent development of the social and health insurance system is of main necessity, since in the future the place of the problems with regard to the need of taking care in home conditions shall become even more important. A comparison of the age structure of the people of the Republic of Bulgaria in the last decades shows that together with the relative diminishing of the number of young people it is impressive the significant growth of the number of the older people, especially in the age group of over 70 years /Fig. 1/. Such development is called demographic ageing.
The researches show that there is a high correlation between the relative frequency of necessity of cares and the age. On grounds of the shown demographic growth the necessity of cares shall grow in the future.

The service „medical patronage in home conditions“ represents main medical services, services for the diseased people, resp. for children, for older and senior people and psychiatric cares. It is done in home environment or at the territory of the stay of the patient. The activity is delegated by the corresponding doctor – expert upon his/her prescription and under his/her observation.

The process on performing the activity „medical patronage in home conditions“ represents a system of typical activities for healthcare for the single person, for the family and/or for the community.[1] This description is too abstract. More detailed this process is examined by the authors Fiechter and Meier. They specify in this regard, that the process of realization of the care is comprised by a series of logical and depending on one another steps of consideration, decision making and taking the corresponding action, which are directed towards solving the problem or towards a goal, and which have in the sense of the rule circuit a feedback with the patient about the results, which is under the form of evaluation and adjustment.[2] Within the frames of the process of the cares there could be identified six main areas:

- collection of information
- identifying problems and ressources
- placing targets of the care
- specifying measures of the care
- performing the care
• documentation and control of the care. [3]

The process of taking care in the practice is implemented in a model or theory of the care. The models of the care point out the specific point of views or related to the care preferences on how one should do this. Hence they are an agreed (coordinated) thinking model. [4]

The shown process is not a part of any single model of the care, since it shows a generic process, not depending on the ideological considerations.

On Figure 2 one has shown the process of performing the service „Medical patronage in home conditions”. It could be divided schematically into the following partial processes. Even if this division is a result of a logical divided and consequent observation of the different processes, in the practice it turns out that there could be an overlap or amendment of the succession.

![Diagram of medical patronage in home conditions](image)

**Fig.2** Process of conducting the service "**medical patronage at home**” [5]

The activity of the „medical patronage in home conditions“ comprises of main healthcare activities, additional medical services, home work and others. They could be covered by the intensive medical servicing to cares for oncological diseased in home condition. Besides there are offered various possible combinations, too.

- Cares for old people: under this term one collects the medical cares for old and senior people. They include health and hospital cares, home support, transport services, food provisioning – shopping, cooking, hot or cold dish, serving, help with eating, provisioning with different materials, accompanying services prior to going to bed and after waking up, as well many others. Provisioning by rehabilitators, massagists and other in case of necessity.
Psychiatric cares: In the centre of the psychiatric cares there stands the Human. The main task is to accompany the human through the processes of adaptation and to support the psychic, physical and social balance. The psychiatric diseases are accompanied by social disorders as a result of which the people live isolated and are not in condition to have life important contacts. Because of this reason in the basic of the methods for treatment of the psychiatric diseases are the processes of interaction with the real world. Planning of activities, related to the psychiatric cares, is directed towards the resources and the problems of the patients, which means that one acts according to an individual method for every single patient. Main task is the provisioning of a worthy and independent life in the usual context of life. By means of these services one guarantees the social integration, the work with the relatives of the patient, who support his/her therapy. It is possible to avoid the entry into a medical institute as one offers flexible according to the demand suggestions. „Medical patronage in home conditions“ bypasses the load imposing change for the patients of the psychiatric services according to the needs, determined at the moment. Another main task is to provide a link between the consultation centres, clinics, kinesy therapy and rehabilitation, doctors, therapeutists, homes for observation and other social services and proposals. The periodical scope of the visits is related to the corresponding needs of the patient and could vary from many times every day to once in a month.

The goals of the activity „medical patronage in home conditions“ are:

- Maintenance of the home environment by means of medical, social and personal services, in order to perform the treatment at the territory of the own home.
- By means of active medical cares one strives towards improvement, respectively maintaining the health condition of the patient.
- Avoiding or shortening of the hospital, respectively stationary stay of the patient.
- The patient acquires the ability to solve the problems independently and to get on with the obligations in life, from the stationary way of life to go to a normal way of life.
- The care for the patients includes doctor’s observation and cares, nurse care and servicing, sanitary and care taker’s servicing, medical and social rehabilitation, consultation with doctor expert in case of necessity, work with a spiritual person in case of necessity etc.
- The services which are performed by the „medical patronage in home conditions“ could be grouped in the following areas.
- Entire care for the diseased: 24-hour medical observation, personal care, manipulations etc.
- Individual diet (healthy, probe nutrition) and other, depending on the type and stage of the disease.
- Doctor’s control of pain. One compiles individual plan for pain suppression by anesthesiologist. The proper pain suppression balances a control of pain with vitality and adequacy.
- Control of symptoms, accompanying the disease.
- Provisioning of the technical accompanying means.
- Psychologist for patient and his relatives.
Performing of individual, rehabilitation program.

Performing of rehabilitation procedures – massages, movements, training in everyday activities etc.

Performing of physiotherapeutical procedures – electricity treatment, light treatment, suppression of pain with methods of non traditional medicine etc.

Performance of prescribed medicine therapy.

Day and night specialized observation.

Day and night care taking.

Performance of prescribed medicine therapy.

Food – catering, individual and diet depending on the accompanying diseases, menu upon selection of the patient.

System for signalization with urgent need of help, regardless of the location of the person in need.

Possibility for performing specialized consultation.

Possibility for performing of specialized researches and diagnostic procedures.

Preparation of the document for TELK, NELK and providing rights as a person with disabilities – administrative and legal services.

Qualified cares for heavily diseased and diseased in terminal condition.

Training of diseased and their families.

Emotional, social and spiritual support for the diseased and their relatives.

Personal hygiene.

Provisioning of multifunctional beds with special antidecubital mattresses, in consideration with the height, weight and the physiological forms of the body.

Manipulations – subcutaneous, muscle and venous injections, venous infusions, bandage, catheters.

Taking care of diseased after discharging from the hospital or upon refusal for entry into hospital.

The cares for the patients in home conditions place serious challenges not only because of the fact, that they have not the necessary qualification, but because of the lack of possibility for being absent of the working process for longer periods. The potential users have everyday needs, caused by the health situation. The situation is the objective or subjective internal necessity for satisfaction of the physiological or psychological need. It could be material or spiritual. The patients needing “medical patronage in home conditions” have also rehabilitation needs, hygiene and working needs etc. Patients, who have had brain attack, in postoperative condition, oncologically diseased, with posttraumatic conditions need cares after discharging from the hospital, being provided at home. Other potential users are patients with specified chronical diseases such as dementia, diabetes, cardiac and vessel diseases, kidney and lever diseases etc.
In order to specify the circumstances, under which the heavily diseased patients and their relatives use the service “medical patronage in home conditions” one has done anonymous inquiry among 300 lying patients. The answers of the interviewed are grouped in the following several directions: lack of unoccupied relative for taking care of the diseased and better cares of the person, needing medical assistance (Fig. 3). These two main reasons are a proof for the importance and the public necessity of the service.

![Fig. 3](image)

The opinion of the enquired about the services, which are included in the activity “medical patronage in home conditions” is related mainly with the home visits by the doctor /47%/ The other important factors which are mentioned as advantages of the services, are ranged according to the following method: change of bandage, placing of injections and other medical manipulations /44%/ visit by a care taker /32%/ nurse observation /23%/ control investigation by a doctor /23%/ sanitary services (Fig. 4).

From the research covering 400 medical experts with regard to the services, which are included in the activity “medical patronage in home conditions” one has obtained the following results presented in Table 1. They consider this service as related mainly with home visits and observation by the nurse (74,7 %), visit by a social worker (60,9 %), observation by a doctor (52,9), change of bandage, placing injections etc. (49,1 %), visit by a care taker (44,9 %), visit by a rehabilitator (42,4 %), performance of sanitary services (33,6 %), visit by a psychologist (32,6 %), performance of rehabilitation and medical sport activity (30,6 %), observation by a midwife (27,3 %), performance of activities for social adaptation and reintegration (23,8 %), provisionin of nurse position (20,3 %), performance of consultative investigation by an expert (19,8 %), performance of washings (19 %), performance of activities on the mental adaptation of the patients (17,8 %) etc: all enumerated activities, supply of food (2 %).
Fig. 4 Preferred services offered by "medical patronage at home" by patients

Table 1. Services provided by "medical patronage at home" according to medical experts

<table>
<thead>
<tr>
<th>SERVICES</th>
<th>SHARE IN %</th>
<th>NUMBER OF MEDICAL SPECIALISTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surveillance by a nurse</td>
<td>74.70</td>
<td>299</td>
</tr>
<tr>
<td>Visit from social worker</td>
<td>60.90</td>
<td>244</td>
</tr>
<tr>
<td>Observation from doctor</td>
<td>52.9</td>
<td>212</td>
</tr>
<tr>
<td>Changing bandages, injections and others</td>
<td>49.1</td>
<td>196</td>
</tr>
<tr>
<td>Visit a caregiver</td>
<td>44.9</td>
<td>180</td>
</tr>
<tr>
<td>Visit from rehabilitator</td>
<td>42.4</td>
<td>170</td>
</tr>
<tr>
<td>Sanitary services</td>
<td>33.6</td>
<td>134</td>
</tr>
<tr>
<td>Visit from a psychologist</td>
<td>32.6</td>
<td>130</td>
</tr>
<tr>
<td>Rehabilitation and medical gymnastics</td>
<td>30.6</td>
<td>122</td>
</tr>
<tr>
<td>Observation from midwife</td>
<td>27.3</td>
<td>109</td>
</tr>
<tr>
<td>Action on social adaptation and reintegration</td>
<td>23.8</td>
<td>95</td>
</tr>
<tr>
<td>Nursing post</td>
<td>20.3</td>
<td>81</td>
</tr>
<tr>
<td>Consultative examination by a specialist</td>
<td>19.8</td>
<td>79</td>
</tr>
<tr>
<td>Performance of lavage</td>
<td>19</td>
<td>76</td>
</tr>
<tr>
<td>Activity of psychological adaptation</td>
<td>17.8</td>
<td>71</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
<td>8</td>
</tr>
</tbody>
</table>
The experts appropriate for performing the service “medical patronage in home conditions” should have special knowledge, skills and will for providing the entire coordinated and compassionate care to all persons with increased stage of disease and emotional help for their families. They should have specific values such as responsibility, consideration and respect, m. willingness to participate in the process of taking care, compassion, transparency and dialogue.

The improvement of the life quality is one for the main tasks of the service “Medical patronage in home conditions”. Particular attention should be paid to the specific features of every group of patients with similar needs. With patients with heavy diseases one could improve the health status, the physical comfort, the diet, as well as the physical activity. One increases the ability for self performing of the everyday activities and control of pain. With this form of servicing one improves the psychical health of the patients in various conditions of positive and negative emotional conditions like stress, anxiety, satisfaction etc.

Patients have been integrated in the active professional, cultural and social life, which are restoring for longer periods. One improves the social environment and life style.

The servicing on the activity “Medical patronage in home conditions” requires by itself placing the patient in the centre of attention and cares according to his/her sole needs and expectations.

REFERENCES

PERFORMANCE BUDGETING IN SLOVENIA –
ANALYSIS OF THE SITUATION WITH (GOVERNMENT) BUDGET USERS
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Abstract
This article aims to analyze the situation of performance budgeting in the Slovenian state administration. For this purpose, a detailed survey was conducted with direct (government) budget users, which was compiled based on the recommendations of international organizations and adjusted to the Slovenian circumstances. The basic premise of the study was to establish to what extent the theoretical definitions found in the instructions of the Ministry of Finance are implemented in practice by the state administration. The purpose of the survey was to establish the situation of the management of budget (sub)programmes in the Slovenian state administration and the opinion of the direct users (managers) about it. The analysis focuses on four main areas of the work of the managers of (sub)programmes, namely the setting of long-term and implementational goals of the subprogramme, a definition of subprogramme indicators, data collection and general information about a subprogramme and its manager. The study shows that performance budgeting has, in declaratory terms, received broad support in most cases, although on a practical level for a variety of reasons only a few completely observe the Ministry of Finance’s instructions.

Key words: national budget, subprogrammes, budget user, management, goals, strategic documents, Ministry of Finance, Slovenia

1. INTRODUCTION
It is impossible to envisage a modern state without a high-quality public administration. The latter should ensure that politics corresponds to the (social) needs of the citizens and advocates the managerial approach to efficiency and effectiveness. An efficient and effective government accomplishes everything that the citizens want – efficiency (the rational use of budget funds), quality (the provision of legal services at the right time and at the right place, responsiveness, equality) and effectiveness (ensuring freedom, peace and safety as well as attaining the most important goals of the public sector). One of public sector management’s key tasks is to ensure that the functioning of administrative bodies at all levels is public, responsible and reasonable, with an emphasis on attainment of the set goals. An in-depth investigation of the functioning of the entire public sector reveals that performance budgeting has been introduced as a modified system of compiling and implementing budgets as well as reporting on the results of the work of the public administration and individual providers of public services. In 2000, by enforcing the Public Finance Act (Official Gazette of the Republic of Slovenia, no. 79/99) Slovenia already took a correct path when altering the concept of its budgeting since all budget users were then expected to operate in line with their financial plans, goals and results based on specific indicators. However, this was insufficient to put the said concept into practice. Therefore, in our study we conducted a detailed survey among the managers of...
(sub)programmes of the national budget so as to establish the current situation in this area at an operational level as well as the main problems and deficiencies in the implementation of performance budgeting in Slovenia.

The article is structured as follows: the first part presents an analysis of the situation concerning performance budgeting in relation to government budget users in Slovenia, which is based on survey questionnaires collected in 2009. The analysis focuses on four main areas of work of the managers of (sub)programmes, namely the setting of long-term and implementational goals of the subprogramme, defining subprogramme indicators, data collection and general information about a subprogramme and its manager. The final part summarizes the main findings of the article.

2. EMPIRICAL ANALYSIS OF THE SITUATION OF PERFORMANCE BUDGETING IN SLOVENIA

The study was conducted within the project of the Central Registry of the Population (CRP) entitled “Setting up systems for measuring the efficiency and effectiveness of the public sector in Slovenia at the micro and macro levels”. The survey was prepared on the basis of the recommendations of international organizations (OECD, 1997, 2002, 2007; Curristine, 2005) and adjusted to the Slovenian circumstances primarily based on material by the Ministry of Finance, namely the “Instructions for Preparation of the Budget of the Republic of Slovenia” for 2008 and 2009, the “Explanations of Financial Plans of Direct Budget Users” and the “Annual Financial Statement of the Republic of Slovenia” from 2000 to 2008.

The basic premise of the project was to establish to what extent the theoretical definitions from the “Instructions for Preparation of the Budget of the Republic of Slovenia for 2008 and 2009” (Ministry of Finance, 2007) are implemented in practice by the state administration. However, during our discussions with some direct government budget users we established that only a small share of the recommended activities are being implemented, whereas the most important part (despite the high level of formal agreement with the need for performance budgeting) was in a state of “stagnation” (e.g. “we are getting ready”, “we anticipate this will start next year at the latest”, “we are now in a phase of reorganization and will start as soon as it is finished” and so on). Therefore, after having consulted the Ministry of Finance we decided to first investigate the situation of the management of budget (sub)programmes in the Slovenian state administration and ascertain the opinion of the direct users (managers) about it. Given the relative paucity of information on the method and effectiveness of the implementation of subprogrammes at individual ministries, we decided to conduct a longer and more comprehensive survey among all government budget users (except for administrative units).

2.1 Preparation, conduct and sample of the survey

The survey among budget users was conducted in the period from 1 July to 15 November 2009 and included government direct budget users, but not administrative units (because of the specificity of the work the Office of the Prime Minister is also excluded). Together with an accompanying letter from the Ministry of Finance, the survey was sent to the addresses of the ministries (government budget users), namely the persons responsible for the subprogrammes (usually the directors of directorates and/or heads of financial departments). They were asked to pass the survey questionnaires on to the following:

- the managers of individual subprogrammes at the ministry; and
The subprogramme is the basic statistical unit of the survey. Of the total number of surveys that were sent, we received 105 completed questionnaires assessing 83 subprogrammes; therefore, the response rate was 27 percent (also see Tables 1–3).

Table 1. Basic data on the subprogrammes included in the survey

<table>
<thead>
<tr>
<th>Included in the survey</th>
<th>Yes</th>
<th>No</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of subprogrammes</td>
<td>83</td>
<td>224</td>
<td>307</td>
</tr>
<tr>
<td>Share of subprogrammes</td>
<td>27.0%</td>
<td>73.0%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Total expenses of subprogrammes (in EUR million)</td>
<td>2688.2</td>
<td>5450.1</td>
<td>8138.3</td>
</tr>
<tr>
<td>Share of expenses of subprogrammes</td>
<td>33.0%</td>
<td>67.0%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Average value of expenses of subprogrammes (in EUR million)</td>
<td>32.4</td>
<td>24.3</td>
<td>26.5</td>
</tr>
<tr>
<td>Minimum value of expenses of subprogrammes (in EUR million)</td>
<td>0.003</td>
<td>0.006</td>
<td>0.003</td>
</tr>
<tr>
<td>Maximum value of expenses of subprogrammes (in EUR million)</td>
<td>716.2</td>
<td>1111.9</td>
<td>1111.9</td>
</tr>
<tr>
<td>Standard deviation of the value of expenses of subprogrammes</td>
<td>91.4</td>
<td>95.0</td>
<td>93.9</td>
</tr>
</tbody>
</table>

Source: Own presentation (Questionnaire survey in 2010)

Table 2. Subprogrammes by size

<table>
<thead>
<tr>
<th>Funds in the budget allocated to a subprogramme</th>
<th>Number of active subprogrammes in 2008</th>
<th>Number of subprogrammes included in the survey</th>
<th>Percentage of included</th>
</tr>
</thead>
<tbody>
<tr>
<td>below EUR 1 million</td>
<td>92</td>
<td>14</td>
<td>15.2%</td>
</tr>
<tr>
<td>from EUR 1 to 10 million</td>
<td>117</td>
<td>39</td>
<td>33.3%</td>
</tr>
<tr>
<td>over EUR 10 million</td>
<td>98</td>
<td>30</td>
<td>30.6%</td>
</tr>
<tr>
<td>Total</td>
<td>307</td>
<td>83</td>
<td>27.0%</td>
</tr>
</tbody>
</table>

Source: Own presentation (Questionnaire survey in 2010)
### Table 3. Number of subprogrammes and the number of subprogrammes assessed by their managers

<table>
<thead>
<tr>
<th>Ministry</th>
<th>Number of active subprogrammes in 2008</th>
<th>Number of subprogrammes included in the survey*</th>
<th>Percentage of included</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office of the Prime Minister</td>
<td>2</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>Government offices**</td>
<td>34</td>
<td>4</td>
<td>11.8%</td>
</tr>
<tr>
<td>Ministry of Finance</td>
<td>29</td>
<td>6</td>
<td>20.7%</td>
</tr>
<tr>
<td>Ministry of the Interior</td>
<td>10</td>
<td>4</td>
<td>40.0%</td>
</tr>
<tr>
<td>Ministry of Foreign Affairs</td>
<td>5</td>
<td>1</td>
<td>20.0%</td>
</tr>
<tr>
<td>Ministry of Defence</td>
<td>15</td>
<td>5</td>
<td>33.3%</td>
</tr>
<tr>
<td>Ministry of Justice</td>
<td>10</td>
<td>2</td>
<td>20.0%</td>
</tr>
<tr>
<td>Ministry of the Economy</td>
<td>26</td>
<td>5</td>
<td>19.2%</td>
</tr>
<tr>
<td>Ministry of Agriculture, Forestry and Food</td>
<td>30</td>
<td>12</td>
<td>40.0%</td>
</tr>
<tr>
<td>Ministry of Transport</td>
<td>19</td>
<td>6</td>
<td>31.6%</td>
</tr>
<tr>
<td>Ministry of the Environment and Spatial Planning</td>
<td>20</td>
<td>8</td>
<td>40.0%</td>
</tr>
<tr>
<td>Ministry of Labour, Family and Social Affairs</td>
<td>31</td>
<td>4</td>
<td>12.9%</td>
</tr>
<tr>
<td>Ministry of Health</td>
<td>18</td>
<td>14</td>
<td>77.8%</td>
</tr>
<tr>
<td>Ministry of Public Administration</td>
<td>9</td>
<td>2</td>
<td>22.2%</td>
</tr>
<tr>
<td>Ministry of Higher Education, Science and Technology</td>
<td>12</td>
<td>3</td>
<td>25.0%</td>
</tr>
<tr>
<td>Ministry of Education and Sport</td>
<td>23</td>
<td>5</td>
<td>21.7%</td>
</tr>
<tr>
<td>Ministry of Culture</td>
<td>14</td>
<td>2</td>
<td>14.3%</td>
</tr>
<tr>
<td>Total</td>
<td>307</td>
<td>83</td>
<td>27.0%</td>
</tr>
</tbody>
</table>

* The number of subprogrammes and surveys included differs because several questionnaires were completed for some subprogrammes (i.e. some subprogrammes were assessed by several managers).

** All government offices and agencies.

Source: Own presentation (Questionnaire survey in 2010)

2.2 **Results of the empirical analysis**

The questions were divided into four large groups:

- defining the long-term and implementational goals of the subprogramme;
• defining the subprogramme indicators;
• data collection; and
• general information about the subprogramme and its manager.

Defining the long-term and implementational goals of the subprogramme

We established that in most cases the subprogramme managers (alone or in a working group) participate in defining the long-term and implementational goals of the subprogramme. Almost 85 percent of managers participate in defining the long-term goals autonomously or within a working group, whereas the respective figure for short-term goals is almost 87 percent. Short-term goals of the subprogramme are defined autonomously by 42 percent of the managers, whereas the respective figure for long-term goals is only 28 percent. The most common practice in the observed units is that both the long-term (57 percent) and short-term goals (45 percent) are defined by a working group which includes as a member the manager of the subprogramme. The most autonomous in defining the long-term goals are managers at the Ministry of Economy and the Ministry of Health, whereas in other ministries a more common practice is that long-term goals are defined by the working group (of which the manager is a member). In the abovementioned two ministries, managers are also autonomous when it comes to defining the implementational goals and such practice is most commonly used in the Ministry of Defence and the Ministry of Justice.

The number of long-term goals of the subprogrammes most often ranges from 1 to 5 (almost 69 percent of subprogrammes), whereas only in 7 cases does it exceed 20 goals. About one-third of the managers believe that a subprogramme should only have one or two long-term goals, and one-half of the managers believe three to five goals would do. The number which seems the most appropriate to the managers should be slightly lower than the actual number. The highest number of goals, both long-term and implementational, was seen in the subprogrammes of the Ministry of Labour, Family and Social Affairs. It is difficult to draw any conclusions about the absolute number of these goals because it was assessed based on the classes, although in any case it exceeds 20. Relatively large numbers of long-term goals are reported by the Ministry of Health and the Ministry of Foreign Affairs. The number of implementational goals in almost all of the ministries is higher than that of long-term goals, however the size of this difference differs considerably from one ministry to another. This difference is very large in the Ministry of Agriculture, Forestry and Food and the Ministry of Higher Education, Science and Technology. In some other ministries the two numbers are nearly the same. In terms of the highest average number of implementational goals, the Ministry of Labour, Family and Social Affairs is again on top of the list (as in the case of long-term goals), whereas the sequence of other ministries is as follows: the Ministry of Agriculture, Forestry and Food, the Ministry of Higher Education, Science and Technology and the Ministry of the Interior. As regards short-term goals, the number of goals is slightly higher as two-thirds of subprogrammes have 3 to 10 short-term goals. This is too high a number according to the managers as on average they believe that the number should be lower; about one-half of them think the most appropriate number is 3 to 5 goals. In 26 percent of the cases the subprogramme manager is responsible for the achievement of the long-term goals and in 24 percent the line minister is. A high percentage was also recorded for the working group of the line ministry (15 percent) and the first superior head of the subprogramme manager (16 percent). The responsibility for achieving the implementational goals chiefly lies with the managers (43 percent), whereas much lower shares of responsibility are borne by the working group at the line ministry (16...
percent) and the line minister (12 percent) (an example from the Ministry of the Environment and Spatial Planning).

**Defining the subprogramme indicators**

Defining the subprogramme indicators is most often the responsibility of the managers – nearly 90 percent of the respondents participate – either autonomously or together with members of working groups at the ministry – in defining the indicators and setting their target values. Only seven managers do not participate in the defining of indicators or in the setting of their target values. The most common answer, also in terms of the number of indicators used to measure achievement of the subprogramme goals, was 3 to 5, although a relatively large number of respondents (about 30 percent) stated a higher number as appropriate (6 to 10), while six of them believed that achievement of the goals should be measured with 11 to 20 indicators. Accordingly, the Ministry of the Environment and Spatial Planning is of the opinion that the subprogramme should have 9.4 indicators on average; the Ministry of Agriculture, Forestry and Food and the Ministry of Higher Education, Science and Technology estimate that the numbers should be slightly less than 8, whereas in most other ministries the number ranges between 4 and 6 (only in the Ministry of Labour, Family and Social Affairs is this number below 2). The respondents classified the indicators used to measure achievement of the goals into the group of outcome measurement (e.g. Ministry of the Interior, Ministry of Public Administration and Ministry of Culture) and output measurement, i.e. 43 and 41 percent, respectively, yet the differences between individual units were very large (in both categories from 0 to 100 percent).

Insufficient political support appeared to be unproblematic for most managers and they largely agreed that their subprogrammes have relatively clear goals. The majority of them also agreed that the effectiveness of a subprogramme should be measured with indicators, and slightly fewer of them agreed with the statement that the indicators appropriately measure the situation in their subprogramme. They completely disagreed with the statement that the number of indicators should be higher or that the system of indicators should be completely changed.

**Data collection**

Data for subprogramme indicators are collected for more than a year in nearly 80 percent of the cases. Only 8 percent of the managers stated they do not collect data for indicators at all. The person who most frequently collects data for the indicators is the subprogramme manager (32 percent) (e.g. Ministry of Defence, Ministry of Agriculture, Forestry and Food and Ministry of Labour, Family and Social Affairs) or an expert staff member at the line ministry (27 percent of respondents to this question) (e.g. Ministry of Finance, Ministry of the Environment and Spatial Planning and Ministry of Education and Sport). Answers to the question “who should collect data for indicators” show that the majority of managers believe that data collection is an unnecessary burden as only 14 percent of them think this should be their responsibility also in the future. Most of them believe this is a responsibility of an expert staff member (26 percent) or the working group in the line ministry (19 percent). Only 11 percent believe that data should be collected outside the line ministry (centrally for the entire public administration or by a group outside the state administration). Most managers also believe that the situation in their subprogramme has improved in the last five years. Improvement is most visible in the areas of data accessibility, data quality and timeliness of data acquisition (scores between 3 and 4 – the situation has improved). Slightly less improvement was noted in the areas of using data for the allocation of funds and using data for political and programme decision-making.

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The scores range from 1 – Don’t agree to 5 – Completely agree.
In the group of statements referring to the organization in which the managers are employed, all of the statements reflected a relatively high level of agreement (3 to 4 on a 5-point scale, even with a slightly smaller standard deviation), which to some extent can be explained by the fact that most managers are members of the top management and are at least to some extent responsible for the situation in these areas. The respondents most strongly agreed with the statement that “the management understands the long-term goals of the subprogrammes and the indicators of the implementation in relation to the long-term goals”. The respondents agreed the least with the statements that “the existing system satisfies the information needs of all stakeholders” (score 2.8) and that “the organization has a clearly defined database system with data needed to monitor the achievement of the set goals” (score 3.0) (deficient databases were reported at the Ministry of Labour, Family and Social Affairs and in the government offices). The goals and results of the subprogrammes are most successfully verified at the Ministry of Finance and also at the Ministry of Defence, Ministry of Public Administration and Ministry of Culture. Managers at the Ministry of Labour, Family and Social Affairs and the Ministry of Higher Education, Science and Technology agreed less with this statement.

**General information about the subprogramme and its manager**

The types of management of subprogrammes in the Slovenian state administration differ substantially. In more than one-half of the cases the management is split between two or more people in charge of one subprogramme. In 31 percent of the cases, one person manages one subprogramme (e.g. at the Ministry of the Economy, the Ministry of Transport and the Ministry of Labour, Family and Social Affairs), whereas in 13 cases one manager was in charge of several subprogrammes (e.g. at the Ministry of Health).

Nearly 74 percent of the managers who answered this question believe their subprogramme is adequately designed, and 22 percent think it is too extensive (at the Ministry of Transport and the Ministry of Labour, Family and Social Affairs). Only four managers thought that their subprogramme was too small (at the Ministry of Health). In most cases (83 percent), the managers who responded to the questionnaire are members of the top management (general manager, head of office, head of department). In the last year, 69 percent of the managers failed to participate in trainings in the field of subprogramme management and only 7 received training exceeding 10 hours. The average length of management of a subprogramme by the surveyed managers is 4.3 years and the average length of the work in the expert field to which the subprogramme belongs was 8.1 percent. The managers differed strongly in this area as some of them were newcomers and others were veterans (31 years). They assessed their work very highly (average 4.0) and 14 of them assessed it as 5. Thus the most critical of their work were the managers at the Ministry of Education, Culture, Science and Sport and in the government offices, whereas those at the Ministry of Justice and the Ministry of Public Administration assessed their work the highest.

**3. CONCLUSION**

One of the most important elements of public sector reform in developed countries is the introduction of performance budgeting. Hence in the implementation of its reform processes over the past years, Slovenia has been following the recommendations of international organizations to implement the concept of performance budgeting. The study of the situation concerning government budget users reveals that performance budgeting has, in declaratory terms, received very broad support in most cases, although on a practical level there is a series of practical problems due to which the managers of subprogrammes fail to observe the instructions by the Ministry of Finance. Consequently, there are
deficiencies in all of the abovementioned areas of performance budgeting, i.e. defining long-term and implementational goals of the subprogrammes, defining the subprogramme indicators, data collection and qualifications of the (sub)programme managers. The managers warn in the survey questionnaire that most of the selected indicators are unsuitable for showing the level of achievement of the (long-term and implementational) goals. They also emphasize that there is a series of deficiencies in the definition of the outcomes of activities within the subprogrammes and that the data availability is insufficient or the data are of inferior quality. They also think it is inappropriate to collect data by themselves because this only adds to their (unnecessary) workload. It is interesting that the managers mainly disagreed with the statements that they should be rewarded or punished based on their attainment of the goals. However, most agreed that the results concerning the achievement of the goals should influence the allocation of budget funds to subprogrammes and that the public should be informed about the achievement of the goals of their subprogramme. The findings of the survey also reveal that the types of management over the subprogrammes in the Slovenian state administration differ substantially (split management is the most common), that there is an extreme scarcity of training in the field of subprogramme management and a relatively strong lack of criticism of managers for their work. Based on the previous findings of the study and the gradual elimination of the highlighted deficiencies of budget users, the introduction of the concept of performance budgeting in Slovenia will undoubtedly be faster and more easily accomplished.

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CRITICAL ANALYSIS OF SOME KEY INDICATORS OF CHILDREN'S HEALTHCARE IN BULGARIA

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Abstract

In this report the author analyses some main data characteristic for the children’s health in Bulgaria against the end of 2010 and in dynamics. For the period from 1990 till 2010 Bulgarian society marks down reduction of birthrate, raising of death rate and regular natural grown (~4.6% in 2010). Infant mortality rate during the 20 years period (since 1990) reaches its lowest rate in 2008 (~8.6% during the economic crisis in 2009 and 2010 raises to 9.4%). Parallel the author analyses data concerning perinatal, neonatal and postneonatal infant mortality. The leading causes for infant morbidity in the age under 17, as well as the main diagnoses for hospitalization and the most commonly met causes invalidisation are also discussed in the report. Resources of children health system as well as medical staff are analyzed too. The author points out the necessity of creation of a big National Pediatric Hospital, which could accept for treatment all profiles of pediatric medicine.

Key words: indicators of children’s healthcare, birthrate, National Pediatric Hospital, resources of children health system

The care about children underlies the development of every democratic society. Therefore to some extent we may judge about the condition of healthcare in any country by the level of the paediatric medicine in that country.

This communication aims to make a brief analysis of the data from the national statistics characterising the children's healthcare and to formulate some general conclusions. In a number of cases the indicators about the level of children's healthcare are presented at the background of the indicators common for the healthcare as a whole.

1. HEALTH AND DEMOGRAPHIC INDICATORS

The analysis of the mortality structure by causes revealed significant changes in 2010. The main cause of deaths are the diseases of the organs of blood circulation, which intensity is 98.4/100 000 persons and their relative share is 67.6%. Among them the highest share of deaths is caused by cerebrovascular diseases and ischemic heart diseases.

The mortality caused by diseases of the organs of the blood circulation is considerably higher among men (999.7/100,000) compared to women (975.9/100,000).

The second major cause for deaths are the neoplasms, which intensity in the last year has decreased and is 221.3/100,000 of the people, however the mortality rate among men is still much higher than among women.
The structure of the other causes of death includes further: diseases of the respiratory system, symptoms, signs and deviations from the norms established by clinical and laboratory tests, not classified elsewhere, diseases of the digestive system, external causes of diseases and mortality, etc. In 2010 these 6 groups of diseases caused about 95% of all deaths in Bulgaria.

After 1997 there is permanent trend of decrease in the infant mortality. In 2010 there were 708 cases of death among children up to one year old. There are 21 cases less compared to the previous year. In 2010 the infant mortality rate was 9,4 of 1000 live births and was by 0,4 pro mille higher compared to 2009 due to the lower number of live births. The achieved level of infant mortality in the last four years is the lowest for the whole history of the demographic statistics in Bulgaria, however it is still higher compared to other European countries.

Mortality rate for children in the villages is still considerably higher than for the children in the cities (cities - 8,1 pro mille, villages - 13,4 pro mille).

Infant mortality by districts varies widely - from 3,5 deaths of 1000 live births in the district of Silistra to 20,5 deaths of 1000 live births in the district of Sliven. In half of the districts the infant mortality exceeds the average level for Bulgaria.

The main causes of deaths among children up to 1 year old in 2010 were: some conditions occurring in the perinatal period (374,8 deaths/100 000 live births), congenital anomalies, deformations and chromosome aberrations (164,2/100 000), diseases of the respiratory system – 151,0/100 000 (including pneumonia, which is the cause for 71% of deaths caused by diseases of the respiratory system).

Quite high is the infant mortality caused by diseases of the organs of blood circulation - 91,4 deaths/100,000 live births, some infectious and parasitic diseases - 42.4 deaths/ 100,000 live births, external causes for diseases and deaths - 22,5/100,000 etc.

In 2010 the mortality rate for children in the perinatal period had still the highest share (11,4 deaths of 1000 live births). Comparatively lower is the mortality rate for newborn in the neonatal age (5,2 of 1000 live birth) and in post-neonatal age (4,2 per 1000 newborn, except those who deceased before the 28th day).

In the last year the sick rate for active tuberculosis among children up to 17 years old decreased but insignificant increase is observed in the intensity of newly registered cases among them compared to the previous year.

In 2010 the morbidity rate of malignant neoplasms for children up to 17 years old is 14,3/100 000, the highest share have the malignant diseases of the lymph, hematopoietic and similar tissues - 6,9/100,000. Then follow the malignant neoplasms of the eye, the brain and other parts of the central nervous system - 2.2/100,000, malignant diseases of the male genitals - 1,6/100,000, the mesothelial and soft tissues as well as the urinary system - 1.0/100,000, etc.

The microsporia and trichophytosis cases hold the leading place among children up to 17 years old and it must be noted that the major part of the registered cases are new cases.

In 2010 in the structure of inpatient cases as to classes of disease the leading place is for the diseases of the organs of blood circulation, the respiratory system, the digestive system, pregnancy, delivery and postpartum period, diseases of the urinary - genital system, neoplasms, traumas, poisoning and other consequences from the impact of external causes.
Among children at the age up to 17 years old the highest relative share of inpatient cases is due to:
diseases of the respiratory system, some infectious and parasitic diseases, traumas, poisoning and
some consequences from external influence, some conditions that occur in the perinatal period. The
comparatively high relative share of inpatient cases among children on the occasion of factors
influencing the health status of the population and the contact with the health services is a result of the
inclusion of the healthy newborn in that class.

The number of persons over 16 years old, certified and recognized as disabled, reduced compared to
the previous year and in 2010 they were 64,447 or 10,0 pro mille from the population above 16 years.

The most common case for disability are the diseases of the organs of blood circulation, which
account for 38.3% of the total number of the new cases of disability. They are followed by neoplasms
(18.0%), diseases of the musculoskeletal system and the connective tissue (8.6%), the diseases of the
endocrine system, disorders of the digestive system and metabolism (8.2%), etc.

In the nosological structure of diseases causing disability there is certain specificity with a view to the
degree of disability. For the children with over 90% disability the leading diseases are neoplasms
followed by the diseases of the organs of blood circulation, the mental and behavioural disorders, traumas and poisoning and some other consequences from the impact of external causes, diseases of
the musculoskeletal system and the connective tissue. For people with disability from 71% to 90% the
diseases of the organs of blood circulation are also the leading ones, followed by neoplasms, diseases
of the musculoskeletal system and the connective tissues, diseases of the endocrine system, digestive
disorders and metabolic disorders and for people with disability from 50 to 70% the diseases of the
organs of blood circulation are followed by the diseases of the endocrine system, digestive and
metabolic disorders, diseases of the musculoskeletal system and the connective tissue, etc. For people
with recognized disability up to 50% the most frequent are the diseases of the organs of blood
circulation, the musculoskeletal system and the connective tissue, as well as the diseases of the
endocrine system, digestive and metabolic disorders.

The number of children up to 16 years old certified and recognized as disabled has been increasing
and in the last year they were 3833 or 3,5 pro mille.

65.4% of the children who are recognized as disabled have a term of disability of two or three years.

The most common cause for disability among children are the diseases of the respiratory system
(22.1%), the diseases of the nervous system (17.2%), the mental and behaviouristic disorders (17.0%)
and congenital anomalies (16.7%).

The same as for adults there is certain specificity here in the nosological structure of the diseases that
cause disability as to the degree of disability. For children with reduced ability for social adaptation
above 90%, the leading diseases are the diseases of the nervous system, the congenital anomalies, the
mental and behaviouristic disorders. For the other two groups of children - with disability up to 50%
and between 50% and 90%, the first place is for the diseases of the respiratory system, followed by
mental and behaviouristic disorders, the diseases of the nervous system, the mental and congenital
anomalies, etc.
2. NUMBER OF BEDS IN HEALTH ESTABLISHMENTS
At the end of 2010 the number of beds in the inpatient establishments amounted to 45,832. It means that there were 61,1 beds for 10 000 people. As to types of bed, the availability of beds for active treatment is the highest - 44,4 for 10 000 people. They include beds in surgery wards - 5,9 per ten thousand, beds in the internal diseases wards - 3,6 per ten thousand, beds in neurology wards - 3,6 per ten thousand, beds in psychiatric wards - 3,1 per ten thousand, beds in paediatric wards - 3,1 per ten thousand, etc. The availability of beds by districts varies widely - from 34,3 per ten thousand persons in the district of Shumen to 83,8 in the district of Kyustendil. Other districts which report a value higher than the average for Bulgaria are Lovech, Sofia, Gabrovo, Stara Zagora.

The country definitely needs a national multi-field paediatric hospital with clinics covering all medical fields for the children.

The number of day nurseries is 731 with 28,139 places. At the end of 2010 the children visiting the day nurseries were 29,507.

3. MEDICAL STAFF
In 2010 the medical doctors were 27,997. The availability of general practitioners is the highest - 6,3 for ten thousand people. They are followed by the internal diseases specialists - 1,9 for ten thousand persons, the surgeons - 1,9 per ten thousand persons, paediatricians - 1,9 for ten thousand persons, gynaecologists - 1,8 for ten thousand persons, etc. The total value for availability of medical doctors is 37,3 for ten thousand persons. By districts a higher availability than the average for Bulgaria is reported for the districts of Sofia, Varna, Stara Zagora, Pleven and Plovdiv.

The number of the people per medical doctor in the period of review is 268.

The number of health specialists was 47,468. In 2010 the availability of such staff is 63.2 for ten thousand persons.

4. ACTIVITY OF THE HOSPITALS TO THE HEALTH ESTABLISHMENTS
In 2010 the medical doctors were 27,997. The frequency of inpatient cases is 25,0 for 100 persons. As to types of health establishments the highest number of inpatient cases were reported in the multi-field hospitals for active treatment - 3,7/100 persons, of which 2,2 inpatient cases in specialized hospitals for active treatment, 1,1/100 persons in rehabilitation establishments and the other - in the hospitals for follow-up treatment and continuing treatment.

As to types of beds the highest share is for beds in surgical wards - 2,7 cases for 100 persons. They are followed by beds for follow-up treatment and continuing treatment - 2,1 for 100 persons, beds in neurology wards - 1,7 for 100 persons, beds in cardiology wards - 1,5 for 100 persons, beds in paediatric wards - 1,4 for 100 persons, etc.

In 2010 the rate of use of the beds in the inpatient establishments is 248 days a year, the turnover is 42 patients in one bed, the average stay - 5,9 days and the inpatient lethality - 1,4%. The change as to the indicators by types of health establishment and types of beds varies widely, which depends mainly on the nature of the activity of the health establishment.
CONCLUSIONS:

1. The children's healthcare in the Republic of Bulgaria receives the required government support for its development.
2. The infant mortality tends to decrease in the recent years, however this indicator should decrease further.
3. A national paediatric hospital is necessary to cover all fields of paediatric medicine.

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LIFE EXPECTANCY AND ITS DETERMINANT FACTORS
AT REGIONAL LEVEL IN EUROPE

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Abstract

The health status of a population varies according to education level, income, life style, health expenditures, and the environment. In Europe, there are health inequalities among countries and among regions within a country. In the paper, we observed regional inequalities in life expectancy (at birth and at 65 years) on a sample of NUTS2 European regions. By using the regression analysis we identified the determinants with significant influence on life expectancy (for total population and by gender). The factor that contributes most significantly to the regional variation of life expectancy is net disposable income. The Eastern Europe regions are the poorest performers both in health and income, while the Southern Europe regions have the best performance in life expectancy.

Key words: life expectancy, regional inequalities, net disposable income, education, GDP

1. INTRODUCTION

Life expectancy is an indicator commonly used to measure the health status of a population. It varies by countries due to specific development conditions, and also by gender, women living longer than men. In the last decades, life expectancy at birth has risen by almost 10 years, due to improved socioeconomic and environmental conditions and better medical treatment and care (Eurostat, 2011).

The main factors that explain life expectancy are resources of the health system, factors related to lifestyle (smoking and alcohol consumption, eating habits), and socio-economic factors (income per capita, education level, unemployment, environment, air pollution) (Joumard et al., 2008, Or, 2000).

Studies on regional variations of life expectancy in Europe are focused mainly on the regions of a particular country, for example England and Wales, Spain, Greece, Finland, etc. All studies identified differences in life expectancy at regional level due to the specific characteristics of each region. Most of the variations in life expectancy at birth in England and Wales is explained by the north-south disparities of income distribution (Woods at al., 2005). In Spain (Gutiérrez-Fisac et al., 2000), the geographical variation of life expectancy is essentially associated to socio-economic factors (the illiteracy rate and the percentage of unemployment) and life style factors (percentage of smokers). In Greece, the regional patterns of life expectancy distribution show the discrepancies between the islands and southern continental Greek regions and the northern Greek regions. The regional variations are explained by socio-economic factors, air pollution and lifestyle factors (Tsimbos, 2011). In Lithuania, the regional inequalities in life expectancy are correlated with regional differences in the causes of mortality by gender, the level of urbanisation and education (Kalediene and Petrauskiene, 2000). However, for the Lithuanian regions, the economic factors (health care resources, unemployment, etc.) weren’t found to have significant influence on life expectancy.

In the paper we aim to analyse the regional disparities in Europe and to identify the most important factors that explain the regional variations of life expectancy. Moreover, we aim to compare the results...
of this study with those of previous studies on the topic of regional inequalities in the health of the population.

2. DATA AND METHODS

2.1. Sample

The empirical study is realised on a sample of 254 European NUTS 2 regions from 24 countries. The countries are: Belgium (11 regions), Bulgaria (6 regions), Czech Republic (8 regions), Denmark (5 regions), Germany (33 regions), Estonia (1 region), Ireland (2 regions), Greece (13 regions), Spain (18 regions), France (22 regions), Italy (21 regions), Latvia (1 region), Lithuania (1 region), Hungary (7 regions), Netherlands (12 regions), Austria (9 regions), Poland (16 regions), Portugal (5 regions), Romania (8 regions), Slovenia (2 regions), Slovakia (4 regions), Finland (4 regions), Sweden (8 regions), and United Kingdom (37 regions).

The European countries are grouped by geographical position in 5 groups, according to the United Nations Statistics Division – Standard Country and Area Codes Classifications: Eastern Europe (Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia), Western Europe (Austria, Belgium, France, Germany, Netherlands), Southern Europe (Greece, Spain, Italy, Portugal, Slovenia), Northern Europe (Denmark, Estonia, Finland, Ireland, Latvia, Lithuania, Sweden, United Kingdom).

2.2. Variables

For the regions in the sample we observed the following variables:

The dependent variable:
- Life expectancy at birth and at 65 years for total population and by gender.

The independent variables:
- Education for total population and by gender (Persons aged 25-64 with lower secondary education attainment (%); Persons aged 25-64 with upper secondary education attainment (%); Persons aged 25-64 with tertiary education attainment (%) for total population and by gender;
- Unemployment rate (Unemployment rate from 15 to 24 years for total population and by gender; Unemployment rate at 15 years or over for total population and by gender);
- Income (Households disposable net income (euro per inhabitant)); Gross domestic product (GDP) per inhabitant, in purchasing power standard (PPS), 2008 (in percentage of EU-27=100).

2.3. Method

The methods used in the study are correlation analysis and multiple regression analysis.

The correlation analysis allows identifying the significant correlations between life expectancy (at birth and at 65 years of age) and the determinant factors. The multiple regression analysis provides estimations of the regression coefficients between life expectancy and the factors with a significant impact.

The multiple linear regression model implies the relationship between the dependent variable and several explanatory variables based on the linear equation of the form [Jaba, 2002]:

\[ \text{Life expectancy} = \beta_0 + \beta_1 \text{Education} + \beta_2 \text{Unemployment} + \beta_3 \text{Income} + \epsilon \]
$Y = \alpha + \beta_i X_i + \epsilon$

where:

$Y$ – dependent variable (life expectancy)

$X_i$ – independent variables (determinant factors)

$\epsilon$ – residual variable

$\alpha$ and $\beta_i$ – parameters of the regression model

For data processing, we applied SPSS software.

The interpretation of the results of the regression model implies interpreting the estimations of parameters, testing the significance of parameters (using the t Student test), testing the significance of the model (using the Fisher test) and interpreting the value of the R-squared corresponding to the multiple regression model [Jaba et al., 2011].

3. RESULTS

3.1. Regional variations in life expectancy

Life expectancy varies among the European countries and among the European regions. The first 25 European regions with the highest life expectancy at birth are from Southern (6 regions from Spain and 12 regions from Italy) and Western Europe (6 regions of France and one region of Austria). In Spain, life expectancy is especially high in the regions of Madrid (82.9 years), Comunidad Foral de Navarra (82.6 years) and Castilla y León (82.4 years). The Italian regions where life expectancy reaches top values are Marche (82.9 years), Provincia Autonoma Trento (82.7 years), and the regions Veneto, Emilia-Romagna and Umbria (82.4 years). In France, life expectancy has peak values in Île de France (82.8 years), Midi-Pyrénées (82.4 years) and Rhône-Alpes (82.4 years). The Austrian region Salzburg is at the end of top 25 regions with a value of life expectancy equal to 82 years.

At the opposite side, 24 of the 25 European regions with the lowest life expectancies are from the Eastern Europe (Latvia, Lithuania, all 6 regions from Bulgaria, 5 regions from Hungary, 7 regions from Romania, 2 regions from Poland, and 2 regions from Slovakia). Lithuania has the lowest life expectancy (72 years), while in Latvia the life expectancy is 72.5 years. The Bulgarian regions of Yugoiztochen and Severoiztochen have a life expectancy of 72.5 years and 72.6 years respectively. In Romania, the lowest life expectancy is in the North-West region (73 years).

Life expectancy varies among the regions of one country. The most 3 heterogeneous countries are Slovenia, Belgium and UK. In Slovenia, the life expectancy at birth varies between the 2 regions Vzhodna Slovenija (78.1 years) and Zahodna Slovenija (80.4 years). In Belgium, life expectancy is the lowest in Prov. Hainaut (77.5 years) and the highest in Prov. Vlaams-Brabant (81.3 years). Life expectancy has an important variation in UK regions, ranging from 76.6 years in South Western Scotland to 81.7 years in Surrey, East and West Sussex.

Life expectancy at birth for male population is highest in the Italian region Marche (80.2 years). The other regions with high values of male life expectancy are Surrey, East and West Sussex (79.8 years) and Hampshire and Isle of Wight in UK, the regions Provincia Autonoma Bolzano, Emilia-Romagna, Umbria and Toscana (79.7 years) in Italy, Comunidad de Madrid (79.6 years) in Spain, Småland med öarna (79.6 years) in Sweden.
In all the observed regions, female life expectancy at birth is higher than male life expectancy. The regions with the highest values of female life expectancy are the Spanish regions Comunidad de Madrid (85.9 years) and Comunidad Foral de Navarra (85.8 years), the Italian regions Provincia Autonoma Bolzano (85.7 years) and Provincia Autonoma Trento (85.6 years), the French regions Île de France (85.7 years), Rhône-Alpes and Pays de la Loire (85.6 years).

The highest gender gap of life expectancy is observed for the Eastern Europe regions: in Lithuania (11.3 years), Latvia (10.8 years), in the Polish regions Lubelskie (10.3 years), Łódzkie (9.8 years),

Fig. 1. The regional life expectancy variation, by countries, in 2008.
Podlaskie (9.5 years), in the Hungarian region of Észak-Magyarország (9.5 years). For the Western European regions, the highest difference between female and male life expectancy is observed in the French region Nord - Pas-de-Calais (8.1 years). The gender gap is the lowest in the Northern European regions (UK and Sweden). Estonia, though in the Northern European region, has a gender gap (10.8 years) similar to the Eastern European regions. From the 254 European regions, the lowest difference between female and male life expectancy at birth (3 years) is observed for Flevoland region in Netherlands.

The European regions with the highest values of life expectancy at 65 years are situated in France: Île de France (21.9 years), Corse (21.6 years), and Midi-Pyrénées (21.5 years). The lowest life expectancy at 65 years is observed in the Bulgarian regions of Severen tsentralen (14.8 years), Severoiztochen (14.9 years), Severozapaden (15 years) and Yugoiztochen (15.1 years) and in the Romanian region West (15.1 years).

Table 1. Correlations between life expectancy (at birth and at 65 years) and the determinant factors, by total and by gender

<table>
<thead>
<tr>
<th>Life expectancy at birth</th>
<th>Life expectancy at 65 years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
</tr>
<tr>
<td><strong>Lower secondary education</strong></td>
<td>0.368**</td>
</tr>
<tr>
<td><strong>Upper secondary education</strong></td>
<td>-0.525**</td>
</tr>
<tr>
<td><strong>Tertiary education</strong></td>
<td>0.293**</td>
</tr>
<tr>
<td><strong>Unemployment rate at 15-24 years</strong></td>
<td>-0.074</td>
</tr>
<tr>
<td><strong>Unemployment rate at 15 years and over</strong></td>
<td>-0.111</td>
</tr>
<tr>
<td><strong>Disposable income</strong></td>
<td>0.819**</td>
</tr>
<tr>
<td><strong>GDP</strong></td>
<td>0.580**</td>
</tr>
</tbody>
</table>

** (p-value <.001), * (p-value<.05)

For life expectancy at 65 years, the gender gap is highest in Estonia (5.3 years) and in the French region of Champagne-Ardenne (5 years). Other regions with high differences between female and male life expectancy at 65 years are Latvia (4.9 years), Észak-Magyarország (4.8 years) in Hungary, the Polish regions Podlaskie and Lubuskie (4.8 years) and the French regions Bretagne, Haute-Normandie, Limousin and Nord - Pas-de-Calais (4.8 years). The smallest gender gap in life
expectancy at 65 years is observed in the Southern Europe regions, especially in Greece (less than 2 years) and in the Northern Europe regions, especially regions in UK (less than 2.5 years) and also in Flevoland (2.3 years) in Netherlands.

3.2. Correlations between regional life expectancy and the determinant factors

At regional level, the factors that are highly correlated with life expectancy (at birth and at 65 years) are income related factors: net disposable income per inhabitant and gross domestic product per capita (Table 1).

Significant correlations are also obtained for education levels, both for total population and by gender. Life expectancy is inversely correlated with upper secondary education and positively correlated with lower secondary and tertiary education. The weakest correlations are between life expectancy and unemployment rate. The only significant correlations are between male life expectancy and unemployment rate (15 years and over).

3.3. The relationship between life expectancy and the determinant factors

In order to study the relationship between life expectancy and its determinant factors at regional level, we build regression models between the dependent variable – life expectancy, and the independent variables – the determinant factors (all the variables were transformed by logarithm). Between the two income factors, we choose to introduce in the regression model the disposable net income, at it is higher correlated with life expectancy than GDP. There are differences between the two income indicators, as GDP per head is based on where people work while disposable net income is based on where people live (Bubbico and Dijkstra, 2011).

Disposable net income has the highest effect on regional life expectancy (Table 2). The effect of disposable net income is higher on life expectancy at 65 years than at birth. The increase with 10% of disposable income determines an increase with 0.52% of life expectancy at birth and with 1.24% of life expectancy at 65 years. Moreover, the effect is higher for male life expectancy than for female life expectancy.

The effect on life expectancy of the percentage of population with upper secondary and tertiary education is smaller and negative. Thus, an increase with 10% of the share of the population with upper secondary education decreases life expectancy at birth, for total population, by 0.23%.

However, the effect of upper secondary education on life expectancy by gender becomes positive. It is slightly higher for male population than for female population both for life expectancy at birth and at 65 years. Moreover, the effect of tertiary education becomes insignificant either for male or female life expectancy.
Table 2. Regression coefficients between life expectancy (at birth and at 65 years) and the determinant factors

<table>
<thead>
<tr>
<th></th>
<th>LN (Life expectancy at birth)</th>
<th>LN (Life expectancy at 65 years)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Male</td>
</tr>
<tr>
<td><strong>LN (Upper secondary education)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-0.023**</td>
<td>0.015**</td>
</tr>
<tr>
<td></td>
<td>(0.003)</td>
<td>(0.002)</td>
</tr>
<tr>
<td><strong>LN (Tertiary education)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-0.013**</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>(0.003)</td>
<td></td>
</tr>
<tr>
<td><strong>LN (Disposable income)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.052**</td>
<td>0.063**</td>
</tr>
<tr>
<td></td>
<td>(0.002)</td>
<td>(0.002)</td>
</tr>
<tr>
<td><strong>R Square</strong></td>
<td>0.803</td>
<td>0.784</td>
</tr>
</tbody>
</table>

** (p-value <.001), * (p-value<.05)

Fig. 2. The regional life expectancy and the regional disposable net income, by geographic regions, in 2008.
The regression models explain a high percentage of the regional variation of life expectancy. The highest R Square for life expectancy at birth is obtained for the regression model for total population (80% of the total variation of life expectancy), while for life expectancy at 65 years it is obtained for the regression model for male population (81% of the total variation of male life expectancy).

3.4. The distribution of European regions according to life expectancy and disposable net income

The distribution of European regions according to life expectancy and disposable net income highlight the differences among the four geographic regions (Figure 2).

The Southern Europe regions are located more to the top of the graph, as these regions have high scores for life expectancy. Moreover, this cluster of regions is characterised by the highest variation of income. The regions with highest income are mainly from Italy: Emilia-Romagna (20600.70 euro/inhabitant), Provincia Autonoma Bolzano (20265.10 euro/inhabitant), Lombardia (19840.30 euro/inhabitant) and Valle d’Aosta/Vallée (19708.60 euro/inhabitant).

The Eastern Europe regions are located in the system of the two rectangular axes on the left and bottom corner. These regions score relatively low both in life expectancy and in disposable net income. The poor health performance of East European countries is explained by several factors such as the health care systems, the health lifestyles and the social-stress (Rowland, 1991; Cockerham, 1997). The best performers in life expectancy are the Czech regions, while the best performers in income are the Slovakian region of Bratislavský kraj (10169.10 euro/inhabitant) and the Czech region of Praha (9557.40 euro/inhabitant). The last position in the top 3 regions is occupied by Bucuresti – Ilfov (7815.70 euro/inhabitant). It is the most developed Romanian region with an important share of work force in industry, buildings and IT (Tumbar et al., 2006).

The Northern Europe regions are spread more to the right on the graph as there are regions with high values of net disposable income. These regions are especially in UK: Inner London (27,145 euro/inhabitant), Surrey, East and West Sussex (21,720.80 euro/inhabitant), Berkshire, Buckinghamshire and Oxfordshire (21254.80 euro/inhabitant). Other Northern Europe regions with high income per capita are Southern and Eastern Ireland (20785.60 euro/inhabitant) and Stockholm (20531 euro/inhabitant).

The cluster of regions from the Western Europe is characterised by the highest average of the disposable net income. From the 5 regions with the best performance related to income 3 regions are from Germany (Hamburg, 23459.00 euro/inhabitant, Oberbayern, 22052.10 euro/inhabitant and Stuttgart 21506.50 euro/inhabitant), one from France (Île de France, 23242.70 euro/inhabitant) and one from Belgium (Prov. Vlaams-Brabant, 21986.20 euro/inhabitant).

4. CONCLUSIONS

Life expectancy at birth and at 65 years varies in the different European regions. Life expectancy at birth of males varies from 80.2 years, in the Italian region Marche, to 66.3 years, in Lithuania, while life expectancy at birth for female population varies from 85.9 years, in the Spanish region Comunidad de Madrid, to 76.3 years, in the Bulgarian region Severoiztochen.

Life expectancy of males at 65 years varies from 19.5 years, in the French region Île de France, to 13 years in the Hungarian region Észak-Magyarország and in Latvia, while that of females varies from 23.8 years in Île de France to 16.1 years in the Bulgarian region Severentsentralen.
The results of the study show that the most important explanatory factor of the regional differences in life expectancy is the disposable net income. Another factor that explains geographical differences in life expectancy is education level. These findings are similar to those of other regional studies on the determinants of life expectancy.

The regional variation of life expectancy and income is analysed for European regions by four geographical regions. The Southern Europe regions have the highest life expectancy while the Eastern Europe regions score relatively low both in life expectancy and in disposable net income.

In conclusion, the analysis of life expectancy reflects the economic growth of the European regions. Therefore, regional development policies should aim at improving life expectancy by targeting the main factors that have influence on it.

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REFERENCES


THE SOCIO-ECONOMIC IMPACT ANALYSIS ON IT SECURITY SPENDING

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Abstract

Information security importance is growing as the integration of IT gadgets continues into more and more aspects of modern life. In addition, breaches of information security appear to be increasing in frequency: the possibility that the severity of future attacks could be much greater than what has been observed to date is a fact.

A central issue is whether we are devoting enough resources to information security and the part of the answer is found in the socio-economic analysis. This paper summarizes the limited empirical data on security breaches costs, and surveys recent theoretical models that seek to overcome the absence of reliable and comprehensive statistics.

Key words: information security, regulation, direct/indirect cost, cost models

1. INTRODUCTION

The Internet has become a blood flow of our lives: it represents a technological base of web – a basic organizational shape of an informational society, creating a new world of communication – Internet galaxy of a networked informational society. In 1995. The first year of widely spread Internet protocol World Wide Web in use, the world counts 16 million users of computer communication web. The total number in a year 2001. counts 400 million; 2011. more than 2 billion of people or 32,7% of global population are users of Internet. The number of on-line population is rapidly growing: the fact is affirmed by the growth of 528,1% in the last 11 years. Some of the data in specific regions of the world are almost incredible: Africa with growth of 2988,4%, middle East 2244,8%, South America 1205,1% between 2000-2011. (World Internet Usage Statistics, 2012.).

However, despite the outspreading of the Internet, its logic, language and limits beyond strictly technical questions, are not perceived in a reasonable way. As often as the conversion celerity speeds up, which is a common case in an era of social change, a relative absence of reliable scientific research brings us to ideological comprehensions, critical dystopias and ambivalent feelings.

The elasticity of Internet is especially appropriate to intensify contradictory trends inherent in our offline world. It’s not utopia or dystrophy, but the expression of ourselves – through the specific communication code necessary to be understood if we want to change our reality. Therefore the basic challenge to Internet is its security enables open communication imperative to any user. But web's infrastructure could be seized, an access to it could be controlled, and its usage could be partially, if not monopolized through commercial, ideological and political interests. As Internet is becoming allpervadive infrastructure of our lives the battle to rule, posses and control an access to it becomes the key to freedom.
2. THE REGULATORY FRAME OF IT SECURITY

The regulatory frame defaults complex system of different norms, cannons, contracts, laws, legislations, bylaws, rules, decisions, instructions and directives, standards, sector regulations, hierarchical levels, ethical principles etc. Regardless of multiple complexities, highlighting the necessity of international business/legal frame, IT (Informational technology) security connotes minimal security claim inside ascertain organizational unit.

2.1 The concept of IT security

Security is a process of maintaining an acceptable level of risk. It does not imply final phase or an ultimate product. Organization or an institution cannot consider itself totally safe not even in a moment next to a last check-up or harmonization in accordance to security guideline rules. In a field of security and protection of informational systems and networks we have to mention basic contemporary directives:

- Security is a process,
- Security is not a product, service or a procedure,
- Security is a set of elements and criterions conducted continuously,
- There is no absolute security,
- Besides different methods of protection, a human factor with its weaknesses should be taken into consideration.

IT security is a state of screening, integrity and accessibility of data achieved through application of assigned norms and standards but also through organizational backup to planning, implementation, authentication and seed processing of norms and standards. The basic precondition to efficient security of informational system is permanent maintained and upgrading: reexamination and seeking an answer to a question on behalf of security of system, constant monitoring, analyzing, conducting and accomplishing security requirements and their implementation into informational system (Dragičević, 1999.).

2.2 Standardization in an IT sector

The standardization of IT security is based on combination of international and national norms, legislature and standards of a specific institution. This process of a constant development, substantial molding and standardization of informational security, started in 1970. implicated a series of processes resulting widely spread international norms such as ISO/IEC 27000 palette norms of informational security or norm ISO/IEC 15408 evaluating products and systems of information security in a field of IT security. (Klaić, A. 2010.)

The base of certification in a system management field of IT security is ISMS (Information Security Management System). Contemporary approach to system management field is based on a methodology practiced in a field of risk management through identification of resources inside ISMS magnitude, identification of threats and vulnerabilities, as well as on the loss assessment caused by confidentiality, integrity and availability of resources. Besides mentioned international standards and norms we are obliged to mention other initiatives found within informational society: business sector, citizenry initiatives and public-private partnership. Those are also the initiatives that are most vibrant and noticeable in the EU programs (A Digital Agenda for Europe, 2012.).
3. THE ECONOMIC IMPACT OF IT SECURITY

The importance of electronically informational system is obvious to absolutely all participants an a contemporary economy. If so happens and the system is crashed down, consequently the circularity of information’s is blocked the majority of economic sectors are vulnerable: finance, wholesale trade, commerce, transportation, manufacturing, service industry are slown down without computer system. Vital public sector is also dependent. Informational security – IT system security, integrity, confidentiality and availability of data collected confirm its growing importance. Computer integrity, as well as other IT gadgets infiltration into all aspects of modern life are rapidly growing, and informational breaches through IT security grow as fast as the number of Internet users through the world.

3.1 Measuring IT security cost

The key question in private and in public sector is: are we devoting enough attention to informational security; and the part of an answer is found in an economic analysis of the problem: what are the potential costs of security breaches into IT systems? How often can the breaches be expected? Can the breaches be precisely quantified: how could companies and other organizations designate optimal proportion of invested assets in comparison to maintenance of acceptable risk level as well as measure impacts of invested assets?

Studies of financial consequences of computer crime show that firms value declines in value 2.1 – 15 per cent in regardless to firms not affected by the Internet security breaches (Cashel, B., 2004.). The cost of Internet security breaches, according to accessible data, show exponential growth in the last
several years. The number of Internet security breaches reported to the reported Department of Homeland Security’s U.S. Computer Emergency Readiness Team has jumped 659 per cent since 2006. (Peterson, D., 2011.). An annual cost of security breaches in a field of informational security in 2010 grow up to the figure amounts to a massive 1.6 per cent of global GDP, estimated to be worth £39 trillion. The same exponential growth trend can be seen in a table below showing an estimate flow of financial costs of Internet breaches per year at global level 1995-2010.

<table>
<thead>
<tr>
<th>Year</th>
<th>Cost (billions $)</th>
<th>Year</th>
<th>Cost (billions $)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>0.5</td>
<td>2002</td>
<td>120</td>
</tr>
<tr>
<td>1996</td>
<td>0.9</td>
<td>2003</td>
<td>205.5</td>
</tr>
<tr>
<td>1997</td>
<td>2.3</td>
<td>2004</td>
<td>175</td>
</tr>
<tr>
<td>1998</td>
<td>4.25</td>
<td>2005</td>
<td>142</td>
</tr>
<tr>
<td>1999</td>
<td>21</td>
<td>2006</td>
<td>133</td>
</tr>
<tr>
<td>2000</td>
<td>27.5</td>
<td>2008</td>
<td>226</td>
</tr>
<tr>
<td>2001</td>
<td>36.5</td>
<td>2010</td>
<td>388</td>
</tr>
</tbody>
</table>

Table 1. Estimated global financial cost of Internet security breaches

The stock problem of IT security regarding economic aspect is fundamental in several aspects: gathering, followed by analysis of data, followed by the two major obstacles. First, there are strong incentives that discourage the reporting of breaches of information security; second, organizations are often unable to quantify the risks of cyber-attacks they face, or even to set a dollar value on the cost of attacks that have already taken place. An additional problem is seen through real economic incentives not to reveal information about security breaches, for public disclosure may be followed by the numbered consequences:

- Financial market impacts: the stock and credit markets and bond rating firms may react to security breach announcements. Negative reactions raise the cost of capital to reporting firms.
- Reputation or confidence effects: negative publicity may damage a reporting firm’s reputation or brand, or cause customers to lose confidence. These effects may give commercial rivals a competitive advantage.
- Litigation concerns and costs: if an organization reports a security breach, investors, customers, stockholders may use the courts to seek recovery of damages. If the organization has been open in the past about previous incidents, plaintiffs may allege a pattern of negligence.
- Liability concerns: officials of a firm or organization may face sanctions regarding various standards for safeguarding customer/client records.
- Signal to attackers: a public announcement may alert crackers that an organization's cyber-defenses are weak, and inspire future attacks.
Job security questions: IT personnel may fear for their jobs after an incident and seek to conceal the breach from senior management. Although organizations have strong motives not to reveal security breaches the support of the initiatives in cost measurement it is highly expectable. Being deprived of accurate data about the cost measure it is hard to make an risk assessment estimates as well as make IT security investments decisions rational or esteem an IT security investment.

The fact is that there are no standard methods for measuring the costs of IT security breaches. Breaches produce all sorts of costs some of are very difficult to quantify, if at all. Discussing costs of IT security breaches we can divide them into direct and indirect costs. Direct costs include the expenses incurred in restoring a computer system to its original, pretreated state. Recovery from a breach typically requires extra spending on labor and materials; these are the easiest costs to measure. The direct costs also include lost revenue and loss of stolen, compromised or in other ways destroyed information value. The other category, indirect cost is due to and flow from direct cost: loss of reputation, costumers defect to competition, financial markets may rise the firms cost of capital, insurance cost may rise, lawsuits may be raised. There are also respect and confidentiality into a firm, costs that are difficult to quantitatively measure.

Ponemon Institute research from 2009. shows indirect cost per data lost 144 $, regarding 60 $ of direct cost. The same institute research in 2011. indicates total cost increase to 214 $ per data lost, average total cost of 7.2 billion $ per a security breach (Ponemon Institute, 2012.). Multiplying mentioned data to Verizon 2011 Data Breach Investigations Report in 2008.: 361milion, 2009., 144 million, 2010. 4 billion compromised data we perceive an enormous harm inducement by IT security breaches (Verizon, 2011).

3.1 IT security investment

The key question for business confronting cyber security risk is how much is enough spending on informational security. Earlier mentioned difficulties in risk measurement are directly connected to insecurity in investing to IT security. Security budget cannot be beard out on behalf of basic financial tests – return on investment (ROI) and cost/benefit analysis – that are applied to most other corporate investments. Last 10 years research show that IT security investment is growing faster than total IT investment (Ernest & Joung, 2003.).

IT security investment according to the last ten years research in this field, show faster IT security growth in general than total investment in IT sector. There are expectations of decrease of investment to IT in a period from 2011-2016., one exception only – IT security, same period 2011-2016. shall grow to an average annual rate of 9 per cent (Peterson, D. 2012).

Regarding difficulties mentioned in a context of measuring cost, risk and efficiency concerns in IT security field cannot be assessed to in a simple manner: company expecting X dollars of annual loss due to security breaches will spend Y dollars to recovery. The theoretical model presented below is developed with an intention to shed light on the return of IT security investment. The model presented is rudimentary, but the presented calculation regarding IT security investment is surely placed to a rational and rigorous base.

3.2 Security risk Cost models

An early 1970.-ies at NIST( National Institute for Standards and Technology) efforts measuring cyber-risk led to a development of ALE (Annual loss expectancy) model. ALE is a unit expressed in $ gained by multiplying cost, or incident impact ($) to frequency (or probability) of incident. ALE is
taking into consideration security impacts regarding two perspectives: the first one in relation to costs a potential impact could cause, and the second one bounded to a possibility and frequency of its appearance. ALE is a value combining impact likelihood and frequency to a data representing an annual loss expectancy. ALE has become a standard measuring unit, although is not universally used in an approach to measurement of cyber risk combining, above all reasons such as: ALE model supposes that cyber attack cost and frequency are known variables, which are not, and contravene to quantification. The standard organizational procedure also uses other methods regarding risk as qualitative, not a quantitative index. Standard practice in information ranking regarding their value and vulnerability is IPMG (Information Protection Management Guideline) model that places risk to a four level measurement: starting at 0 level = presenting minimal danger, almost no probability for an organization to be a potential target up to level 3= presenting irreparable damage to an organization and highest risk of a potential target.

<table>
<thead>
<tr>
<th>Level</th>
<th>Risk level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level 3</td>
<td>Irreparable harm, very likely target</td>
</tr>
<tr>
<td>Level 2</td>
<td>Significant harm, possible target</td>
</tr>
<tr>
<td>Level 1</td>
<td>Moderate harm, unlikely target</td>
</tr>
<tr>
<td>Level 0</td>
<td>No harm, not a target</td>
</tr>
</tbody>
</table>

Table 2. IPMG risk level model

Considering models mentioned above it is easy to conclude that data necessary for drafting of traditional business accounts as return of investment and cost/benefit analysis of financial investment to IT security are not feasible, but a need for measurement certainly is present regarding constant fastest growing risk/threat of damage due to potential security breach. It is a hypothesis that IT security systems will borough safety model sin assessing risk management from other filed such as quality control industry, health, stock management, insurance etc.

3.3 Smokestack curve

Gordon & Loeb's model of estimating an optimal level of investment to IT security lies on an assumption of risk neutrality, theoretically marking organizational indifference regarding investment expecting same return rate, although investment could have variable risk assets.

In an IT security manner neutral risk should mean the organization makes no difference in between high cost and low possibility of a security breach; and low cost and high level of a security breach. This point of view implies a simplified assumption not always applicable in practice. Framing risk neutrality, an organization amplifying profit amplifies IT security investment as long as return (regarding reduction of ALE) oversize’s marginal cost. Organization stops investing to IT security in a moment when an extra spent dollar to IT security reduces Ale to less than a dollar.

By assuming risk neutrality, the authors identify an optimal level of security spending, found at the point on the smokestack curve where marginal security spending equals marginal loss reduction. This is shown in figure 2. below (Cashel, B., 2012., Gordon & Loeb, 2002.). The horizontal axis represents IT security spending (S); the vertical axis shows the amount by which ALE is reduced (L). the dotted line from the origin is a 45 degree line, along which an increase in S produces an equal increase in L.
Optimal security spending $S^1$ is determined by the point at which the slope of the flattening curve is 1 (where the change in $L$ divided by the change in $S$ equals one), or where the tangent of the curve is parallel to the 45-degree line. This point on the curve is also where the difference between benefits and costs is maximized.

By making several assumptions about the shape of the cost/loss reduction curve Gordon & Loeb reached some numerical conclusions about the optimal level of security spending as a percentage of ALE: the model suggests that optimal level of investment never exceeds 37 percent of ALE caused by security breach (incident) and is typically multiply lower than ALE caused by a security breach.

Here is necessary to emphasize that the model suggested is based on an theoretical ground, and the nature of its suggestions derives its results. The assessment of funds invested to IT security, regarding the model, does make a contribution to downsizing mention imperfections in exact indicator of frequency and intensity of security breaches.

4. CONCLUSION

The rapid growth of society's dependence on informational systems has drawn attention to the problem of vulnerability of its fragile infrastructure. The novelty of this paper is to explore socio-economic impact on IT security spending. Mining the fact according to whom national legislation still do not recognize a legal necessity to share, collect, analyze and elaborate – not hide data connected to IT security problem. A model where a regular and mandatory reporting should be obligatory could be
compared to a system of public health where benefits of central data base about specific illness cases overweight the individual right of a individual to privacy.

The first major obstacle is the lack of data on the frequency and severity of security breaches, the other is the inherent difficulty in measuring costs that may be intangible and subject to innumerable contingencies. On the other hand, from the economic point of view, there are three major market forces leading to improvements in cyber-risk management: competition, insurance and liability: so firms that are the best in risk management in the field of IT security will be rewarded by a competitive market, and the possibility of insurance or assemblage of policy mining consequences of IT security breaches shall overthrow potential unwanted risks and outcomes to insurers specializing in pricing risk. The effectiveness of an access in a function of risk assessment is according to this transferring out form billions of individual organizations, firms and institution in public and privat sector to insurers. Tender, growth and part of insurance policies in IT security is primarily led by insufficiency of accurate data regarding number and cost of security breaches in IT sector. Trustworthy quantification and urgently imperative regulatory frame is absolutely necessary: the future of IT security belongs to quant.

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SOCIAL PROTECTION AND SOCIAL POLICY TRENDS IN KAZAKHSTAN
IN THE POST-CRISIS PERIOD
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Abstract
The paper analyzes the social policies of modern Kazakhstan. Also reflected meaning of social policy of post-crisis period to country which aimed at changing the level and quality of life, to alleviate the contradictions between the participants of the market economy and to prevent social conflicts on economic grounds. The essence of social policy is to maintain a relationship between social groups, social strata, and within them, in ensuring conditions for the welfare and living standards of members of society, creating social safety nets in the formation of economic incentives for participation in social production.

Key words: social policy, social protection, quality of life, post-crisis period

Social security is a system designed to provide a certain level of access to essential goods and a certain level of welfare of citizens who cannot be economically active and the income to support themselves through participation in a dignified paid work because of adverse circumstances (age, health status, loss of breadwinner or work).

Social welfare and social policy is always an important issue of economic policy and economic efficiency. This is especially important for Kazakhstan-the recital is a social state. Socially oriented market economy involves a significant activity of the state in solving social problems. This is due to the fact that the market economy does not guarantee workers the right to work, the standard welfare, education, does not provide social protection for disabled people, poor pensioners. Therefore, it is necessary to state intervention in the sphere of income distribution through social policy. It is simply vital under the conditions of the current global economic crisis. Everything ultimately depends on its decision: the power and independence of the state, the welfare of the people, the stability of the political atmosphere in the society (Ignatov, 2005).

The social policy of post-crisis period of our country is a policy aimed at changing the level and quality of life, to alleviate the contradictions between the participants of the market economy and to prevent social conflicts on economic grounds. From the perspective of the economic system it plays a dual role. First, as economic growth and the accumulation of national wealth, to create favorable conditions for citizens to become the main economic activity, in this sense, the focus in social policy objectives of economic growth. But it is also the factor of economic growth: if growth is not accompanied by an increase in prosperity, then people lose the incentive to efficient economic activity. At the same time, the higher the achieved level of economic development, the greater the demands on people, providing economic growth, their knowledge, culture, physical and moral development, which requires further development of social sphere.
In many developed countries, the dominant position in the social sphere is the public sector, which defines the scope and scale of social policy. Extended social policy means accessibility of social programs, universal social benefits, and comprehensive redistribution of the state. Restrictive social policy means reducing it to a minimum, to complement the functions of traditional institutions of social services.

An indicator of the effectiveness of social policy is the level and quality of life. Living standards is a set of parameters describing the level of material consumption, the consumption of such products per capita, availability of these products per family or per 100 households, the structure of consumption (Kholostova, Sorvino, 2004).

The starting point in determining living standards is a "living wage" is the required minimum cash income per person equal to the value of the minimum consumer basket. The minimum consumer basket represents a minimum set of food, goods and services necessary to ensure human activities in physical and value terms. The subsistence minimum in the average per capita in July 2010 amounted to 13,743 thousand tenge as compared with the previous month decreased by 1.6% compared with July 2009 when the average increased by 6.1%.

Changes in the value of "market basket" form the basis for policy formation incomes. In this context, identify the minimum level of consumption and efficient. The minimum level of consumption is a set of consumers, reducing consumer who puts a face to ensure normal conditions for its existence. Rational level of consumption is the amount and pattern of consumption that is the most favorable to the individual. The minimum level of consumption determines the so-called "poverty line". Percentage of population living below the "poverty line" is one of the most important indicators of quality of life in this country. Reducing this figure is one of the main tasks of social policy.

A large proportion of the poor in the total population is typical for the southern and western regions. High rates of economic growth and real incomes in the regions-leaders did not lead to poverty reduction: for example. in Mangystau, Atyrau and Almaty indicator of the proportion of the population with incomes below the subsistence minimum in 2008 was higher than the national average (12.1%).

The highest rate of poverty is characterized, mainly for the rural population. The differentiation rate between urban and rural areas increased from 1.1 times in 2000 to 2 times in 2008.

The risks of poverty in rural areas are mainly associated with low incomes and high levels of self-employment (hidden unemployment). In 2009 self-employment in rural areas accounted for 50% of the total employed population (compared to urban areas -18.7%). In agriculture, the lowest monthly average nominal wages (in 2008 - 31.4 thousand tenge at the average level of 60.8 thousand KZT). In this largely rural poverty is typical for the regions where the structure of livestock farming predominates.

Among the regions of Kazakhstan, first in 2009 in terms of the depth of poverty is Mangystau region (4.3%), second in Almaty region (2.6%), and the third largest share of South-Kazakhstan (1.9%) and Atyrau (19%) regions. By acuteness of poverty there is a similar trend to watch (Table 1).
Table 1. Indicator of poverty*

<table>
<thead>
<tr>
<th>Province</th>
<th>Poverty depth, %</th>
<th>Poverty severity, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Republic of Kazakhstan</td>
<td>2.3</td>
<td>1.3</td>
</tr>
<tr>
<td>Akmola province</td>
<td>2.1</td>
<td>0.9</td>
</tr>
<tr>
<td>Aktyubinsk province</td>
<td>1.1</td>
<td>0.9</td>
</tr>
<tr>
<td>Almaty province</td>
<td>4.8</td>
<td>2.6</td>
</tr>
<tr>
<td>Atyrau province</td>
<td>3.4</td>
<td>1.9</td>
</tr>
<tr>
<td>West-Kazakhstan province</td>
<td>1.8</td>
<td>1.2</td>
</tr>
<tr>
<td>Zhambyl province</td>
<td>1.8</td>
<td>0.3</td>
</tr>
<tr>
<td>Karagand province</td>
<td>1.2</td>
<td>0.6</td>
</tr>
<tr>
<td>Kyzylorda province</td>
<td>1.3</td>
<td>1.2</td>
</tr>
<tr>
<td>Mangystau province</td>
<td>4.9</td>
<td>1.2</td>
</tr>
<tr>
<td>South-Kazakhstan province</td>
<td>5.5</td>
<td>4.3</td>
</tr>
<tr>
<td>Pavlodar province</td>
<td>2.4</td>
<td>1.9</td>
</tr>
<tr>
<td>North-Kazakhstan province</td>
<td>1.2</td>
<td>1.0</td>
</tr>
<tr>
<td>East-Kazakhstan province</td>
<td>2.3</td>
<td>1.1</td>
</tr>
<tr>
<td>Astana city</td>
<td>1.8</td>
<td>1.2</td>
</tr>
<tr>
<td>Almaty city</td>
<td>0.3</td>
<td>0.8</td>
</tr>
<tr>
<td></td>
<td>2.0</td>
<td>0.4</td>
</tr>
</tbody>
</table>

*Data obtained using the equivalence scale income.


In the oil and gas producing regions of the reason for the high rate of population share living in poverty is social inequality caused by the large flows of petrodollars income, as well as unfavorable climatic conditions. In Almaty region is primarily due to the rapid growth of urban population growth is not accompanied by a sufficient number of jobs. Arriving in the city adds to the rural population unemployed, and lack of housing causes the uncomfortable city suburbs with unsanitary living conditions.

Today, the role of social policy in post-crisis period is the actual direction, because in many countries it is not protected by sections of the population felt the impact of the crisis. That unemployment has resulted in many walks of life below the poverty line. The employment rate in the CIS and Central and Eastern Europe in 2009 decreased by 2% compared with 2007. The region does not work more than ten percent of the workforce. There are 212 million unemployed in the whole world today. Thus in 2010 the unemployment rate will remain high, despite the gradual economic recovery.
According to preliminary estimates in Kazakhstan, the unemployment rate in 2010 dropped to 5.8%. Thanks to the program "Roadmap 2020", the government managed to save jobs and avoid massive layoffs. Investment directions of Roadmap favorable impact on the labor market of the country. Compared with 2003, the unemployment rate fell by 2.2%, and the level of youth unemployment rate fell by 7.8%. However, today there are difficulties in the employment of the unemployed over 50 years, is not sufficiently developed system of collective bargaining relationships in organizations (Agency for Statistics of Republic of Kazakhstan).

Formation in Kazakhstan market economy was reflected in the quality level of the national education system. Multiple reforms undertaken in this area led to the creation of some intermediate form. In this regard, the government faces the challenge of building an effective educational system meets the requirements of a modern national economy.

An important problem in Kazakhstan is the nation's health, life expectancy for males 63 years old, women 73 years old, which is very low. In Japan, Germany, Great Britain, the USA this figure ranges from 78 to 85 years.

An important indicator for assessing the standard of living is a measure of quality of life. This is a set of mostly qualitative characteristics that reflect the material, social, physical and cultural well-being of the population. It implies the conditions and safety, the state of the environment, the availability and the possibility of using free time, cultural level, physical development, physical and material safety of the citizens, etc. And with the development of society, these characteristics change (Tishin, 1997).

The quality of life can be judged by the growth of social diseases such as tuberculosis. Over the past five years, beginning in 2004, the incidence of tuberculosis in the country decreased by 28% and 40% decreased mortality from this disease. However, despite the obvious successes the situation remains rather complex (Table 2).

Table 2. The incidence of active tuberculosis by age group in 2009

| The incidence of active tuberculosis by age group in 2009, people |
|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| 0-14                        | 15-17                       | 18-34                       | 35-54                       | 55-64                       | 65 and older               |
| 806                         | 978                         | 8 583                       | 4 857                       | 955                         | 556                         |

*Source: Official website of the Agency for Statistics of Republic of Kazakhstan: www.stat.kz*

Table 2 shows that the disease is mainly exposed to people aged 18 to 34 years old. This younger generation is building a family and has children. This issue poses the problem of global state of the future generation.

The essence of social policy is to maintain a relationship between social groups, social strata, and within them, in ensuring conditions for the welfare and living standards of members of society, creating social safety nets in the formation of economic incentives for participation in social production.

An important objective of social policy is targeted (i.e. designed for specific population groups), social support from the state of vulnerable populations. This task involves maintaining the optimum ratio
between the incomes of the active (occupied) part of the population and disabled citizens through the mechanism of taxes and social transfers.

Compared to the year 2003 in Kazakhstan, the minimum wage increased by 1.7 times - 9.875 million tenge, pension factor of 2 - 17.09 million tenge, social security benefits by 3.5 times - 12,888,000 tenge, but given the current trends of the economy: the rising cost of utilities and food of these funds are not sufficient for a normal existence. The active support of state business during the crisis, now it should gradually move to the unprotected sectors of society.

Of course, the possibility of solving various problems of social policy is determined by the resources that the state can send to their implementation. In turn, the resource base depends on the overall level of economic development. The specific objectives of social policy are closely linked with economic development. In the most general terms, the main directions of social policy are regulation incomes, employment, social protection of citizens' housing policy. The state raises revenues to the poor, pays pensions, the poor man gives food stamps and unemployment benefits paid to large families, creates a system of training and retraining of the unemployed, wage controls, provides free education and health, more or less acceptable housing, regulates the migration of the labor forces involved in addressing youth issues and development of culture. As a result social tensions and economic inequalities are weakened (A decree of the President of the Republic of Kazakhstan from June 18, 2009 №827).

There are several provisions that define the capabilities of the state in the social sphere:

1) The size of social benefits should be consistent with the financial capacity of the state and its budget;

2) The tax rates should not undermine the economic incentives for production;

3) In determining the scope and terms of social benefits should take into account the negative effects that can distort the labor market and the market mechanism as a whole (e.g. pensions, unemployment benefits, when and how much to pay).

Kazakhstan felt the global crisis and its consequences; however, government policy was aimed primarily at the social sphere, to avoid the consequences of the crisis 90 years.

Human welfare is a long-term national priorities set out in the Strategy "Kazakhstan - 2030". 2020 will be held radical modernization of the social sphere. One of the key factors in the industrialization policy is to improve the quality and standard of living for all citizens of the Republic of Kazakhstan, the strengthening of social stability and security will be to the social protection system. Social security and political stability is a strong economy.

That's human resources today allow a country to achieve the desired results in economic development, as they are crucial in the development of the productive forces of society.

If the economy is not enough use of available human resources, it loses its productive capacity. Productive employment of the population is the best guarantee for economic prosperity and quality of life without dependence on social assistance and various benefits. In this regard, developed the "Business Roadmap" that is aimed at promoting productive employment, improving the overall level of full employment and reducing unemployment.

Thus, the level of socio-economic development of Kazakhstan is determined by the degree of socio-economic development and its regions. Significant number of various factors, from climate, environment, level of development of industries, manufacturing and finishing with social components,
including the level of development of human resources are affecting on the economic well-being of the regions.

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A SIMINS ANALYSIS ON THE SUSTAINABILITY OF ROMANIA’S SOCIAL HEALTH INSURANCE SYSTEM

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Abstract

Despite major improvements between 1990-2011, the existing means of financing of the Romanian health insurance system continue to be used in an inappropriate and inefficient way. Although total health expenditure as a share of GDP has increased over the past two decades, the health insurance system is yet underfunded. Under these circumstances, the concept of sustainability has become a major concern, in need of constant improvement.

Key words: social health insurance system, revenue, expenditure, sustainability, financial balance

I. INTRODUCTION

SimIns is a tool developed by the World Health Organization in partnership with the Deutsche Gesellschaft für Internationale Zusammenarbeit (GTZ) and it analyzes and predicts the feasibility and sustainability of different health insurance system financing alternatives. Based on the user’s defined variables, the application projects expected levels of income and expenditure of the health insurance system for a period of 10 years, assessing its medium and long term sustainability.

By using key variables such as population coverage, individual income level, amount of contributions for health insurance, levels of co-payment, health care costs and utilization rates of medical services - SimIns:

- illustrates the impact of an existing health policy on health insurance;
- assesses the consequences of the existence of a health insurance system on total health expenditure;
- highlights the consequences of various financing alternatives on health policy;
- determines possible combinations between existing and potential funding sources of the health insurance system;
- tests the financial balance of health insurance system for the alternative or alternatives defined by the user;
- correlates health expenditure with public finance expenditure.
II. METHODOLOGY

Based on the user’s input for the base year, the GDP deflator is forecasted for the entire simulation period as follows:

\[ PGDP_t = PGDP_{t-1} \times (1 + \Delta pgdp) \]  

(1)

where \( \Delta pgdp \) refers to the percentage change in the GDP deflator for the period \( t = (1, ..., 10) \). Based on these values, the model determines the change in the price of medical services, which are, in turn, expected to influence the level of expenditure of the health insurance system. Population is forecasted by combining base year population and its expected yearly dynamics (\( \Delta tpop \)):

\[ TPOP_t = TPOP_{t-1} \times (1 + \Delta tpop) \]  

(2)

The total population is automatically divided into six categories according to the following equation:

\[ POP_{t,k} = p_t \times TPOP_t \]  

(3)

where \( k=1 \) refers to the dependants of the self-employed, \( k=2 \) to the self-employed, \( k=3 \) to the government employees, \( k=4 \) to the employees, \( k=5 \) to the pensioners, \( k=6 \) to the other dependants, \( p_t \) refers to the shares of the different population subgroups in the total population.

The share of each category is also defined by the user, where parameter \( y \) refers to the proportion of dependent children of self-employed. Weighting of sub-sub-categories is performed automatically by applying the equations:

\[ POP_{t,1a} = y_t \times POP_{t,1}, \text{ and} \]  

(4)

\[ POP_{t,1b} = (1 - y_t) \times POP_{t,1} \]  

(5)

The differentiation is essential as it allows an accurate reflection of the nature and amount of contributions made to the health insurance scheme and also the depth of correlation between contributions, the use of medical services and co-payments, should any be defined. Furthermore, SimIns Basic also determines, for the entire forecast period, the average annual dynamics of wages and pensions (\( \Delta w_i \)), based on the user’s initial specifications for the base year.

\[ W_{t,3} = W_{t-1,3} \times (1 - \Delta w_{t,3}) - \text{government employees;} \]  

(6)

\[ W_{t,4} = W_{t-1,4} \times (1 - \Delta w_{t,4}) - \text{other employees;} \]  

(7)

\[ W_{t,5} = W_{t-1,5} \times (1 - \Delta w_{t,5}) - \text{pensioners.} \]  

(8)

At a later stage, the program requires the number of insured (\( m_{i,k} \)) and the percentage of contribution (\( cont_{i,k} \)) made by each sub category of the population. The model thus estimates the change in the dynamics of the total contribution made to the health insurance system, by using a direct correlation between wages/pensions and correspondent proportion of various population sub categories:

\[ TCONTEP_t = (cont_{t,3} \times W_{t,3} \times POP_{t,3}) + (cont_{t,4} \times W_{t,4} \times POP_{t,4}) + (cont_{t,4} \times W_{t,4} \times POP_{t,4}) \]  

(9)

Dependents of government employees, private sector employees and those of pensioners are assumed to be covered automatically and that no special contributions are needed. In the case of the self-employed contributions are assumed to be flat. Total contribution from this category is:

\[ TCONTSE_t = \text{CONT}_{t,1a} \times POP_{t,1a} \times m_{i,1a} \times (1 - me_{i,1a}) + \text{CONT}_{t,1b} \times POP_{t,1b} \times m_{i,1b} \times (1 - me_{i,1b}) + \]  

(10)

\[ + \text{CONT}_{t,2} \times POP_{t,2} \times m_{i,3} \times (1 - me_{i,2}) \]
where, \( me \) refers to – the share of population which is insured but does not pay any contributions and \( CONT_k \) is the flat contribution amount paid by the adult self-employed.

Alongside with revenue from contribution, SimIns considers other two sources of additional revenue: government subsidies for health insurance (GSHI) and other contributions to health insurance (CONTOH), which can be either defined as flat amounts or as a proportion of GDP. Knowing that health insurance schemes shall constitute reserve funds (RES), the program also takes into account the interest rate for the reserves. These are calculated on the reserves (RES) accumulated over the years and are added to total revenue of the health insurance scheme, as follows:

\[
INT_t = R_t x \sum_{j=1}^{t} RES_{t-j}
\]  

where \( t = (2,\ldots,n) \) refers to years of the forecast period and \( R_t \) is the interest rate.

The total revenue of the health insurance system (TREVHI) is obtained by summing up the contributions paid by employees, pensioners and self-employed, government subsidies and interest on reserves:

\[
TREVHI_t = TCONTEP_t + TCONTSE_t + GSHI_t + CONTOH_t + INT_t
\]  

As soon as the total revenue of the health insurance system is calculated, the program forecasts the cost of medical services, based on a range of 15 categories that can be defined by the user, \( s = (1, \ldots, 15) \). The program also offers freedom of choice regarding future target costs for each category of medical services.

For the base year and for each population subgroup, utilization rates are input for the insured \( (URI_{t,k,i}) \) and the uninsured \( (URNI_{t,k,i}) \). In the case of the uninsured, utilization rates are assumed to remain constant throughout the projection period. Even though this assumption is made, the user can input target utilization rates, should one expect or desire a positive impact on future health status.

A similar hypothesis may apply to the utilization rates of the insured, but in addition the model requires a differentiation of rates in direct correlation with the previously defined sub-categories of the population. SimIns next determines the total cost of medical services used by the insured \( (TCI_t) \) and by the uninsured \( (TCNI_t) \) as follows, with \( i = (1,\ldots,15) \) and \( k = (1,\ldots,6) \).

\[
TCI_t = \sum_k k \left[ \sum_i i xACP_{t,i} xURI_{t,k,i} xPOP_{t,k} x m_{i,k} \right]
\]  

\[
TCNI_t = \sum_k k \left[ \sum_i i xACP_{t,i} xURNI_{t,k,i} xPOP_{t,k} x (1 - m_{i,k}) \right].
\]

It is possible for the user to input co-payment rates for all health care services \( (COPAY) \), as a percentage of cost for each individual health service. In this situation, the expected total cost of medical services (TCICOV) reimbursed by health insurance system is:

\[
TCICOV_t = \sum_k k \left[ \sum_i i xACP_{t,i} xUR_{t,k,i} xPOP_{t,k} x m_{i,k} x \left( 1 - COPAY_{t,i} \right) x \left( 1 - me_{t,k} \right) + me_{t,k} \right]
\]  

Apart from health insurance coverage costs, the health insurance scheme also incurs: administrative costs \( (ADMIN) \), reserve fund expenditures \( (RES) \) and other costs \( (OTH) \). These additional expenditures are expressed as percentage of total healthcare expenditure:

\[
ADMIN_t = admin_t x TCICOV_t
\]
The following indicators are described as follows: admin<sub>i</sub> – administrative expenditure as a percentage of total health expenditure, res<sub>i</sub> – reserves as a percentage of total health expenditure and oth<sub>i</sub> – other types of expenditure as a percentage of total health expenditure.

Total health expenditure borne by the health insurance system (HEHI) is:

\[ HEHI = TCICOV + ADMIN + RES + OTH \]  \hspace{1cm} (19)

Total expenditure is then deducted from total revenue to obtain the net income (NY) of the health insurance system:

\[ NY = TREVHI - HEHI \]  \hspace{1cm} (20)

A negative or near zero net income corresponds to an unsustainable insurance system and emphasizes weak sustainability, while a positive gap size between total revenue and total expenditure is associated with a balanced health insurance system and with favorable future prospects.

### III. CURRENT PROSPECTS OF THE SOCIAL HEALTH INSURANCE SYSTEM IN ROMANIA

Within the analysis of the prospects regarding the social health insurance system in Romania for the period 2010-2020 we have started off from the premise according to which, for the entire anticipation interval, the dynamics of all the indicators requested by the SimIns model maintains its mean value characteristic of the period 2001-2010. Likewise, the year 2010 was considered to be the basic year (2010 = 100%), and subsequent assessments came about by way of the cascade application of the previously determined average rhythms concurrent to the time interval 2001-2010 (see Annex). For the data gathering, data bases belonging to the National Institute of Statistics (TEMPO data base) and the National Bank of Romania, as well as the reports published by the National Health Insurance House, the National Center for Statistics and Informatics in Public Health and the Center for Research and Assessment of Health Services have been used. The information specific to the healthcare sector accrues chiefly from “The National Health Insurance House Report for the year 2010” and the Report “Sanitation Statistics Breviary 2010” published by the Ministry of Health in partnership with the National Institute of Public Health and the National Center for Statistics and Informatics in Public Health. The costs of the analyzed medical services were calculated on the account of the Methodological Norms of Cadre-Contract application for the year 2011, by multiplying the number of points related to each service category with the correspondent value of the point per capita and per service, according to the National Health Insurance House’s web site. Given the diversity of the service categories within the basic package, in relation to the level at which the service delivery takes place, we have classified the services into three distinct categories: “primary medical care services”, “specialized medical services” and “hospitalization day”.

The coverage rate of the population in Romania was estimated at the level of 87.87%, by adding the demographic data on population by age groups and occupational status, and within the subsidies (GHSI) the contributions of the employers to the health insurances were included, due to the fact that the template does not allow for the differentiation of these income indicators in relation to the legal status of the taxpayer.
The value of the average gross salary per total economy was established at the level of 2.067 lei, the value of the average gross salary of the employees in the public sector was 1.953 lei, and the counted average pension was established at the sum of 685 lei. The growth rate of the aforementioned three income categories was defined differently, following the examination of previous dynamics associated with the time interval 2001-2009. As for the personnel employed in the public sector, we have anticipated that the income is expected to reposition itself on an upward trend hardly starting with the year 2013. Moreover, as far as the pension is concerned, we have anticipated that the growth will be equivalent only to 100% inflation rate.

The fixing of the tariffs has been achieved by using average scores associated to each type of service, according to the training level of the healthcare professional which provides the service. The average scores, available on the National Health Insurance House’s web site, within the Norms of Cadre-Contract application for the year 2011, have been multiplied by the value corresponding to the point. In this respect, for primary medical services, we have been using a total number 15,46 points, of which 9,96 points per capita and 5,5 points per service, with a cost of 4,4 lei per point per capita and 1,14 lei per point per service. The average total cost of the services was obtained by equally weighting the total score with the value of a point per capita and a point per service, respectively.

For specialized medical services, we have started off from the tariff applied to the case solved by the means of the hospitalization regimen (450 lei) which we have weighted with 0,33% according to the National Health Insurance House’s methodological provisions. The contracted tariff per day of hospitalization was settled at the value of 120 lei, likewise according to the previous norms. Because there are no data available so as to define the cost proportion directly sustained by the state budget, this category was considered to be null.

The utilization rates applied to the three medical services categories were settled at the value of 3.8 per inhabitant for primary medical care services, 5,35 per inhabitant for specialized medical services and 0,23 hospitalization days per inhabitant. These values were considered to be constant for the insured population. For the uninsured population the applied use rates were equaled to zero, because the National Health Insurance Fund (NHIF) budget supports strictly the counter value of medical-surgical emergencies.

Accordingly, we have assumed that uninsured persons directly pay off the expenses regarding various episodes of medical nature and do not influence the expenses covering medical services, drugs and medical supplies of the National Health Insurance Fund significantly. For dependent persons, having an insurant status, we have started off from the premise that they will be using medical services to the same extent as the economically non-dependent persons.

In view of the fact that there are no data available in regard to the number of economically dependent persons, of the persons deploying independent activities, they were assimilated to the “other dependents” category. In order to establish the number of dependent persons which have the insurant status within the health insurance system we have added the population by age groups up to 18 years old, the number of persons between 18 and 26 years old found in the education system and the unemployed receiving unemployment compensation. Thus the obtained result does not include the persons optionally insured within the social health insurance system, because there is no official, public evidence of their existence.

Of all the pensioners, we have concluded that 45,5% of them are exempted from paying the contribution, having a pension under 740 lei. The annual contribution paid off by the persons carrying
out independent activities was established by applying a 6.5 percent to the value of the average gross salary per economy.

Following the run of the SimIns application, under a natural population growth of -9.9 per thousand, it is detected that the number of inhabitants will be diminishing from 21 millions in 2010 to 18.8 millions in 2020. Concurrently, a depreciation of the structure based on age groups of the non-dependent population (active population and the retired population) and an appreciation of the dependent population proportion by 10.69% for the whole analyzed interval it will take place. This evolution of the economic dependence degree is justified by the rate of 56.05% of children under 15 years old within the total dependent population, by the comprehensive degree of citizens over 18 years present in the educational system, but also by the high number of pensioners with a pension amount settled under 740 lei, respectively 2.53 million people (45.5% of all the pensioners). In absolute terms, the number of citizens with insurance coverage within the social health insurance system, will be diminishing from the value of 18.69 million in the year 2010 to 16.99 million in the year 2020 (Graph 1).

![Graph 1. Expected evolution of insured population](image)

Of the insured population, a significant proportion is held by citizens over 65 years of age, representing about 31.17% in 2010 and 31.98% in 2020. In dynamics, the health insurance coverage rate will increase from 89% in 2010 to 90.38% in 2020, under the impact of a proportional amplification of the insurants paying no contribution, from 5.4 million inhabitants in 2010 to 6 million inhabitants at the end of the analyzed interval. Moreover, following simulation, it is anticipated that during the ten-year period, the share of the insurants paying no contribution will be increased from 25.79% to 32% within the total population and from 28.98% to 35.41% in relation to the total insured population (Graph 2).
Graph 2. Expected evolution of the share of insured population, exempted from paying health insurance contributions

The most significant reduction within the total insured population is expected to take place in the public system. If in the beginning of the anticipation interval, public sector employees represent 6.97% of the total insurants, in the year 2020 the share decreases till the value of 0.58%, this evolution being justified in the light of the recent restructuring steps which took place in the public sector and which are expected to continue in the next interval, too.

Another issue that adversely affects NHIF balance refers to the actual income analyzed, i.e. the impact of inflation on revenue. Due to the fact that we have included in the study a constant annual value of 4.5% of the GDP deflator, the three income categories of the insurants (average annual salary of the employees of the public system, the average annual salary of other employees and average annual pension) endorse an average depreciation of 12.5%, higher in the case of public system employees (22.76%) and lower in the case of the pensioners (15.79%).

While the nominal average incomes will be increasing between the years 2010 and 2020 by 24.58%, the average real incomes will be decreasing by 12.5%, as aforementioned, this aspect pointing out the fact that the inflation rate indirectly and negatively influences the incomes deriving from mandatory contributions made to the health insurance system and implicitly the budgetary balance of NHIF. Under the impact of such evolutions, according to the SimIns modeling, the total income of National Health Insurance Fund is expected to diminish from the value of 17.004,68 million lei in the year 2012 down to 12.466,15 million lei in the year 2020, given the fact that we have considered that the state budget subsidies will remain constant at the level of 3.617,25 million lei, as in the year 2010. This income decrease of 26.69% is determined by the 9.08% reduction of the number of insurants within the social health insurance system, as well as by the increase of the share of insurants exempted from paying the contribution, even though the gross average incomes would be expected to endorse a positive evolution during the analyzed period of time.
Graph 3. Expected dynamics of the National Health Insurance Fund (FNUASS) revenue

As we have also showed in the Graph no. 3, the total incomes of NHIF are decreasing along with the reduction of the collected funds deriving from mandatory contributions. The maximum decrease of -3,35% would be expected to take place in the second anticipation year, while afterwards it would vary negatively and in an irregular manner during the projection period, up to the value of -2,69%. Although the total decrease rate is apparently low, a significant involution characterizes the incomes deriving from mandatory contributions. Therefore, during the first anticipation year revenue from contributions would be expected to reach a total sum of 13.384,134 million lei and towards the end of the interval their amount to diminish down to 8.827,996 million lei, by a rate of -34,04% for the whole period. It should be noted that the value of the governmental subsidies was assumed to have been constant for the overall interval of time, at the level of 3.617 million lei.

A positive evolution is encountered within the interest rate applied to the sums deriving from the reserve funds of the NHIF. Due to the template assessment that the amounts immobilized in such manner are not being consumed, a capitalization of the incomes deriving from interests up to the year 2020 also takes place, when this income category will reach a total amount of 17,68 million lei, carrying a slightly positive impact onto the total revenue of the National Health Insurance Fund.

The SimIns modeling also points out a negative dynamics in terms of the evolution regarding the expenditure of the National Health Insurance Fund, from the value of 19.666,9 million lei in 2010 to 17.881,17 million lei in 2020, though at a much lower growth rate than observed in the revenue dynamics. If revenue decreases by 3,03% during the analyzed interval, expenditure averagely diminishes by only 0,947%, generating a total average deficit of 29,55% applied to total revenue, as reflected in Graph 4.
Graph 4. Expected dynamics of the National Health Insurance Fund (FNUASS) expenditure

The expenditure covering medical services, drugs and sanitation supplies will be decreasing, during the overall projection period, by 9.05%, while administrative and personnel expenditure are expected to decrease by 8.94%. The distinct evolution rate, higher in the case of the first category of expenses can be attributed to the expected dynamics of the number of inhabitants, therefore it is directly dependent on the evolution of the total number of insurants within the health insurance system.

The reduction of the NHIF expenditure is based, on one hand, upon the decrease of the number of citizens which are insured within the social health insurance system, from 18.69 million people to 16.99 million people and, on the other hand, upon the constant maintenance of the utilization rates and of the cost of medical services contained in the basic package. In addition, since medical and allied health personnel was assimilated to government employees, non-medical expenses related to the wages decrease with the falling of the share of public sector employees in total population. According to Graph 4, due to the reduction of the number of people which are paying off the mandatory contribution to the health insurances, the deficit of the National Health Insurance Fund increases from 2.66 billion lei in 2010 to 5.415 billion lei in 2020. In dynamics, the NHIF deficit is expected to rise, in regard to total revenue, from 15.66% in the beginning of the anticipation interval, to almost 44% in by the year 2020. Under these circumstances, ensuring the financial balance involves the allocation of additional funds of 6.3 billion lei in 2010 and respectively 9.03 billion lei in 2020. In annual dynamics, the necessary additional funds increase on average by 3.67%, higher in the early years of the forecast, due to the large number of insured, as we highlighted in Graph 5.
We may conclude that, within the SimIns modeling, for the projection period between 2010-2020, the prospects of Romania’s health insurance system’s financial sustainability present a negative outlook. Within the current structure of the health insurance system, the existing deficits in terms of funding are expected to be maintained and even amplified, despite of the fact that the number of people included in the health insurance system is expected to decrease along the 10 year period.

IV. CONCLUSIONS

In relation to the performed analysis we conclude that the financial efficiency of the National Health Insurance Fund requires extensive measures, which should act both upon the volume of revenue and the structure of the supply of medical services. Based on these results, we believe that the current problems of the social health insurance system in Romania are grounded on a dual source and they are determined primarily by the nature of the health policy. Although the demographic and financial elements negatively influence the long-term sustainability of the national health insurance system, special attention should be paid to the volume of medical services included in the basic package of services.

The extensive dimension of the basic package of health services and the non-discriminatory access, sometimes even unjustified, medically speaking, of the insurants, determines the level of utilization rates. The corroboration of the utilization rates with the cost of medical services represents the utmost important source of expenditure, carrying a direct impact on recorded deficits. Consequently, we estimate the overall reconsidering of the health policy in Romania to be extremely necessary, concurrently with a careful control of costs and of the volume of services that the insurants benefit from. In our opinion, a first key measure should target the rationalization of the insurants’ consumption, so as to ensure efficiency with regard to the costs of the medical services, of the drugs and sanitation supplies. The second measure proposed refers to the implementation of additional alternatives of funding the health insurance system, in order to positively influence the growth of health revenue.
In addition, a nationwide assessment of the population’s health status could be undertaken in order to determine the need for prerequisite medical services, drugs and health supplies for each age group and within age groups for each range of income. Thus a differentiated medical service usage system could be created and implemented, in order to help correlate utilization rates with medical necessities of each population category. Even if such an action appears, at first glance, to be expensive, we consider that actually its implementation could be achieved quite easily in the next period of time, on account of the electronic medical records found in the evidence of family physicians and also, by using the Integrated Unique Information System.

In terms of the cost management within the medical system in Romania, the rationalization prospects are reduced, given the fact that the facilities of the national health system are generally affected by a high degree of obsolescence, an aspect that requires significant allocation of funds necessary for the alignment to European and international standards. The costs cannot even be contained in the area of the personnel expenditure, because the fact that the payroll level of the medical personnel and of the auxiliary medical personnel is extremely low in Romania compared to the European average it is well-known. This fact has led, in recent years, to the massive migration of the doctors to more developed countries. Under this aspect, it is rather required that the funds allocated for personnel expenditure be supplemented, but we believe that the revenue increase should not be a county-wide measure as it should be directly linked to the performance of each health professional. In this regard, we believe that the overall reform of the Romanian health policy requires five main directions, namely:

- the remodeling of the basic medical services package;
- the nationwide assessment of the population health status;
- sharing of health care utilization rates by category of persons in accordance with health status;
- the implementation of an advantageous remuneration policy of the healthcare personnel in relation to the observed individual efficiency;
- the improvement of the quality of the existing healthcare facilities.

The measures compelled at the level of the health insurance system in Romania are required to focus on the overall issues raised and not strictly on the issue related to the existing and/or potential funding sources. Such exhaustive approaches not only would not lead to the desired effects, but they would also negatively influence the purchasing power of the insurants. The proposed directions related to the healthcare policy, associated to the hypotheses tested within the SimIns modeling, could provide medium and long-term balancing of the health insurance system in Romania. One should also take into consideration the fact that an additional expenditure increase aimed at healthcare personnel and/or health facilities could lead towards significant improvement in the health status of the people and implicitly towards a reduction of future medical expenditure.

ACKNOWLEDGEMENTS:

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### Annex

<table>
<thead>
<tr>
<th>SimIns Parameter</th>
<th>Parameter value in 2010</th>
<th>Previous dynamics of parameter (2001-2009)</th>
</tr>
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<tr>
<td><strong>TPOP</strong></td>
<td>21,000,000 inhabitants</td>
<td>-1,10%</td>
</tr>
<tr>
<td><strong>POP_{t,le} = y_t * POP_{t,l}</strong></td>
<td>5,793,000 inhabitants</td>
<td>-2,30%</td>
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<td><strong>POP_{t,le} = (1- y_t) * POP_{t,l}</strong></td>
<td>3,247,000 inhabitants</td>
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<tr>
<td>(1- y_t) (share of children in dependant population)</td>
<td>56,05%</td>
<td>0,16%</td>
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<tr>
<td>y_t (share of dependants in total population)</td>
<td>27,01%</td>
<td>- 1,87%</td>
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<tr>
<td><strong>POP_{t,2} = p_{t} * TPOP_{t}</strong></td>
<td>12,81%</td>
<td>-1,18%</td>
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<tr>
<td><strong>POP_{t,3} = p_{t} * TPOP_{t}</strong></td>
<td>8,51%</td>
<td>-1,18%</td>
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<tr>
<td><strong>POP_{t,4} = p_{t} * TPOP_{t}</strong></td>
<td>32,09%</td>
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<tr>
<td><strong>POP_{t,5} = p_{t} * TPOP_{t}</strong></td>
<td>38,01%</td>
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<td><strong>W_{t,3}</strong></td>
<td>23,432 lei</td>
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<td><strong>W_{t,4}</strong></td>
<td>24,804 lei</td>
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<td><strong>W_{t,5}</strong></td>
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<td><strong>PGDP</strong></td>
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<tr>
<td><strong>R</strong></td>
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<td><strong>AC_1 (average cost per primary health service)</strong></td>
<td>277 lei</td>
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<td><strong>AC_2 (average cost per specialized health service)</strong></td>
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<td><strong>AC_3 (average cost per hospitalization)</strong></td>
<td>1,119 lei</td>
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<tr>
<td><strong>UR_1 (utilization rate of primary health services)</strong></td>
<td>3,8/ capita</td>
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<tr>
<td><strong>UR_2 (utilization rate of specialized health services)</strong></td>
<td>5,35/ capita</td>
<td>0,00%</td>
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<tr>
<td><strong>UR_3 (utilization rate of hospitalization)</strong></td>
<td>0,23/ capita</td>
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<td><strong>m_{p2}, m_{p3}, m_{p4}, m_{p5}</strong></td>
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<td><strong>m_{p6}</strong></td>
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<td><strong>1-m_{p5} (health insurance coverage of exempted pensioners)</strong></td>
<td>45,4%</td>
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<tr>
<td><strong>1-m_{p6} (health insurance coverage of exempted dependants)</strong></td>
<td>59,26%</td>
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<tr>
<td><strong>cont_{t,2}</strong></td>
<td>1,810,38 lei</td>
<td>0,00%</td>
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</table>
### REFERENCES

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<thead>
<tr>
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<tr>
<td>cont 4</td>
<td>5.5%</td>
<td>0.00%</td>
</tr>
<tr>
<td>cont 5</td>
<td>5.5%</td>
<td>0.00%</td>
</tr>
<tr>
<td>GSHI</td>
<td>3.617,247 million lei</td>
<td>0.00%</td>
</tr>
<tr>
<td>CONTOH</td>
<td>3.3 million lei</td>
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<tr>
<td>RES</td>
<td>0.89%</td>
<td>0.00%</td>
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<td>ADMIN</td>
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<td>OTH</td>
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Source: working of the author
Abstract

While selecting an insurance company a decision maker performs assessment of the validity level of the insurance service offered along with a guarantee that the insurance company in question is solvent. That is why different models and methods are applied. The article presents the role and importance of insurance rating that is used while making decisions to select an insurance company. Moreover, presentation of all insurance rating functions to be employed while making a decision to select an insurance company is made. Considerations that are presented in the article are the preliminary step to analyse possibilities of adapting multi-criteria methods of supporting decisions concerning optimal selection of a non-life insurance company.

Key words: insurance company, rating, insurance protection

1. INTRODUCTION

The primary objective of any insurance company is to carry out proper financial management to ensure its capacity to meet obligations arising from insurance contracts.

With regard to this fact, the issue of optimal decisions associated with the business of the property insurance company can be formulated as a set the following objectives:

- the fulfillment of the statutory financial requirements of paying in-house solvency margin, the amount of guaranteed capital, and covering the insurance fund with deposits,
- carrying out the investment policy in accordance with statutory restrictions,
- the creation of technical - insurance provisions in the size appropriate to the size and scope of the insurance business,
- obtaining the optimal structure of insurance portfolio,
- to achieve a safe level of claims ratio in the insurance portfolio,
- pursuing a proper reinsurance policy.

According to the enormous importance of these areas of the insurance, there is a great need for reliable, independent and external evaluation of the financial situation of insurance. An additional problem with conducting such evaluation results from the business specifics of the property insurance company as well as the specifics of the products offered. Moreover, it is also important that each and every client of the insurance company has his or her own preferences that guide him or her while evaluating the financial situation of any insurance company.

The specifics of insurance products are determined by their following characteristics:
The intangibility of insurance product prevents its recognition with the senses, which in many cases makes it difficult or even prevents its proper understanding and objective evaluation. The issue of properly estimating an insurance product from the customer perspective is also impeded by the products complexity associated with the need of becoming familiar with the insurance contract and general terms and conditions (GTC). For most customers of the insurance company its financial management specifics is unknown and incomprehensible. Therefore, in this case insurance customers expect support when making a decision on the insurer.

Objective assessment of the insurance product quality is a problem for a customer because the phases of the insurance production and consumption end simultaneously with the expiry of the insurance contract. However, this is not the same as the end of the liability of an insurance company. The process of damage reporting and particularly the process of damage liquidation go far beyond the actual duration period of the insurance contract. Unfortunately, the quality of insurance coverage is often identified by clients with the amount of paid damages. A receipt of damages is wrongly understood as a "bonus" for the insurance premium paid. Often, customers actually expect damages payment. No payment of damages as a consequence of the lack of damage is often perceived as a waste of money in return of which the customer receives nothing. This understanding of the insurance coverage is completely detached from the reality of the actual function of insurance coverage. In this situation it becomes necessary to provide a simple reliable method to assess the feasibility of insurance coverage.

Another factor having a significant impact on the feasibility and safety of the insurance coverage is indissolubility of the coverage of the entity offering it. For such coverage to be real it is important to provide the highest possible level of security of the insurance portfolio of risk. To assess this level, some appropriate financial ratios included in the so-called early warning system (EWS) used by the supervisory authority. On the basis of these ratios the financial feasibility of the guarantees of the insurance coverage security are evaluated.

The last specific feature of an insurance product is a reversed manufacturing process. All calculations concerning the level of an insurance portfolio risk are made on the basis of statistical data. For obvious reasons, these are historical data, and therefore these calculations are prognosis vitiated by an error. Each prognosis is vitiated by an error whose volume is not possible to estimate at the time of its preparation. Therefore, the insurance company must be prepared to cover any increased expenses associated with an increased amount of damage, and consequently the amount of damages. For this purpose it collects sufficient funds to cover increased expenses. To determine the required level of the insurance company financial resources intended exclusively for this purpose is the margin of solvency. This is the theoretical amount individually determined for each insurance company depending on the value of the insured risks included in its portfolio. An insurance company has a statutory obligation to hold own funds in a minimum amount equal to the calculated for it solvency margin. But this is only the minimum allowable limit of financial security. Insurance companies, in order to ensure a high level of security of risks insured in their portfolios, seek to cover the solvency margin of more than 200%. This financial security of the portfolio is subject to the ranking evaluation of insurance companies. (Ciupek, 2001, pp.41-46).
2. INSURANCE RATING

Rating is a process of estimation or evaluation of people, objects or situations using a scale. The scale is understood in this case as a section divided into intervals representing the evaluation of a certain phenomenon. The result of economic phenomena evaluation is presented in the form of symbols (rating system).

The insurance rating is a comprehensive evaluation determining the insurance company’s capacity to meet its obligations under this company’s insurance contracts. It is an evaluation of insurance companies, their products or an overall evaluation. The analysis of the financial situation of an examined insurance company combined with the ranking evaluation is a ranking evaluation process. The subject for evaluation is the quality of the insurance company’s financial management defined as the ability to meet the specific requirements of financial security. It is commonly believed that the insurance rating is the best and most readable way to evaluate the financial management of the insurance company. It allows to support decision-making process by the decision maker not possessing the required professional knowledge in the field of financial management of an insurance company.

The ranking analysis usually takes place at several levels of detail. The greatest of these is the national level which covers the analysis of macroeconomic factors.

The most important economic factors to be considered at this level of analysis are:

- inflation,
- crises and instability of financial markets,
- risk of nationalization,
- state restrictive policy,
- state fiscal system,
- stability of the monetary and legal system.

Inflation has a very strong negative impact on the amount of paid damages and benefits. This is particularly true of insurance companies with insurance included in the so-called old portfolio. It includes damages paid for certain life insurance and third party liability insurance of motor vehicle owners entered into up to the nineties of the last century. In this case it is about pension paid for the damage caused by traffic accidents.

Another important economic factor to be taken into account at this level of the rating analysis of insurance companies refers to financial crises and the stability of financial markets. This applies both to internal and international crises. Poland has one of the highest rankings among the countries of the European Union concerning the internal stability of the financial market. However, even the most financially stable economy cannot function isolated from international markets. This poses some risks to the stability of the state financial system. From the point of view of the insurance company’s financial management these risks have a very significant impact on the results of investment activity, the amount of deposits and own resources. Not without importance is the fact that reinsurance contracts are concluded almost in 100% in the international financial markets.

The risk of nationalization is another factor having a significant impact on the functioning of an insurance company. In Poland according to applicable legal regulations, the insurance companies can...
only conduct its business as a limited company or a mutual insurance company. The supervision of insurance companies activity gives them a relatively large freedom of action, while ensuring a proper level of financial security of business insurance market. With the current business insurance system in Poland, the risk of re-nationalization of insurance companies is marginal.

The fiscal system as well as the monetary policy and state legal system stability, from the perspective of an insurance company, are one of the most difficult to predict elements of the insurance company’s macroeconomic environment.

The second level of the rating analysis includes the evaluation of the insurance industry situation and the position of a certain insurance company in the industry. In this case, the factors taken into account are:

- the dependence of economic fluctuations,
- increase in the market and its trends,
- competitiveness of the market,
- the regulatory environment (the possibility of state administrative bodies interference),
- staff technical skills,
- changes in customer preferences (distribution channels),
- the general condition of the market,
- barriers and opportunities to enter the market.

Most of these factors are qualitative. Statistical data describing them are also qualitative and characterize the operation and development strategy for the insurance company.

The primary objective of the rating analysis of the insurance industry is to identify the risks for the rated insurance company. The risks directly affecting the insurance premiums and the technical result of an insurance business are particularly important.

The next steps in the process of rating evaluation of an insurance company cover the subject matter. It is the rating of the insurance company itself and the rating of its products.

Rating of a certain insurance company concerns evaluating the feasibility and scope of economic and financial guarantee of the insurance coverage.

Product rating concerns the evaluation of the insurance products quality. Important role in the assessment of an insurance offer of the insurance company is played by the insurance packages and new products. It is important that an offer should be competitive with the same or similar offers from competing insurers. It also should be noticed that the quality of an insurance offer is directly related to the feasibility of insurance coverage.

Depending on the needs, the insurance rating can be done in a form of a relative or absolute evaluation.

Rating in the form of a relative evaluation shows the insurance company evaluation against other insurance companies operating in the branch or the entire insurance industry. It is not, however, a common form of the rating because of the difficulty of making comparisons with other insurance companies’ portfolios. Even the most similar, in terms of portfolio, insurance companies differ in many aspects that significantly affect the evaluated financial ratios characterizing the financial
condition of an insurance company. The differences are the result of the impact of different non-comparable factors such as:

- the incidence of damage,
- time of reporting the damage,
- the expected and actual claims ratio.

For these reasons, to evaluate the financial situation of an insurance company an absolute rating tends to be used.

Rating in the form of absolute evaluation is an evaluation of the absolute ability of the insurance company to fulfill the financial obligations arising from insurance contracts. The evaluation concerns the ability to timely and adequate damages or benefits payments.

Time scale for rating is usually longer than a year. Financial management of the company is a complex, multistage process and its effects can be visible only after many years. Changes to the financial situation of an insurance company are usually of a long term nature. Signs of financial deterioration of the insurance company can appear gradually and slowly. Thus, a sufficiently long period of time is necessary to observe them.

An exception may be two extremely rare and dangerous to the company financial security situations. The first is the excessive temporal and spatial accumulation of small damage. It always leads to a sharp increase in the value of the claims ratio, which is one of the key ratios to inform about the current financial situation of the insurance company.

The second extremely rare but dangerous case is the incidence of damage of a very expensive risk of PML or similar size. Such an event involves a rapid increase in the claims ratio and significantly interferes with the financial balance of insurance operations.

Considering the scope and nature of the information used for the construction of the company’s rating evaluation, it is possible to distinguish a voluntary and a certified rating.

Voluntary rating is constructed at the request of the insurance company. The scope of the financial and statistical data available to the company conducting the rating process is very broad and covers many areas of the insurance company. In particular, it concerns the internal data of a confidential nature. In addition, the insurance company agrees to provide the rating company with any data which the company requires in order to construct the rating. Voluntary rating is payable, likewise each subsequent updating.

Certified rating shall be based on public information. This kind of rating does not include evaluation based on qualitative data and it is performed on the basis of financial data using basic models of the evaluation ratio.

The evaluation of the insurance company conducting a certain type of insurance business shall be individual and adjusted to the business specifics of this company. This is due to the business specifics of the insurance company in Chapter I or Chapter II and the insurance company dealing with active reinsurance only. This requires the use of different approaches to the rating construction of the insurance.

The rating insurance has several important functions:

- information and decision-making function,
The information and decision-making function is to assist the decision maker in the decision making in case of a complex decision situation. Improving the conditions for a decision making by the decision maker may be either quantitative or qualitative.

Qualitative improvement of the decision maker’s situation is due to the fact that the rating of an insurance company is made by specialized in such procedures companies. They accurately determine the nature and scope of the data necessary to carry out a comprehensive and fair evaluation of an insurance company. The rating is carried out by means of complex statistical – mathematical and prognostic tools.

The quantitative improvement of the decision making situation involves reducing its complexity by providing ready information necessary to make a decision about choosing an insurance company.

The improvement in decision making situation is presented in the following example. In the analyzed decision making situation the decision maker has a choice of m possible options for the selection of an insurance company. The financial situation of each of these m insurance companies is described by n financial ratios. Any decision concerning the choice of an insurance company shall be taken on the basis of the analysis of the relevant ratio for a given insurance company (Table 1.) (Jaworski, W. in Sangowski, T. (ed.), 2000, p.34).

<table>
<thead>
<tr>
<th>zu1</th>
<th>w1</th>
<th>w2</th>
<th>...</th>
<th>wn</th>
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<tbody>
<tr>
<td>n11</td>
<td></td>
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<td></td>
<td>n1n</td>
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<td>n21</td>
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<td>n2n</td>
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<tr>
<td>nm1</td>
<td></td>
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<td>nmn</td>
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</tbody>
</table>

Table 1. Decision making situation in case m considered insurance companies.

where:
zu_m - stands for the m-th insurance company,
w_n  - stands for the n-th financial ratio,
n_{mn} – value of the financial ratio n in the m-th insurance company.

In this decision making situation the decision maker must make some comparison and choice based on a very large number of ratios, which, even in the simplest cases where the issue is only a dozen key financial ratios for the property insurance sector, may exceed several hundred observations. Making the comparison and the right decision about choosing an insurance company may be very difficult in this case.
The application and use of the insurance rating helps to significantly simplify the decision making situation. Instead of the array of financial ratios describing the various insurance companies the decision maker receives a sequence of evaluations expressed by the symbols (usually letters and characters "+" or "-") to analyze. An example of an insurance rating is presented in Table 2. (Jaworski W., in Sangowski, T. (ed.), 2000, p.35)

<table>
<thead>
<tr>
<th>INSURANCE COMPANY</th>
<th>RATING MARK</th>
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<tbody>
<tr>
<td>U₁</td>
<td>AAA</td>
</tr>
<tr>
<td>U₂</td>
<td>AA⁺</td>
</tr>
<tr>
<td>U₃</td>
<td>AA</td>
</tr>
<tr>
<td>U₄</td>
<td>AA⁻</td>
</tr>
<tr>
<td>U₅</td>
<td>A⁺</td>
</tr>
<tr>
<td>U₆</td>
<td>BBB</td>
</tr>
<tr>
<td>U₇</td>
<td>BB⁺</td>
</tr>
<tr>
<td>U₇</td>
<td>CCC</td>
</tr>
<tr>
<td>…</td>
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</tr>
</tbody>
</table>

Table 2. Example of insurance rating

An additional benefit from the use of the insurance rating is a reduction of the costs of acquisition, aggregation and analysis of information for assessing the financial situation of an insurance company. Rating is the result of the evaluation presenting the results of the analysis, and the additional benefit is due to the fact that it is conducted by specialized entities what guarantees objectivity and reliability of the results.

An important function of the insurance rating is to provide the possibility of objective comparison of the insurance companies financial situation and the products they offer.

Protective function of the rating arouses from its informative function. The information obtained by the rating allows to assess better the financial situation of the insurance company and the level of security of its offered insurance coverage. This increases the chances of the decision maker to avoid wrong decisions and to make decisions of the lowest risk degree.

Beneficial to the insurance company rating is often used by the insurance company to promote and advertise its products and to authenticate the security of insurance coverage.

Sometimes it is necessary for an insurance company to submit to the rating because of the opportunity to enter the market with new products, and sometimes this also applies to the entry of a new insurance company. In addition, this evaluation makes the position of an insurance company more credible.

The process of rating is in most cases an interactive process which allows cooperation between the rating and the insurance companies. This cooperation on the part of the insurance company means to provide all necessary and required by the rating firm statistical – financial data and qualitative information necessary to build a valid and reliable rating. Only in the case of certified ratings, such
cooperation on the part of the insurance company is limited to the minimum. For their ratings, the rating companies use the information from other sources than insurance companies.

Insurance rating is often regarded as a completely independent evaluation tool and it is compared with methods such as ratio analysis, scoring (providing an evaluation on a point scale) and benchmarking (comparing the results of one insurance company to others). This is not a fully valid comparison, because rating is considered an evaluation and other methods are the tools used in the wider financial analysis of the companies. Rating is used to create classifications based on the results analyzes, what makes it a category more widely understood than each single method of evaluation. Similar is the issue of identifying the ranking and rating. The difference between them depends mainly on the use of other differing methods of financial analysis on the basis of which the final evaluation is made. In case of rating, it is a classification of the examined subject to an appropriate grade on the rating scale, while ranking is based on ordering according to the obtained results.

In summary, the process of the insurance company financial situation rating, and thus the evaluation of the effectiveness of insurance coverage offered by this company, can be presented as a sequence of following steps:

- determining the values of selected financial ratios used in the evaluation of insurance companies (ratio analysis),
- a comparison of the ratios with the ratios calculated for the competing insurance companies (benchmarking),
- giving the insurance company the scoring, which is the weighted average evaluation calculated on the basis of the number of points obtained for each rated financial ratio (scoring).

Based on these points the insurance company obtains an adequate ranking score.

3. CONCLUSIONS

The insurance rating construction procedure described above can be effectively supported and enriched by using the selected tools and methods for multicriteria support of a decision making process. These methods allow the support of a decision-making process even if the decision maker has no knowledge of using them. The possibilities of using these methods, backed up by examples of their applications, are currently the subject of the author’s research and will be presented in subsequent publications.

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DETERMINANTS AND POSSIBILITIES OF TAX MANAGEMENT IN ENTERPRISE
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Abstract
During the economic downturn, adverse economic conditions, turbulence in financial markets or higher and higher unemployment rate, it is necessary to search for effective tools for a company and its financial management. A special role, increasingly important in this respect, is played by tax management. It is an important element of planning and making financial decisions and, consequently, one of the most important factors determining the financial objectives of a business entity.

Tax environment of an entrepreneur - which is an external manifestation of the state tax policy – is perceived by him as a limitation to the realization of financial goals and the reason for the weakening of financial security. Therefore, there is no doubt that between the public authority and the enterprise some tensions and contradictions are created that ultimately translate into different attitudes of an entrepreneur, who is a tax payer, towards the tax burden imposed upon him and force him to pursue an active fiscal policy.

The purpose of this paper is to identify conditions, the type and scale of fiscal instruments implementation, allowing for the effective financial management of an enterprise and the identification of tax risk, and possibilities of its limitation, associated with these instruments.

Key words: corporate finance, tax management, tax risk

1. INTRODUCTION
Taking into account the main objectives of an enterprise embodied in the maximizing of the financial effect and maintaining liquidity, it can be stated that tax management is one of the factors determining their realization, and is based on the deliberate and conscious action of an entrepreneur, aiming:

- minimizing the tax burden and hence generating the highest net profit,
- delaying the deadline of tax liabilities,
- reducing the tax risk of undertaken decisions.

In practice these objectives are not independent goals. It is impossible to focus solely on reducing the tax burden, or shifting maturity of tax liability ignoring the risk problem, or focusing on reducing the risk of without caring about the tax burden and the tax deadline. The taxpayer should seek to achieve the effect of tax management pursuing all these goals simultaneously, finding the balance between the desire to reduce tax burden and convenient tax payment deadline and the desire to reduce the tax risk.

In order to achieve the objectives of tax management, it is possible to use two types of tax instruments, namely:
instruments on purpose determined by the legislator, which gives a taxpayer the choice of their application,

- instruments, that are not specified by the legislator, and their existence resulted from the loopholes in the laid law not accounting for complex economic phenomena.

The type and scale of fiscal instruments used to achieve the objectives of tax governance/management are determined by, on the one hand, the mechanism of imposing claiming taxes by a public authority, and on the other, with the mechanism of shaping the defensive attitude of a taxpayer against incurring the tax levies (Hettich, Winner, 1994, pp. 14-16).

2. GOAL AND PURPOSE OF TAX MANAGEMENT IN ENTERPRISE

The public authority, being an active subject of the tax, has the power to: imposing, setting and collecting the tax. The right to levy taxes means the possibility of independently determining the tax entity, the subject of taxation and the tax base, the right to set the tax allows for specifying more precisely on technical elements, and the right to collect taxes means the actual possibility – backed up by obligation – of public revenue implementation. As a consequence of its powers the public authority seeks efficient tax source, creates a legal structure for a particular concept of the tax levy and expects the full implementation of the tax liability by a taxpayer. Its expectations are supported by, the applicable to the tax relationship, the control system which serves both assessing the extent to which tax revenues as well as the detection of tax offenses and the penalties system applicable to those who commit tax fraud.

An entrepreneur in relation to the tax imposed and, consequently, the tax liability never behaves passively. The imposition of duty on the tax entity, which fully accepts it and expresses its willingness to be taxed, affects its financial position and triggers a reaction aiming at protecting its consumption and investment opportunities. Tax resistance, from a legal point of view, can take two basic forms, namely actions consistent and inconsistent with the law, which in economic terms means, respectively, tax management through the use of legal tools of tax policy – simply defined by the legislator or the imperfection of the law (so-called legal loopholes) or by representing the attitude of tax evasion, which is legally sanctioned and absolutely cannot be regarded as a way of managing taxes.

Therefore, assuming that tax management, at its core, aims at reducing the tax burden by using the methods and means permitted by the tax law, three main entrepreneur’s attitudes towards the burden of taxes can be identified in this area:

- trying to shift the tax burden to another entity,
- avoiding the tax burden,
- implementing tax strategies.

Taking action aiming at shifting the tax is the natural attitude of a taxpayer seeking to reduce the tax burden. Tax shifting is conducted by the means of a price system. As a result of shifting, a taxpayer actual tax burden is borne by somebody else, who – entirely or partially – becomes the payer. The possibility of shifting the tax depends on:

- the type of tax (indirect or direct taxes),
- a taxpayer's position in the market (products to customers and suppliers),
• the degree of economic freedom (possibilities of setting prices),
• economic prosperity.

There is a widespread agreement that the procedure for tax collection depending on the source of covering the tax benefit is not without significance in terms of tax shifting through the price system to other operating entities. It is widely accepted that an indirect tax is passed on to prices to a greater extend, easier and faster than a direct tax. Basically, this is the result of assuming for such shifting by the legislator. Taxes on turnover, are designed to be imposed on consumers, the enterprise has an assigned role of a tax "collector" to the budget. Traditionally, it is considered that the taxes on income and property directly charged on a taxpayer and should not be passed onto others. Nevertheless, studies on the issue of income tax shifting support the thesis of the possibility of shifting income taxes. However, given tax management issues, it is not significant whether the public authority assumed for such a tax shift, but what decisions in this respect are taken by the enterprise. In the market practice, in fact, there can be seen apparent and actual tax shifting. The apparent tax shifting results from the tax shifting mechanism stipulated by law and only to the scope of law, while the actual tax shifting is carried out in the market and results from an initiative taken by an entrepreneur, who may modify a stipulated mechanism or seek other solutions to shift the burden of taxation. Decisions taken by an entrepreneur in this respect result in tax shifting in two ways, through tax shifting forward or backward. Forward shifting consists in raising prices for purchasers of goods, in order to compensate for the tax burden imposed on a given tax entity. Backward shifting, in turn, consists in forcing the taxpayer's cost reduction on their operations through, among the others: cutting wages (shifting the tax burden onto employees) or lowering prices for intermediate goods: raw materials, energy, fuels (shifting the tax burden onto suppliers). The business cycle significantly affects the scale of tax burden shifting possibilities that are applied. In the period of economic upturn possibilities are larger, it is easier and with the lesser resistance of competitive environment to raise the price of offered products or services. During the period of economic adverse conditions possibilities are limited due to the less room for manoeuvre in relation to various measures cushioning the negative effects of reduced demand (Szczesny, 2001, p.95).

However, if the tax type, the position of the tax entity and conditions of the market mechanism do not give a chance to shift the tax burden onto others, a taxpayer in the search for a way to protect their benefits and maintain liquidity will tend to partially or completely avoid the tax. Nonetheless, taxes shifting is a phenomenon that occurs between taxpayers and does not reduce the state tax revenues, whereas the phenomenon of tax avoidance occurs between taxpayers and the public authority and results in reducing the fiscal effects by the authority. Tax evasion is possible thanks to (Kudert, Jamrozy, 2007, p. 23):

• use of opportunities provided in the tax system,
• inadequacy of existing law to the complexity of phenomena associated with business activities.

An entrepreneur may take an advantage of the existing tax system incentives to perform specific actions using the proposed tax relief or exemption. Entrepreneurs have an attitude of seeking opportunities to avoid the tax burden and also exploiting loopholes in the tax legislation. Although this attitude is not always expected by the public authority, it has found its legal justification in national and international judicial decisions, which state that if the existing law gives taxpayers a choice of several legal structures to achieve the economic objective, each of which will have a different tax assessment, then the choose of the best tax solutions cannot be regarded as a circumvention of the law. A particular manifestation of tax avoidance refers from engaging in commercial activities or
withdrawing from the operations that are subject to taxation, or changing the place of business. An entrepreneur may decide to withhold or discontinue business operations, or other taxable activities, or get rid of the tax base, or to change the course of its business for the one that is also taxed, or stick with the scope and object of activity but locate it in another, a more favourable tax system, the state. Such attitudes are least expected by the public authority, because their effect is to narrow the economic activity and reduce the expected tax revenue in a definite way, which in turn raises the need to seek for new sources of tax or increasing the tax burden in relation to the existing ones (Karwat, 2002, pp.14-15).

Another, more desirable from the standpoint of enterprise finance management, a possible entrepreneur’s reaction to the tax burden, is the use of tax strategies. The use of tax strategy means treating taxes as the external factors, which create specific threats or opportunities for the enterprise, that should be: weaken or used, engaging all the resources at the disposal of enterprise, in particular, knowledge about the current tax system and deriving from it possible rights available to a taxpayer. Whereas an enterprise making various decisions, taking into account the tax solutions, heads to optimize the amount of tax liability in relation to the expected level of financial targets achieved – since not always efforts to reduce tax liability to a minimum are effective in terms of other financial decisions and intended financial goals. Pursuing tax optimization bears, however, a risk that the entity should identify and effectively manage. And the construction of the tax strategy should include:

- setting tax targets and priorities of enterprise,
- identifying conditions for the implementation of the approved objectives,
- specifying methods, tools and their implementation costs,
- developing scenarios of the tax proceedings and risk involved,
- identifying ways of minimizing and managing the tax risk.

3. DETERMINANTS OF FISCAL STRATEGY IN ENTERPRISE

Taking into consideration the possibility of an enterprise conducting tax strategy, once again it should be stressed that its essence lies in tools used by management, which are aimed at the tax environment, arising from the provisions of tax law, that are to optimize the tax burden with a simultaneous accounting for the financial objectives of the tax entity. At the same time these activities are not targeted at the whole system of tax burdens, but at a specific tax and require the use of appropriate tools, known as enterprise tax policy instruments. The enterprise tax policy instruments are all conceptual and material measures that are used to optimize the tax burden and, primarily, they include the right to choose and how to use these rights, in particular, these measures aim at (Poszwa, 2007, pp.19-24):

- determining the tax optimal way to implement the investment operational and financial objectives of an enterprise,
- the fiscal interpretation of the realized and future actual state of the enterprise,
- determining the schedule of tax benefits.
The effectiveness of fiscal policy in an enterprise depends, to a large extent, on the accuracy of the tax environment quality diagnosis, ability to adapt to this environment and the associated tax risk. The implementation of tax strategies, therefore, requires on the one hand the identification and analysis of the fiscal environment in terms of both opportunities and risks flowing from it to the entity's financial objectives, on the other - to identify whether and how the results obtained can be used in or excluded from the decision making process. The essential elements of the tax environment, which should be for this purpose analysed and evaluated, are the legal standards and how they are set, the organization of fiscal institutions and the possibility of verifying them, and thanks to them, taxpayer’s correctness of understanding the tax structure, the economic and psychological conditions of the perception of the necessity and possibility of incurring tax burden.

The study of the tax environment on the normative ground is understood as an analysis and evaluation of the existing tax law system. Generally, tax matters are governed by a single law referring both to individual taxes and defining questions: Who?, From what?, When? and How much? have to pay a specific tax, and also the general rules governing the systemic issues of tax law (such as the act on rules on taxation or the Fiscal Penal Code). The sources of tax law also include implementing legislation to tax laws. From the perspective of an entrepreneur, most important is information given on the existing system solution, but also the autonomy of tax law, expressed in the application of the relevant concepts for taxes, which deviate from the commonly understood meanings (e.g. the concept of economic activity, a passenger car in income taxes or goods in VAT). The impact of the tax system in the normative field is objective and exists in every economic system, both on national and international levels. First of all, for a taxpayer the following factors are important: the scope, scale and the tax system impact on the functioning of an enterprise, but unfortunately the analysis of this aspect of the tax environment often leads a taxpayer to the conclusion that it is complex, inconsistent and in many cases internally contradictory. This situation, in turn, leads to difficulties in determining the enterprise fiscal strategy instruments (Ciupek, 2007, pp.287-289).

The imperfections of the normative ground overlap with the organizational problems. The tax system in addition to the legal standards governing the various duties and the way of dealing with them creates a number of fiscal institutions, which aim at improving, on the one hand, tax imposition and collection, and on the other, helping a taxpayer in resolving tax problems. The way these entities operate creates further conditions of an economic entity operations. First of all, because the shape and type of activities undertaken in pursuit of fiscal policy depends on the degree of predictability and timeliness of the behaviour of the legislator, tax authorities and the judiciary. Thus the implementation of fiscal policy is also determined by such factors as: how to introduce new regulations (e.g. the problem of vacatio legis), procedure for the interpretation of tax laws (the problem of uniform interpretation), the responsibilities of tax authorities for tax decisions issued and promptness and uniformity in dispute settlement (the issue of decision uniformity).

The study of normative environment and modus operandi of a tax system institution allows for the identification of external conditions that determine the opportunities and barriers to conducting business tax strategy.

In turn, the analysis of economic grounds of the fiscal environment is related to the research of the tax collection scale and its perception by a taxpayer. The scope and scale of tax collection are a consequence of the kind and manner of conducting economic activity. The selected type of economic activity and form of managing it determine what specific tax solutions constitute the tax burden type and size (for example, whether the entity is a tax remitter on VAT, or what tax formula is appropriate for the taxation of their revenue). The scale of tax collection is also affected by the degree of compatibility of the tax structure, especially in the international dimension and the possibility of
reducing the phenomenon of double taxation. It should be stressed here that the size of tax burden is determined by the total tax expenditures, which includes not only the payment of various taxes, but also expenses related to their administrative services. Under the conditions of significant tax burden taxpayers incline, in order to reduce the tax burden, to lead an aggressive fiscal policy, and when these burdens are seen as a low, their tax policy is a conservative one (Kew, Stredwick, 2005, p. 11).

Consideration of the economic dimension of the grounds for tax assessment should be completed by the aspect of psychological perception and the experience of tax by the enterprise. In practice, two issues can be identified. First, taxpayers do not always retain the objectivity of rational action with regard to the tax burden, often focus only on the tax solution, and, at all cost, they seek for temporary reduction of tax liability or the lowest operating costs of taxes, which could in turn lead to an unjustified increase in the risk business and usually at the expense of the overall financial goals of an enterprise. Since not always the reduction in the amount of taxes paid or the choice of the tax exemption is appropriate in terms of the enterprise's financial strategy (e.g. accelerated depreciation and exemption from tax on goods and services). In addition, the expected tax benefits may be only potential, of which the actual implementation is determined by other, non-tax related factors.

Second, taxpayers not critically enough examine the reliefs set out in law and facilities (e.g. tax credit, tax capital group formation or selection of a simplified form of taxation), and using them just for the sake of executing their right to choose, they may expose themselves not only to tax problems, but also be accused of an irrational economy. Taking into account the economic and psychological determinants of decisions made, it should be emphasized that the choice of fiscal policy instruments aimed at implementing the tax strategy needs be preceded by economic calculations, comparing the costs and benefits of their efforts to manage taxes.

The study of environment in the economic and psychological field becomes a determinant of internal capacity of building tax strategies.

So ultimately, the analysis of tax system on normative, organizational, economic and psychological grounds constitutes the basis for planning and implementation of entrepreneur’s tax strategy. Identification of the tax environment allows for determining the opportunities and risks for an entrepreneur in relation to the role of a taxpayer and undertaking steps to use or reduce them by the advantages inherent in material, capital and human resources. An entrepreneur also takes steps to eliminate these from their weaknesses, which limit or prevent him from exploiting the opportunities or even aggravate the risks of the tax environment. An entrepreneur making decisions to optimize the taxation is guided by the results of analysis and on their basis conscious of the answers to four basic questions, namely:

- Which opportunities of the tax environment can be used to achieve ones financial goals?
- Which threats inherent in the tax environment should be limited?
- Which of the forces at ones disposal will allow for enhancing the opportunities offered by the environment and reduce threats?
- Which of the weaknesses will limit the scope of opportunities or magnify risks associated with the tax environment?

Finding answers to these questions is not an easy task, for there is no universal standard to which it would be possible to develop tax strategies of each enterprise. Each enterprise is different; it operates in a different, specific business environment and expects to accomplish its financial goals at different levels. Construction of the tax strategy is all the more complex in the larger the size and scope of the
The economic activity of an enterprise. There are in fact other possible tax choices for small entities on local business scale, while other are for corporations with international range of operations. Thus, a general breakdown of tax strategies into (Szymanski, 2009, p.154-155):

- national strategies – based solely on the tax system of a country in which the tax entity is established,
- international strategies – build upon the differences in legal and tax solutions of individual states.

In addition to the range criterion, tax strategies can be differentiated according to the type of tax burden. By this criterion strategies based on the following factors are distinguished:

- indirect taxes – based on tax system solutions chargeable on the turnover of the enterprise,
- direct taxes – based on tax system solutions chargeable income and assets of the enterprise.

The presented classification of tax strategy types does not constitute a methodologically distinct ways of creating a tax strategy. The enterprise while formulating its own strategy may cause and take advantage of different strategy types merging by making choices in the various spheres of its activity, in particular the choice of:

- the place of conducting economic activity – a country, other state, special economic zone,
- the legal form of economic activity - a natural or legal person,
- the type of economic activity and the range of products,
- the sources of raising capital - equity or outside capital,
- the guidelines for investment - investments in kind or financial,
- the procurement, marketing and sales policies,
- the policy on constructing compensation,
- the policy on income distribution in the enterprise.

Whereat making choices is continuous, it not only adapts to the changing external conditions of the tax environment, but also takes into account the phase of the enterprise life cycle, hence there are other possibilities for pursuing a strategy at the stage of: creating an enterprise or its development, and other at the stage of restructuring or liquidation of an enterprise.

Formation of enterprise tax strategy, in particular the identification of the tax environment and making choices to optimize the tax burden is not, even with the utmost diligence, risk free. Thus the condition for effective taxation administration is also tax risk identification and management.

4. TAX RISK AND ITS MANAGEMENT POSSIBILITIES

Tax-related risk of an entrepreneur can be connected with both non-fulfilment of tax liability by a taxpayer and with not taking advantage of tax opportunities. Hence, the tax risk is a part of the economic risk borne by the enterprise, which means that its effects, as of any other risks, impose the burden on the enterprise property. However, it should be remembered about the specifics of the tax liability and responsibility for its settlement, as it may prove that the tax risk does not relate to an enterprise itself only, but also the property of the owners or persons directly managing it and having responsibility for the enterprise financial situation.
Generally, it can be stated that the essence of the tax risk is the lack of certainty regarding the tax consequences of completed, on-going or future business operations. These consequences can have a multi-dimensional effects, among which, first of all, should be noted the consequences of various types:

- financial (the need for tax after payments, interest penalties, loss of entitlement to relief),
- business (loss of reputation, loss of competitive position, the liquidation of an enterprise),
- penal (criminal liability of an enterprise, criminal and fiscal liability of the owners or board members).

The reasons for the lack of confidence leading to these consequences, should be sought both in the external and internal business environment. Many of the factors influencing the tax risk are derived from international trends, and there can be distinguished both traditional factors and new factors which arose after the great wave of financial scandals (Enron, Worldcom), when the securities and exchange market commissions took actions to ensure greater transparency in the reporting, regulatory standards and ownership behaviour. Among traditional factors influencing the risk there can be included:

- the complexity, instability and diversity of international tax law,
- criminal and fiscal responsibility for not fulfilment of tax obligations,
- financial records and reporting, as a source of information on tax categories.

The new factors, which are a source of risk, can be included:

- growing requirements of financial reporting as evidenced by the need of taking an account for international accounting standards and reporting,
- complex regulatory oversight reflected in the establishment of international rules, which limit the opportunities of particular states,
- increased emphasis on corporate governance and compliance with the rules of fair competition,
- liability of collective entity (economic associations).

The factors derived from the international conditions overlap with domestic factors. Among the domestic sources of tax risk, there is indicated a risk arising from the external normative and institutional environment risk as well as an internal risk having its basis in the organization and structure of the enterprise. Basically, the national external risk sources include: unstable tax law, diverse and changing interpretations of tax law, changing lines of judicial decisions, fiscal stringency of tax authorities, changing regulatory environment, market changes, changes in corporate governance and in principles of good practice. Whereas the internal sources of risk include: insufficient skills of employees or lack of effective management of employee tax knowledge, lack of clear responsibility divisions, lack of cooperation in the circulation of documents and information, breach of formal requirements laid down by law, limited influence of financial department on planning and designing of transactions and concluded agreements, lack of properly constructed tax functions in finance and information systems.

Taking into account the presented sources of tax risk, its components can be identified. Distinguishing
the risk due to the stages of formation and implementation of tax obligations becomes of primary importance. In this aspect the following can be distinguished:

- the risk of identification of tax chargeability,
- the risk to determine tax liability.

The former one concerns the accuracy of determining the tax chargeability, namely determining whether economic events cause its rise in the light of system solutions, and if so, when. The latter – is associated with uncertainty about the correctness of determining the amount of tax liability. The effect of the tax risk identification can be total or partial non-identification of tax liability. The error can also be derived from the incorrect determination of the inception of the tax, and this in turn leads to abnormalities in determining tax chargeability and the due date.

Taking into account the financial implications of ensuing identification risk of tax chargeability and determining the tax liability, the specific types of tax risks can be identified, namely:

- the risk of tax after payment,
- the risk of financial penalty,
- the risk of double taxation,
- the risk of losing benefits,
- the risk of lower profitability,
- the risk of liquidity.

The existence and complexity of tax risk necessitates the implementation of deliberate policy by an entrepreneur in the field of its management. A taxpayer seeking to optimize the tax burden should also seek to reduce the level of tax risk. And although the tax risk exists objectively, a taxpayer has, to some extent, the limited impact on its scale. In practice, a taxpayer's action to reduce the tax risk can be realized through:

- statutory tax instruments,
- organizational and procedural instruments specified by a taxpayer.

The first group of instruments, first of all, includes tax interpretations, advance pricing agreements and the increasingly available domestic tax information. The second – consists of company structure, organization of information system and internal procedures of finance and financial risk management of the entity.

The instruments stipulated by the rules of law generally are used to reduce the impact of external sources of generating risk. A special place among them is held by the institution of the tax law interpretation. There are two kinds of interpretations issued as the most common systemic solutions: general and individual. The general interpretations are to clarify the solutions of the established tax law and to determine the public authority expectations of a taxpayer behaviour in relation to the interpreted tax problem. The individual interpretations refer to the actual or future economic events of a particular taxpayer. They are issued at the request of a taxpayer and include the decision in his case. Regardless of the type issued interpretations, their main purpose is to ensure uniformity in the tax authorities ruling, and to provide taxpayers with full and prompt information about tax laws and their interpretation applied by the tax authorities, in particular, taking into account the views of
jurisprudence, the Constitutional Court and the European Court of Justice. This institution represents a specific state aid in the implementation of the obligations imposed on taxpayers under the tax law. This assistance becomes real in the face of the dominant in the tax law system construct of tax liability self-calculation (Nowak, 2008, p. 131).

The institution of tax interpretation as a tool of tax risk management is a normative guarantee of the right to information eliminating taxpayer’s uncertainty as to their obligations and powers and allows for appropriate planning of future business ventures (Nykiel, Strzelec, 2007, p. 34) The guarantee and protective functions are complementary to the informatory function of tax interpretation. The essence of the tax interpretation is to guarantee protection to an individual taxpayer in a situation of legal uncertainty. The protective function of tax interpretation is expressed in protecting the tax entity against possible adverse effects resulting from the procedure determined the content of received interpretation. Guiding one’s actions by the criteria derived from the tax interpretation, the entrepreneur obtains a guarantee that acting upon the interpretation before its amendment, repeal or in the case of a failure to settle the tax, it will not harm him. Thanks to this mechanism, the interpretations are of fundamental importance in determining the business effective financial strategy to minimize the risks associated with the burden of public law.

Another, though not as widespread as the tax interpretations, instrument used to reduce the tax risk is a tool of advance pricing agreements. The instrument is addressed to the related companies, operating internationally. The legal solutions establishing this risk management tool are primarily based on the OECD guidelines and have the desired result in development, before the transaction, of the valuation criteria package. A prior price agreement is an agreement between a taxpayer and tax administration, in which a taxpayer undertakes to apply the method of determining the transaction prices for transactions covered by an agreement between related parties, obtaining in return a guarantee that the prices used by the transaction will not be questioned by tax authorities. There are three types of advance pricing agreements (Barowicz, 2009, s. 83):

- unilateral – entered into between a taxpayer and tax administration, of whom a taxpayer is a subject to the jurisdiction,
- bilateral – concluded with the participation of tax administration from two countries, appropriate for the controlled transactions entities and two related entities,
- multilateral – concluded with the participation of the national tax administration and more than two tax administrations of foreign countries when the transaction involves more than two related entities.

Advance pricing agreements increase the safety of a taxpayer who has entered into such an agreement, particularly when the transactions covered by the agreement are reproducible and repeatable business concern, but are unusual, and their value is significant. In a situation of such transactions, when there is no benchmark for the market prices, the potential risk of questioning the prices by the tax administration is essential.

Agreements on the pricing of transaction do not only prevent the formation of disputes between taxpayers and tax authorities but also reduce the risk of estimating income and imposing sanctions in connection with it. In addition, they reduce the risk of unwelcome phenomenon of double taxation when a transaction is carried out among those affected by the tax jurisdiction of two or more tax administrations. Advance Pricing Agreements also have their drawbacks, such as the following: they are time consuming and involve costly procedure as well as there is some need to submit evidence,
along with annual reports on the implementation of the agreement and the need for disclosure of trade data.

A special way to reduce the tax risk given the legal instruments for the entrepreneur’s tax risk limitation, is the national business tax information. The National Tax Information operates on the principles of mainstream helpline, and anyone who wishes to obtain tax information about the tax structure or its interpretation could call the listed number and obtain the information sought. Phone tax information service is provided by chambers of taxes. The National tax information is only a source of obtaining information on tax matters and cannot be relied on in the event of a dispute with tax authorities, which is its major drawback, but it is always better to have the possibility of obtaining information from experts in the field of tax law than not. Certainly this state of affairs helps to reduce a taxpayer’s uncertainty by confirmation or by derivation of the error in the application of tax solutions in the enterprise.

The other group of instruments mitigating the tax risk, these are the instruments lowering tax internal tax risk, and their existence as well as use is determined by finding non-statutory ways of reducing the tax risk by a taxpayer. The fundamental means of limiting the internal tax risk include:

- the use of human factor,
- the development of risk management procedures,
- the introduction of an appropriate IT system.

The human factor is a key element of tax risk management. Knowledge and skills of employees and their proper application are indeed immeasurable and invisible type of the enterprise assets, but invaluable in the identification of tax problems, the risks involved and sought solutions in this field. Managing the human factor should be implemented in two ways. First of all – by clarifying the roles and responsibilities of employees at different positions, and secondly – by the proper selection of staff and later consciously guiding the process of acquiring and consolidating the knowledge of employees.

The human factor management is propped and reinforced by internal procedures to ensure efficient communication between the cells involved in tax matters and other substantive cells of a business organization, and it is not just about the efficiency of transmission of documents, but above all about consulting persons having the tax knowledge at the stage of drawing up contracts and agreements or negotiations with suppliers or customers. One of the cardinal errors in business management is leaving aside of decision-making processes the experts in finance, especially those who are able to identify tax risk and to take action to limit it. Supplementary to communication procedures is building procedures that verify the accuracy of procedures for applying tax arrangements and of input tax liability. Clearly defining who, what should be done, how it should be done, when it should be done and how it should be documented and where the document should be filed.

Successful implementation of internal procedures ensures properly parameterized, in terms of functionality of tax system, the IT system. A multitude of information and data present in any organization, large number of operations performed make their control and tax verification only possible through an IT system. A special role of IT system is to reduce the error risk of the registration and accounting, by allowing for the comparison of information in any of the sections and at any item level.

Unfortunately, in many enterprises the internal tax risk management is far from being perfect. Enterprises primarily focus on the calculation of tax liability, while limiting themselves to identify the tax risks associated with the correctness of calculation. Much remains to be done to improve the
employees qualifications in the field of tax risk management, development and implementation of formal procedures for high-performance tax-assisted IT systems. The need for risk management cannot be avoided, sooner or later an entrepreneur will notice that the unstable tax system, multiple sources and complex conditions of the formation of tax risk cannot be neutral in the process of business management. An entrepreneur generally has no choice but to take a number of actions both of a conceptual as well as informative character in order to manage the tax and the associated risk; the lack of actions in this field can contribute to the development of alternative risk, which is the risk of failure to manage taxes, that may result either in not reaching the potential financial benefits and in the need to pay more tax than necessary.

5. CONCLUSIONS
The enterprise management, and the financial management in particular, taking into account the multiple and complex tax structures, is a challenge for everyone involved in the decision-making. Contemporary enterprises, operating in an unstable and uncertain environment, including tax, must make decisions ensuring the highest possible level of safety. Managing the enterprise it is necessary to represent an active attitude towards the tax burden and seek ways to manage them effectively. The active management bases include the possibility of real tax shifting, tax avoidance and conducting fiscal policy. Each of these attitudes bears the tax risk that should be identified and the steps to reduce its levels ought to be taken.

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CONCEPTUAL APPROACHES ON MANAGERIAL PERFORMANCE
IN TOURISM ORGANIZATIONS
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Abstract
Performance is a concept of great actuality, having two components, according to some specialists: efficacy, which is “the ability to establish proper objectives and to realize them” and efficiency, term used since the ancient times, because it means “the ability to optimally use available resources in order to realize the objectives”. Realization of performance is no longer possible without strong knowledge of management, especially in what concerns competitiveness and competitive management. Therefore, managers and employees of the companies should want, be able to do, and know how to realize performance, evaluate it, and improve it permanently.

Key words: managerial performance, performance evaluation process, managerial performance evaluation, tourism organizations

1. INTRODUCTION
Performance management as an identifiable subject for academic study and research arguably began in the late 1980s (Marco Busi, Umit S. Bititci, 2006) In the present business world, the competitive force of an organization comes from the creation or identification of a corresponding managerial system for the realization of a high performance. By conception, constitution and manifestation, performance management implies an essential and completely theoretical ensemble, directly for solving the complex issues met in the practice of customers’ attraction, keeping and development.

As a rule, performance management is a major field, not only from a theoretical point of view, but also from practice. By direct reference to the achievement of economic and social performances, management is the most important factor. It is obvious that, in order to achieve high performances, economic units should be efficiently led. This is how “performance management” appears (Aubrey, 2007) and a high-performance culture is one in which striving for improved performance is a recognized way of life (Armstrongs, 2009, Becker et al 1997, cited by Çalışkan, 2010).

Performance management has started to develop at the beginning of the 80’s, in the 20th century, as a reaction to the negative aspects of the evaluation of performances registered at that time (Russu, 2008).
Performance should not be just monitored and measured, but also administered. Therefore, performance management involves also performance measurement.
However, the result (performance seen as a result, not as a score) cannot be separated from action (the modality of obtaining the score); consequently, performance management is more important than performance measurement.

Performance management refers analytically to the correspondence among costs, efficiency, and risks of alternative ways of action proposed for the accomplishment of the purposes in this field. The efficient attribute of performance management should be regarded in a nuanced acceptance, by taking into consideration the indirect effects, the time-factor, and the “social costs”. The principle of minimum action, “intended purpose with minimum effort”, suggests one of the basic questions in the definition of performance management. From a systemic point of view, we could refer to degrees of objectiveness in performance management, according to the degree of reflection by the purpose of the objective functional necessities of the system.

In a general approach, performance management refers to both areas of human activity – productive and non-productive –, to the entire social-economic life, and it is focusing on the actions for obtaining maximum effect with minimum effort. Performance management is a systematic process for improving organizational performance by developing the performance of individuals and teams. It is a means of getting better results by understanding and managing performance within an agreed framework of planned goals, standards and competency requirements (Armstrongs, 2009). Performance management is aiming the useful physical, social, and valuable effects obtained in the activity. Therefore, the systemic approach of performance management is an important issue, not only from a theoretical point of view, but also from a practical one. Practically, work, material and financial resources are spent in all the managerial activities and processes. Consequently, the results should be analysed from the performance point of view in order to obtain what is expected.

The development of performance management is accelerated by the following possible factors (table 1):

Table 1 Possible factors of the development of performance management

<table>
<thead>
<tr>
<th>Factor</th>
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<tr>
<td>Admitting that performance can be evaluated and measured only as a model of “process input – effects output”, the over-focusing of the attention on only one of these aspects will diminish the results of the evaluation scheme;</td>
</tr>
<tr>
<td>The increased attention on concepts of continuous training and the organization that learns;</td>
</tr>
<tr>
<td>Realizing that performance management is a process which should be realized by the managers who are superior in rank along the year, and not as an yearly event directed by the human resources department;</td>
</tr>
<tr>
<td>The stronger emphasis on setting agreements between employees and the organization, by integrating their individual interests into the ones of the organization.</td>
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</table>

Adapted after: Nica (2010), Nicolescu și Verboncu (1997)

Generally, it is considered that the lack of performances of a company is exclusively due to its employees. However, there is a series of internal and external factors which could perturb the realizations of an organization, as follows: the organizational environment (there are relaxed companies, and paranoid companies, whose environment is blocking the individual initiative, and consequently, the success); the management style practiced (the dictatorial one is generating less realizations than the democratic one); the social-economic environment in which the company
develops its activity (when the economic context is favourable, it is obvious that it is easier to be performant); the direct and indirect competition (how numerous it is, how aggressive, its position).

Therefore, performance management should be a permanent preoccupation of the entire managerial team, and not only of the human resources department, and it should always take into account the general context, not only some elements.

As Armstrongs (1997) commented, performance management is concerned with: aligning individual objectives to organizational objectives and encouraging individuals to uphold corporate core values; enabling expectations to be defined and agreed in terms of role responsibilities and accountabilities expected to do), skills (expected to have) and behaviours (expected to be); providing opportunities for individuals to identify their own goals and develop their skills and competencies.

In our opinion, performance management in tourist organizations can be defined as follows: “Performance management is a strategic and integrated process for assuring a lasting success in the activity of the organization, by increasing and maintaining the employees’ performance and its patrimony”.

2. METHOD AND METHODOLOGY

The methods used in this research were diverse and according to the objective established. Therefore, we have: the documented study which consists of two aspects: the bibliographic documentation from internal sources, and the bibliographic documentation from external sources; the theoretical analysis; the synthesis of the information. The theoretical documentation had the purpose to identify and to review the stage of the knowledge in the field of management performance in hotels. The sources used in the theoretical documentation are the following: speciality literature, speciality magazines, studies, official statistics, and so on, available at “M. Eminescu” Central University Library from Iași, at “Gh. Asachi” Library from Iași, at the library of The French Cultural Centre from Iași, at “British Council” Library from Iași, etc., in Romania.

3. PURPOSE AND OBJECTIVES

The purpose of this research is to present a comparative analysis of the concepts proposed by the speciality literature related to management performance of tourist organizations.

The objectives considered were the following:
O.1. The presentation of the present stage of knowledge.
O.2. The performance analysis in an organization.
O.3. The identification of the elements defining managers’ performance
O.4. The identification of possible factors determining management performance in tourist organizations.
4. LITERATURE REVIEW

4.1. Performance - conceptual analysis

In speciality works, performance is understood as “the realization of a certain thing” (Nicolescu et al 1992), with a relation between the resources entering the company – input, and what the company realizes using these resources – output, which means that performance is the degree in which a company realizes its objectives.

Very often used, performance is a concept difficult to define, with an ambiguous and integrating character. From a general point of view, performance is a special realization in a certain field of activity. Though the Romanian notion of performance (performanță) is of Latin origin, with an obvious relation to the Latin “performare”, its significance comes from the English “to perform” and “performance”.

The etymologic analysis emphasises the fact that this is a concept very often used (in mechanics, sports), whose meaning changed along the time, becoming a polysemantic word, with different meanings, according to the fields where it is used.

Performance means success, competitiveness, achievement, action, continuous effort, being the present optimization, and the future projection (Harrington, H. J. și Harrington, J.S. 2000).

Performance is always the product of a comparison, it depends on a reference (objective or purpose), and it can be multidimensional when the purposes are multiple. It can only be expressed as a balanced ensemble of complementary parameters, sometimes contradictory, describing the results and the processes by which to reach them (Ioana Ecaterina Mitu, dr. Narcis Eduard Mitu, http://www.tribunaecomonica.ro/index.php?id_tip_categorie=1&id_categ=9&id_revista=3135&id_nr_revista=88&mod=arhiva, accessed on 17th of February 2011).

Performance management is about managing the performance, whereas “Performance” According to Oxford English Dictionary, can be defined as “The accomplishment, execution, carrying out and working out of anything ordered or undertaken.” (Jawaria Andleeb Qureshi, Asad Shahjehan, Zia-ur-Rehman and Bilal Afsar, 2010).

The diversity of meanings given to the concept of performance emphasises the fact that its definition is realized differently, according to the users of financial-accounting information. Therefore: managers will be interested in the global performance of their organization; investors (present and potential) will perceive performance through their investment; employees will be interested in the profitability of the organization; creditors will have in view the solvability; customers will have in view the stability.

We consider that performance and value are an ideal couple of an efficient and modern management of an organization, because “to measure the performance means to evaluate the value, and to be aware of the value means to translate performance” (Angela Zelenschi, Cultura organizațională și rolul ei în managementul modern, http://www.cnaa.md/thesis/2563/ accessed on 17th of February 2011).

In administration, the concept of performance is defined as “a competitiveness state of the organization, reached by a certain degree of efficacy and efficiency assuring it a lasting presence on the market” (Niculescu, Lavalette, 1999).

From a managerial point of view, performance is identified at the crossroads of the quality of decision results and managerial actions, and of the quality of managerial system objectives.
Usually, an organization from any field of activity is performant when it is at the same time efficient and effective. Ignoring the efficacy in favour of efficiency could lead to serious economic and social consequences: for example, the tourist organizations (hotels) could become exclusively preoccupied to obtain profits, forgetting to pay attention properly to the consumers’ demands, and to the increase of the sales volume based on a corresponding marketing. Such a strategy would lead to low quality services, not corresponding to the consumers’ requirements, and which could not be sold, some accommodation capacities remaining thus unoccupied.

According to Verboncu and Zalman (Verboncu, Zalman 2005), famous management specialists, “performance is a special result in the managerial, economic, commercial field, etc., imprinting characteristics of competitiveness, efficiency and efficacy to the organization and to its process and structural components”.

According to the Explanatory Dictionary of Romanian Language, performance is “a special result, obtained in a certain field of activity”. This definition with no economic or managerial connotations shows that performance cannot be associated with any result, but only with a special one. What does “special” mean? First, it means highly superior to what was previously obtained; second, it means superior to the results obtained by “others” (competitors, etc.); and third, it means different from the favourable objectives already assumed.

4.2. The decisive factors in the performance of organizations

In „The prize of excellence”, Tom Peters (1987-1989) identifies seven decisive performance factors. In 1953, Peter Drucker (2011) showed nine decisive factors in order to reach success. In 1985, The University of Virginia, under the leadership of Scott Sink et al. (1984), indicated the connection between performance and productivity, starting from six key factors. In 2009, in the Armstrong’s handbook of management and leadership, A guide to managing for results identifies ten decisive performance factors (Table 2).

Table 2 The decisive factors in the performance of organizations – comparative analysis

<table>
<thead>
<tr>
<th>Peter Drucker</th>
<th>Scott Sink</th>
<th>Michael Armstrong</th>
<th>Tom Peters</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Social responsibility</td>
<td>1. Quality</td>
<td>1. The clarity of the team’s goals</td>
<td>1. Close to the consumers</td>
</tr>
<tr>
<td>2. Customers’ satisfaction</td>
<td>2. Efficiency</td>
<td>2. How work is allocated to the team;</td>
<td>2. Close to new strengths</td>
</tr>
<tr>
<td>5. Internal productivity</td>
<td>5. Responsibility</td>
<td>5. Relationships with other teams;</td>
<td>5. Simplicity</td>
</tr>
<tr>
<td>7. Management development</td>
<td></td>
<td>7. Monitoring performance;</td>
<td>7. Autonomy and</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>8. entrepreneurship</td>
</tr>
</tbody>
</table>
8. Operation budget, innovation

| 8. The quality of leadership |
| 9. The level of skill possessed by individual team members (including multi-skilling) |
| 10. The systems and resources support available to the team |


Marco Busi and Umit S. Bititci (2006), integrated performance management in collaborative enterprises is the process of using inter-organizational systems to collaboratively measuring performance of collaborative enterprise processes and using the measurement to enable decision-makers to proactively and strategically manage the collaborative enterprise itself.

Five “actors” can be identified in this definition: 1. the collaborative enterprise; 2. the collaborative operational processes; 3. the collaborative process of measuring and managing performance; 4. the inter-organizational systems; 5. the decision makers.

An important way of determining how performant are the managers is to use a performance measuring system.

Performance should be measured at three corresponding levels, as follows:

- at the whole organization level;
- at the subunits or compartments level;
- at individual level.

Armstrong (2009), measurement is an important concept in performance management. It is the basis for providing and generating feedback, it identifies where things are going well to provide the foundations for building further success, and it indicates where things are not going so well, so that corrective action can be taken. Measuring performance is relatively easy for those who are responsible for achieving quantified targets, for example sales. It is more difficult in the case of knowledge workers, for example scientists. But this difficulty is alleviated if a distinction is made between the two forms of results – outputs and outcomes. An output is a result that can be measured quantifiably, while an outcome is a visible effect that is the result of effort but cannot necessarily be measured in quantified terms.

The management of individual performance involves five elements: agreement, measurement, feedback, positive reinforcement and dialogue. The process of performance management is illustrated in Figure 1:
In the year 1998, Cole writes about performance evaluation: “the notion of performance evaluation usually refers to the evaluation of the leading personnel’s activity, or of the managers’, not of the employees”. Therefore, he considers that there are two large evaluation categories, the conventional one, also known as formal, and the unconventional one, or informal.

In his opinion, unconventional evaluation is the continuous evaluation of the employees’ performance, realized by their manager during their usual activity. This type of evaluation is of circumstance, counting both on intuition, and on specific evidence of the results obtained, being a secondary product of the daily relationship between the managers and their employees. Conventional evaluation is much more rational and organized than the unconventional one, the employee’s performance evaluation being the result of a process realized in a systematic and planned manner.

If at the job analysis we refer to its content and requirements, which implies the impersonal description of the objectives, tasks and responsibilities of the job, performance evaluation is focused on the employee’s accomplishment of objectives, tasks, responsibilities and requirements of the job.

Performance is a fundamental requirement, in the context of a permanently increasing competition. Performance evaluation is a very important part of the management system in general, and of the human resources management system in particular.

Professional performance evaluation is a process serving both the organization and the employees, with the purpose of increasing work productivity and quality, and of perfecting the professional competences.

Professional performance evaluation is at the basis of all personnel’s decisions, offering the possibility to identify the professional progress or regress elements, as well as the necessity of some professional training and formation courses.

Along the time, performance evaluation has evolved and developed, achieving more ample and complex definitions.

Performance evaluation is the basic activity in human resources management, developed in order to determine the degree to which the employees of an organization efficiently accomplish their duties or
responsibilities. From a general point of view, performance evaluation is considered an action, a process, or a certain type of cognitive activity, by which an evaluator determines and estimates people’s performance in relation with the established standards, as well as their mental representations, their own systems of values, or their own views over the performances obtained (Manolescu, 2003).

Armstrongs (2009), although performance management is a continuous process, it is still necessary to have a formal review once or twice yearly. This acts as a focal point for the consideration of key performance and development issues, provides an opportunity to take stock, and forms the basis for performance and development planning. Many managers are extraordinarily reluctant to conduct such meetings at all, or at best their reviews are perfunctory. All sorts of reasons are given for this: “I haven’t got enough time”, “It’s not necessary – I am already reviewing performance on a day-to-day basis”, “I don’t like sitting down and making formal criticisms of someone”.

The answers to these objections are simple: “Surely you can spare an hour or so to spend quality time with our staff, if only to show that you are interested in their progress and prepared to give them your support”; “That may well be so, but isn’t it a good idea to carry out a systematic review of progress so that both parties are in a better position to plan for the future?”; Performance reviews are not just about criticizing people. They are opportunities to recognize achievements as well as agreeing any areas where improvement is required and planning how this should take place.”

The specialists Israeli, Barkan, Fleishman (2006) propose 39 aspects revealing the performance of tourist organizations, as follows: the income; the gross profit; the net profit; the degree of occupancy; the income per room; the profit per room; the period of investment recovery; the actives profitability; the stock value; the cash; the increase of sales on internal market; the increase of sales on foreign markets; the customers’ coming back on internal market; the increase of repeated shopping on internal market; the customers’ reserved attitude – on external markets; the increase of repeated shopping – on external market; the attraction of new customers – on internal market; the attraction new customers – on foreign markets; the general degree of customer satisfaction; the efficiency and practices in lowering the costs; the number of employees; the number of managers; the turnover per employee (employees’ working productivity); the employees’ quality; the turnover per manager (managerial productivity); the managers’ quality; the employees’ formal professional knowledge; the employees’ informal professional knowledge; the employees’ personal level and abilities; the managers’ formal professional knowledge; the managers’ informal professional knowledge; the managers’ personal level and abilities; the relationship between management and employees; the relationships among employees; the brand affiliation; the star rating; the service quality; the service flaws; the developing of new products and services.

In the list above, seven aspects belong to the traditional financial evaluation category (points 1, 2, 3, 7, 8, 9 and 10), three aspects belong to the evaluation category of each specific sector (points 4, 5 and 6), and other five indicators point out performance marketing aspects (points 11, 12, 14, 17 and 18). Customer’s satisfaction is another important aspect, which is presented in six articles (13, 15, 16, 19, 37 and 38). A specific issue of human resources performance is emphasised by the aspects concerning employees and managers. Seven aspects characterize the employees’ quality (for example abilities and knowledge), as well as their work productivity (points 21, 23, 24, 7, 28, 29 and 33). In a similar manner, seven aspects characterize the management quality and the managers’ productivity (points 22, 25, 26, 30, 31, 32 and 34). Finally, two aspects refer to the hotel productivity (points 20 and 39), and two aspects concern the hotel strategic actives (points 35 and 36).
Stanciu (2001) defines performance evaluation “as an action, process or cognitive activity” by which people’s performance is related to a pre-established standard, and “their mental representations, their own systems of values, or their own views about the performance obtained”. Recently, in the work “Human Resources Management – Practical Guide”, released in the year 2005, professor N. Pânișoară presented the performance evaluation in an organization as an important aspect of human resources management. He stated that the dynamic nature of professional development is to be understood through evaluation, and at the same time, the professional development should be perceived as a continuous process, and not “as a simple event” taking place in an employee’s life.

The same, in addition to this characteristic of continuity, Pânișoară (2005) also assigns to the evaluation process the character of complexity, as follows: “we must imagine that anything can be evaluated – even the evaluation can be evaluated”.

4.3. The competitiveness of the activity of a tourist organization – an important factor in the increase of its managerial performance

Competitiveness is a complex concept, long time debated by economists from all over the world. In order to understand the quantification modalities, we should start from clarifying this concept. One understands by competitiveness “the characteristic of being competitive”, i.e. to be “capable to deal with competition”.

Starting from the many approaches of competitiveness, we can define this concept as “the result of the continuous process of adaptation of the organization to the customers’ demands with optimum consumption of resources for all the operations, with the purpose to obtain the best economic and social results, and to maintain an important and lasting position on the market” (Radu, 2008).

Normally, in the hospitality industry, competitiveness is determined mainly by the capacity to relate to others, by learning abilities, human resources, information technique and technology. The companies in this field are dealing more and more with the intensification of competition at a global level, the rapid technology progress, and more and more soliciting demands from the customers. Most of the hotels improved their internal operations by increasing the quality and reducing the costs. These companies are now preoccupied with the development of the competition advantage from several sources. These sources become, at the same time, factors influencing competitiveness.

Nowadays, quality is a strategic element of the activity of tourist organizations, and determines competitiveness of tourist products and services at the highest level.

Competitiveness is defined as the character of the person who can deal with competition on the market, and is indissolubly related to quality, right at the heart of the company’s life and development (Potie, 2005).

On a competitive market, the accommodation unit has as main objective the complete satisfaction of its customers’ demands in order that they become not only loyal, but also the means of its communication and promotion.

In the book Managerial strategies for assuring the quality of tourist products and services (Butnaru, 2009) we mentioned that: the phenomenon of competitiveness derives directly from the concept of quality.

Taking into consideration what has been presented above, we can state that managers should consider both quality of services and quality of products offered to their customers. At the same time, managers should permanently deal with the increase and maintenance of the quality, meanwhile being also
concerned about cost reduction. Contracts signing with the suppliers of products necessary in tourist organizations should assure at the same time not only the quality of the products, but also the preservation of the same quality on a long term. This guarantee is assured when the suppliers show that they work in leadership systems known worldwide, guaranteeing quality.

The accommodation service offered to the customers is a combination of two components: a \textit{quantitative component}, with a mostly material character, evaluated on an objective basis, and a \textit{qualitative}, behavioural component (Finn, M., Elliott-White, M., Walton, M, 2001).

The quantitative component is easier to define, measure, compare and acknowledge. The determining elements are the following: technical equipment, alimentation, setting, working methods, personnel number, information. However, what the customers wish is not a functioning procedure.

The behavioural component is more too often neglected by the managers of tourist organizations. Even during the training courses, the emphasis is on working methods and routine duties.

A service as a whole cannot be favourably evaluated if a quantitative component is on a shortage. At the same time, the quantitative component alone leaves the customer with a neutral opinion. For example, favourable comments about a clean restaurant or a fast service are rare; on the contrary, a too slow service or a stained or unclean table often results in customers’ negative comments.

However, in the circumstances of a high degree of behavioural component, some insufficiencies of the quantitative component can be overlooked. An adequate professional behaviour, an honest smile, and a particular attention, for example, can counteract some shortages in the quantitative component. In the personnel-customer relationship, the employees’ behaviour and attitude, their way of action and reaction are the essential criteria to evaluate the quality of services as a whole, elements generating customers’ satisfaction and contentment.

The customer’s evaluation is the absolute and final measure of service quality. The customer’s reaction can be immediate, or late and retroactive. The customers’ evaluation of the service is often reduced only to a subjective one. Customers seldom communicate spontaneously to the service organization their evaluation of service quality.

Normally, unsatisfied customers stop using or purchasing the debated service, without announcing any proper corrective measures. The limitation to the customers’ complaints in order to measure their satisfaction can lead to wrong conclusions.

Customers’ satisfaction should be compatible with the standards and professional ethics specific to the tourist companies. At the same time, tourist companies should establish a way of evaluation and permanent measure of customers’ satisfaction. As part of these evaluations, both positive and negative reactions should be identified, as well as their probable incidence over the future activities of the organization.

\textit{Competitiveness is the engine of the development of tourist organizations}, easily influenced and conditioned by the variations of the economic environment (Eddystone, 1991). They succeed on a competitive market, which means they make money, invest them, reduce costs, employ and develop new services.
5. CONCLUSIONS

Science and application at the same time, performance and managerial performance is nowadays one of the most studied fields, with the highest intellectual, emotional and social load among human activities. The forming process of managerial performance as a science consists in the successive sedimentation of contributions brought by remarkable scientific or practical minds, around which a series of concepts have formed.

According to the studied and analysed literature in the area, it results that in the past years a new vision in management has formed, called “performance management”, which involves a highly evolved stage of management.

From this analysis, it results that performance management is “the process of using management techniques and methods in an efficient manner in order to reach the organizational objectives, and to assure a lasting success by the improvement of management and economic performance”.

In other words, performant management in tourist organizations implies generalisation and synthetizing activity of practical management experience, search of new ideas, formulation of leadership laws and principles, finding the best leading ways and methods in order to assure them a high level of competitiveness.

We consider competitiveness as an essential component of performance, because only through competitiveness a company can reach a high level of performance.

In our opinion, competitiveness is “the result of the continuous process of adaptation of the organization to the customers’ demands with optimum consumption of resources for all the operations, with the purpose to obtain the best economic and social results, and to maintain an important and lasting position on the market”.

We must mention that the methods used to evaluate competitiveness do not reflect the influence of management and of its quality over the organization competitiveness, even though, nowadays, we can study and analyse certain global management practices which tend to transform it into a performant one.

ACKNOWLEDGEMENT

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Abstract

The purpose of this paper is to highlight the importance of human resources as a process management function for the organization's business safety. Available literature on the impact of human resource management on business safety is analyzed. Based on that analysis, conclusions of the study are synthesized and an original opinion on relationship of HRM and business safety is created. Present research on the topic is not numerous, and it is mainly focused on people's safety in business processes issues, while the role of managers in human resources management in the context of integral safety is neglected. Limitations in the studies are result of insufficient attention paid to this topic which implies that managers should be educated more about the impact of their relationships with employees on business safety. The practical value of the analysis conducted is the possibility of simple application of the proposed measures and procedures, while the social impact of better human resources management is in organization's higher competitiveness that results from decrease in various forms of threats that are generated from people and their behavior in business processes. The originality of this paper is in the relevant research topic selection that puts in focus some aspects of human resources management that are important for business safety and that were not highlighted in previous research.

Key words: business organization, business continuity, human resource management, integrated business safety

1. INTRODUCTION

Human resource management is an important part of general management, and if management is being viewed as a business function then HRM can be approached as a component that has attributes of the process subfunction. This traditional approach also includes planning, organizing and controlling that together with HRM complement process management component, covering all the processes that contain the most important activities associated with managing and administering the organization. Newer concept of management decomposition places HRM within organizing as a subfunction, taking out leadership as an independent subfunction. The purpose of this paper is to find a link between HRM and business safety. Since the concept of business safety is multidimensional, it is necessary to decompose it in terms of scope, threat sources and impact of threats on organization. In this way, business safety will be exticated from other possible sources of organization's safety and the importance of human resources in that context will be observed. The basic hypothesis is that the management of human resources has a positive impact on business safety. Correlation between two variables is not easy to prove and it would a challenge for long-term research, but the review recent literature makes obvious that business safety depends on people who are responsible for key processes.
in the organization. The quality of business safety is not easily quantified, and the managers’ perception of it is based on the absence of crisis or in attitude that different forms of threats did not impact significantly business processes or the organization's competitive advantage. Regardless of the subjectivity of such assessments, it is possible to see how the perception of business safety quality depends on the existence of documents and processes to confirm its effectiveness. It is possible to track how the application of certain procedures, defined in advance, facilitates recovery from the crisis, but it is also possible to argue that the absence of any crisis events in the period (for example, during the financial year), also confirms the quality of business continuity management. In any case, research on the importance of human resources for business safety is far behind its actual role and importance of employees selection and motivation for business continuity management enchancement.

2. HUMAN RESOURCE MANAGEMENT AS A PROCESS MANAGEMENT FUNCTION

The traditional literature on organization and management (Weihrich and Koonz, 1994) distinguishes HRM as an independent management subfunction (process function) along with planning, organizing, leading and controlling. Newer research placed HRM within the function of organizing, while retaining leading as an independent subfunction. Within the organizing, as a management subfunction, Daft (2011) recognizes: design of an adaptive organization, change and innovation management, human resources management and diversity management. He also recognizes understanding of human behavior, leadership, motivation of employees, communications and teams managing within the independent leading subfunction. Within the organizing, Schermerhorn (2011) stresses: organizational structures and design, organizational culture and change, and human resource management; and within the leading: development of leadership and management, individual behavior, and motivational theory and practice. DuBrin (2012) divides organizing subfunction to: tasks design and distribution, organizational structure, culture and change, and human resources and talents management; while decomposing leading on: leadership and motivation, communication and management of inefficient performers. Significant deviation from these patterns exists in the Witzela's (2005) decomposition of management that includes following components (process functions): strategy, organization, human resources, marketing, manufacturing, finance, knowledge and culture. In all approaches, human resources management is an independent component but on different levels of construct. It is also important to note that the leading is sometimes separated into an independent sub funktion, while in some other cases it is an integral part of human resource management. Kurtič and Kulović (2011) define leading as a subprocess of he management process, or as a function, and leadership as procedures for its implementation. Mathis and Jackson (2000), within the HRM emphasize: strategy, organizational staffing, training, compensation and employing and working relations.

This paper starts from the assumption that the HRM is an independent management subfunction which, if viewed as a process, includes: recruitment, hiring, leading and motivating. Processes and activities model is shown in the Figure 1. If the management is seen as an a business function, then its component are processes that can be decomposed to subprocesses and activities. If management is approached as a process, then its components are subprocesses and their components are activities. That makes possible to show three or four levels of decomposition in a model simultaneously: function - process - sub-process - the activity. In some considerations, human resource management can be viewed as an autonomous business function and its components in that case would be raised to the level of individual processes. These elements could be further decomposed into parts that are either subprocesses or activities. Each function, as well as process, subprocess or activity will start with
planning and end with controlling. This synchronises components with composition and also shows how the actual value of the selected indicators deviates from the plan.

**Figure 1: The processes, subprocesses and activities in the business management function**

**Recruiting** starts with the required number of employees planning (based on previously planned business activities), it is carried out by calls, applications reviewing, the assessment of candidates (the procedure may involve several days testing and numerous interviews, and it should be conducted by competent professionals, often from external specialized organization), and selecting. This is the first opportunity to perform safety checks of selected candidates, if it is necessary and foreseen by organizational rules, in accordance with state laws.

**Employing** is also planned in accordance with the needs of business activities, and it is conducted as a formalization of the relationship of selected individual and organization. This is a very sensitive phase of the mutual rights and obligations settlement and it is done between the individual or his union representative and an organization's authorized manager. This process also provides an opportunity to establish rules and relationships that contribute to the organization's safety and reduce the likelihood of those types of threats that can be caused by internal factors. Employing itself can be extended in a process of introduction to work that can take several weeks or months, depending on the complexity of the new employee's position. This process of individual's adjustment to organization can be held under the supervision of the responsible person (manager, supervisor, and mentor) and is crucial for
the successful integration of new members and their inculturation. If verification procedures and safeguards are applied at this phase, they can result in more accurate and complete information.

**Leading** is also a continuous process that can be raised to the level of individual business function or subprocess within managing. If it is observed within human resources, it has great importance because it includes all the measures and procedures that encourage individuals to actively and creatively contribute organizational aims and goals achievement. Every good manager should also be a good leader because the success of management process is measured by all employees’ contribution to the organization’s goals. Employees' trust in a good leader’s existence contributes to increased employee loyalty and thus reduces the risk of internal activities that could jeopardize organization. Discipline, as an organizational activity to achieve the common goal is more easily achieved when the leader acts as a person who believes that organizational goals do not necessarily mean the negation of the employees' individual goals. This synchronization of individual goals with the interests of organization is the biggest challenge of good leadership. One of the most important components of good management is to preserve continuity in leading, taking care about the succession and replacement of top managers, as well as dedication to talent management and key persons responsible for organization’s critical processes.

**Motivating** is a component of good leading that can be achieved thru both financial and nonfinancial incentives. Knowing the needs and ambitions of individual employee allows leader to easily choose which factors would motivate his followers. Although "fair" remuneration is mostly used phrase, it is difficult to assess this individual's subjective satisfaction and quantify it to achieve harmony in the organization. However, it should be constantly strived to include motivational factors into the HRM resources in order to enhance the overall management. In the context of business safety, motivational factors are the appropriate care for each employee, the implementation of safety measures, and in the raise of social security (continuity of employment). Good labor relations and corporate social responsibility also contribute to improved employee motivation.

3. **BUSINESS CONTINUITY IN THE CONTEXT OF THE INTEGRATED SAFETY MODEL**

Business continuity/corporate safety identifies and effectively mitigates or manages, at an early stage, all events that may affect immunity and survival of the corporation. It is an independent business function that oversees and coordinates the processes of all other functions within the company in the part of their activities that are relevant to security, business safety and safety at work (Wikipedia, 2012). As well as acting independently, business safety function can be arranged as part of organizational management functions and then it is equal with planning, organizing, human resource management and controlling. Corporate security in the Wikipedia (2012) includes following components: personal, physical and information security, corporate governance, compliance with ethical standards, prevention and detection of crime, deterrence of fraud and embezzlement, research, risk management, business continuity planning, crisis management and environmental care and safety. The website bizsecurity.about (2012) lists the following categories of organization’s security: physical and information security, personnel security, policies design and business continuity.

In the first book on the corporate security in the Croatian language (Ostojic, Ivandic Vidovic, Karlovic, 2011.), corporate security is defined thru following dimensions: information security, private security, protection of intellectual property, data protection, private investigation business, business intelligence, prevention of money laundering and terrorist financing, safety, fire protection,
environmental protection and defense preparations. It is obvious that the corporate security includes parameters that are relevant to the individual, the organization itself, but also to broader social, political and natural surrounding. This leads to the concept of integral safety that is also an interesting subject of the recent research.

The concept of safety, when observed integrally, includes national safety, public safety, corporate and personal safety and this shows that all - individuals, businesses and government need to worry about the safety processes and that it is important that security experts coordinate their activities at all levels so that normal functioning of individuals, businesses and government agencies that operate in the service of citizens is minimumly interfered with. Integral safety model is shown in Figure 2.

![Figure 2: Components of integrated safety model](image)

Business safety should not be viewed as an isolated phenomenon that needs to be in focus of organization itself only, although this is its primary task. Because of the organization’s interaction with its surrounding, it is important to achieve its compliance with other types of safety: public and national. This means that the person responsible for safety in business organizations needs to collaborate with all the organizational forms of public and national security that can help in raising the level of integrated safety and all of its components.

Although every business organization should devote its full attention to safety issues, small and medium-sized organizations usually leave this topic aside or they access it only formally, just to meet minimum legal requirements. Trivial threat occurrence, e.g. credit card or cell phone abuse, could be fatal for small businesses; it is recommended that each company establishes at least some processes of protection from possible threats (Understanding, 2012):
Companies must always be careful and vigilant, and the period when workers enter and exit the facilities is critical for the possible side entrances.

Well illuminated facilities discourage intruders and it is necessary to pay attention to illumination of buildings and their surrounding, especially if the objects are not visible from main roads.

Engage a security company, even if there is a adequate alarm system - a professional physical protection is always good to complete the electronic technical measures.

Concern on the use of information and data protection, and physical and technical preservation and maintenance of information systems are particularly important precaution measures in all organizations, regardless of their size.

Development, implementation and maintenance of business continuity plan helps especially when unexpected events occur because then "trained" measures and procedures are applied and the speed of decision making can significantly reduce potential damage.

Constant testing of all the safeguards maintains a high level of preparedness in case of occurrence of any crisis and also discourages malicious attempts to cause damage.

In the context of integral safety, all procedures carried out by the company itself must be coordinated with the authorities who are in charge of public safety, and in some cases with the national security services. Physical and technical protections are, as well as fire protection, the most common examples of the need for cooperation in the sphere of public safety. Protection of information systems is also partly included in the issue of public safety, and all other forms of protection and/or prevention of disasters performed by the company internally have also important impact on the surrounding and are not excluded from the sphere of interest of the public safety. Company size, technology used, product range, including also its allocation, can sometimes enter into the sphere of interests of national safety so business safety itself should almost always be seen in the integrated safety context: from protection of the individual to the protection of global social groups. This is reflected in the new ISO 22301 standard that contains provisions on the requirements for establishing and maintaining an effective system of business continuity management entitled: Societal security - Preparedness and Continuity Management Systems – Requirements.

4. THE IMPORTANCE OF HUMAN RESOURCES FOR INTEGRATED BUSINESS SAFETY

Human resources are the greatest asset of any business organization therefore the care for their physical protection takes the first place among corporate safety tasks. The physical protection is mostly covered by the safety standards, as a separate business function, or as an important component of all organizational functions. Safety measures are prescribed by international standards, national laws and internal organizational documents. Since there are sanctions prescribed, their application is evident in every organization, formally at least. Studies dealing with this issue show how safety standard experts' work only partially meets expectations meaning that there is need for considerable effort in order to improve the state of health and safety in domestic companies, in the interests of all employees, but also the organization as a whole (Consortium 2010).

It is important to note that the protection of employees is very important for business safety. However it is also important to notice how important employees are in preventing adverse events and how important their evacuation can be for business continuity. In the light of that, a special subfunction has
been developed that deals with the management of key personnel for there are people without whom some processes might not occur regularly. An essential component of Business Continuity Plan is the identification of such employees, as well as dealing with their timely replacement, in their absence or interruption of the regular course of critical processes.

At the same time, it must be recognized that human resources are the source of threats to the organization. Unfortunately, statistics show that 80% of security breaches come from within the company, from the company’s employees; more than 20% of attacks on the company website also come from within, and nearly 30% of the companies studied had experienced more than 5 attacks from within in a course of a year (Corporate, 2012). This is understandable given the growing number of companies that are using information technology in order to improve all business processes. That is making them vulnerable to hacker attacks, and very often it is forgotten that such attacks can be initiated by the employees themselves. Sales statistics, information about customers and suppliers, technological secrets, including information about the employees themselves, may be subject to sale on the gray market, thus opening up new areas of interest for unauthorized intrusions into information systems.

The problem of sudden changes in behavior of individuals who suddenly become dangerous for the organization raises many issues of concern for businesses and their aim to attempt to anticipate such situations and try to stop them ahead of time. The experience of large organizations such as the U.S. military can be interesting for the small business organizations as well. (Montalbano, 2010). This is especially important if you have in mind the results of studies that show that employees in small companies are more prone to risky behavior than employees in large companies (White, 2012). The same study shows that SMEs pay insufficient attention to the security of information systems and have insufficient training of employees about the safety of business organization.

It is important to know that the identification of risks is associated with the timely definition of critical processes or particularly important information and employees, and that the of unwanted events, as well as the removal of harmful consequences in the event of their occurrence, is in relation with employees’ timely detection of the threat and their ability to act in accordance with the continuity plan. It is therefore not surprising that in all measures of prevention, recovery and business continuity, the importance of employees’ training for the conduction of safety measures is especially emphasized.

Research already mentioned, which polled about 1,500 IT experts in over 30 countries (White, 2012), showed what kinds of damage usually occurs from hacker intrusions into the information system: the decline in productivity, labor costs to re-establish a secure system, drop in income, loss of important data on the organization and customers, loss of reputation and, after the attack, expenses to comply with the regulations. The order damages mentioned is related to their frequency, but the order would be somewhat different if costs of certain types of damages would be measured: after the loss of income, largest direct damages are related to loss of reputation, and then come the costs associated with the application of regulations after the attack. These data on the protection of the IT show the importance of human resources for the safety of the organization and to the conclusion could be applied if importance of people in other types of threats that are not caused by natural disasters would be researched (burglary, fire, terrorist attacks). That is why the measures recommended in the survey are universally applicable: identification of potential risk, taking steps to prevent the appearance of unwanted events (risk minimization), employee training and constant vigilance.
4. CONCLUSION

This paper decomposed the concept of business safety in terms of scope, threat sources and impact of threats on organization so business safety was extricated from other possible sources of organization's safety and the importance of human resources in that context was observed.

Though it is obvious that business safety depends on people who are responsible for key processes in the organization, this paper also identifies positive impact of human resource management on the business safety itself. First opportunity to enhance business safety with the use of HRM is recruiting process because safety checks of selected candidates are performed, if it is necessary and foreseen by organizational rules, in accordance with state laws. If verification procedures and safeguards are applied at the employing phase, the result is more accurate and complete information. In the context of business safety, motivating can enhance it if appropriate care for each employee, the implementation of safety measures, and in the raise of social security (continuity of employment) is applied.

Also, business safety should not be viewed as an isolated phenomenon that needs to be in focus of organization itself only, but, because of the organization’s interaction with its surrounding, it is important to harmony with both public and national safety.

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ECONOMICAL ANALYSIS OF THE EXPENSES OF STATE AND MUNICIPALITY HOSPITALS IN BULGARIA

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Abstract
The mission of each hospital is to increase the quality of life of its patients through providing the relevant medical services for recreating, improving or stabilizing of their health conditions. In order to fulfill its mission, the hospital spends certain resources in two main directions – producing medical services and self development in order to assure a wider range (in terms of quality and quantity) of effectiveness in its services. Important example are capital expenditures which indicate stability and potential for development and expand the capacity of hospitals. With regards to this, a control over the complicated relation and balance between needs and resources, between spent resources and fulfilled services, between results and spent resources. The analysis of the types of the expenses and their distribution is a key factor.

Key words: Expenses of hospitals, personnel expenses, expenses for medicaments, expenses for food, operation expenses, quality of care, capital investments.

1. INTRODUCTION
Hospitals are some of the most complex systems because of the diversity of their functions, structures, activities carried out and characteristics of their staff. This reflects on the value and structure of the economic parameters of the hospital. The analysis of the expenses of hospitals is of vital importance for their rational management and the improvement of their effectiveness.

The capital expenses are investments for the near future (expenditures creating future benefits) which makes them of the most important elements of the financial status of hospitals. They indicate the sustainability and the possibilities of the hospitals to develop, enlarge their services and capacity. Unlike the running costs, the capital expenses accumulate and their effect is relevant for a longer period. In order a hospital to develop they must increase. If these investments are small or insufficient within time, the hospital will not be effective anymore.

The availability of high-technology facilities, as a source of technical progress, contributes to the quality of care that patients receive when they are in a hospital. The availability rate of high-technology equipment gives an indication of the technological level of the services offered. This availability rate varies from country to country but has been increasing continuously in all EU Member States since the 1980s, or, for the central and eastern European countries, since the 1990s.

The new EU Member States are not always the least-equipped. For example, the Czech Republic and Slovakia are better equipped in CT scan machines than France, because of significant investments in equipment starting in the late 1990s.
2. DATA AND METHODOLOGY

2.1. The following research analyses the expenses of the state and municipality hospitals in the country in order to demonstrate the dynamics and distribution of the expenses, as well as the conditions that influence this dynamics. Information on expenses is reported according to the “Unified methodology for separate cost reporting in healthcare institutions for all types of costs and institutions”, introduced in 1993 and in effect since 1997 for all public healthcare institutions in the country. The methodology is in conformity with the Unified Budget Classifier of the Republic of Bulgaria. I use data from publications of the NCHI and NSI, international sources and publications. Information on expenses is allocated and summarized in four groups: 1. Expenses on staff (basic and supplementary remunerations, social security and other types of payments by the employer); 2. Expenses on food for the patients; 3. Expenses on medications and 4. Operation expenses required for the activity of the hospital (costs for energy, fuel, materials, current repairs, hired services, depreciation).

2.2. The following methods we were used:

2.2.1. Method of critical analysis and synthesis of research literature on the problem.

2.2.2. Documentary method - are examined official national statistics and published research papers.

2.2.3. Mathematical and statistical methods for data processing.

2.2.4. Graphical methods for displaying results.

3. EMPIRICAL FINDINGS

3.1. General expenses of hospitals by type

General expenses in hospitals tend to increase in total during each year of the reviewed period. (Table1)

The general increase of expenses of hospitals can by principle be considered as a positive factor. On one hand it speaks for increased financial incomes which means (according to the payment system) a greater volume of work performed. On the other hand stands the assumption that through increasing the expenses the quality also increases (for example with using medicaments of new type, new technologies for diagnosis, treatment and rehabilitation). However, this cannot be applicable for all types of hospitals.

The unequal increase of the expenses for the different hospitals is a sign of certain tendency in their development. For the cancer clinics for example, such tendency is logical die to the need of providing the most precise diagnosis and effective medical treatment, beam and operational treatment. When it comes to regional, municipality and city hospitals however – those that provide wider range of medical services – a smaller increase of expenses may mean that their work is being underestimated.

3.2. Allocation of expenses of hospitals

Similar to the general expenses, their physical dispersion is unequal for the different categories of hospitals. Table 3 presents comparison of the expenses for the period 2001-2009. The average increase (in general, for all hospitals) is 2.6 for both personnel and medicaments, 2.0 for operations and 1.6 for food. (Figures 1,2)
Table 1
Expenses (excluding capital investments) of hospitals in Bulgaria for the period 2001-2009
(amount calculated for thousand BGN)

<table>
<thead>
<tr>
<th>Type of Hospitals</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total costs</td>
<td>565 59</td>
<td>672 529</td>
<td>827 620</td>
<td>948 915</td>
<td>1 073 557</td>
<td>1 006 743</td>
<td>1 111 422</td>
<td>1 229 255</td>
<td>1 383 184</td>
</tr>
<tr>
<td>University and National Multispecialist hospitals</td>
<td>256 36</td>
<td>171 480</td>
<td>213 415</td>
<td>245 448</td>
<td>332 215</td>
<td>285 967</td>
<td>311 115</td>
<td>353 221</td>
<td>372 278</td>
</tr>
<tr>
<td>Regional MHAT</td>
<td>151 005</td>
<td>178 675</td>
<td>217 783</td>
<td>240 112</td>
<td>268 394</td>
<td>259 238</td>
<td>291 465</td>
<td>321 183</td>
<td>352 457</td>
</tr>
<tr>
<td>City MHAT</td>
<td>30 313</td>
<td>37 345</td>
<td>41 494</td>
<td>39 272</td>
<td>43 409</td>
<td>40 892</td>
<td>41 426</td>
<td>45 235</td>
<td>42 568</td>
</tr>
<tr>
<td>Municipal MHAT</td>
<td>92 667</td>
<td>115 015</td>
<td>143 978</td>
<td>153 809</td>
<td>184 531</td>
<td>168 559</td>
<td>183 173</td>
<td>190 447</td>
<td>206 098</td>
</tr>
<tr>
<td>Specialized hospitals (SH)</td>
<td>3 091</td>
<td>5 050</td>
<td>4 833</td>
<td>3 978</td>
<td>4 570</td>
<td>3 554</td>
<td>5 950</td>
<td>4 365</td>
<td>4 219</td>
</tr>
<tr>
<td>Multispecialist hospitals for Pneumopneumological</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SH for Obstetrics and Gynaecology</td>
<td>7 824</td>
<td>9 215</td>
<td>11 411</td>
<td>10 471</td>
<td>13 610</td>
<td>14 714</td>
<td>15 874</td>
<td>16 286</td>
<td>21 174</td>
</tr>
<tr>
<td>SH for Pulmonary Diseases</td>
<td>2 184</td>
<td>2 767</td>
<td>2 841</td>
<td>3 881</td>
<td>4 234</td>
<td>4 615</td>
<td>4 579</td>
<td>5 175</td>
<td>4 219</td>
</tr>
<tr>
<td>SH for Continuing treatment of Pulmonary Diseases</td>
<td>4 217</td>
<td>4 176</td>
<td>4 708</td>
<td>4 185</td>
<td>4 239</td>
<td>4 586</td>
<td>5 156</td>
<td>5 175</td>
<td>5 813</td>
</tr>
<tr>
<td>High SH for active treatment</td>
<td>71 716</td>
<td>81 498</td>
<td>103 885</td>
<td>139 778</td>
<td>98 765</td>
<td>92 746</td>
<td>96 808</td>
<td>93 716</td>
<td>153 549</td>
</tr>
<tr>
<td>SH for rehabilitation</td>
<td>11 821</td>
<td>12 765</td>
<td>14 809</td>
<td>16 211</td>
<td>29 237</td>
<td>18 235</td>
<td>21 874</td>
<td>31 847</td>
<td>31 758</td>
</tr>
<tr>
<td>SH for Continuing treatment of Pulmonary Diseases</td>
<td>6 509</td>
<td>6208</td>
<td>7 078</td>
<td>7 186</td>
<td>8 716</td>
<td>8 263</td>
<td>8 734</td>
<td>10 792</td>
<td>10 755</td>
</tr>
<tr>
<td>Public Psychiatric hospitals</td>
<td>8 433</td>
<td>9 505</td>
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<td>12 640</td>
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<td>Dispensaries for Psychiatric diseases</td>
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<td>10 479</td>
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<td>16 356</td>
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<td>13 095</td>
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<td>3 919</td>
<td>4 300</td>
<td>5 338</td>
<td>5 941</td>
<td>6 392</td>
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<td>Dispensaries for Oncological diseases</td>
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<td>47 937</td>
<td>61 384</td>
<td>64 464</td>
<td>78 708</td>
<td>95 869</td>
<td>114 088</td>
</tr>
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</table>

Notes: Multiprofile hospitals for active treatment – MHAT; Specialized hospitals - SH

Similar to the general expenses, their physical disperrancy is unequal for the different categories of hospitals. Table 2 presents comparison of the expenses for the period 2001-2009. The average increase (in general, for all hospitals) is 2.6 for both personnel and medicaments, 2.0 for operations and 1.6 for food.

This distribution of the increase is approximately the same as the relation between the relative shares presented above. Again, it is different for the different types of hospitals (table 2). According to the four indicator the biggest increase is noted at the cancer centers – for personnel (5.8), for medicaments (5.1), for operations (5.0), while the food marks average level. The increase at the university and the national hospitals is significantly above average when it comes to medicaments (3.3), while for personnel is little bit above average (2.7), and for food (1.30 and operations (1.7) is even below. Closest to the general dispersancy of increase are the regional and municipality hospitals , excluding the element of medicaments where it is below the average (2.1 and 2.2). The expenses change in a similar manner in the specialized hospitals , however their operational expenses increase is...
The city hospitals even mark a decrease of expenses for medicaments, while for personnel, food and operations are below the average.

**Figure 1**

**EXPENSES OF MHAT (%)**

<table>
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<tr>
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</tbody>
</table>

Notes: MHAT is Multiprofile hospitals for active treatment
1. Personnel expenses; 2. Expenses for medicaments;
3. Expenses for food; 4. Operation expenses.

**Figure 2**

**EXPENSES OF SPECIALIZED HOSPITALAS (%)**

<table>
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<td>2009</td>
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</tr>
</tbody>
</table>

1. Personnel expenses; 2. Expenses for medicaments;
3. Expenses for food; 4. Operation expenses.
In the period 2001-2009 the expenses on personnel in almost all hospitals increase double and more with small exceptions). The same applies for the expenses for medicaments. The increase of expenses for operations is not that significant (also with small exceptions), the same is the case with the food expenses.

**Table 2**

Types of expenses (excluding capital investments) for hospitals in Bulgaria for the period 2001-2009 (thousand BGN)

<table>
<thead>
<tr>
<th></th>
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<td>19299</td>
<td>30 339</td>
<td>148 324</td>
<td>396 098</td>
<td>162 723</td>
<td>330 759</td>
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<td>159 650</td>
<td>4 050</td>
<td>5 266</td>
<td>39 830</td>
<td>132 507</td>
<td>37 824</td>
<td>74 854</td>
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<td>Regional MHAT</td>
<td>66 890</td>
<td>172 361</td>
<td>4 336</td>
<td>7 355</td>
<td>39 665</td>
<td>82 501</td>
<td>40 111</td>
<td>80 238</td>
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<tr>
<td>City MHAT</td>
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<td>25 390</td>
<td>1 200</td>
<td>1 248</td>
<td>8 438</td>
<td>7 438</td>
<td>8 895</td>
<td>10 492</td>
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<tr>
<td>Municipal MHAT</td>
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<td>111 925</td>
<td>2 927</td>
<td>4 456</td>
<td>14 874</td>
<td>33 242</td>
<td>29 419</td>
<td>56 473</td>
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<td>1 156</td>
<td>2 217</td>
<td>131</td>
<td>158</td>
<td>977</td>
<td>755</td>
<td>826</td>
<td>1 088</td>
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<tr>
<td>SH for Obstetrics and Gynecology</td>
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<td>11 263</td>
<td>343</td>
<td>341</td>
<td>1 121</td>
<td>3 890</td>
<td>3 299</td>
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<td>342</td>
<td>221</td>
<td>320</td>
<td>937</td>
<td>1 422</td>
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<tr>
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<td>2 756</td>
<td>295</td>
<td>384</td>
<td>257</td>
<td>339</td>
<td>1 729</td>
<td>2 034</td>
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<tr>
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<td>52 173</td>
<td>2 000</td>
<td>2 218</td>
<td>26 581</td>
<td>63 127</td>
<td>24 065</td>
<td>36 080</td>
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<tr>
<td>SH for rehabilitation</td>
<td>5 031</td>
<td>12 080</td>
<td>993</td>
<td>3 523</td>
<td>32</td>
<td>188</td>
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<td>6 671</td>
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<td>407</td>
<td>493</td>
<td>571</td>
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<td>3 104</td>
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<td>10 568</td>
<td>744</td>
<td>1 540</td>
<td>981</td>
<td>1 558</td>
<td>2 242</td>
<td>5 659</td>
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<td>553</td>
<td>845</td>
<td>1 137</td>
<td>1 683</td>
<td>1 758</td>
<td>3 987</td>
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<td>563</td>
<td>1 627</td>
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<tr>
<td>Dispensaries for onco. diseases</td>
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<td>32 206</td>
<td>808</td>
<td>1 308</td>
<td>12 655</td>
<td>64 596</td>
<td>2 981</td>
<td>15 076</td>
</tr>
</tbody>
</table>

Notes: Multiprofile hospitals for active treatment – MHAT; Specialized hospitals - SH
The period also marks a decrease of the number of hospital beds (from 52 002 to 40 835) and the number of hospital days (from 12 664 224 to 11 458 373). The use of the national hospital beds fund increases from 243,5 to 280,6 days per bed. The number of patients rises from 1 173 534 to 1 670 465, so does the turnover per bed – from 22,5 to 40,9 patients passed.

The expenses for personnel each hospital has are defined as “conditionally-constant”. Their increase cannot be calculated with accordance to the number of patients or number of used hospital beds per day. This is a result of the raise of the personnel’s payments.

The medicament expenses for one patient raise from 126,4 BGN. to 237,1 BGN. Every patient is seen as a consumer of medicaments and additional supplies for diagnostic research and rehabilitation procedures. The increase of expenses for medicaments can, to certain extend be relevant to higher prices, but according to us the main reason lays in the raising number of patients.

3.3. Capital expenses for hospitals

In the period 2001-2009 the capital investments for hospitals in the country raise per year (even though tentatively for some years and groups) and for the entire period of 9 years reach a general amount of 549 173 900 BGN. Of 14.8 million BGN in 2001 they increased to 155 million BGN for the year 2009. This is an increase with over ten times with two sharp moments – in 2005 and especially in 2008 (Figure 2).

![Figure 2](image)

The increase of capital expenses in the period 2001-2009 is noted in all hospitals (Table 3). Most visibly with the regional ones – a hundred times – however this fact is based on the severely low level in 2001. In absolute amount it is in fact 120 241,5 thousand BGN or 21,9 %. The capital expenses of the university and the national hospitals are generally 180 638,8 thousand BGN (32,9 %), for city
ones – 12 272,1 thousand BGN (2.2 %), and for the municipality ones – 56 778,7 thousand BGN (10.3 %). The general amount for all multiprofile hospitals of capital investments for the period 2011-2009 is 369 931,1 thousand BGN, or 67.3%. The specialized hospitals mark capital expenses estimated at 104 426.9 thousand BGN or 19 % of all for the indicated period. The cancer centers report increase of 90 times, but nominally the expenses are 27 711,2 thousand BGN or 5.04 % of all capital expenses.

Table 3

Capital expenses of Bulgarian hospitals in the period 2001-2009

<table>
<thead>
<tr>
<th>Type of Hospitals</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>University and National MHAT</td>
<td>3235.6</td>
<td>5676.9</td>
<td>6971.5</td>
<td>4022.9</td>
<td>22489.5</td>
<td>10289.5</td>
<td>24631.4</td>
<td>53904.2</td>
<td>49437.3</td>
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<tr>
<td>Regional MHAT</td>
<td>421.7</td>
<td>1778.2</td>
<td>948.3</td>
<td>3986.1</td>
<td>11680</td>
<td>9616.6</td>
<td>11965.9</td>
<td>37438.3</td>
<td>42466.4</td>
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<td>City MHAT</td>
<td>687.8</td>
<td>859</td>
<td>500.1</td>
<td>240.5</td>
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<td>1148.2</td>
<td>867.9</td>
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<td>3633.4</td>
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<td>Municipal MHAT</td>
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<td>11062.8</td>
<td>10331.1</td>
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<tr>
<td>SH for Pneumophtysiatric</td>
<td>22</td>
<td>76</td>
<td>15</td>
<td>20.8</td>
<td>7.3</td>
<td>10.8</td>
<td>34.8</td>
<td>95.9</td>
<td>77.1</td>
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<tr>
<td>SH for Obstetrics and Gynecology</td>
<td>32.7</td>
<td>115.2</td>
<td>754.2</td>
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<td>860.9</td>
<td>783.5</td>
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<td>124.8</td>
<td>13.7</td>
<td>61.2</td>
<td>185.4</td>
<td>1005.6</td>
<td>265.8</td>
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<td>SH for contin. treatment of pulmon. diseases</td>
<td>155.1</td>
<td>7.6</td>
<td>205.3</td>
<td>190.9</td>
<td>263.7</td>
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<td>SH for rehabilitation</td>
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<td>514.5</td>
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<td>770.5</td>
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<td>293.9</td>
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<td>444.3</td>
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<td>224.5</td>
<td>699.8</td>
<td>947.4</td>
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The numbers outlined above demonstrate a general tendency of the capital expenses in the period 2001-2009. From a general amount of 549,173.9 thousand BGN, the capital expenses of university and national (32.9 %) specialized (19.0 %) hospitals represent more than a half of the whole amount of capital expenses. The regional, city and municipality hospitals have capital expenses of 34.4 %. An operative unit of a hospital is the hospital bed. The capital spending on average for 1 bed in university, national and specialized hospitals is 36,6 thousand BGN., while at the regional, city and municipality ones is 9,1 thousand BGN (separately: regional - 11 641 BGN, city 7 505 BGN., municipality - 6 384 BGN.). As stated above, the low level of capital spending may lead to recapitalization and lowering the effectiveness of hospitals.

4. CONCLUSION
A ten times increase of the expenses is estimated, which is however unequal for all types of hospitals. Most visible is the increase of centers (especially the caner ones) and for university and national hospitals. The increase is significantly smaller for the multiprofile regional, municipality and city hospitals. In the scheme of expenses, the ones for personnel (over 40 %) and medicaments (около 25 %) prevail, followed by the ones for operations (over 23 %), and on the lowest level are the food expenses (around 2 %, but with specialized hospitals ate double). The spending on personnel is significantly larger in the university and the national hospitals.

The analysis of the capital expenses in the period 2001-2009 demonstrates a ten time unequal increase. The capital spending in the university, national and specialized hospitals covers 51% of all capital expenses (average of 36,6 thousand BGN per bed), the expenses for the regional, municipality and city hospitals is 34,0 % of all (9.1 thousand BGN per bed). This negatively influences the quality of medical services and the results of these services.

Consumer Price Index in December 2009 compared with January 2001 was 164.1%, thus the inflation rate was 64.1%.
This leads to conclusion that regional, city and municipal hospitals are chronically under financing, which is an underestimation of their importance in the structure of the state hospital.

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EXPENDITURES FOR THE ACTIVITIES OF THE HOSPITAL WARDS OF MHAT

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Medical University – Sofia, Faculty of Public Health, Department of Health Economics, 1527 Sofia, Bulgaria. E-mail: dshtereva@mail.bg

Abstract
The hospital ward is a basic organization unit of a hospital where the hospital mission is realized, goals are achieved to a certain extent and possibilities for the development of the progress are established. The hospital ward (with its staff, patients, material and technical equipment) is the area where the final utilization (direct or indirect) of all material and immaterial hospital resources is carried out. Thus the analysis of the expenditures (trends, change rate, distribution, relationships) of hospital wards is of particular importance for the management of an individual hospital, hospital complexes or hospital networks.

Key words: hospital wards, annual number of beds, admitted patients and average patients’ stay

1. INTRODUCTION
It is characteristic that since 2006 the multiprofile hospitals (MHAT) get almost all finances by contracts with the National Health Insurance Fund (NHIF). The other financial sources (state and municipal budget, voluntary insurance funds, individual payments, donations) have significantly smaller contribution.

2. MATERIAL AND METHODS
This analysis used data from publications of the National Center for Health Informatics (NCHI) and the National Statistics Institute (NSI).

The paper covers four types of hospital wards (therapeutic, surgical, pediatrics, and obstetrics and gynecology (OB/GYN)), typical for all State and Municipal MHAT.

3. RESEARCH PART AND RESULTS
Activities of hospital wards
Hospital clinics/wards realize their expenditures in the course of their activities. That is why it is necessary to list briefly some major indicators for their work in 2005 – 2009 (Table 1).
Table 1
Average annual number of beds, admitted patients and average patients’ stay at MHAT wards in 2005 and 2009

<table>
<thead>
<tr>
<th>HOSPITALS/WARDS</th>
<th>Hospital (number)</th>
<th>Hospital beds (number)</th>
<th>Admitted patients (number)</th>
<th>Average stay (days)</th>
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<td>73</td>
<td>3107</td>
<td>3517</td>
<td>6.6</td>
</tr>
<tr>
<td>Obstetrics and Gynecology</td>
<td>137</td>
<td>110</td>
<td>10543</td>
<td>7915</td>
<td>3.5</td>
</tr>
<tr>
<td>MUNICIPAL</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Therapeutic</td>
<td>2330</td>
<td>2203</td>
<td>95187</td>
<td>92297</td>
<td>7.7</td>
</tr>
<tr>
<td>Surgery</td>
<td>1339</td>
<td>1200</td>
<td>63164</td>
<td>55193</td>
<td>5.9</td>
</tr>
<tr>
<td>Pediatrics</td>
<td>1314</td>
<td>1348</td>
<td>60103</td>
<td>58451</td>
<td>7.2</td>
</tr>
<tr>
<td>Obstetrics and Gynecology</td>
<td>1131</td>
<td>990</td>
<td>63909</td>
<td>59366</td>
<td>4.8</td>
</tr>
</tbody>
</table>


This period evidenced reduction of the number of beds at the discussed hospital wards/clinics. The exceptions from this characteristic are not essential (pediatric wards at University, Town and Municipal hospitals and OB/GYN at University MHAT). Another characteristic feature was the development of two opposite processes. The number of admitted patients at University clinics increased, at the same time this number decreased at Regional, Town hospitals (with small exceptions of therapeutic and pediatric wards) and especially at Municipal hospitals. The demand (and provision)
of hospital care was oriented towards “higher levels” of medicine. The third characteristic was the reduction of the average patients’ stay at the hospital that was observed at all (with the exception of OB/GYN wards of Town hospitals) wards/clinics at all MHAT. The reduction of hospital beds number was compensated by the reduction of average stay, allowing admittance of more patients at university hospitals. This reduction of admitted patients and of hospital stay at other hospitals should, itself, cause decreased changeable expenditures, mainly for medications. In all cases, the mentioned processes affected the expenditures of the hospital clinics/wards.

Expenditures of MHAT by wards

In the period 2005-2009 the total expenditures of MHAT wards/clinics increased, with the exception of those of therapeutic and surgical clinics of University hospitals and surgical wards at Town hospitals (Table 2). This increase was significant at some hospitals and wards. Thus, although the number of admitted patients decreased, the growth of expenditures of the surgical wards at Regional hospitals was more than 23%, of therapeutic wards at Municipal hospitals – more than 20% and of surgical wards at the same hospitals – more than 27%. The average annual increase for pediatric wards was between 6.4 % (pediatrics clinics) and 5.0% (pediatrics wards at Municipal hospitals). The increase observed for therapeutic wards at Regional (2.5%) and Town (1.5%) hospitals was too small, even under the inflation index for “health care” branch (NSI, 2010, p. 142-147).

Table 2
MHAT expenditures by wards in 2005 and 2009 (thousands of BGN)

<table>
<thead>
<tr>
<th>HOSPITALS/WARDS</th>
<th>Total expenditures</th>
<th>Staff</th>
<th>Catering</th>
<th>Medicines</th>
<th>Operative</th>
</tr>
</thead>
<tbody>
<tr>
<td>UNIVERSITY</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Therapeutic</td>
<td>34946.5</td>
<td>30528.6</td>
<td>10545.3</td>
<td>11879.1</td>
<td>445.8</td>
</tr>
<tr>
<td>Surgery</td>
<td>73747.7</td>
<td>68960</td>
<td>25107.1</td>
<td>29282</td>
<td>671.4</td>
</tr>
<tr>
<td>Pediatrics</td>
<td>8471.1</td>
<td>11184</td>
<td>3427.4</td>
<td>4253.1</td>
<td>167.1</td>
</tr>
<tr>
<td>OB/GYN</td>
<td>6398.8</td>
<td>7674.6</td>
<td>2696.6</td>
<td>3918.9</td>
<td>101.3</td>
</tr>
<tr>
<td>REGIONAL</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Therapeutic</td>
<td>10348.3</td>
<td>11668.5</td>
<td>4774.7</td>
<td>6206.8</td>
<td>277.8</td>
</tr>
<tr>
<td>Surgery</td>
<td>34619.4</td>
<td>42674.9</td>
<td>16309.6</td>
<td>22049.3</td>
<td>557.9</td>
</tr>
<tr>
<td>Pediatrics</td>
<td>10333.8</td>
<td>13167.3</td>
<td>5978.2</td>
<td>7518.4</td>
<td>343.3</td>
</tr>
<tr>
<td>OB/GYN</td>
<td>19537.4</td>
<td>24075.4</td>
<td>10793</td>
<td>13542.9</td>
<td>387.6</td>
</tr>
<tr>
<td>TOWN</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Therapeutic</td>
<td>6752.3</td>
<td>7211.8</td>
<td>3018.1</td>
<td>3148.2</td>
<td>229.1</td>
</tr>
<tr>
<td>Surgery</td>
<td>3815.9</td>
<td>3705.9</td>
<td>1749.8</td>
<td>2133.9</td>
<td>77.4</td>
</tr>
<tr>
<td>Pediatrics</td>
<td>1284.9</td>
<td>1688.9</td>
<td>776.9</td>
<td>1101.1</td>
<td>33</td>
</tr>
<tr>
<td>OB/GYN</td>
<td>3290.8</td>
<td>3385.3</td>
<td>1743.5</td>
<td>2034.5</td>
<td>48.2</td>
</tr>
</tbody>
</table>
The **distribution** of expenditures in 2005 and 2009 was indicative (Table 2). All types of hospitals and wards reported increased staff and catering expenditures. The operative expenses also increased, with the exception of University MHAT and surgical wards at Town MHAT.

**Staff expenditures** showed a most substantial increase at **surgical** wards/clinics – 16.3% at University MHAT, 34.9% at Regional MHAT, 22.4% at Town MHAT and 35.0% at Municipal MHAT. Staff expenditures formed a significant share of the total expenses of all hospital wards. Thus the rate of staff expenses of surgical clinics at University MHAT increased from 34.0% to 42.3% and those of therapeutic clinics – from 30.0% to 38.6%. This expenditure at therapeutic wards at Regional hospitals showed an increase from 46.1% to 53.1% and at surgical wards – from 47.1% to 51.6%.

**Catering expenses**, that as absolute numbers and percentage rate were small, had the most significant increase at OB/GYN clinics of University hospitals (69.3%) and surgical wards at Town hospitals (38.9%), and the other hospitals reported an increase of about 10%.

The increase of **operative expenditures** (with the quoted exceptions) was more substantial at Regional hospitals but, as a percentage rate they stayed between 19.5% (therapeutic wards) and 25.7% (pediatric wards). The reduction of those (conditionally constant) expenses at University hospitals was indicative. Compared to those in 2005 those expenditures of the four types of clinics were with about 6.8 million BGN less. Most possibly, this effect of reduced operative expenses was due to the reasonable organization-technical measures and work regime implemented at University hospitals in the reviewed period.

From the viewpoint of the quality of medical care provided at hospital wards/clinics, the **medicines expenditures** are indicative. (Fig. 1) Unlike staff expenditures, the expenses for medicines in the period 2005-2009 of a number of ward types were reduced, in some of them this reduction was significant: 19% at therapeutic, 21% at surgical clinics at University hospitals, at Regional hospitals – 19% (therapeutic) and 16% (pediatric), 12 – 40% at all Town hospital wards. The decrease was smaller at Municipal hospitals – 4% at therapeutic and 9% at pediatric wards. In general, the expenditures for medicines were reduced by **all therapeutic clinics/wards**, by **surgical clinics/wards** at University, Regional and Town hospitals, by **pediatric** wards at Regional, Town and Municipal hospitals and by **obstetrics and gynecology** wards at town hospitals. Some increase of medicines expenses was reported by pediatric clinics at University hospitals, by OB/GYN clinics/wards at University, Regional and Municipal hospitals and surgical wards at Municipal hospitals. The reduction of expenditures for medicines in 2005-2009 **cannot be considered** as a step to improving the quality of hospital care especially having in mind the insufficient hospital funding.

### Table 2: Distribution of Expenditures in 2005 and 2009

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MUNICIPAL</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Therapeutic</td>
<td>34323.3</td>
<td>41238.7</td>
<td>16122.4</td>
<td>2146.4</td>
<td>895.8</td>
</tr>
<tr>
<td>Surgery</td>
<td>26488.8</td>
<td>33645.9</td>
<td>13793.1</td>
<td>18502.3</td>
<td>447.8</td>
</tr>
<tr>
<td>Pediatrics</td>
<td>19566.9</td>
<td>24405.2</td>
<td>10484</td>
<td>14210.2</td>
<td>332.8</td>
</tr>
<tr>
<td>OB/GYN</td>
<td>19026.9</td>
<td>21864.9</td>
<td>10876.6</td>
<td>13090.6</td>
<td>339.8</td>
</tr>
</tbody>
</table>

Fig. 1

Compare together average staff expenditures and medicines expenditures in the University hospital wards

Table 3

Average cost per MHAT hospital bed (in BGN) in the period 2005 - 2009

<table>
<thead>
<tr>
<th>HOSPITALS/WARDS</th>
<th>Year</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005</td>
<td>2006</td>
<td>2007</td>
<td>2008</td>
<td>2009</td>
</tr>
<tr>
<td>UNIVERSITY</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Therapeutic</td>
<td>59031</td>
<td>50877</td>
<td>49722</td>
<td>69959</td>
<td>59279</td>
</tr>
<tr>
<td>Surgery</td>
<td>61869</td>
<td>58612</td>
<td>66014</td>
<td>73214</td>
<td>69098</td>
</tr>
<tr>
<td>Pediatrics</td>
<td>32834</td>
<td>24209</td>
<td>23471</td>
<td>33197</td>
<td>42364</td>
</tr>
<tr>
<td>OB/GYN</td>
<td>33155</td>
<td>26443</td>
<td>25452</td>
<td>30850</td>
<td>36546</td>
</tr>
<tr>
<td>REGIONAL</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Therapeutic</td>
<td>16195</td>
<td>14959</td>
<td>15871</td>
<td>17243</td>
<td>20364</td>
</tr>
<tr>
<td>Surgery</td>
<td>26404</td>
<td>26060</td>
<td>28213</td>
<td>31018</td>
<td>33633</td>
</tr>
<tr>
<td>Pediatrics</td>
<td>15089</td>
<td>15063</td>
<td>16436</td>
<td>17692</td>
<td>19602</td>
</tr>
<tr>
<td>OB/GYN</td>
<td>19759</td>
<td>20303</td>
<td>12031</td>
<td>25681</td>
<td>28781</td>
</tr>
<tr>
<td>TOWN</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Therapeutic</td>
<td>19977</td>
<td>21612</td>
<td>20023</td>
<td>20505</td>
<td>24364</td>
</tr>
<tr>
<td>Surgery</td>
<td>24152</td>
<td>28549</td>
<td>28897</td>
<td>25894</td>
<td>26855</td>
</tr>
</tbody>
</table>
The increase of hospital wards expenditures affected the value of *average cost per hospital bed* (Table 3).

*The average cost per hospital bed* is calculated by dividing the total expenditures of the ward by the average number of ward beds. The value of this expenditure is affected by conditionally constant and variable expenses. If the bed is not occupied by a patient, the costs for it are only conditionally constant. The more intensively a bed is used, the greater its variable costs are (mainly for medicines, consumables and catering). Besides that, at approximately equal cost value the increase of the average expenditure per one bed will much depend on bed number reduction. University clinics reported a significantly greater average cost per bed (Table 3). The dynamics of this indicator for University and some wards of Regional and Town hospitals showed some fluctuation in 2006 and partially in 2007 (when MHAT funding was fully assigned to NHIF). This fluctuation was continuously compensated during the following years.

**CONCLUSIONS**

In the period 2005-2009 the *total expenditures* of MHAT wards/clinics increased though the number of *beds* and the *average patients’ stay* in this period decreased.

A negative process was evidenced in this five-year period related to financial effectiveness: increased realized health care at “*higher medical levels*” (where the hospital service is more expensive) that caused unnecessary escalation of health costs.

The staff costs increased permanently in the analyzed period, both as absolute values and relative rate of the total expenditures of all hospital wards.

At the same time, though, reduction of costs for medicines was evidenced at *all therapeutic* clinics/wards, *surgical* clinics/wards at University, Regional and Town hospitals, *pediatric* wards at Regional, Town and Municipal hospitals and *obstetrics and gynecology* wards at Town hospitals.

**REFERENCES**


DRIVING GROWTH: EXPLORING A NEW APPROACH TO CROSS-CULTURAL CHANNEL MANAGEMENT AT MOTOROLA

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Abstract

Driving growth is a perpetual challenge confronting business leaders from different destination cultures. This paper examines the need to explore developing a new, cross-cultural relationship marketing (CCRM) model, based on the inter-cultural interaction of participants rather than on exporting an ideology-driven framework from one culture to another.

The newly developed model maintains that ‘dilemma analysis’ needs to be introduced as a means for sales growth due to failed global channel strategies, especially in the case of American, European and Asian companies marketing their goods and services to Emerging Markets. Building in reconciliation of differences can enhance an organization’s trans-cultural competence when managing channel partners and allow it to evolve with a cross-cultural approach to the market.

Key words: Driving Growth, Central/Eastern Europe, Motorola, Global Business Strategy, Cross-Cultural Channel Management, Boston Consulting Group (BCG), Global Strategy, Cross-Cultural Relationship Marketing, Shareholder’s Values

1. INTRODUCTION

Over the last three decades there has been an explosion in management and business research including global sales strategy, partly driven by business cultural needs. During the same period, there have been a number of economic and scientific schools researching cross-culture, but from a mainly anthropological and organizational development perspective. Little or no research has been done to bridge the gap between cross-cultural perspectives, or how business is cross-culture, and global strategic growth in different destination cultures. The new CCRM model and ROR index proposed to Motorola’s European Board was the response to a serious problem impacting the CEO’s global sales and indirect distribution strategy. The problem was increased conflict amongst the Central / Eastern European and Russian distribution channels.

Dilemma analysis is one methodology that attempts to articulate and resolve the residual tensions resulting from an applied ethnocentric sales strategy to cultures outside one’s borders. Dilemma analysis is the methodology employed, as it enables one to map out the mindsets of key players at a time of failing internationalism. By learning how to identify and extract the different meanings of the key players’ value systems, one is able to map out a new platform for prioritising sales and time allocation, while sustaining evolution and the capacity for change. Managing worldwide sales with the right model is long overdue, and this can be reconciled by crafting a new model for managing global accounts, multi-cultural sales forces, worldwide indirect distribution and suppliers from different destination cultures.
This paper attempts to combine multiple cultural voices and values into an inclusive, rather than exclusive, strategic model that allows all the players to have an interactive development role. It is argued that organizations need to learn to manage cultural diversity with a new model that has diversity built into it, rather than adapting an Anglo-American model to other cultures (e.g., Bulgarian, Czech, Romanian, German, Russian and Kazakh).

2. ORIGINS OF BUSINESS STRATEGY

What is ‘strategy’? Strategy (Dickerson, 2002) (Porter, 1996) (Prahalad & Hamel, 1994), (Chandler, 1962) is perceived as a process (Hendry & Johnson, 1990:3), which includes mental calculation prior to an engagement, then the engagement itself, and finally the lessons learned from that engagement prior to re-engaging. Strategy is the pattern formed by this entire learning loop. It also includes everyone involved in the production, sale and distribution of products. The participating distributors and how they “behave” or “misbehave” is a crucial aspect of strategic success or failure. This broad definition of ‘strategy’ contrasts with the view of strategy as an all-encompassing calculation similar to Alexander the Great’s ‘syntagma’, an unbeatable porcupine formation of spears and shields which conquered the known world. Henry Mintzberg (1990) calls this the “design strategy”, concerned with “what” rather than “how”, and this research is concerned with the latter. If your strategy was more or less effective, how did this happen and how did you know?

In Cummings’ (1993) “The First Strategists”, the author derives the word strategy from the ancient Athenian position of strategos. According to Cummings, the title was coined in conjunction with the democratic reforms of Kleisthenes (508-7 B.C.), who developed a new socio-political structure in Athens after leading a popular revolution against a Spartan-supported oligarchy. Kleisthenes instituted ten new tribal divisions, which acted as both military and political subunits of the district of Athens. At the head of each tribe was elected a strategos. Collectively, the ten incumbent strategoi formed the Athenian war council. Strategos was a compound of stratos meaning “army” and agein “to lead.” The author maintains that warfare during this period evolved to a point where winning sides no longer relied on the deeds of heroic individuals, but on the co-ordination of many units of men, each fighting in close formation. The increasing significance of naval forces in this period multiplied the variables a commander had to consider in planning action. Consequently, questions of co-ordination and synergy among the various newly emerging units of their organisations became imperative considerations for successful commanders.

Strategy as clever calculation tends to be seen as culture-free. Indeed, design strategy may help to explain American business dominance as it once explained Macedonian military dominance. However, strategy as a process involving learning cannot be culture-free where it includes, in any part of its production and distribution, groups of nationals foreign to the originating nation. In this case strategy can only be as effective as intercultural communication and local interpretation allows. Unfortunately, strategic sales and cross-cultural management studies have for many years occupied separate realms of discourse. It is the purpose of this paper to explore how they may be brought into fruitful combination with a model for both academics and practitioners. Multinational corporations experience all of the paradigms as expressed by Greiner (1998) when marketing their ubiquitous products in different destination cultures all around the globe. Expansion into new markets means entering into new relationships with local employees, suppliers and distributors. Moreover, this implies that the mindsets and values of participants in the global sales strategy formulation and execution process may not be the same, and this could cause conflict.
Bartlett and Ghoshal (1992) believe that there is no such thing as a universal global manager in the volatile world of transnational corporations, but rather that there are three groups of specialists: business managers, country managers, and functional managers. Their article provides an insular view of a transnational company, in that it only involves internal players and neglects to consider distributors, dealers and end customers as a means of leveraging learning. There exist transnational companies with country managers, but is that to say that a transnational company has a country manager in each market where it has a presence? The proposed research argues that if these specialists form a triad of differing perspectives, which are not reconciled, conflict may develop between managers. If there is such conflict, how can one move on to formulating strategy without first resolving it? This also applies to conflicts between distributors, distributors and manufacturers and manufacturers and suppliers. What about the channel partners or distributors?

Little or no research has been undertaken which recognizes distributors as an integral part of a company’s strategy formulation process. A distributor, in compliance with his contractual obligations, has a role greater than that of a customer purchasing products for resale. A local distributor acts as a local strategist, a warehouse, an advertising agency, marketing co-ordinator, events planner, public relations liaison and sales forecaster for a manufacturer. This distributor is an entrepreneur (Lessem, 1983) who likes to take risks, negotiate contracts and trouble-shoot. However, this “willful” personality contrasts with that of a company manager who is more of a planner and an organizer, and this leads to conflict. Hence, this research aims to provide a practical framework for sales strategists by linking culture to the sales strategy process by means of an interactive (Normann & Ramirez, 1993) process.

Channel management is supposed to be a co-operative marketing strategy by which manufacturers augment their direct sales channels with indirect sales channels of distribution to reach different segments more efficiently and effectively (Cespedes & Corey, 1990). Channel management, once viewed as a stepchild of the marketing function, is now seen as an imperative for senior management when formulating strategy. Given all daily cross-cultural interaction between company employees and distributors, it is vital that the general management of the company pay special attention to the channel management function of the organization (Woolliams, 1996).

3. ACHIEVING GROWTH THROUGH DILEMMA ANALYSIS

Dilemma comes from the Greek word di-lemma, two propositions, which means a situation in which a choice has to be made to gain or avoid between two equally urgent, yet cunningly incompatible, alternatives. It is true that decision-making is about choosing between two unpleasant alternatives and quite often that is a dilemma. Hampden-Turner (1990) sees di and lemma as two contrasting propositions, so choosing between them is a challenge. There are dilemmas which are impossible to solve because the party imposing the dilemma is determined to disintegrate the victim’s value system. Hampden-Turner (1990) sees these as dilemmas because the author argues that any value one cares to name - such as universality or rule orientation - has the task of accounting for many particular instances or exceptions to its rule. Hampden-Turner (1990) maintains that dilemmas are often defined as choices between unfavorable alternatives. This would certainly sharpen the dilemma, but it is also a dilemma to have to forgo one alternative for another when one would like to have both. Hampden-Turner (1990) argues that one needs to extend Dilemma Theory to describe a very common experience - such as management wanting rapid growth and high profitability, but it is difficult to
obtain both. Hence, the effectiveness of the rule is how frequently one deals with encompassing, or failing to encompass, the unusual exceptions.

Choice includes combining values, not simply dividing them. The “horns” of a dilemma can be used like the cross-co-ordinates on a chart, allowing an organization to navigate and to plot its progress. Dilemmas are twin perils which one steers between. In early Greek mythology, sailors who tried to navigate the straits of Messina were said to encounter a rock and a whirlpool. If you were too intent upon avoiding the rock, you could be sucked into the whirlpool. If you skirted the whirlpool by too wide a margin, you could strike the rock. These twin perils had markedly contrasting natures: the first was hard, solid, static, visible, definite, asymmetrical and an object; the second was soft, liquid, dynamic, hidden, indefinite, symmetrical and a process. Anyone with a bias towards regarding either peril as “more important” put lives and ship in danger. Leaders who seek to steer organizations must somehow give due weight to evidences of a quite different order.

The purpose of the charts (Hampden-Turner, 1992) is to show that many managerial choices are not either-or, but both-and. The “horns” of the dilemmas can be steered between and it is possible to navigate in the direction of, say, “higher quality at lower cost”, while avoiding both the rock of relentless cost cutting and the whirlpool of ineffable and fathomless quality. Charting records judgments and allows these to be compared with the harder results and consequences that follow. Hampden-Turner (1990) argues that since Dilemma Theory holds that one can oscillate from horn to horn, the actual location of a quarrelling company is of less concern than the quarrelling itself. By dilemma one does not mean a bind invented by philosophers or academics to perplex students in perpetuity. Nor does one mean an act of fascistic oppression, in the sense of Churchill’s phrase, “Everyone believes that if he feeds the crocodile, the crocodile will eat him last”. These are “pure dilemmas”, designed to be insoluble and, according to Hampden-Turner, one is concerned with practical dilemmas.

An organization, and its working assumptions and strategies, constitute a whole mental and cultural pattern. Hampden-Turner (1990) argues that one can try to analyse the whole into discrete dilemmas, but these are not, in fact, discrete or separate. All dilemmas are connected weakly or strongly to all other dilemmas. All solutions or near solutions make the other dilemmas easier to resolve. All failures or near failures to resolve a dilemma make the other dilemmas harder to resolve. Dilemmas are connected by a generalized skill in the capacity to resolve dilemmas - akin to steering a ship skilfully.

Moreover, such skills are learned not simply by individuals but by whole groups and organizations, so that the resolving of several dilemmas is mediated by organizational learning - by standardized ways of combining the needs and the claims of different groups both inside and outside the organization. Dilemmas are combined by drawing upon the cybernetic process. A cycle or, more precisely, a helix shows development on all three dilemmas sequentially. As the helix develops, the corporations concerned become steadily more differentiated, yet better integrated, and encounter greater turbulence to which they respond even faster to achieve even greater economies of scale - supported by increased flexibility and versatility. From such learning circles, corporations can develop as wholes.

Good organizational performance requires one to break down value creation into its components and chart progress on the separate planes or strategic maps. By concentrating on key dilemmas, one discovers which issues and which resolutions are crucial to building a new, cross-cultural model for building and sustaining global sales growth.
In *Building Cross-Cultural Competence*, Hampden-Turner and Trompenaars (2000) maintain that foreign cultures are not arbitrarily or randomly different from one another, but are instead mirror images of one another’s values, reversals of the order and sequence of looking and learning. The authors assert that values switched over from left to right and from right to left work effectively and logically. Since values are differences, it is fallacious to believe that these easily add up. Values, the authors argue, come at opposite ends of continua, analyzing, synthesizing, making rules and discovering exceptions. Hampden-Turner and Trompenaars (2000) maintain that you cannot simply add a rule to an exception or add a synthesis to an analysis; you must integrate these, reconcile the dilemma. Moreover, exceptions must be integrated into a new rule, individuals must be integrated into the community and analyzed pieces must be integrated into a new synthesis. The authors continue by asserting that value conflicts and clashes emerge within research, development, manufacturing, marketing, distribution, and after sales service departments, and many conflicts erupt between them. Yet only those global sales managers and distributors who are reconciled with one another can reconcile the supply processes, to distribute reconciled products and services.

4. **MOTOROLA: A FAILED APPROACH TO CENTRAL/EASTERN EUROPE**

The applied research was adopted with the design originating from the opportunity of the researcher to study one major organisation in-depth. Motorola’s European RPG Emerging Markets Division provided the context of the study, and field work was conducted over a number of stages being juxtaposed with inductive research concerned with probing the intersections of sales strategy and those of cross-cultural research.

With the opening of Central and Eastern Europe, the inclusion of the former Soviet republics and Warsaw Pact countries, a continent of 400 million people had grown to 800 million. The availability of these new markets also brought with them different shared values, and strategy includes a cultural assumption which may not be shared, that ‘A’ should plot and scheme an advance of engaging customers, markets, rivals, suppliers, partners and competitors. This view is markedly American and Northwest European. Dickerson (2002) found that the Motorola Anglo-Darwinian channel strategies became confrontational with distributors in Poland, Czech Republic and Russia because they adopted a “co-opetition” approach of ‘shared distribution’ rather than pure competition. The assumption that business is largely competitive, rather than co-operative, is based in culture, and at least half the world’s businesses would disagree. It is accordingly imperative that this research inform academics and strategists of the importance of exploring the linkage of global sales strategy and culture. These frameworks are well established in isolation, but there has been no systematic, rigorous or critical investigation to consider any interrelationship or linkage between them.

Fewer and fewer of the world’s business organizations are not impacted by global sales trends. In the course of securing and conducting transnational business, strategists and sales managers are increasingly confronted with dilemmas deriving from cultural differences. The recognition of this problem within Central/Eastern Europe and Russia was the impetus that gave rise to this investigation.

The necessary component step of identifying dilemmas, normally elicited through an inductive process, was found to be difficult for practicing sales strategists. An alternate means of eliciting dilemmas was investigated, based on a deductive paradigm, to the benefit of practicing strategists and managers. The investigation of propositions arising from these questions and the associated primary data (Dickerson, 2002) obtained, were explored by applying the tools of dilemma analysis to creating...
a new Boston Consulting Group “global sales” matrix that was cross-cultural rather than an outdated Anglo-American version.

Evidence has been assembled, collected and interpreted which supports the proposition that a theoretical basis can be constructed to demonstrate that cultural diversity and global sales strategy share crucial dilemmas and are mutually illuminating. It was found that dilemma methodology, previously developed mainly for the human resource (HR) function, could be transferred to the global sales management process with benefits. The proposed models from the particular study of Motorola are offered to the reader to generalize to the wider spectrum of his/her own global business position. The debate and argument presented here, based on the Motorola case, make a contribution to the theoretical underpinning of cross-cultural channel management, in the high-tech industry in particular, and to global sales strategy and culture in general.

5. EXPLORING A CROSS-CULTURAL APPROACH TO CHANNEL MANAGEMENT

Having learned that Motorola Channel Sales management and distributors had an unstructured approach to reconciling their elicited dilemmas, an alternative model was developed as a preliminary approach to extend dilemma analysis. A common need was identified by Deutsche Telekom management for managing complex relationships (Dickerson, 2000). This exploratory research was undertaken to develop a new software model as an extension of dilemma analysis that would enable the strategist to account for culture and reconciliation in formulating and implementing global strategy. It is argued that the limitation of BCG’s growth/share matrix is that it does not take culture into account by recognizing the potential cross-cultural conflicts originating between sales management seeing their “cash cow” divisional profits being used to fund the development of “question marks” and “stars”. The new business model, proposed here, called cross-cultural relationship management, CCRM, is an extension of portfolio analysis that includes cross-culture (Trompenaars & Woolliams, 2004). The challenge was to find and prioritize the cultural problems that have to be solved, with each cultural dimension of seemingly opposing values giving rise to a series of dilemmas. The problem to solve was how to prioritize the dilemmas that require immediate reconciliation, and provide strategists with an ongoing interactive process for formulating global sales strategy involving customers and suppliers from different cultures.

5.1 Field Research Database

An Excel software program was utilized to maintain a database throughout the period of the investigative field research as a means to structure the data for future analysis. The purpose of the database was to apply a system which would cluster the statements from the various respondents so that meaning could be derived from the context, and then the statements could be clustered around a theme. The database also serves as a process for organizing the grouping of the statements under a theme and provides a framework for detecting tension within this theme. The objective of the database is to provide a methodological protocol which will enable academics and global strategists to elicit dilemmas by understanding the impact of dilemmas upon a company’s actual business position. The development of this database extends dilemma methodology by exploring how a structured approach to eliciting dilemmas can be applied to global sales strategy.

Each cell contains a research source statement from either someone representing Motorola Corporate EMEA, Motorola RPG EMEA or a Motorola RPG EMEA distributor. There are 128 statements that were extracted from interviews, workshops and secondary data. Due to the proprietary nature of the research, many of the participants interviewed did not want their nationality revealed in relation to
their statements. Thus, it was necessary to categorize each statement contained in each individual cell of the database as one of the seven dimensions of culture (Trompenaars, 1993) (Trompenaars & Hampden-Turner, 1997; 2001) (Trompenaars & Woolliams, 2003). The modest proposal for building upon the client’s existing data was based on the statements which were compiled from interviews with key players (e.g. employees, suppliers, distributors and customers in the supply chain) and entered into a field research database, that applied Trompenaars’ dimensions of culture as demonstrated in the Table 1 below:

<table>
<thead>
<tr>
<th>Research Source</th>
<th>Statement / Issue</th>
<th>Dimension</th>
<th>DM 1</th>
<th>DM 2</th>
<th>DM 3</th>
<th>DM 4</th>
<th>DM 5</th>
<th>PM 1</th>
<th>PM 2</th>
<th>PM 3</th>
<th>PM 4</th>
<th>PM 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate EMEA #1</td>
<td>The Motorola Corporate</td>
<td>UNI-PAR</td>
<td>5</td>
<td>2</td>
<td>3</td>
<td>5</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Corporate EMEA #2</td>
<td>The American participative</td>
<td>INN-OUT</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>4</td>
<td>2</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Corporate EMEA #3</td>
<td>When the product engineers</td>
<td>SPC-DIF</td>
<td>4</td>
<td>5</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Corporate EMEA #4</td>
<td>Management believes you can</td>
<td>INN-OUT</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>4</td>
<td>5</td>
<td>3</td>
<td>5</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Corporate EMEA #5</td>
<td>There exists no process for</td>
<td>SPC-DIF</td>
<td>5</td>
<td>3</td>
<td>2</td>
<td>5</td>
<td>3</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Corporate EMEA #6</td>
<td>There is no &quot;empowered&quot;</td>
<td>IND-COM</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>4</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Corporate EMEA #7</td>
<td>&quot;One Face to the Customer&quot;</td>
<td>INN-OUT</td>
<td>4</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

Table 1: Dilemma elicitation database

After compiling the statements from the various respondents and categorizing each one in reference to one of the seven dimensions of culture, certain criteria were also factored into the database. Selected representatives of Motorola Corporate EMEA, Motorola RPG Emerging Markets and Motorola RPG distributors were requested to provide certain criteria which would be factored into the database as a means of measuring the impact of their statements on the strategic position of the company. The representatives were asked to provide five statements which they thought would best reflect what they considered to be the most important Decision-Making (DM) factors which have a high impact upon the business performance of their corporation, sector, division, distributorship or dealership. They were also asked to provide the five most important Performance Measures (PM) which the corporation, sector, division, distributorship or dealership adopt to monitor their business position. These factors (DM1-DM5 & PM1-PM5) were taken back to Motorola RPG workshop participants to rate the compiled statements as to how they impacted upon the Decision-Making and Performance Measurement criteria which the RPG management provided. The participants were asked to rate the
collected statements based upon a coded scheme (1: Low Impact – 5: High Impact). There was no particular reason for having chosen the RPG management as the source for the criteria factors, but it seemed appropriate for Motorola RPG to learn how their own management team and “strategic partners” (distributors) ranked the statements.

Each one of these statements were then categorized by one of Trompenaars’ seven dimensions of culture as a means to prioritizing the dilemmas. The opinions of the key players were obtained to reflect how each statement had an impact on their business, and this criteria was also factored into the database. Measures include effect on shareholder value, long-term sales, budget, market share, etc. A five point scale is then defined (0-5) for rating the attractiveness of each of the key customers while another five point scale is defined by the customers to rate the supplier’s performance. It is important for the supplier to agree with the customer which supplier performance is to be measured. Sharing this data with the customer promotes more open relationships with the customer, and because each rating score is unique to each customer, this enables specific actions to be taken for developing business with that customer.

6. CRAFTING A NEW MODEL FOR CHANNEL MANAGEMENT ACROSS CULTURES

This data is then combined using hierarchical clustering algorithms, concordance and correspondence analysis to produce a synergized business portfolio map of both culture and strategy. In practice, the parties themselves use the model because they follow the prescriptive approach, identifying the relevant variables for themselves in an atmosphere of collaboration and mutual respect with their business partners. Thus, the customer’s information has been provided and taken to begin moving it in the direction of a dilemma. This is not a proper dilemma yet because the information is all hard facts, but, by contrasting them, this is then a potential gateway in moving them towards dilemmas.

After entering the relevant variables into the computer, a dual axis cell matrix is generated which demonstrates to a decision-maker where problems with customers exist. The following Cross-Cultural Relationship Model (CCRM) model compresses the quantitative and qualitative mass of information about complex cross-cultural relationships with key customers (Figure 1). One axis represents an index of the relative attractiveness of each shareholder, subsidiary or customer (sales potential, cultural differences) and the other represents the current or evolving business position (market share, revenues).

The bubbles represent the different distributors or customers from the different cultures. The bubble size represents market revenue potential and a color represents market share. If a bubble exists in the lower left corner of the dual axis, the manager immediately realizes that there is a dilemma between the shared values of the Slovakian distributor and the regional channel management based in Prague. However, if a bubble exists in the upper right corner of the dual axis, management then realizes that there is synergy within the relationship between management and distributors. In other words, a bubble in the upper right hand corner represents a high degree of “reconciliation” between the values of management and distributors.

The ‘CCRM’ model has been designed with culture and reconciliation built into it because it is a model that allows both parties from different cultures to create the decision-making and performance measurement variables. Transcultural competence training is usually a part of many human resource strategies, but this model will apply culture in a way that enables a CEO or VP, Channel Management to see where the company is earning and losing revenue. ‘CCRM’ enables corporate executives to embrace culture as a global strategy for increasing worldwide sales, market share and shareholder
value. Culture has been seen as a “soft” issue by senior management because “culture training” represents an expenditure that appears to have little or no direct relationship to bottom line business results, rather than a knowledge asset on the balance sheet. An M.B.A. graduate from Cambridge is able, with the ‘CCRM’ model, to apply culture to “hard” issues such as return on investment. While there are many day-to-day problems confronting management, this model will allow them to decide which dilemma(s) are a priority to reconcile, and how the budget will be allocated to invest in sustaining the relationships which focus on projects that directly serve the company’s strategy. This will enable employees to maximize the company’s time and the money needed to execute a global sales strategy.

![Cell Matrix](image)

**Figure 1: Cell matrix**

With this ‘CCRM’ model, managers can avoid the insidious trap of allowing everyone to allocate a small amount of resources to all manner of good ideas that are not closely aligned with the business. The strategist now has a decision-making framework (Dickerson, 2006) that gives a holistic view and serves as a basis for prioritizing strategic actions to align resources and sustain their market presence in different destination cultures around the world. This will enable all points of contact with customers from different cultures to contribute and plan customer strategies and tactics.
In the cell matrix, Motorola needs to make a decision as to where to allocate a limited resource budget to build relationships with major customers in South Africa, Israel, Bulgaria and Turkey. Israel demonstrates a great potential for increased sales growth, but there could hypothetically exist a major cultural difference with the supplier which will cost Motorola $500,000. The cultural difference between Motorola and the Lithuanian distributor is small (indicating that the market penetration rate may be higher and the sales budget easier to achieve), but the customer only distributes radio products within a small geographical territory. In contrast, a customer in Turkey is distributing products in the emerging markets with high investment that will cost $250,000 this year and $250,000 next year before a return on relationship (R.O.R.) is realized. The R.O.R. index (Figure 2) demonstrates that Russia has become a premier customer because Motorola management formulated a strategy that reconciled the cultural differences between the distributor and supplier, but Motorola management also needs to focus on formulating a reconcilable business strategy with their South African distributor.

Rather than seeing cultural differences as a cost, they should be seen as an investment as with Research and Development (R&D). Investing this year in developing relationships with customers will generate increased sales growth in the next period. As part of the CCRM model, a R.O.R. index (measuring the relative return on reconciling dilemmas) provides a means to evaluate market options.
The R.O.R. is computed by analyzing forecasted potential additional sales from a customer compared to the cost of reconciling in order to enable a strategist to identify where to allocate the resources necessary for reconciliation. This index provides management a means to decide how to invest their time, energy and capital into building relationships by discovering which dilemmas should be reconciled as a means to generate revenue growth and sustain the evolution of the company as they expand globally.

After learning from the ‘CCRM’ model that there do exist problems between the value systems of management and shareholders, customers or suppliers, the manager needs to obtain some strategic information. The channel sales manager will need to elicit the dilemmas that are impacting his/her customer’s business position, and find out what needs to be done to solve the problems with the customer. With this information, the manager is then in a position to quantify the cost of the reconciliation. It might be learned that the reconciliation requires faster delivery, better margins, more on-site visits or one telephone call.

Assume that your top twenty distributors, the strategic partners, are all located in the lower left hand corner of the ‘CCRM’ dilemma map. It is learned that the quantified cost of reconciliation with each distributor requires investment, but in a period of downsizing and restructuring, the departmental budget for the emerging markets is not in a position to invest money into reconciling the problems with each distributor. Motorola realizes that it would cost $250,000 this year and $250,000 next year without any promising growth forecast of additional sales from the customer in Turkey. This could result in Motorola taking the decision not to pay the reconciliation costs and not to invest any further in building the relationship. On the other hand, Motorola learns that this Turkish distributor’s forecasted additional sales growth rate far exceeds the cost of reconciliation. This could result in Motorola taking a decision to invest the money to cover reconciliation costs and build a relationship with this distributor to sustain a strategic market presence in Turkey.

If the variables on the R.O.R. index represent the cross-cultural mix of Iridium Satellite shareholders, in which Motorola is a major investor, this could inform the CEO that one of the shareholders is commanding the largest number of votes with the greatest need for reconciliation with the management board. The CEO expressed his concern about this person, who he had learned about from a presentation in an operational review, because the Russian’s shareholding was located at the top left hand corner of the ‘CCRM’ dilemma map. The CEO now seeks a R.O.R. with this Russian shareholder by eliciting the dilemma(s), quantifying potential additional share purchases and the cost of reconciliation to learn that a high R.O.R. now exists with this shareholder. The graphic, representing the Russian on the R.O.R. index, now sits in the top right hand corner signifying that the CEO and his major shareholder have reached a synergistic point by reconciling their dilemmas.

7. CONCLUSION

The CEO now understands that the monitoring of the shareholders’ values is quite important in order to understand how attractive it is to reconcile with this shareholder, and how the business position of the company is affected by not reconciling with this shareholder. Thus, the objective for any manager is to be a high R.O.R. manager that maximizes shareholder value versus a low R.O.R. manager that fails to reconcile dilemmas existing over a shareholder’s values.
The R.O.R. index provides the shareholder with an informed analysis and rationale of management’s planning, as well as being a welcome addition to a corporation’s annual report. Senior channel management will now have a clear picture of where to allocate resources to build the relationships in each market as a means to drive sales growth and a sustained market presence in different destination cultures across Central/Eastern Europe, Russia and the C.I.S..

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Abstract

The article describes the different aspects of crisis management. The term corporate crisis and its typical phases will be defined as well as the essential measures, which can be used to avoid or manage a crisis situation in a company. A particular focus is placed on measures of reorganisation as a part of reactive crisis management. Three particular measures of reorganisation management will be present.

Key words: corporate crises, crisis management, active and reactive crisis management, reorganisation management

1. INTRODUCTION

As a result of the global financial and economic crisis since 2007, the business discussion about the issue of crisis management is gaining on importance. But not only such exogenous influences has caused crisis situations in companies. Basically any business activity involves certain risks, which have their reasons in the market as well as in the competition situation or in the company processes.

In a narrower sense the main task of crisis management is to develop measures to manage a crisis situation, which can lead to a threat of the companies’ existence. In the broadest sense the concept of crisis management is a holistic process orientated at the value creation chain in a company. In this case crisis management can detect potential crisis indicators, so that in an early crisis phase countermeasures can be generated to avoid the crisis or minimize their consequences.

The business environment of companies is characterized by a constant change, which includes a lot of risks. Failure of judgement on risk situations through the management can lead to a corporate crisis, which can endanger the existence of the company. Through the increased number of corporate insolvencies in the last years this assessment is confirmed. Therefore reorganisation management is gaining in importance. The objective of reorganisation management is to overcome the crisis situation quickly without compromise future potentials. The task of this paper is to give an overview and context about the topics crisis management and reorganisation management.
2. CRISIS MANAGEMENT – A HOLISTIC PROCESS

The term crisis management has been used since the 1970’s. Crisis management is a particular form of management, which describes all methods and measures that are suitable to recognize and avoid crisis situations in a company or are able to manage an existing crisis, so that the company will survive this situation. (Birker/Pepels, 2000, p. 59)

There are three aspects in order to analyse crisis management:

- Institutional
- Process
- System

The institutional aspect of crisis management includes the people in the process of crisis prevention and crisis management, which are responsible for designing and implementing business strategies and targets. It is not only a task of the regular management level; the regulatory and supervisory bodies of the company are also involved as well. The assistance of external consultants is possible in the phase of avoidance of crisis and it is necessary, when the crisis is already occurred. (Kollmann, 2005, p. 352 ff)

Crisis management as process is divided in four phases:

- Identification
- Planning
- Regulation
- Controlling

The task of the “identification” process is to analyse the business situation of a company and the companies’ environment, because not only internal effects can influence the situation of a company. This first part in the crisis management process is very important, because the timing of recognition a crisis is crucial for the creation of institutional actions. In practice these ex-ante analysis is difficult, because the evaluation of market and company situations depends on the individual and collective perception and the awareness of possible crisis. (Kollmann, 2005, p. 352 ff and Rüsen, 2009, p. 43)

The process phase “planning” includes the derivation of strategies and measures to avoid or manage corporate crises. The totality of all policies and measures is the contingency plan or crisis program, which aims to secure the future of the company. The overall goal of corporate existence can be divided into sub-goals. The classification can occur in value targets, like earnings or liquidity, in tangible goals such as product diversification and human targets like job security or corporate communication. (Kollmann, 2005, p. 352 ff)

The third phase of crisis management, “regulation”, is implementation of crisis programs. This third phase can be divided into sub-projects, it depends on the content. Of particular importance is the communication strategy to internal and external stakeholders and the public. (Kollmann, 2005, p. 352 and Hutzschenreuter, 2006, p. 265 f)

The process step “controlling” has the task to review all previous phases. It is to decide, if all evaluations, decisions and derived measures are able to achieve the desired targets. Through this part of crisis management, it can be ensured that misjudgments or new developments are recognized so that...
the strategies and measures can be adapted in time. (Kollmann, 2005, p. 352 ff and Birker, Pepels, 2000, S. 59 f)

The systemic approach of crisis management is linked with the strategies and measures, depends on the type of company crisis. This approach describes different possible options to manage crisis situations. One criterion for differentiation is the time of crisis, so that crisis management can be divided in active and reactive crisis management. (Kollmann, 2005, p. 352 ff)

3. CRISIS IN COMPANIES

The concept of corporate crisis in business management means unplanned, unwanted and temporary processes which may endanger the existence of a company. This is possible, when essential company objectives are impaired, endangered or not reachable. The origin of corporate crises is not only reducing to one cause, rather interactions of many different influence factors are responsible. (Krystek, 1987, p. 2170) In the most cases company crisis are the result of false estimations of management. (Hess, 2009, p. 5)

Influence factors, which in reality overlap, are:

![Influence Factors of Corporate Crisis]

Figure 1: Influence Factors for company crises (Krystek, 1987, p. 2170)

Figure 1: Influence Factors for company crises (Krystek, 1987, p. 2170)

During the evaluation of company crises and their causes has to be kept in mind that each company has its own history, so that internal factors and external conditions and their interactions can have different effects on each company. For a successful crisis management it is crucial to initiate the right
strategies and measures for crisis prevention at the right time. In this context it is necessary to analyse the progress of a crisis, because the alternatives to react on a crisis are restricted in advance of the crisis.

In literature different opinions exist to define different time aspects of a crisis. This article follows the subdivision of the crisis on Krystek, after which the crisis course can be divided into four phases, depending on time aspects and controllability. (Krystek, 1987, p. 1044)

- Potential corporate crisis
- Deferred corporate crisis
- Acute, but manageable crisis in the company and
- Acute, but not controllable corporate crisis.

**Potential corporate crisis** is defined as a situation in which no symptom of a real crisis in the company is noticeable. It is comparable with the companies’ normality, but the danger of potential crisis is obtained. The crisis is only possible if business decisions and actions result in an unfavorable course of business. This first phase of corporate crisis represents the formation period of the crisis. This phase is important, because of the possible influence. The problem is ex-ante analysis of specific influence factors of companies’ success. (Hutzschenreuter, 2006, p. 44 ff)

The second phase of the progress on crisis (**Deferred corporate crisis**) is characterized through existing symptoms, which can hardly be identified with the existing instruments. The possibility to actively influence the crisis is possible through the use of early warning systems and preventive measures. (Hutzschenreuter, 2006, p. 44 ff)

In the phase of **acute but manageable crisis** the impacts of the crisis are perceived in the immediate company procedures. The importance of the temporal aspect has increased enormously and will be restricted during the crisis with progressive alternatives. To cope with the crisis intensified corporate resources are used. In this stage the crisis can be overcome, if the causes of the crisis are detected and appropriate measures will be conducted. (Hutzschenreuter, 2006, p. 44 ff)

In the case of **acute, but not controllable corporate crisis** the company is not in the position to overcome the crisis with existing resources and instruments. This phase is characterized through a situation in which companies’ objectives cannot be achieved or failed. (Hutzschenreuter, 2006, p. 44 ff)

The scope of action of the management to avoid or overcome a crisis is linked to the respective phase of crisis and the potential threat, so that the chosen crisis management can be decided in an active and reactive crisis management with subareas.

The task of anticipatory crisis management in the prospective phase of a crisis is to identify and analyse potential corporate crises in the run-up. It is a mental preparation of a possible crisis through specific forecasts or scenarios and alternative plans which derive from that. The objective is to generate a timely advantage in case of crisis. (Hutzschenreuter, 2006, p. 44 ff)

The central task of preventive crisis management is the early detection of crises through early warning systems in the phase of latent crisis, because it is considered that every crisis is preceded by some early warning signals. The problem is to identify these signals. Through an early diagnostic of latent crises, acute crises can be avoided. Through an early detection the awareness of possible factors for
crisis in the company is strengthened and there are possibilities to generate opportunities from this situation. (Hutzschenreuter, 2006, p. 44 ff)

Figure 2: Correlation between Phases of a Crisis and Management Tasks (Kollmann, 2006, p. 338)

Figure 3: Areas and Sub-Areas of Crisis Management

Both sub-areas of active crisis management deal with the early identification of crisis indicators and the development of appropriate measures. The management can affect the crisis situation actively. Repulsive crisis management focuses on business support measures that are aimed to eliminate the causes and consequences of the crisis. These includes the development of strategies and plans for
reorganization for short-, medium- and long-term periods in consideration of market and competitive conditions as well as the capital situation of the company to ensure the existence of the company. The plan of reorganization measures must be determined by the targets of reorganization. (Hutzschenreuter, 2006, p. 44 ff) For instance:

- Improved liquidity measures, such as increasing the liability capital or the release of hidden reserves,
- Measures, which reduce expenses such as adjustment the conditions of purchase or the change in production depth,
- Measures, which increase revenues such as price increases.

Liquidity crisis management is applied when the crisis situation of the company is so far advanced that the future of the company is at risk. The task of liquidating crisis management is a full liquidation of the company and to minimize the loss of all stakeholders (shareholders, employees, lenders). (Hutzschenreuter, 2006, p. 44 ff)

In the literature, the active crisis management is given a special importance, since the early increase knowledge of the factors triggering crises ways of avoiding or coping better. Therefore in the following methods of crisis recognition should be presented.

In Germany the number of companies’ insolvencies is high, not only as a consequence of the finance crisis in 2007. In these premises the next chapter will describe the measures of reactive crisis management, with a particular focus on repulsive crisis management.

4. REACTIVE CRISIS MANAGEMENT

Reactive crisis management has the task to manage crises situations that have occurred. Basically it is to investigate whether the business should or can be continued (reorganization) or whether it must be resolved (liquidation). Condition for the assessment is a detailed understanding of the causes for the crisis and the development of sustainable strategies so that a long-term degradation is possible. In the literature the terms reorganisation management and turnaround management are used also. (Schellberger, 2008, p. 69)

If the reorganization is not successful a planned liquidation is carried out. In this case the particular task is to minimize the losses for the different stakeholders, like shareholder, suppliers, employees or public. A distinction is made in a voluntary and a compulsory liquidation. (Schellberg, 2008, p. 69)

In the repulsive crisis management restructuring of the company is in the foreground. The main task of reorganisation management is to develop and implement a reorganisation concept with short- and long-term measures to stabilise the liquidity and profit situation of a company. To manage the crisis, different measures are used;

- Crisis Communication,
- Financial Measures,
- Performance-Related Measures.

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A measure to manage a crisis situation with a high priority is crisis communication, because there are negative consequences if stakeholders know about the corporate crisis. For instance, suppliers shortened their term of payment. Through such a negative mood, it can be difficult to acquire new investors, which can be necessary for the restructuring of the company. There are four main aspects to create a communication strategy in case of crisis (Schellberg, 2008, p. 69 ff):

1. Determination of a speaker to avoid misinterpretations, because involved persons react sensible. Especially more than one speaker should be avoided, so that there are no contradictions. Necessary skills for the speaker are media experience and knowledge about the company. A main success factor is to inform the involved persons fast, accurate, and concise.

2. Another important factor is the right time and the order to information to the stakeholders to avoid misinformation, because only a part of the truth or presumptions can increase the crisis. The information about a corporate crisis should occur only when there is an overview of the extent of the crisis and possible solutions were developed. The information should be communicated first to the inner circle to external persons (information order).

3. The content of crisis communication must be determined on the addressee. Not everything has to be said, but there should remain no room for assumptions, because in this case they will assume the worst case.

4. Are content and scope of the established communication strategy clear, the way of communication is important. In crisis situations, positive aspects should be highlighted. Possible instruments are personal interviews, personal speeches, and information sessions or staff meetings.

**Financial measures** have the target to stabilize the liquidity situation and increase the equity resources of a company. The solvency of a company should be ensured and the capability to cover the debts through assets. Therefore, borrowed capital measures are necessary, which increase the liquidity and equity. (Schellberg, 2008, p. 74 ff)

Financial measures within the company can be the release of reserves and provisions, capital reduction, sale of financial assets on the side of companies’ management. The shareholder can support the company in crisis situations through shareholder loans, capital reduction with encased capital increase, and creditors can grant deferred payment, debts cancellation or a cut of interest rates. (Thierhoff, Müller, Illy, Liebscher, 2012 p. 198 f).

A measure which follows both targets – liquidity and equity increase – is capital increase through capital contribution. Through this measure, the capital structure of the liability side of balance sheet will be increased, and on the other side, fixed and liquid assets rise. The improvement in the equity position is important to compensate losses. In crisis situations, this ability of great importance. Another positive aspect through the capital contribution of shareholders is the increases of creditworthiness on the company and this can lead to a better rating by creditors, so that they are willing to invest. (Thierhoff, Müller, Illy, Liebscher, 2012 p. 198 f).

Creditors’ participation is often necessary for a successful reorganization, but creditors are not legally obliged to participate in reorganization measures. They participate of economic interests. Outside capital measures improve the liquidity of the company, but they have no influence on the equity situation. Measures are the increase of credit lines through financial institutions as well as deferment or novation of payment through suppliers. (Thierhoff, Müller, Illy, Liebscher, 2012 p. 207 f and Crone, Hening, 2007, p. 175f.)
Performance related measures have to control the liquidity and profit situation of the company along the value creation chain. Objectives are to increase the payments-in and reduce the payments-out in short-term, but it is to consider the effect of long-term restructuring measures and potential investors. Basically immediate measures with a short-term negative impact on the liquidity and profit situation of a company will be evaluated as positive from investors. Measures are: (Schellberg, 2008, p. 167 f.)

- Financial settlements during measures to reduce the personnel costs,
- Increase of marketing activities to optimize the sales situation.

Another instrument is make-or-buy-decisions. This instrument is used, if the company has self-manufactured products and these products can buy from third parties. Criterion for the decision is the contribution margin. Is the contribution margin for the own production process larger than the contribution margin for external procurement then the company should continue their own production process. (Eberlein, 2006, p. 208)

5. CONCLUSION

Destruction of assets is the result of corporate crises, if they were not tackled in time. Not only the company themselves is affected but also shareholders. Reactive crisis management includes measures that are designed to adapt the strategy of a company and set the new conditions to ensure success and liquidity.

In case of existing corporate crisis it is necessary to develop a strategic and value orientated restructuring concept. The aspect of time had an important role to overcome the crisis situation, what Figure 4 illustrates once again.

Figure 4: Areas and Sub-Areas of Crisis Management (Crone / Werner, 2011, p. 6)
It was shown that two aspects are crucial for successful crisis- and reorganization management:

1) What is the cause – and – effect - relationship, which have led to the corporate crisis?

2) What changes are necessary to generate profit in short-, medium- and long-term?

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INFORMATION SUPPORT OF CORPORATE GOVERNANCE 
AND STRATEGIC MANAGEMENT PROCESSES

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Abstract

In a rapidly changing and highly competitive business environment many organizations face with 
significant problems in the field of information support of their corporate governance and strategic 
management processes. That’s why implementation of integrated performance management 
information support systems (PMISS) plays an important role for general corporate success. One of 
important issues related with PMISS design, planning and development is a task of effective use of 
analytical information systems that perform appropriate management information processing.

The paper deals with application of modern information technologies for corporate governance and 
strategic management purposes. A comparative analysis of functionality of different classes of 
information systems, which may be applied as analytical tools on strategic level, is considered. A 
reference model of applicability of the appropriate types of analytical information systems for 
corporate governance and strategic management processes is proposed.

Key words: strategic management, corporate governance, performance management, information 
support, applicability of information systems.

1. INTRODUCTION

At present management information plays a very important role in corporate governance and strategic 
management. The aspects related with corporate disclosure and transparency are described in many 
corporate governance codes – both international (OECD Principles of Corporate Governance, 2004) 
and adopted by different countries (An Act to Protect Investors…., 2002; The UK Corporate 
Governance Code, 2010; German Corporate Governance Code, 2009). For example, Sarbanes-Oxley 
Act contains the following requirements (An Act to Protect Investors…., 2002):

- the principal executive officer and principal financial officer (or persons performing similar 
fuctions) should review financial reports before they are filed and certify that the reports 
fairly, accurately, and completely represent the financial condition, operational results, and 
cash flow of the company (Section 302: Corporate Responsibility for Financial Reports);
- companies that release non-GAAP financial measures should disclose their reconciliation to 
the most directly comparable GAAP financial measures (Section 401: Disclosures in Periodic 
Reports);
- companies should provide an internal control report (within the company’s annual report), 
which shall state the responsibility of management for establishing and maintaining adequate 
internal control structure and procedures of financial reporting, together with an assessment of 
those processes and controls as of the end of the most recent fiscal year. This assessment
should be confirmed by an independent auditor (Section 404: Management Assessment of Internal Controls);

- companies should disclose to the public on a rapid and current basis information concerning material changes in the financial condition or operations, which may include trend and qualitative information and graphic presentations (Section 409: Real-time Issuer Disclosures).

Additionally, accelerated reporting requirements state that companies should file annual reports within 60 days of fiscal year end (rather than the previous deadlines of 90 or 75 days) and quarterly reports – within 35 days of fiscal quarter end (rather than 45 or 40 days). It means that financial consolidation and reporting processes will need to be completed and verified more quickly than ever before. To do this, many companies need to improve and integrate their data collection, consolidation, and reporting systems and processes.

Disclosure requirements mentioned in corporate governance codes are detailed by a number of corporate reporting standards and recommendations. First of all, corporate reporting is associated with ‘traditional’ financial statements – balance sheet, income statement, cash flow statement and some others (A Guide through IFRS, 2011). Quality of financial statements, associated with accuracy and timeliness of their preparation and presentation may be considered as the main task of corporate reporting. However, at present international business community pays more and more attention to so called ‘non-financial’ reporting. The most important example of such reporting are recommendations of Global Reporting Initiative (GRI) that represent a wide range of economic, social and environmental aspects of organizations’ behavior (Sustainability Reporting Guidelines, 2011).

Strategic management processes also need relevant information support. There are few important business challenges that are critical for many organizations (Shaw, 2003):

- strategic misalignment: A company should be strategically focused; it means that different parts of the business should be directed by a shared commitment to strategic goals. Otherwise, different parts of the business pull in divergent directions and resources will be wasted. Such situation may be substantially worse in a rapidly changing economic environment, where strategic plan are continually refined;

- local optimization: If collaborative management in a company is poor and every manager is focused on his own strategic goals, it is easy to create a situation where managers locally optimize their business units at the expense of other business units;

- uncompetitive reaction times: In a traditional ‘command and control’ hierarchy the quality of strategic management may be significantly reduced by employing rigid, bureaucratic procedures. In such conditions any ‘business agility’ becomes impossible;

- unreliable decisions: For performing managerial tasks every manager should have access to relevant high-quality information, which must be timely, accurate, consistent and controlled. If the information has no appropriate quality – managers are ‘working in dark’ and their decisions and plans have no any reliable basis;

- slow rates of improvement: Often managers are able to implement innovations only at a local level within their business units. In this case it is difficult to determine the holistic enterprise effects of improvements;

- hidden knowledge: Usually businesses generate huge amounts of information, much of which is hidden from those who could profitably use it. Often this information is locked away in spreadsheets and its existence, let alone its contents, is known only to its creator;

- lackluster execution: Often companies develop very good strategic plans and decisions, but they are not able to put them into action effectively to deliver desired results.
All the problems mentioned are relevant to an information aspect of strategic management. Perhaps, the most important task in this area is overcoming a ‘strategic gap’ between strategic and current levels of planning and decision making. On one hand, an organization should be ‘strategy focused’: its current activities should be compliant with its long-term strategic plans (Kaplan, Norton, 2000). But on the other hand, there is a problem of informational integration of different management levels. One of the ways to solving the problem is implementation of modern information technologies (Cokins, 2004; Coveney et al, 2003; Eckerson, 2006).

Therefore, the task of developing a methodological approach for corporate governance and strategic management information support seems very important from both theoretical and practical points of view. Particularly, it is reasonable to clarify the scope and nature of an appropriate management system. It is also necessary to answer a question about applicability of different types of information systems for corporate governance and strategic management tasks.

2. PERFORMANCE MANAGEMENT INFORMATION SUPPORT SYSTEM

Existing requirements to information support of corporate governance and strategic management explain the fact that today companies need to adopt special systems relying on modern information technologies. For designation of such systems a special term of ‘performance management information support system’ (PMISS) was introduced by the author (Isaev, 2010). According to the author’s definition, PMISS is “a set of methods, processes, information systems and personnel skills, focused into the tasks of gathering, reconciliation, storage, analytical processing and presentation of information, which is critical for an organization’s information transparency and strategic decision making performed by external and internal stakeholders” (Isaev, 2010, p. 47). PMISS is a compound system: it includes not only IT solutions, but also appropriate methodological and organizational background – methods, business processes and personnel competences. At the same time to a certain extent PMISS is based on appropriate IT solutions, that’s why different analytical information systems may be considered as one of its most important elements.

Development of PMISS (including implementation and use of appropriate software) should be properly managed, relying on certain methodological approach. The main element of such approach is a Development Program, which, in turn, is based on a PMISS Conceptual Model. The model represents a ‘high-level’ framework containing such elements as functional blocks (sets of functions related with generic stages of strategic management process) and functional modules (more detailed objects within functional blocks, which provide one or several similar functions).

There are four functional blocks of PMISS Conceptual Model (Isaev, 2011):

- Strategic analysis and strategic choice;
- Management by objectives;
- Planning and budgeting;
- Corporate reporting.

The ‘Strategic analysis and strategic choice’ functional block is relevant to gaining and analytical processing of all the information that are critical for strategic planning and decision making. The block contains the following functional modules:

- Monitoring – gathering, structuring, generalization, analytical processing and presentation of information about events and trends, which are relevant to strategic development of an organization and to its environment;
• Forecasting – estimation of future values of key business indicators, which is necessary for making judgments about projected position of an organization and business environment;
• Corporate appraisal and positioning – determination of a gap between targeted and projected states of an organization in the future;
• Goals setting – definition of global long-term goals of an organization and detailed elaboration of the organization’s mission and vision;
• Global strategic initiatives determination – definition of a number of large-scale projects, development programs and other undertakings that have a strong influence on an organization as a whole and may support the achievement of its strategic goals;
• High-level objectives setting – definition of a set of specific targets that may be used as a starting point for development of key performance indicators and scorecards.

The ‘Management by objectives’ functional block deals with strategy formulation in terms of specific metrics (key performance indicators, KPIs) representing targets for development of different business units and divisions. The block contains three functional modules:

• Scenarios determination – description of specific activities related with different tasks of business development, which represent a set of tools, by means of which global projects and programs are being implemented;
• Targets setting – deployment of corporate objectives to all the management levels, with the aim to focus the efforts of different business units and departments to implementation of general corporate strategy;
• Objectives achievement analysis – discovering of deviations between target and actual values of key performance indicators, as well as discovering causal factors clarifying such deviations.

The ‘Planning and budgeting’ functional block is associated with long-term company-wide plans and budgets that provide a linkage between corporate strategy and local short-term financial and operational plans. The block contains two functional modules:

• Plans / budgets preparation – drawing up of long-term corporate plans (in operational terms) and budgets (in financial terms), which subsequently may be used for more detailed planning within ERPs and other management systems;
• Budgetary control – disclosure of deviations between planned and actual values of planning / budgeting items, as well as for explanation of causes of these deviations.

The ‘Corporate reporting’ functional block deals with preparation and analysis of different types of corporate statements, both public and managerial. The block contains two functional modules:

• Corporate statements preparation – gathering of individual (i.e. related with certain companies within the group) financial and non-financial data, reconciliation of this information, data processing according to certain standards and drawing up of a package of public and internal corporate statements;
• Corporate statements analysis – execution of certain analytical procedures relevant for information of corporate statements (i.e. structural analysis, analysis of dynamics, ratio analysis, etc.).

All the functional blocks perform their functions using appropriate information systems. It means that design of a PMISS should take into consideration the possibility of application of certain types of program solutions. It is a question of ‘reference applicability’: to what extent a particular class of software is relevant to a specific PMISS functional module. For answering this question it is
reasonable to choose an appropriate method of applicability estimation and then to assess existing classes of information systems according to the method chosen.

3. AN APPROACH TO APPLICABILITY EVALUATION

As has been argued above, information systems are only one of several components of a performance management information support system (PMISS). So it should be recognized that requirements to information systems derive from more general requirements associated with PMISS as a whole. That’s why a reasonability of any information system implementation should be justified only taking into consideration all the other PMISS components – methods, processes and personnel competences. It means that within particular projects we should avoid any attempts to assess information systems separately, isolated from other PMISS elements. However, in does not mean uselessness of discussion about ‘reference applicability’, i.e. typical correspondence between requirements of certain PMISS functional modules and functionality of appropriate information systems. Evaluation of reference applicability may appear very useful in a PMISS design stage, for answering the question about which software should be treated as a ‘number one candidate’ for implementation within PMISS.

For reference applicability evaluation purposes the following principles may be adopted:

- Only ‘applications’ (i.e. applied information systems performing end-user functionality) should be considered for evaluation. Information systems that have no applied nature (such as development tools, integration platforms, etc.) are treated as supporting technologies and excluded from the assessment;
- Applicability evaluation is performed only for classes of information systems, not for individual software products. Only typical functionality (i.e. functionality relevant to all the systems belonging to a particular class) should be taken into consideration;
- Applicability is estimated regarding elements of the PMISS Conceptual Model, i.e. regarding functional blocks and modules mentioned above. Only typical requirements of functional modules are taken into consideration (requirements relevant to specific types of organizations are not discussed);
- The extent of applicability is characterized by three levels: ‘basic solution’, ‘complementary solution’ and ‘irrelevant solution’.

When an information system may be classified as basic, complementary or irrelevant? It depends on the power of matching between its functionality and management data processing requirements, associated with a particular functional module.

An information system is treated as basic solution for a particular module if it meets key functional requirements of the module. The avoiding of such solutions may lead to lack of quality of management information. It means that basic solutions should be considered in the first place during PMISS design.

Complementary solutions meet secondary (additional) requirements of appropriate modules. Such systems supplement functionality of basic solutions and may be integrated with them.

Irrelevant solutions are represented by information systems that have no direct relations with appropriate functional modules.
4. APPLICABILITY OF DIFFERENT CLASSES OF INFORMATION SYSTEMS

Applied information systems that are relevant to corporate governance and strategic management purposes are often called ‘analytical applications’. The matter is that all they to some extent are associated with analytical processing of management information. Analytical applications may be classified into three generic groups:

- business performance management systems (BPM systems);
- business intelligence applications (BI applications);
- other analytical applications.

Business Performance Management (BPM) is one of the most recent and one of the most important concepts related with information support of corporate governance and strategic management. In 2003 few consulting companies and IT vendors established BPM Standards Group – a working group for developing of BPM theoretical background and understanding of the best practice in this field. Some later the Group issued an ‘Industry Framework’ – a conceptual document that provides general guidelines related with BPM concept. The Framework contains the following detailed definition: “Business performance management (BPM) is a methodology to optimize the execution of business strategy that consists of a set of integrated closed-loop, analytic processes, supported by technology that address financial as well as operational data. BPM enable a business to define, measure and manage its performance against strategic goals. The core financial and operational processes of BPM include planning, consolidation and reporting, analysis and the deployment of linked key performance indicators (KPIs) throughout an organization” (Business Performance Management…, 2005, p. 3).

Historically different software vendors and market analysts started to use different terms for designation of such systems. That’s why at present in academic and business literature one may meet such acronyms as BPM (Business Performance Management), CPM (Corporate Performance Management) and EPM (Enterprise Performance Management). In fact, all these terms should be considered as synonyms (hereinafter we shall use a ‘BPM’ term).

According to BPM Industry Framework, there are four major processes of performance management – ‘strategize’, ‘plan’, ‘monitor and analyze’ and ‘take corrective actions’ (Business Performance Management…, 2005, pp. 7-9). ‘Strategize’ means developing and communicating business strategies, identification value drivers, building metrics and thresholds to measure business performance over time. ‘Plan’ is associated with setting of goals (for an organization as a whole and for its business units, divisions and departments), devising and modeling of planning scenarios, formalization of development programs and finally – with setting up of corporate plans and budgets, including target levels of base accounts over various time periods. ‘Monitor and analyze’ means that an organization should assess individual and group performance at all management levels against relevant key performance indicators (KPIs), and also providing additional information to users for taking appropriate actions. Finally, ‘take corrective actions’ is related with reaction to issues of variances and improvement of timeliness of corrective actions.

Anyway, today almost all leading international IT companies (Oracle, IBM, SAP, SAS, Infor, Microsoft) promote performance management solutions. Within any BPM system there are three major types of performance management applications:
Scorecarding systems deals with strategic goals of an organization expressed in terms of key performance indicators (KPIs) or metrics. Such software is also called ‘Balanced Scorecard applications’ or ‘BSC systems’, because scorecarding approach is usually associated with Balanced Scorecard methodology, proposed by R.Kaplan and D.Norton in the 1990s (Kaplan, Norton, 1996). Some later Kaplan and Norton also proposed a set of functional standards for scorecarding systems (Balanced Scorecard Functional Standards, 2000). Particularly, in the Standards Balanced Scorecard application is defined as “any software package which uses the methodology of Drs. Norton and Kaplan to facilitate strategic decision-making using the Balanced Scorecard methodology, or any package which uses the term ‘Balanced Scorecard’ in its marketing material, title, or external communications” (Balanced Scorecard Functional Standards, 2000, p. 4). The Standards refer only to the functionality of the software package (as it relates to the Balanced Scorecard methodology) and does not discuss merits and limitations of specific technology solutions, including their scalability or interconnectivity with other systems.

The Standards describe minimal functional requirements to scorecarding systems in the frame of four sections.

The first section – ‘Balanced Scorecard Design’ states that the application should be able to accommodate the basic Balanced Scorecard elements, including application of four perspectives (financial, customer, internal and learning), identification of strategic objectives for each perspective, allocation of measures with strategic objectives, establishing links between strategic objectives in cause and effect relationships, assigning targets to measures and maintenance of a list of strategic initiatives.

The second section – ‘Strategic Education and Communication’ states that one of the key reasons for implementing a Balanced Scorecard software solution is the facilitation of strategic education and communications. It means that an appropriate application should enable users to document and communicate descriptions of objectives, measures, targets and initiatives aligned with the strategy.

The third section – ‘Business Execution’ states that strategic initiatives are the testing grounds for the strategy expressed by means of Balanced Scorecard framework. Therefore, an appropriate application should make explicit the relationship between initiatives required to implement the strategy and to achieve the associated strategic objective.

Finally, the fourth section – ‘Feedback and Learning’ states that the feedback cycle time for management information can be significantly reduced through proper system design. It means that analysis of the measure results against targets will allow managers to understand which areas of the organization require further attention. For this purpose an application should comprise graphical indicators, with further details expressed in a text form. However, the system should not override the judgment of managers: it should rely on both objective information and subjective judgments.

The functionality of scorecarding systems is related with ‘Management by objectives’ functional block, including ‘Targets setting’ and ‘Objectives achievement analysis’ modules. For these two modules scorecarding systems may be treated as a basic solution. On the other hand, specific nature of such systems does not allow to classify them as complementary solutions for other functional modules.
Corporate planning and budgeting systems represent a class of applications with functionality allowing to develop strategy oriented long-term company-wide plans (in operating terms) and budgets (in financial terms). In fact, these plans and budgets provide a link between strategic planning (for example, using Balanced Scorecard methodology) and local detailed planning of day-to-day activities, performed with assistance of Enterprise Resource Planning (ERP) systems.

Typical functionality of such systems includes: multidimensional storage of management information (usually based on OLAP technologies), maintenance of a chart of accounts, support of a planning calendar, multicurrency financial data processing, performing appropriate calculations (including sophisticated algorithms), as well as possibility of description of a financial structure of an organization. As usual, these systems are able to support multiple scenarios and versions of plans and budgets; this functionality is very important from point of view of flexibility of corporate planning. The systems also provide appropriate description of users and workflow management: these functions allow participants of budgetary process to monitor and communicate the progress of plans and budgets using e-mail notifications, alerts and task lists.

Applicability of corporate planning and budgeting systems is associated, first of all, with ‘Planning and budgeting’ functional block, including all the modules within this block – ‘Plans / budgets preparation’ and ‘Budgetary control’. For these two modules corporate planning and budgeting systems may be classified as basic solutions. Moreover, systems of this class may be integrated with scorecarding systems: metrics from scorecarding systems may be imported to corporate planning and budgeting systems for more detailed presentation in the terms of budgeting accounts. In this case the budgeting system may facilitate analysis of deviations of actual values of metrics against target values of the same metrics. It allows to treat corporate planning and budgeting systems as complementary solutions for ‘Targets setting’ and ‘Objectives achievement analysis’ modules (‘Management by objectives’ functional block).

Financial consolidation systems support, first of all, global requirements in the field of accounting and statutory reporting, including multicurrency translations, elimination of intra-group items, goodwill and minority interest calculation. Flexibility of such systems allows to support multiple consolidation standards, including IFRS and US GAAP, as well as local statutory requirements. Moreover, such systems may be used not only for preparation and analysis of statutory financial statements, but also for management reporting (both in financial and operational terms), and also for processing of non-financial information for sustainability reporting and other purposes.

Similar to budgeting systems, the typical functionality of consolidation systems is related with multidimensional presentation of management information, maintenance of a chart of accounts and reporting periods, processing of multicurrency items and transactions, appropriate calculations (elimination, goodwill, retained earnings, minority interest, etc.), maintenance of a group structure, supporting of multiple scenarios and versions, as well as workflow functionality. But all these functions are strictly focused on consolidation processes (gathering of source data, processing of these data and presentation of results in the form of statements), rather then planning. That’s why applicability of consolidation systems is associated only with ‘Corporate reporting’ functional block, exactly – with ‘Corporate statements preparation’ and ‘Corporate statements analysis’ modules. For these two modules financial consolidation systems may be treated as a basic solution, for other functional blocks and modules such systems are irrelevant.

All the mentioned business performance management products may be combined into a comprehensive integrated system, based on single integration platform.
The functions provided by BPM systems seem extremely important for information support of corporate governance and strategic management processes. In fact, such solutions represent a core element of an integrated information system, which represents one of the PMISS components. On the other hand, the functionality of BPM solutions is restricted by focusing on specific management tasks – scorecarding, budgeting and financial consolidation. That’s why even after full implementation of an integrated BPM system some functions of information support of corporate governance and strategic management (first of all, functions of strategic analysis and strategic choice) appear omitted. Therefore, application of business intelligence systems and some other software products is required.

**Business intelligence systems** represent a wide range of information technologies applied for identifying, extracting and analyzing management information, providing historical, current and predictive views of an organization and its activities. Such systems allow to improve decision making, that’s why they are often called decision support systems (DSS). This class of software comprises such elements as data warehouses, data marts, online analytical processing (OLAP) systems, as well as query, reporting and dashboarding tools.

Often applied solutions, created using BI systems (BI applications) use source data gathered from data warehouses or data marts. Such relation is typical but nevertheless not obligatory: BI applications may get data from multiple sources (not only from data warehouses or data marts). On the other hand, data warehouses and data marts may supply data to a wide range of information systems (not only to BI applications).

There are definitions where the scope of business intelligence system does not include data warehouses (the reason is to distinguish analytical data processing from data preparation and storage). According to such treatment data warehousing tools are considered as a separate class of information systems. However, taking into consideration extended analytical functionality of modern data warehousing products, it may be recognized that today a borderline between data analysis and data preparation and storage is quite relative.

Unlike business performance management applications, BI systems (and, therefore, BI applications) are universal, they are not related with any specific management tasks and may be used for a wide range of analytical procedures in different areas of human activity, even beyond management.

Ability to gather (from different sources), refine and store large volumes of data, as well as functionality in the area of analytical data processing and flexible presentation of results make BI applications extremely important for monitoring purposes. That’s why they may be considered as the only basic solution for ‘Monitoring’ functional module (‘Strategic analysis and strategic choice’ functional block). Moreover, such systems may be treated as complementary solutions regarding many other PMISS modules, where processing of quantitative information is required. Two exceptions are ‘Goals setting’ and ‘Global strategic initiatives determination’ modules, which rely on expert estimates rather than quantitative data.

Therefore, BI applications provide an opportunity to meet information requirements of a range of very important tasks related with strategic analysis and strategic choice (first of all, monitoring and, to a lesser extent – forecasting, corporate appraisal and objectives setting), as well as of some tasks associated with management by objectives, corporate planning and budgeting and corporate reporting. However, even taking into consideration both BPM systems and BI applications, some functional areas still remain uncovered, consequently, the scope of an integrated information system related to PMISS still remains incomplete. It means that some other analytical applications should be applied within performance management information support systems.
‘Other’ analytical applications comprise the following classes of information systems:

- financial analysis and modeling systems;
- simulation systems;
- statistical analysis and data mining systems;
- decision making systems.

**Financial analysis and modeling systems** represent different specialized (subject oriented) software products for specific analytical tasks in different areas of financial analysis – ratio analysis of financial statements, investment projects appraisal, business plans justification, corporate finance modeling, activity based costing. For example, corporate finance modeling systems help to evaluate financial impact of alternative corporate strategies using ‘what-if’ financial models based on projected financial statements. Another example – activity based costing systems, which assist in understanding of a structure of profit and loss, relying on flexible overheads allocation algorithms according to activity based costing (ABC) principles.

Financial analysis and modeling systems are strongly focused on certain tasks and cover only narrow range of strategic management requirements. There are no PMISS functional modules, for which they may be considered as a basic solution. However, such systems may be treated as complementary solutions for such modules as ‘Forecasting’, ‘High-level objectives setting’, ‘Scenarios determination’, ‘Targets setting’, ‘Objectives achievements analysis’, ‘Budgetary control’, ‘Corporate statements analysis’.

**Simulation systems** associated, first of all, with system dynamics methodology proposed by J. Forrester (Forrester, 1961). Being universal, simulation models are applied in different areas, including economics and management (Roberts, 1994). Possibility of sophisticated external environment modeling allows to treat such systems as a basic solution for ‘Forecasting’ module. Such systems also seem useful for internal environment modeling; it means that they represent a basic solution for ‘High-level objectives setting’ and ‘Scenarios determination’ modules. Simulation systems also can supplement functionality of scorecarding applications regarding processing of mutual influence of key performance indicators and time lags of cause and effect relationships. An approach relying on combination of system dynamics and Balanced Scorecard theories is known as ‘Dynamic Balanced Scorecard’ (DBSC) (Rydzak, 2004). So, simulation systems may be treated as a complementary solution for ‘Targets setting’ module.

**Statistical analysis and data mining systems** are close to BI systems and sometimes are included in this class of information systems. However, for PMISS purposes they are considered separately, as ‘methodology oriented’ solutions relying on certain types of quantitative methods and algorithms – descriptive statistics, bivariate statistics, correlation and regression, factor analysis, cluster analysis, etc. Being a powerful tool of quantitative data processing, statistical and data mining packages are treated as a basic solution for ‘Forecasting’ and ‘High-level objectives setting’ modules. They also may appear useful for such functional modules as ‘Objectives achievements analysis’, ‘Budgetary control’ and ‘Corporate statements analysis’; for these modules statistical analysis and data mining systems may be considered as complementary solutions.

**Decision making systems** (DMS) are designed to facilitate a person’s or group decision making process, based on expert estimates (rather than quantitative data), which results in a choice of a course of action or a variant among several alternatives. For example, different systems of this class apply such multi-criteria decision analysis approaches as Analytic Hierarchy Process (AHP), Analytic Network Process (ANP), Elimination and Choice Expressing Reality (ELECTRE), Preference
Figure 1: Applicability of analytical information systems for corporate governance and strategic management purposes

Ranking Organization Method for Enrichment Evaluation (PROMETHEE) and some others (Multiple Criteria Decision Analysis, 2005). Such methods and appropriate information systems are very useful for PMISS modules, where quantitative data processing is irrelevant, exactly – for ‘Goals setting’ and
‘Global strategic initiatives determination’ modules. For these two functional modules DMS are considered as a basic solution. At the same time within some other modules (‘Forecasting’, ‘Corporate appraisal and positioning’, ‘High-level objectives setting’, ‘Scenarios determination’, ‘Targets setting’, ‘Plans / budgets preparation’) such systems may supplement quantitative analysis and may be treated as complementary solutions.

Aggregated view of analytical information systems applicability for corporate governance and strategic management purposes (regarding PMISS functional blocks and modules) is presented in Figure 1. In the scheme basic solutions are designated by bold solid lines, complementary solutions – by dotted lines.

5. CONCLUSIONS

Information support of corporate governance and strategic management requires implementation of an integrated performance management information support system (PMISS) that includes such components as methods, processes, information systems and personnel skills. The Conceptual Model of a typical PMISS comprises four functional blocks (strategic analysis and strategic choice, management by objectives, planning and budgeting, corporate reporting) and thirteen functional modules within the blocks.

PMISS design requires evaluation of applicability of certain types of applied information systems (analytical applications). There are the following classes of analytical applications: business performance management systems (including scorecarding, corporate planning and budgeting, financial consolidation systems), business intelligence applications and other analytical applications (financial analysis and modeling, simulation, statistical analysis and data mining, decision making systems).

In the paper a reference model of information systems applicability regarding PMISS functional blocks and modules is proposed. The extent of applicability is characterized by three levels: ‘basic solution’, ‘complementary solution’ and ‘irrelevant solution’.

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WORLD ECONOMY GLOBALIZATION AND DIFFICULTIES OF ECONOMIC DEVELOPMENT AND GROWTH IN TRANSITION COUNTRIES

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Abstract

Modern studies of economic development and growth consecrate a significant attention on the interdependence of economic development and growth with certain factors in the global environment. Consequently there is a need to explore opportunities to achieve economic development and growth in global business conditions. The world economy globalization brought plenty positive effects in terms of economic development and growth. Nevertheless, the authors want to pay attention, among other things, on negative effects of the world economy globalization on developing the transition countries. This paper seeks briefly to present the main difficulties of economic development and growth in transition countries under the influence of the world economy globalization. In the final, the economic development and growth in developed countries is at the expense of undeveloped countries, because undeveloped countries fail to catch up with developed countries. This constellations are leading to the creation of a increasing gap between rich and poor countries.

Key words: economic development and growth, transition countries, world economy globalization, socio-economic system, financial globalization, market globalization, trade globalization

1. INTRODUCTION

It is known that the basic aim of each socio-economic system is to achieve economic development and growth. Achievement of economic development and growth in contemporary global conditions of business depends on many factors, not only within the boundaries of the national economic system, also beyond national borders. On this is given a special attention in transition countries, but on the other hand developed countries do not give up their plans to continue achieving economic development and growth just because they are developed.

In the unique global economy developed countries are in enormous advantage. Transition countries and developing countries, beside difficulties in the national economic system, are facing with superior global competition. The world economy globalization changed the organization of business relations and to a large extent complicated the organization of international business relations. Seen from the aspect of transition countries non-acceptance and disregard of the global process means loosing opportunities of economic and social integration.

Nation-states bypassed by globalization may resent the advancement of others (Khor 1999). At the same time, many critics argue engagement in the global economy is exploitation in itself. For those
who believe the nation-state is in retreat, the growing power of unaccountable market forces and international organizations provokes calls for change.

Transition countries are not in position to be competitive with global transnational companies. Often the common reason for this is technological backwardness. So they must somehow confront with superior global competition. Overleaf, developed countries have worked on creating a global uniformity of institutions and laws, so that they may be able to bypass any type of economic protection of transition countries. This allows them to do business in under-developed markets of transition countries.

Debate has waged as to whether economic globalization will exacerbate economic inequalities and conflict or contribute to advancing the lot of the poorest relative to others (Krugman & Venables 1995). Studies have examined whether globalization processes have reduced or exacerbated wealth inequalities within developed countries and developing ones.

Often in reality there is not made a real difference between economic development and economic growth. We need to know that these are different, but inserable matters. While economic development represents a qualitative factor, economic growth represents a quantitative factor. Qualitative changes and innovations, which are required to achieve economic development, are only possible by constantly tracking the developing of science and technologies and also with their application and effective use.

An essential fact of world economy globalization is that the world was never better connected with communication, transport and information networks than today. The new economic processes led to finance, trade and market liberalization. This factors are allowing that the global transnational companies are basic carriers of world economy globalization. In these circumstances transition countries are in unenviable position in the unique world market.

As mentioned, the world economy globalization includes financial globalization (national economy endeavor to integrate the national finance system into the global finance system), market globalization (observation of the whole world as an unique market) and trade globalization (trade and business at the global level).

2. DEVELOPING THE WORLD ECONOMY GLOBALIZATION

The process of globalization represents appearance of new facts which directly affect increasing magnitude of foreign trade operations. This process has become the fundamental process in the current phase of developing the world economy globalization.

The world economy globalization is variously defined in the literature. Frequently under this term is considered growing interdependence of countries around the world and the aspiration of economic connections to cover the whole world as a single unique market.

Globalization as a concept appeared in the eighties, the full swing of globalization occurred in the nineties with impulsive development of technologies. Globalization is accepted as the ideology of the 21st century and the world economy globalization is accepted as an unstoppable process of international and national business.

The changes that occur in the early 21st century are primarily manifested in the form of increased velocity and absolute size of economic ongoings beyond national borders and involve more and more countries into the world economy globalization. Under pressure of global competitiveness many
countries are choosing the neoliberal capitalistic market mechanism and are restructuring capital and markets through the transition.

In the end of the 20th century appeared a new economy around the world (Castells 1996), a new brand of capitalism, which has three basic characteristics:

- productivity and competitiveness (usually the result of information processing)
- companies are organized in networks for production, management and distribution
- primary activities are global.

The world economy globalization implies the organization of markets by criteria of developed countries, relative separation of politics from economics, membership in international organizations and institutions and also economic liberalization which includes free movement of goods, capital and people. This facts of economic liberalization are increasing the international competition, which creates difficulties in transition countries and undeveloped countries to achieve economic development and growth. Less developed countries and transition countries are facing superior competitors even in the domestic markets, so they need to take defensive strategies to defend their own markets.

Why is finance so important to economic growth? The answer is that the financial system is like the brain of the economy: it is a coordinating mechanism that allocates capital to building factories, houses and roads (Mishkin 2005). If capital goes to the wrong uses or does not flow at all, the economy will operate inefficiently and economic growth will be very low. No work ethic can compensate for a misallocation of capital. Working hard will not make a country rich because hard-working workers will not be productive unless they work with the right amount of capital. Brain is more important than brawn, and similarly an efficient financial system is more important than hard work to an economy’s success.

2.1. The evolution of international financial integration

Globalization of finance should lead to stabilization of national macroeconomic policies, in a way of imposition of macroeconomic discipline and rationality. The main reason of global financial regulation is substantiation of financial stability and promotion of socio-economic objectives. In the idea of financial globalization it means that loans and borrowings of national economic systems should merge into an unique global financial market.

The main objective of those regulations was to bring financial stability and to promote government’s economic and social objectives (Basu 2002). This was the case for developed as well as for developing countries. An important implication of those regulations was to undermine the independence of the financial sector as a profit-seeking economic unit. A further implication was that, since banks were prohibited by regulation from advancing loans to certain areas of economic activity, the opportunity for new institutions to emerge, in order to capture that end of the loan market, arose. Bank’s share of the loan market fell as a result, thereby affecting the effectiveness of the traditional tools that had been used by monetary authorities in the past to control the money stock at the national level.

The simplest - one might say even naive - benchmark one-sector neoclassical growth model suggests that financial globalization should lead to flows of capital from capital-rich economies to capital-poor economies because, in the latter, the returns to capital should be higher. We call the model naive because, in fact, the actual volumes of such flows do not come anywhere near what the baseline models predict, as famously emphasized by Lucas (1990).
If we mark off on one side “de jure” liberalization measures of the financial system which are the reflection of legal restrictions or shortcomings of legal restrictions and in the other side “de facto” integration which shows how national economic systems in praxis are integrated in the global financial system, we will notice a different trend in developed countries, in developing countries and in emerging markets.

The figure 1 (Kose et al. 2009) shows that advanced economies integrated uniformly “de facto” and “de jure” components. There was noted an upward trend of both components. “De jure” integration factors in the global economic system are always above “de facto” factors of integration. This indicates that there is supplying large importance at the regulatory framework or globalization of rules of business and trade in developed countries.

In emerging markets can be seen that the integration processes started upwards, but during the time there is a clear divergence of real factors of integration and juridical integration factors. The real integration factors have been moving substantial increasing, while the juridical factors of integration have been stagnating. This shows us that the economic globalization is imposed in these markets.

There is a similar trend in developing countries as in emerging markets, whereby appears a less difference between real and juridistic integration factors. In developing countries can be clearly seen that the real factors of global integration are always above than the juridistical. This is indicating that the global financial integration is imposed to developing and transition countries.

When we are considering all countries, “de facto” and “de jure” global integration factors began equally to take place with deviations during the eighties, when the real integration increased faster then the juridical. During the mid-nineties both integration factors equated, probably the reason was the establishment of the WTO (World Trade Organization). But at the end of the 20th century and the beginning of the 21st century the real integration experienced an impulsive increase and far overmatched the juridistical integration factors.

3. SUSTAINIBILITY OF ECONOMIC DEVELOPMENT AND GROWTH

An important issue is sustainability of achieving economic development and growth. Once achieved economic development and growth should be sustainable. In addition, the new global era moves boundaries and is setting a new question: How much can possibly be the economic development and growth?

Logically, however, a model for continual financial growth is unsustainable. Corporations have to go to extraordinary lengths in order to reflect endless growth in their accounting books. As a result, finite resources are wasted and the environment is dangerously neglected. The mandate for economic growth is the perfect platform for corporations which, as a result, have grown rapidly in their economic activity. Yet this model is also the cause of the growing inequalities seen across the globe.

In one moment the national borders of developed countries are going to be to tight for achieving further economic development and growth. At his moment they will probably try to export their goods and services. At the next level they will probably export their raw materials and technologies and finally they will export entire plants and production.
Figure 1 Evolution of International Financial Integration: 1970-2004.


Notes: This figure shows unweighted cross-country averages, within each group, of two measures of capital account openness. The „de jure“ measure is based on the IMF 0-1 capital account restrictiveness classification, with 1 representing countries that have open capital accounts. The „de facto“ measure is based on the ratio of gross stocks of foreign assets and liabilities to GDP, with the raw data taken from Lane and Milesi-Ferretti (2006).

With such a dramatic increase in cross-border securities trading and the disappearance of many formal barriers to international investment, we would expect countries, per se, to matter little in finance.
However, this is not the case: countries remain very important (Stulz 2005). The empirical evidence shows that they matter for portfolio choice, savings and investment, stock returns, and the size of the stock market.

Neoliberal ideology embodies a selfish model of economy. It has been formulated by the economically dominant nations. Wealthy countries can maintain their economic advantage by pressurizing developing countries to adopt neo-liberal policies. Understandably, many commentators have described this process as economic colonialism. The ultimate goal of neoliberal economic globalization is the removal of all barriers to commerce, and the privatization of all available resources and services.

4. DIFFICULTIES OF ECONOMIC DEVELOPMENT AND GROWTH IN TRANSITION COUNTRIES

In fact there is a conflict between globalists and anti-globalists. On one side are the supporters of globalization, represented by the most developed countries of the world, in whose background are hidden the interests of capital quantity. On the otherside are the opponents of globalization, which are claiming that globalization is establishing dominance of developed over undeveloped countries. There is also some disagreement on where this is all going and whether globalization could come to an end.

Many facts are speaking in favour of the supporters of globalization. The opponents of globalization are emphasizing the negative effects of globalization such as creating a growing gap between rich and poor countries, debt increasing in transition countries, suppression of national cultures and cultural changes, decline industries that can not withstand the global competence etc. This are the main difficulties of economic development and growth in transition countries in the present conditions, which is shown in figure 2.

World economy globalization has contributed to increase the gap between rich and poor even more. Developed countries were able to legalize their entrepreneurship all around the world, whereby transition countries become very interesant. In this way developed countries are allowed to do business in transition countries where they are superior. At the otherside transition countries gain superior competitive, often transnational and multinational companies, in their domestic market.

Explaining income differences between countries is one of the oldest objectives in economy. It is not accidently that Adam Smith's book from 1776. was titled „The Wealth of Nations“. At least since the time of mercantilists economists have tried to explain not only why incomes are different between countries at some point, but also to solve a much more challenging riddle: Why some countries are getting rich while others are stagnating (Krugman & Obstfeld 2006).

The capital markets liberalization led to capital circulation without barriers all over the world. This enables that the transition countries are pushed into debt by developed countries. The developed countries believe that transition and developing countries have only themselves to blame, because they did not expend capital productively. In reality transition countries are increasingly sinking into debt.
Developing the world economy globalization led to a larger polarization and to social divisions. Today we have over one billion people which are living on the border of poverty and hunger, while a group of world potentates is emphasizing the interests of large capital.

The cultures of many nations are subordinated in relation to the globalization processes. The most developed countries are trying to establish one unique global culture. First of all, they are trying to promote an unique global consumption culture, by promoting an unique product all over the world.

For many, cultural globalization means Westernization or Americanization. An important distinction concerning today's cultural globalization is that it is largely driven by corporations, rather than countries. As such, one of the central concerns is the spread of consumer culture. For many critics, non-Western culture and practices are at risk of being overwhelmed by homogenizing "McDonaldization" (Klein 1999).

5. CONCLUSIONS

World economy globalization impose by itself, not only economic globalization, than technological, scientific and other aspects of globalization. Regardless, the negative consequences of globalization on economic development and growth in transition countries, we are all part of the globalization process, whether we want accept globalization or not. It is very likely that globalization is the main concept of the modern era. Surely, some individuals refuse that we are entering a new global era, but on the other side some individuals are accepting the globalization processes and consider than the main causes restructuring the socio-economic organization.

It seems that in the modern global settings less developed countries and transition countries are to powerless in the struggle against global transnational companies. These companies are able to create cheaper products (by using the economic of scale) and high quality products (with their greater investment opportunities they can reach a higher level of technological progress).
In this terms of enterprising the „old economy“ is gradually more and more changed by the „new economy“, which is based on high sophisticated technology and on new forms of cooperations. The world economy globalization means that entrepreneurship does not limit on notorious markets, but also on new until now unfamiliar markets.

The notion that financial globalization mainly influences growth through indirect channels has important implications for empirical analysis of its benefits. For one thing, building institutions, enhancing market discipline, and deepening the financial sector takes time, and so does the realization of growth benefits from such channels (Prasad et al. 2009). This may explain why, over relatively short periods, it may be much easier to detect the costs of financial globalization than it is to see the benefits. Indeed, even at long horizons, detecting the benefits may be tricky, because they are indirect and work through improvements in structural, institutional, and macroeconomic policy variables. If these variables are included separately in long-run cross-country regressions, the catalytic effects of financial globalization may be hidden.

We are living in a global economy characterized by not only free trade of goods and services, also the free movement of capital. Interest rates, exchange rates and stock prices in different countries are closely linked and global financial markets have enormous effect on the economic conditions. The global capitalist system is very favourable to the financial capital that is now free to go where profits are the highest, which led to the development of global financial markets (Soros 1998). The result is formation of a gigantic circulatory system which sucks in capital in financial markets and other financial institutions and then takes it to the periphery, either directly in the form of loans and portfolio investments or indirect in the form of multinational corporations. As long as the circulatory system is strong, it is able to overpower the most other effects. Capital brings many benefits that are reflected not only in increasing production capacity, but also in improving production methods and other innovation. With capital comes greater wealth and a greater degree of freedom. Therefore, the states are competing in attracting and retention of capital, so creating conditions which are attractive for capital has an advantage over other social objectives.

In theory, financial globalization can help developing countries to better manage output and consumption volatility. Indeed, a variety of theories imply that the volatility of consumption relative to that of output should decrease as the degree of financial integration increases. The essence of global financial diversification is that a country is able to shift some of its income risk to world markets. Since most developing countries are rather specialized in their output and factor endowment structures, they can, in theory, obtain even bigger gains than developed countries through international consumption risk sharing—that is, by effectively selling off a stake in their domestic output in return for a stake in global output.

Globalization is deeply controversial. Proponents of globalization argue that it allows poor countries and their citizens to develop economically and raise their standards of living, while opponents of globalization claim that the creation of an unfettered international free market has benefited multinational corporations in the Western world at the expense of local enterprises, local cultures, and common people. Resistance to globalization has therefore taken shape both at a popular and at a governmental level as people and governments try to manage the flow of capital, labor, goods, and ideas that constitute the current wave of globalization.
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THE REASONS OF OCCURRENCE AND TYPES OF INNOVATIVE STATE RISKS

Elvira Kantserova


Abstract

The aim of this paper is to determine the reasons that caused occurrence of innovative risks on all levels of economic systems and also their classification. A complex of methods was implemented in scope of this article such as: generalization, analysis, comparison and classification.

This article comprises analysis of “risk” term’s origin, classification of main approaches towards determination of its essence as well as comparison of terms that is close in meaning to the risk at the state level. It also stipulates the main causes of the country’s uncertainty. Functions of country’s economic risk have been determined as well. This article also determines necessity for consideration of innovative risk as a multi-stage category with a tendency of exposure at various levels of economic systems which define the major factors that cause innovative risk at each level. General classification of innovative risks has been made based on the quality characteristics.

Key words: risk theory, country risk, risk sources, innovative risk, classification of innovative risk.

1. INTRODUCTION

Not many problems of economic theory and practice cause such active discussions as those that are related to the risks on all levels of economic system. Risks are the natural reflection of economic systems’ mobility and their viability. Risks are formed in scope of economic systems due to inconsistency and frictions that are caused by interaction of structural elements and components within the economic system.

Innovations in modern economy play significant role for the purpose of acquiring and supporting the strongest sides in competitive struggle on the global scale and solving the task of determining innovative risks at all levels of economy and the reasons that caused them as well as risks classification is a complex issue due to variety of risks and uncertainty about their origin. On the other hand, solvability of this task stipulates a vital necessity and could be realized on the basis of currently essential economic theory that could create implications for successful analysis and determination of general substance of risks, their structure, specifics and mechanisms of development for each of the risks as well as distribution of all expenditures and counterbalance that could neutralize them.

2. SOUVEREIGN ECONOMIC RISKS: SUBSTANCE AND CONTENT

Modern sources associate origin of “risk” term with Greek words ridsikon, rida which means cliff, rock. In Italian language the word risiko means danger, threat; the verb risikare means – to dare. In
French risqoe means threat, to risk (which literally means to circuit the cliff or rock). The word “risk” in Webster dictionary is defined as “danger, possibility of loss or damage” (Granaturov 2002). Ozhegov dictionary defines the word risk as the possibility of danger or to take risk with a chance for successful result (Ozhegov 1978).

Scientific literature contains many approaches for determination of this category’s substance however all of them could be combined in four basic groups.

1. The first concept is related to development of optimal control theories (Grabovoi 1994; Balabanov 1996; Ashepkov 1996; Dolan & Lindsay 1994) where the risk is considered as attributive all-social characteristic of any type of the human’s sensible activity undertaken within resource limitation and availability of opportunities to choose the optimal method for achieving goals within the situation of information uncertainty.

2. Other works that could be distinguished in another concept of risk theory consider that risks result due to accumulation of regressive potential (Gassendi 1966; Viko 1940, Danilevsky 1889; Shpengler 1923; Meadows 1972; Mesarovic & Pestel 1972; Olsevich 1994). This approach originates from the theories of historical and technological progress where the main attention is focused on researching specifics of destructive risks such as:
   - Irretrievable loss of qualities, material and spiritual values that were useful in the past but not longer valid in present;
   - Emergence of new qualities, material and spiritual values, scale of threats which regressive potential in future is unclear and obscure;
   - Decrease of threshold safety level due to development of new productions, technologies and proliferation of new types of weapons;
   - Increase of environmental threats and challenges in proportion to increase of industrial potential.

3. The third groups of authors consider the risks as a type of result uncertainty which is related to entrepreneurship (Shvandar 2002).

4. The fourth group of authors reviews institutional factors that influence on specifics of economic risks. This type of concept enables to understand and determine the nature of the risk in modern economy based on fundamental analysis of interaction between formal and informal institutes. Ineffective interaction creates threats and risks based on the conflict of interests. Institutes are the rules, mechanisms and norms of people’s behavior in economy. Those are the structured forms of human communication determined by cooperation of political and economic institutes.

Risk – is a dynamic event that exists in a constant movement and development. This type of development shall be called as a risk mechanism. Such mechanism is based on substantive inconsistency of risk that is stipulated by general conformity of its existence:

   - Inconsistency of risks exposure attributes. Risk may have a positive result (for example, bring profit) or negative (for example, bring losses). Trajectory of risk development depends on to what the risk is inclined at the current moment for example to positive or negative result. Moreover the risk’s development trajectory may escape permissible margin which means the level of acceptable risk;

   - Inconsistency of necessity and contingency elements comprised in risk concept. Necessity is what should logically be realized. Unlike to necessity, contingency is not stipulated by anything. This is what occurs unexpectedly and suddenly. Risk mechanism contains necessity which means that it’s different
elements are predictable and they could be evaluated and controlled; similarly with contingency where certain risks elements could not be predicted but they could be controlled to a certain extent;

- Temporary inconsistency is determined by the fact that the moment of occurrence and the moment of risk’s exposure do not coincide in time (Smirnova 2001).

- Upon reviewing the concept of the country’s risk substance it is necessary to mention significant category as “country risk”. It should be noted that the concept of “country risk” was initially introduced in order to describe the nature of negative events that might be encountered by investor on developing markets. For instance it could be: instability of political regime, external conflicts, corruption, civil disorders and wars, control over exchange rate, unanticipated inflation, various defaults, expropriation of private capital, etc. However at present, there is a lack of univocal concept for “country risk”. *Country risk* is determined as an integral result of interaction between events of international activity and circumstances (political, economic, social, etc.) that do not depend from the subject. One of definitions of a *country risk* is as follows:

*Country risk* – is a risk of financial losses during realization of business operations that are directly or indirectly related with international operations and trans-boundary funds remittance. It is determined according to conditions of current and perspective development of the foreign country (political, economic, social, etc.) as well as by the impact degree of those conditions on the clients and counteragents’ abilities to repay their external debts while they’re situated in that country (Susanov 2001). In other sources *country risk* is determined as the possibility of changing the current and future economic as well as fiscal and monetary, social and political conditions of the large system and its components in such a degree that it would influence on the ability of the state and various industries and companies to repay their obligations to foreign creditors or might directly or indirectly breach the property right of foreign investors (Filin 2000).

As a result of comprehensive literature research of the *country risk* substance it is possible to state that the meaning of *country risk* is used mainly in financial sphere.

However in my opinion (2005), *country risk* – is a very complex comprehensive event with characteristics that could be traced in many other spheres. This way I think it would be logical to equate the meaning of country risk and the sovereign risk and review the country risk as the risk of causing the damage to the whole state and not just to specific creditor or investor. Due to this, since we have already reviewed economic sphere I would like to introduce the meaning of country economic risks or economic sovereign risks.

The concept of strategic risk was recently introduced in scientific literature though in essence it represents the sovereign risk. More comprehensive substance of this term means the possibility of harm to the country’s national interests and deterioration of potential of its stable development that is connected with external groups of factors (so called challenges), e.g. the negative changes of the international status of the country primarily in political and economic spheres due to unfavorable tendencies of global development and due to internal groups of factors that stipulate the possibility of crisis development in social and economic systems and creation of implications for such development including consequences caused by inefficient decisions or lack of any strategic decisions on priority (political, including military and political, social and economic, scientific and technical and environmental) aspects of the country’s development (Vishnyakov & Radayev 2007).

In my opinion, economic sovereign risk represents a complex of negative events that happened in the market system of economy within the country or on the global scale and reflect possibility degree of contingent and unexpected dangers and losses for the national interests of the country and overall
economic situation due to inefficient or insufficiently efficient control over certain priority spheres of economy which causes the threat for the functioning and development of all spheres of the country.

One of the main risk characteristics is that it is always produced by specific object and is not an abstract concept. Therefore one of its characteristics should be the source of risk. Risk sources or the main reasons of the country’s uncertainty are:

1. **Unpredictability of natural processes and events, natural disasters.** Occurrence of natural disasters such as earthquakes, floods, storms, hurricanes and certain unpleasant natural hazards – drought, hail, e.t.c can cause significant negative impact on the country’s economic situation and become the source of unanticipated state budget expenses.

2. **Element of chance.** Probability substance of many social, economic and ecological processes leads to the fact that in similar conditions the same event occurs differently which implies the presence of the element of chance. Very significant and not always predictable impact on the country is caused by: various environmental disasters and technogenic catastrophes; acts of terrorism; strikes and various feuds, e.t.c.

3. **Instability of human relations, clash of conflicting interests.** This risk source is characterized in many ways that include wars and interethnic, ethnic and regional conflicts up to the competition on the international market and in the country. Existence of opposing and conflicting tendencies within social and economic development bring the elements of uncertainty and those create the situation of risk within the social and economic spheres of the country.

4. **Uncertain characteristics of scientific and technical progress.** General direction of science and technology development especially for the near future could be forecasted with a precise accuracy. However it is not possible to determine specific consequences of certain scientific discoveries or technical innovations. Technical progress could not be achieved without the risk which is stipulated by its probabilistic nature since scientific expenses and especially scientific results are extended and distant in time.

5. The sources that cause uncertainty and risks also include:
   - limitation, lack of material, financial, labor and other sources for development of certain type of industrial sphere in the country or in the region;
   - instability of governmental power, specifics of governmental structure and legislation;
   - ineffective economic policy conducted by the Government;
   - weak, financial and banking systems that do not correspond to international standards.

At present, comparatively stable opinion has been formed on the question of risk functioning. However comprehensive analysis of literature has revealed that risks functions are inherent mainly to entrepreneurship risks while sovereign economic risks has their own specifics and reflect certain object (economic system of the country) due to which the functions fill in with a certain meaning. This way, we define the following functions of the country’s economic risk:

Country’s economic system is inevitably connected with economic problems and opportunity to forecast negative results in development of economic situation in the country will help to undertake required measures for its prevention.

This stipulates the first function of the country’s economic risks called preventative. Any country undertakes certain measures to neutralize already occurred crisis situation in the country’s economy therefore a second- repressive function is defined. None of the countries have an ideal system of control
and cannot forecast all negative events with one hundred per cent accuracy however any country strives to maintain a stable situation in economy. Thus way, the third stabilizing function is determined. This function’s specific also reveals during stabilization of overall economic situation after neutralization of the negative events that permanently happen in economy. Therefore it is possible to conclude that these functions are cyclical in country’s economy.

Summarizing all of the above-mentioned it is possible to conclude that the main distinctive characteristic of the state’s economic risk is stipulated by stability of country’s economic system which has significant importance in modern conditions for many countries in the world.

2. INNOVATIVE RISKS OF THE COUNTRY: SUBSTANCE, CAUSES, TYPES

Based on conducted analysis of “innovative risk” concept it was determined that at present there is no unified opinion in defining this concept. Despite the large number of works devoted to innovation, the problem of determining the concept of innovative risk as specific risk generated by the various types of innovative activity has not been researched in full measure.

Current approaches for determining innovative risks are dominated by the concepts that reflect the substance of this term on the “mirco-level”- e.g. the level of certain number of innovative projects, specifics of entrepreneurship activity, etc. Besides, such types of important elements of innovative risk like risks related with organization and realization of innovation at the level of certain regions, countries, etc. are almost overlooked.

Ivanov (2012) offers to consider innovative risk as a multi-level category which differs by its specifics, different impact factors and peculiarities of exposure at various levels of economic systems functioning.

1. Mega level – formation and expression of innovative risk on the level of global innovative system on the world scale. Factors and causes of risk at innovative system are stipulated by irregularity of innovative development in various countries, unfavorable environment on the international financial markets, etc.;

2. Macro-level – formation and exposure of innovative risk on the level of global innovative system which risk factors (main causes) are stipulated by irregularity of innovative development of various regions, inefficiency of managerial influence on the processes of innovative activity on the level of innovative system;

3. Meso-level – formation and exposure of innovative risk on the level of regional innovative system which risk factors are stipulated by diversification of risks within innovative projects and inefficiency of managerial influence on the processes of innovative activity on the level of regional innovative system;

4. Micro-level – formation and exposure of innovative risk on the level of industrial, cluster innovative system and innovative system of the enterprise which risk factors are stipulated by the risks of entrepreneurship and certain projects.

This way, under innovative risk it is possible to imply probability of non-achieving planned results of the functioning and development of innovative systems on the various levels:

1) Innovative risk at mega-level – is a probability of the country’s situation deterioration within the
international innovative ratings, general slowdown of innovative development in the world due to unfavorable conditions on the international finance (currency) markets and because of international political situation, natural disasters, etc.

2) Innovative risk at macro-level – is a probability of non-achieving planned social and economic results from realized innovative projects in scope of the certain country due to ineffective implementation of existing innovative potential of the regions and also insufficient consideration of risk factors during managerial influence on the subjects of national innovative systems.

3) Innovative risks at meso-level – is a probability of failing to achieve planned social and economic results from realized innovative projects on the territory of the certain region due to ineffective implementation of existing innovative potential and also insufficient consideration of risk factors during managerial influence on the part of the subjects of the regional innovative system.

4) Innovative risk of micro-level – is a probability of loss of forecasted income or failure to achieve planned economic results of realized cluster in scope of certain industry or failure to achieve results by the enterprise of innovative projects due to inefficient implementation of existing innovative potential of the industry, cluster or enterprise and insufficient consideration of risk factors during managerial influence on the part of the subjects of innovative activity.

In my opinion, all risks that happen during creation, introduction and practical implementation of progressive innovations should be considered in a scope of unified comprehensive concept of “innovative risk”. Innovative risk represents a type of economic risk and similarly as with the concept of “economic risk” could be defined as the possibility (probability) of rupture of existing and origination of new innovative relations (connections) between subjects, subject and object of these relations in space and time since innovative risk has subjective and objective nature.

On one side it is connected with selection of certain types of alternatives, estimation (if such opportunity is available) of probability of its result. Besides, various subjects that demonstrate innovative activity have various purposes of activity, different legal status and psychological attitudes. All of this stipulates availability of subjective constituent of innovative risks.

On the other side, probabilistic substance of innovative activity, lack of possibility to envisage accurately its final results stipulate availability of objective constituent within the innovative risks.

Therefore the subjective and objective nature of innovative risk is determined by the fact that it is created by the processes of subjective nature as well as by the processes which existence does not depend on the will and conscience of people.

Risks classification is a risk distribution into certain groups according to specific properties for the purpose of achieving the goals (Balabanov 1996).

Scientifically justified classification provides opportunity to identify the role of each risk in the overall system. It creates opportunities for efficient implementation of various methods and approaches for risk management.

At present there is a lack of complex approaches for classification of innovative risks. Moreover, modern scientific literature still does not have examples of organized system for classification of economic risks.

However during classification of innovative risk it will be helpful to set the following sequence of risk characteristics and classification with corresponding types of risks (Stepanenko 2010):
1) Main cause:
1.1. General economic innovative risks;
1.2. Commercial innovative risks;
1.3. Technical and technological innovative risks;
1.4. Political innovative risks;
1.5. Natural innovative risks;
1.6. Ecological innovative risks;
1.7. Legal innovative risks.
2) Sphere of origin:
2.1. External innovative risks;
2.2. Internal innovative risks.
3) Possible result:
3.1. Genuine innovative risks;
3.2. Speculative innovative risks.
4) Possibility of insurance:
4.1. Insurable innovative risks;
4.2. Non-insurable innovative risks.
5) Time of origin:
5.1. Current innovative risks;
5.2. Potential innovative risks.
6) Duration in time:
6.1. Short-term innovative risks;
6.2. Long-term innovative risks;
6.3. Constant innovative risks.
7) Level of decision-making:
7.1. Nation-wide innovative risks;
7.2. Inter-industrial innovative risks;
7.3. Industrial innovative risks;
7.4. Regional innovative risks;
7.5. Overall innovative risks of the certain enterprise;
7.6. Innovative risks of the structured subdivision of a certain enterprise;
7.7. Innovative risks of the certain employee at the certain enterprise.
8) Management possibilities:
   8.1. Predictable innovative risks;
   8.2. Unanticipated innovative risks.
9) Risk intensity of the situation:
   9.1. Minimal innovative risks;
   9.2. Moderate innovative risks;
   9.3. Critical innovative risks;
   9.4. Disastrous innovative risks.

Suggested approach enables to characterize each innovative risk by attributing each risk to a certain type according to their most significant attributes in scope of generalized complex classification of innovative risks. Besides this type of innovative risks classification could serve as potential basis for organizing the system of recording of various innovative risks in real time mode not only on the level of specific subjects of economy but also on a nation-wide level.

4. CONCLUSIONS
Research outlined in this article is based on the multiple-level concept (mega-, macro-, meso-, and micro-level) of the innovative risk’s exposure. Based on this, it was possible to adjust content of “innovative risk” category which unlike the other existing concepts, enables to consider the concept as a multiple level aspect of exposure through the probability of failure to achieve planned results of innovative systems on different levels.

Creation of generalized classification of innovative risks considering the most significant attributes has an important significance not only for certain types of enterprises during realization of innovative operations but also for the government during realization of its innovative policy. This is related with the fact that this type of classification has not only theoretical and methodological but also significant practical meaning that provides enterprises and government with an opportunity to obtain complex information on available potential risks during realization of its innovative activity.

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INFLUENCE OF INNOVATIVE RISK TO THE NATIONAL SECURITY OF THE COUNTRY

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Abstract

The purpose of the article is the development of a conceptual model of the possible risks influence on the national security of the country in the innovation sector of the economy. The study was used synthesis methods and analysis.

The article describes the worldwide trend of departure from raw-material orientation and transition to innovative development of national economy, main problems and innovative development constraining factors. Have identified main threat having a negative influence on the development of innovative sphere and the national security status. On the basis of which, the conceptual model of the interaction between innovative risks and national security have been proposed.

Key words national economy, innovative development, national security, innovation risks, threats

1. INTRODUCTION

Human civilization is surrounded by constant threats and dangers. In addition, the current qualitative changes are led to appearance of new global problems and various risks. The most important task for states is to ensure national security, the implementation of strategic interests, reducing risks and threats. As under the current economic conditions, one of the key factors of economic growth and competitiveness are the innovations used to provide an industrial breakthrough.

In connection with the global trend of transition of economies of developed and developing countries to innovative development, a very actual problem is study of risks passing into threats and having a negative effect on the status of national security.

2. STRENGTHENING OF INNOVATIVE ORIENTATION OF ECONOMIC SYSTEMS DEVELOPMENT

Analysis of foreign experience and best practice shows that modern strategy and tactics of the most stable economical system depends on a desire to move into an innovative development (Kolodko, 2005, pages 32-38). First of all, this is shown in continuous complex prior use of technological innovations by them as a factor of the most effective achievement of all the current and future objectives. Actively pursued policy oriented to stimulation of innovative activity, high technology and science absorbing industry has allowed to the developed countries to provide conditions for creation of innovative economy or “knowledge economy”. The innovative economy is characteristic for post-industrial society, whereas agricultural type of production for characteristic of pre-industrial society,
the industrial one is for industrial society, then knowledge economy becomes dominant in post-industrial society. The main production factors in the pre-industrial production are land and labor, in the industrial one – labor and capital, in the post-industrial production - information resources and scientific knowledge embodied in innovations. The main factor of national economy growth is still increase of natural recourses production and export, first of all is oil and gas. In addition, the following problems is setting: diversification of economy, appearance of new industries, implementation of projects in the non-resource industry. Activity of Institutions of development, formation of innovative infrastructure and science reforming are directed for this. All of this allows to provide preconditions for transition to service and technologic economy.

Thus, model of "recources" development will be at the level of the national economy, and innovative development will be fit to the level of individual economic system (sectors, enterprises).

Innovative development of economic systems is characterized by the following:

a) innovative objections;

b) innovative means for achievement of these objections;

c) active use of business resources;

d) possession of own market;

e) presence of stable direct relationships with main consumers, i.e. formation of own market of non-traditional innovative goods and services.

Change of state priority in the field of industrial and innovative development have occurred in USA and a row of the European countries. The main characters of new innovative policy is reduction of military research quantity in the total volume of state investments, growth of investments for fundamental sciences and researches connected with health system, as well as fall of the interest to researches and development in the field of traditional energetics. Key position in the innovative technological field of new administration of USA belongs to stimulation of the innovative energy technologies of “Green energetics” if we say more exactly, then base components of new policy are development of alternative energy sources (sun, wind, etc.). In European countries, those fields of knowledge and technologies, which were key and high-priority ones (aviation, energetic, military technologies) in 80th years, have given their places to informatics, medicine, bio technologies and some new directions at the junction of traditional fields. The newest priority in all countries became programs in the field of nanotechnologies.

Today, innovative development is a necessary condition of Kazakhstan's participation in the creation of a new quality of the global economy. In the Letter of the President of Kazakhstan for 2010 year named as "New Decade - New Economic Growth - New opportunities for Kazakhstan", the Government of the Republic of Kazakhstan have accepted the strategic task of creating "a fully functioning National Innovation System" by 2015, which "should already give results in the form developments, patents, and existing technologies, implemented in the country by 2020" (President of Republic Kazakhstan, Nursultan Nazarbayev, 2010). The economic priorities of the new model of economic development of Kazakhstan are determined by the state program of accelerated industrial-innovative development of the country. In the structure of the economy, the share of manufacturing in GDP should increase and should be no less than 13% in 2020, while the share of non-resource export total volume will be increased to 45%. Support non-resource exporters is considered in the Letter-2010 as "a key direction of industrialization", used to expand export opportunities for Kazakhstan's industry in the international markets. It is assumed that increase of innovative companies for ten years
from 4 to 20% and decrease of GDP energy intensity by at least 25%. Undoubtedly, in recent years, Kazakhstan has made significant progress in the economic reforms. Only in 2011, 288 projects, amounted more than 970 billion KZT, were put into operation (President of Republic Kazakhstan Nursultan Nazarbayev, 2012). However, the rapid development is still provided without the support of the innovative factor. The national economy is still far from the characters of an innovative economic growth. Innovative activity of industrial enterprises is at low level.

The market economy is highly susceptible to innovations. However, this does not automatically solve all the problems in the area of innovation. In order that market mechanisms will play their stimulating role in the creation and development of innovations, they must be complemented by an active government policy. A strong policy in the field of science, technology and innovation does not only contradict with the calculation of the increasing role of market innovation initiatives from below, from entrepreneurs, small business, private capital, but also provides the basis for all this. The active innovation policy factor is even more important for the period formation of market institutions and infrastructure formation.

Business innovativeness, as evidenced by the practice, becomes stable by introducing special laws and governmental regulations. Great influence in the U.S., for example, a law of the development of small innovative firms have been adopted in 1982. It opened the door to small entrepreneurs for participation in the struggle for non-repayable targeted subsidies (grants).

At the same time, just economic systems of primary links - enterprises, firms, corporations should be in the focus of the changes associated with expression of State's stable interest in the high-efficient innovations. In a word, innovation orientation strengthening is undoubtedly imperative for all levels of economic systems.

Activation of innovative activities directly is related to the formation of an expanded motivations systems, with the creation of the modern economic mechanism of this activity. Just this aspect of the innovation process largely determines technological innovation pace in the enterprises and in the economy in general, and ultimately the competitiveness of each firms and all country. The problem of economic mechanism creation, allowing generate, reproduce and use technological innovations to modernize the economy, improve the quality of life in our country, becomes very important and requires the formation of an adequate view of the main characteristics of innovation processes and their driving forces and regularities.

Production and sales in the market of innovations and consumer goods, the creation for this of adequate technical and technological basis are carried out by cyclic reproduction mode. For this purpose, an interacting integrated set of reproduction processes are organized and always supported. It consists of reproductive processes of creating new products and services, as well as the reproduction processes of innovations - factors allowing to maintain production facilities at the existing capacity levels of scientific and technological progress.

The reproduction processes are not a chain of 5 consecutive stages (science - production - distribution - exchange - consumption), and they are more complex, are cyclically repeating formation, constantly absorbing various resources and ending with not only consumption, but also the resumption of a number of presuppositions, including investment, training, innovation, continuing own and many other reproduction cycles (Kotilko, 2003, pp. 95-101).

However, the experience of world economic development shows that there is no single universal innovation model, capable of providing high-quality economic breakthrough without considering the peculiarities of national development.
There are six most clearly identified technological development models, created a basis for the transition to an innovation economy, which are realized in the different countries.

The first model can be defined as "innovative environment", which can form in the future and serve as a source of innovation and technological development only in the presence of the four required elements: science represented by major research and experimental centers, big private capital, modern-equipped multi-enterprises, large number of highly skilled engineers and workers. An example of such a model can be a Silicon Valley in California (USA).

The second model of technological development based on the fact that the initiation of innovations, bringing them to the technological and production implemented by any large transnational company has the necessary capital, having a complex of enterprises with modern manufacturing processes, as well as its own research centers.

The third model is a model of "state protectionism", which is characterized by the fact that a government is supporting technological innovation through national private firms under the conditions of closed domestic market for foreign companies.

The fourth model differs from the "state protectionism" by the fact that technological progress is in constant and direct interaction with the world market, when the national economic borders remain open.

The fifth model is based as a basic objective of technological development in the achievement of military superiority.

Finally, the sixth model is a model of the European Community. It is based on cooperation between governments and private companies in the different countries. It is like "innovative environment" out of national framework.

In Kazakhstan, as a model of innovative development within the united economic space for Kazakhstan, Russia and Belarus, it is assumed formation and development of new industries based on nano-, bio-, information technologies and the transformation of traditional industries in the innovative ones. Thus, in the overall innovation policy of the CIS countries, Kazakhstan will have to overcome several challenges due to a number of negative factors including inefficient economic structure, dominance of low technology industry sector, disinterest business in the research sector, reduction of expenditures for science researches, a small volume of domestic high-tech products in the world markets.

The formation of a new innovation system in Kazakhstan is just beginning. Nevertheless, despite the difficulty of quickly creating an effective national innovation and economic model, as well as the difficulties in integration of science, business and education in the country, at the moment, there are new innovative structure and the preconditions formed for balanced development of all elements of the innovation system as part of strategic plans of economic development in the country the next decade till 2030.

3. THE MODEL OF INFLUENCE OF INNOVATIVE RISK TO THE NATIONAL SECURITY OF THE COUNTRY

Resistance to the system innovation process is an objective reality for almost all world countries. The objective nature of this resistance goes from the natural laws of motion, which features require an adequate response. In the Kazakhstan economy, resistance to innovation is particularly strong due to
underdevelopment of the market institutionalism.

Thus, we can mark the following factors preventing innovative development of Kazakhstan (Makarenko, Kopka, Rogozhin & Egorov; Government of the Republic of Kazakhstan, 2010):

1) traditional non-market institutionalism (and professionalism corresponding to it), which tends to reproduce the power verticals, which are replacing freedom of market entrepreneurship, and also makes it inefficient substitutes in the form of technocratic schemes: the management of scientific and technical progress, project management (innovative ones in name only) , and so on;

2) traditional capital - complex of social relations caused by the very high percentage of agricultural population (about 30%);

3) low level of liberalization (and humanization) of economic relations: a high degree of problematic equivalent exchange of goods without the intervention of an of different levels of public administration institutions (the ratio of "liberalization and administration"), on this basis, a high degree of "untouchability" of entrepreneurial activity, depending on proximity to power verticals and the tops of power pyramids, low degree of development of interindustry capital flow institutions: capital markets, the institution of bankruptcy, money markets, in particular, their venture types, low degree of development of tools of the civil society institutions influence on economic, social and political processes, the low degree of their participation in the creation of self-regulation structures of economic relationship (economic democracy and civilized forms of market relations, civilized liberalism) that complicates the transition of the economy from the traditional to innovative condition.

4) incomplete formation of the main components of the lower technological structures, which distracts them for completion of critical and scarce resources (financial, labor, energy, etc.) necessary to build a higher technological structure;

5) stable disturbances of monetary proportions - low level of monetization rate, 38.7% according to the results of III quarter of 2011, causing an imbalance in all other markets, distorting the information function of market prices, which important for the formation of innovative priorities. In addition, high market interest rates constrain investment activities;

6) the suppression of the institutional foundations of the social orientation for market economy: the global experience shows that social problems are most effectively overcame through the development of innovative economy sector, and according to this, entry into the higher level living standards, as well as by innovative support of traditional industries ("Economy Pensioners");

7) traditional science and education in Kazakhstan: the lack of a common scientific space, in which under the same conditions both traditional and newly-formed research and analytical structures would be functioned (namely the newly formed ones open up new directions of researches), the lack of a developed market of scientific and analytical products in Kazakhstan, forecasts; excessive "schematization" of ideas about innovation processes, a lack of understanding of market mechanisms of Innovation and exaggeration of the role played by administrative structures, insufficient accounting of geo-economic, ethno-geographical and demoeconomy features of Kazakhstan, lack of funding for science development in Kazakhstan;

8) excessive fragmentarity of almost all control mechanism components of systematic innovation process in Kazakhstan, it is the obvious fact that dissociation of the basic elements of management of innovation processes: the lack of forecasts and venture capital market (not by name, and by fact);

9) the weakness of information institutionalism that does not allow timely to receive truthful
information about the positive experiences, but more importantly, negative experiences of economic activities and transactions, because such information is critical for the development of culture, which rationalizes the use of available resources and potentials;

10) barriers in the development of "knowledge economy": administrative barriers for companies working in the field of information technology (imperfect procedures of customs clearance and information products registration), low percentage of "local content" in the purchase performed by government agencies and companies with the state services related to information technologies, problem of staffing faced by companies operating in the Information and Communication Technologies sector, low investment activity in attracting venture capital for financing innovation developments;

11) problems preventing the training needs of professionals for the industrial-innovative development of the country: no forecasting of staffing requirements for the long term, lack of legal framework to attract employers to the training, outdated material-technical base of educational institutions; unresolved question of manufacturing practices organization and training of educational institutions students in the enterprises, the content of educational programs of higher and postgraduate education does not fully meet the requirements of employers, expressing changes in the labor market, lack of development of social partnership, i.e. the lack of manufacturing practice providing mechanisms, employment of graduates, attraction to the professional standards creating process by employers.

12) weakness of competition: insufficient development of competition in the food market, a high percentage of the state's participation in the economy, including increasing the number of enterprises with state participation, which negatively affects the competitive environment, and quality of basic services provided by state-owned enterprises still remains very low.

13) lack of Exchange trade, modern trade formats: on the trade market concentrated a significant amount of shadow economy, a high level of implementation of contraband and counterfeit products, the widespread use of false quality certificates for traded goods.

You can certainly say that innovations development at the present stage is a fundamental factor for economic growth. At the same time, innovative activity is associated with varied risks at different levels (mega-, macro-, meso-, micro-level). The issue of innovation risk is very important in national economy. Since, economy transition to an innovative way of development is impossible without the formation of globally competitive national innovation system. However, in the absence of proper attention to the risks, they in turn can develop into a global threat to national security. Therefore, one of the priorities in the state's policy is to form a model of national security, taking into account the influence of state’s innovative risks (see Figure 1).

Real demonstration of the national security system of any country are the national values, interests and objectives, threats and dangers, national security policies, principles, ways and means of its implementation. Dialectical alloy of structural components in this system represents the interaction relationship between the individual and the society in their efforts to create conditions for the existence and steady development of the individual, society and the state in general, which is impossible without the innovation component.

In order to understand and assess the impact of innovation risks in the current national security of the state, it is necessary to know the factors that determine the level of Kazakhstan’s economic security.
Figure 1: National security conceptual model

State’s innovation risks

Threats: a set of external and internal factors (processes and phenomena), which may prevent or prevent to the realization of national interests of the Republic of Kazakhstan

NATIONAL (ECONOMIC) SECURITY

Principles:
1) observance of lawfulness in the implementation of national security activity;
2) priority of the rights and freedoms of man and citizen;
3) prompt mutual awareness and consistency of national security forces;
4) unity, relationship and balance of all types of national security, rapid changes of their priority depending on the development of the situation;
5) priority of precautionary and preventive measures for providing national security;
6) timeliness and adequacy of measures to ensure the national security depending on level and nature of the damage and (or) potential damage to national security;
7) balance of the interests of man and citizen, society and state, their mutual responsibility;
8) controllability of the realization of all actions in order to protect national security;
9) integration of national security to international security systems;
10) clear distinction between the powers of state bodies.

Objects:
- person, economic and innovative potential,
- state control system

Subjects:
- state security system;
- social security system.

NEGATIVE RISKS PREVENTION MECHANISMS

Figure 1: National security conceptual model
Among these factors, most researchers include the following:

1. Geopolitical, economic and geographical position of Kazakhstan and the resulting distribution of productive forces in the country, access to domestic and foreign resources;

2. Economic, military and political power of Kazakhstan and its competitive position in the global economic system on the strategically important economic activity;

3. The orientation of the institutional system of the country to support the sectors of national economy, which depends on the level of economic security;

4. Economic policy priorities of Kazakhstan with regard to socio-economic and environmental fields, providing the achievement of international (European) standards for life quality of the country (including the level of health, education, social infrastructure, culture, art);

5. Parameters of sectoral and regional structure of GDP, taking into account the strategic importance of the national economy sectors and regions of the country for providing steady innovation growth and economic security;

6. The conditions determined the principles of national economy in the WTO, and the structure of import / export of material goods of the first and higher orders depending on these conditions, as well as intangible assets classified as strategic significant.

These factors, in fact, reflect a range of external (exogenous) and internal (endogenous) threats to the economic security of Kazakhstan. Each of these threats is a certain degree of danger for the country, which in turn determines the priorities of these threats (Be, know, do: Economic security of Russia, 2009).

Under the threats in the economic field, we understand dangerous phenomena and destructive factors destabilizing economy stability, and which constitute a danger to the interests of market participants, the normal functioning of industries, companies, firms and other economic units of the market. It is necessary to show threats to economic security due to innovation risks, since, if implemented, they led to a material and financial damage.

The most serious internal threats under the present conditions are caused by innovative risk management are as follows (Akanova, 2010):

1. structural deformation of national economy dominated by fuel and raw material orientation;

2. decline in industrial production;

3. low competitiveness of domestic products and the high percentage of import in the total volume of the goods;

4. reduction of investment and innovation activity;

5. destruction of the scientific and technical potential, the degradation of science and education;

The most significant external threats:

1. large external debt;

2. expansion of foreign capital;

3. business out of the country;

4. fall in prices of natural resources;
5. global financial crisis;
6. emigration and "brain drain".

Total synthesis of threats to economic security of innovation origin shows that they have covered the most important sectors of the economy, have affected the fundamentals of human life.

In the system of national security, a key role played by national economic interests, their priorities. To determine the national economic interest is required: an analysis of the current state of the economy and identify trends in innovation development, the adjustment of state regulation in order to achieve the desired objectives (Be, know, do: economic security: the essence of the factors, criteria).

The subjects of national security in terms of impact innovation risks are represented by the state legislature, executive and judicial power; objects - individual, economic and innovative potential of state control system.

Innovation risks prevention mechanisms are directly related to the following main tasks of economic security (Spanov, 1999, pp. 174-176):

- ensuring the economic independence of the country;
- non-admission of the country's economic isolation from the world economic system;
- preservation and enhancement of the resource and energy fundamentals of the economy;
- ensuring proportional and continuous economic growth;
- the formation of an efficient economic structure and developed securities market;
- non-exceedance of maximum permissible level of budget deficit and the strengthening of its revenues;
- the maintenance of national currency stability, etc.

These tasks define the strategy of economic security, taking into account the impact on it by innovation risk, as the formation and justification of the strategic priorities of national interests, resources and problem solving mechanisms.

In order to effectively ensure the safety of individuals, society and the state from external and internal threats, it is necessary to develop the national strategy adopted in the form of concepts, i.e. the official views of the system, determining the priorities and directions in this area, as well as science based on set of measures to achieve them.

National Economic Security Strategy is divided into four main areas:

Defining the goals and objects of the strategy.

Identify real and potential threats.

Development of quantitative and qualitative criteria and parameters for assessing the state of the economy.

The formation mechanism for the implementation of economic policies aimed at ensuring economic security.

The choice of strategy of economic security must come from the goals and objectives. The purpose of the strategy is to ensure high economic growth leading to stable development, which creates favorable conditions for living and personal development, social, economic and military-political stability of society, preserving the integrity of the state, equal status in the global economy, successful opposition to the influence of external and internal threats. In order to ensure the economic security of the country's strategic course taken by Kazakhstan to build a competitive innovative market economy and integration into the global economy (Akanova, 2010).
Many years of international experience shows that the power and the national security of the state are characterized, first of all, by innovative development of the country's economy, by its financial system, which has demonstrated by the global crisis. The more stable, competitive economy, the stronger the state, so the issues of economic security, taking into account the impact of innovation risks are becoming increasingly important.

4. CONCLUSIONS
The study can be concluded that the state policy of developing countries, especially Kazakhstan, during the transition to an innovative type of development should be aimed at neutralizing the possible risks and threats, which in turn will undoubtedly help to strengthen national security.

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MATERIAL STOCKS IN THE LOGISTIC SYSTEM

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Abstract

A particularly important objective of logistics is providing the stocks of materials necessary to ensure uninterrupted operation of the activities in order to successfully carry out the tasks. This paper is aimed to show the role and importance of stocks of materials in logistics system. Business logistics is shared several areas of activity (economic, cultural or military), but the main area in which has been established has been economical one.

Field stocks has become a comprehensive economic category that includes both problems of sizing, adequate positioning in the territory for the decrease of storage expenses, as well as storage related aspects, the structure, conservation, redistributing, and material goods usage.

The originality and value of this study comes from suggestions that were made with respect to concepts and methods which might improve logistics activity through regarding the provision of stocks of materials.

Key words: logistics, inventory, procurement, freight management, warehousing, transport.

1. INTRODUCTION

Has been written about logistics least until recently because logistical problems had required audience. They had no public interest and curiosity of readers not imposed except specialists. This is because the logistics, which is considered a branch of military science, was not defined in all its complexity. A long period of time, logistics has dealt with a small part of the work, considered, erroneously, as minor.

Experience the latest global and regional conflicts have proved abundantly that no logistical or can not think even the initiation of an action more or less large in all key sectors of society.

In a market economy management and inventory control of material resources, is an activity which is given special attention due to important financial and economic implications that the formation and holding them.

Stocks are quantities of materials are in storage units for a period of time, with a purpose, a certain volume and a specific structure having a critical role in logistics gear. Stocks is the result of supply and sales activities, commercial activity in order to achieve the objective and proposed each institution.

Emerged in 1930 after the economic concept of storage by creating a separate management system, which gradually formed into a major tool of the management implications of all activities of the organization. Stocks extend beyond the traditional assessment practices and control especially problematic given special attention by the Japanese of concerns, which have demonstrated the possibility of conducting activities with minimum levels of inventory.
2. STOCKS OF CARGO LOGISTIC SYSTEM

Storage products, is the second component of the logistics system, as a share of total costs, able to create time and place utility. The scientific management of stocks can bring significant savings in money, while increasing the quality of logistics services for users. Followed core objective is to ensure a continuous supply, adapted to demand and lower costs. At the operational level are reflected in decisions on: the size of an order, frequency and time of launch orders, safety stock size to avoid stockouts. Through a rational storage policy, the record is necessary products at the right time, aiming to minimize the number of stockouts, and the total cost for storage. Aiming at a scientific management decision making is considered require some elements of the storage mechanism, including, unpredictable fluctuations in demand manifestation, uncertainty about the time of satisfaction of an order, the need combined several products in the supply and storage existence of several points to store the products in various stages of their circuit, the possibility of applying discounts to the quantities considered. In general, minimizing the total cost is based on a very careful analysis of actual storage costs, on the one hand, the costs of launching orders and those arising from stock split, on the other. The former increases with increasing amount of replenished, and the other decreases. Making the most correct decisions storage issues is subject to necessary information and the design of appropriate decision models.

Policy formulation on stocks involves understanding the role of stock in the company. Knowing the types of costs associated is also a prerequisite for the balance of the logistics system.

Stock management is important for any institution engaged in the manufacture, storage, shipment and sale of products and goods, with major influence on overall performance for efficiency and impact on daily activities of an institution. Inventory management scope goes far beyond traditional accounting practices, evaluation and recording of stock.

In presenting the issue stocks, consider that it must take into account several factors such as the constant demands and the variable (unpredictable) demands influence on stock levels, purchases flow features; level (volume) stocks, influences of stocks in certain periods, preventing depletion of stocks, timely adjustment of stock levels when consumer demands deviate from the forecasts, regularity and complexity of supplies, possible funding and not least minimize the costs of purchasing, transportation, storage, preservation.

By forming stocks of materials and products to ensure optimal conditions for conducting business rational institution, no stocks can be used judiciously production capacity, customer demand can be satisfied in strict compliance with the claims they issue. Stocks perform a vital function, that the release and flow approximation "purchase, bringing the (transport), reception - storage, preparation for consumption, use of materials, their going through the stages of processing to the warehouse of finished products, delivery or delivery to customers in the stores or specialized distributors for retail sales."

Stocks are formed at all levels. The national economy to establish stocks as national material reserves, mainly in strategic materials or poor it safe to influence the national economy of force majeure factors (state of emergency in case of aggression or internal conflicts, situations embargo international or regional bodies, earthquakes and floods of proportions, avoiding unfavorable economic situation, the shortage of raw materials, energy). Economic ministries, businesses regardless of capital (private, public, international).

6 Bășanu Gheorghe, Pricop Mihai, Managementul aprovizionării și desfacerii, Editura Economică, 2004, p.90
mixed state) are also stocks of material resources to ensure uninterrupted supply of consumer subunits to carry out normal activities. For example, food products, but other kinds of materials, the current stock is in the degree of perishability, frequency output from suppliers and / or transport, safety stocks to counter any damages and / or interfere with delivery; stocks seasonal (winter) due to specific microclimate conditions constant during storage or from agricultural production to another. Training materials stocks is compulsory for all aspects of activity and ensure the necessary conditions in rational and efficient system for smoothly carrying out specific activities. Sizing stocks is an act of great importance both in terms of financial effort and the need to cover consumer applications (use) in case a sudden flow of replenishment. For these reasons there are concerns that constant need for choice of several existing model that takes into account concrete factors of influence on stock size for each class of materials. The factors that influence stock size are: average daily consumption, value consumption norms, frequency of supplies, frequency manufacture; amount that can be ordered, physical or chemical properties, the guarantee period, the capacity and equipment storage areas, away from sources of supply, the time available for execution replenishment, state communications and means of transport used, the degree of mechanization and automation of loading and unloading, budgetary resources and market situation, season and weather conditions, labor and means for this operation to.

We appreciate that stocks perform a vital function and that is to disconnect and reconnect the stream of acquisitions - distributions. Training need not justify sizing their stocks. At the same time holding stock and space specially designed and equipped to which we add the negative effects of obsolescence of materials stored. In terms of this aspect of storage would not be justified but a number of factors at play in an objective necessity of the stocks.

2.1. ROLE OF STOCK

Stock defines the term, is the monetary value or quantity, raw materials, components, subassemblies, products to take over or finished products are kept for use, as the needs arise. Stocks exist in all parts of the business logistics system: in transport, in storage in the production units in their distribution centers, stores, etc..

Expert opinion on the desirability of maintaining stocks are contradictory. While traditional perspective emphasizes the role of stocks in demand, modern approach focuses on reducing or removing them to avoid immobilizing an important part of enterprise capital.

Decisions on stocks of goods have a major influence on the company's logistics system. They determine the logistics service offered to customers own conduct and continuity of production activities. The basic problem is to find a middle way, that no stock too high nor too low. Overly large inventories cause high storage costs and contribute to the obsolescence of products in stock. Stocks lower than necessary lead to a shortage of products, leading to customer dissatisfaction. Decisions to keep or remove stocks involves prior analysis of the role to perform in stocks. In essence, the role of stocks is to achieve:

- improving customer service logistics. Internal or external customer demand through the availability of products when its manifestation, is the primary reason for holding the stock.

- the relationship between supply and demand balance. The role of stock inventory is determined by the existence of a temporal gap between supply and demand. Products whose demand is concentrated in a short time level are necessary to maintain stocks of producers, wholesalers and retailers, in advance of demand during the event. Seasonal production involves also the responsibility of marketing
channels to have goods in stock to meet demand that occurs at other times of the year. 
• reduce costs. Availability of annual costs arising from the stock of between 20% and 40% of the 
value of role respective. Total cost reduction is determined, however, issues such as economies of 
scale in production that permit the production of inventory quantities higher than demand immediate 
products, economies of scale in purchasing and transportation by buying a larger quantity than that 
required to qualify for a lower price and reduce the frequency of supplies through more efficient use of 
vehicles and a turning the favorable price by buying at low cost anticipated given that is expected to 
future increase prices. This could create risks but allows for speculative purposes subsequent resale at 
a higher price than buying.

• reduce uncertainty. Role is to protect stocks firm unexpected variations in the short term, market 
demand and supply deliveries. The existence of safety stock allows the company to meet customer 
orders when demand growth above estimate.

Owning stocks is often disputed among the reasons given is the waste of resources, capital invested in 
stocks could be used more profitably in other areas of business activity, products can be physically and 
morally worn during storage. In addition, developments in information technology now make it 
possible to coordinate efforts to reduce and even remove company stock.

2.2. TYPES OF STOCK

In inventory management, planned and pursued several types of stocks to meet consumer needs to 
ensure business continuity: current stock, safety, transit, winter season and environment. Current stock 
is the amount of raw materials and new materials and reusable which accumulate deposits of economic 
entities in order to meet the average demand in the period between two successive supply. It is a 
dynamic record size different levels throughout its existence influenced by factors such as batch size, 
time the order is honored by the supplier, economic quantity delivery, storage space available, size 
of orders for which the supplier provides quantity discounts and inventory holding costs.

During training and use of current stock levels recorded more significant among which are "up", 
"medium", "minimum". The maximum level recorded at the entry of incoming materials from 
suppliers in the store, the average recorded during the evolution of stock due to the release of 
quantities of material consumption and range between maximum and minimum, and the minimum 
level recorded when the stock is zero resulting in receiving a new batch of delivery from suppliers for 
reunification current stock. The evolution of current stock levels between the two maximum and 
minimum is determined by the rhythm and cadence that can be constantly ongoing consumption, ie at 
equal intervals of time is consumed equal amounts of material and variable time intervals and unequal 
to consume different amounts of material.

Safety stock is the amount of material accumulated in acquiring storage unit, and is intended to ensure 
continuity of consumption, when current stock is exhausted and his reunification delay or unforeseen 
increase in certain periods beyond consumption estimates. Purpose of safety stock is to provide firm 
capacity and average demand of compliance with the conditions the average time interval between 
ordering and receiving goods. Safety stock size is determined by the uncertainty involved and the 
desired level of stock availability. Forecast accuracy enables minimizing safety stock.

p.403.
Use of safety stock is made after thorough analysis and the agreement of the skills that will establish effective measures to maintain supplies default rate. He is considered intangible, assuming consumption within its immediate reunification supply measure.

Dynamic safety stock relative to the current stock as their correlation is shown in figure 1.

\[ S_s = \text{Safety Stock} \]

\[ I = \text{The average interval between two successive deliveries from supplier} \]

\[ S_s = \text{Safety Stock} \]

The military is creating safety stocks are designed to ensure the functioning units where you can not supply the products due to special circumstances. It is 30 days and food is basic term conservation.

The safety stock is determined by the levels of specific orders and instructions for execution of maintenance and repair unexpected in normal operating conditions or during specific tasks;

Transit inventory consists of moving products or pending, transport, eg raw materials from suppliers, finished goods moving between warehouses / stores the same company or to customers.

Winter stock is the amount of material accumulated in acquiring storage unit, to ensure continuity of consumption in the interruption of transport, storage microclimate conditions due to natural conditions of precipitation and climate. Winter stock is done during pre-season, the accumulation staggered according to consumption needs during the cold season, usually in some food products, fuels for heating, special mineral oils, some types of fuel.
Seasonal Stocks are the amounts of materials and products are supplied and consumed as a certain time of year.

The average stock consists of raw materials, components, products being processed and finished products stored, usually in a logistics system. The calculation is based on average stock components: basic stock, safety stock and stock in transit.

Other than that, logisticians sometimes use the speculative stocks, strategic stocks and stocks early.

Stocks of short term (speculative) - are the amounts of material with which businesses supplying large amounts appearing on the market when a temporary conditions that facilitate the purchase of such resources in an advantageous way.

Strategic stocks are the amounts of materials and products to the Government to intervene more effectively in preventing and combating the effects of disasters (wars, earthquakes, floods, landslides, drought) or to help population in case of epidemics, pestilence, privation food and medicine. These stocks are at all times and be replaced periodically to refresh to not shelf life expires, the warranty time as materials are stored.

The stock is expected to avoid the shortage of resources is provided for consumers during the end of their delivery from suppliers, following the entry repair, modernization, etc..

The stock is specific to the military troops and the quantity of resources, products and materials must be under installment on each fighter (vehicle, equipment, etc.) And deposit structure. In some cases, some types of materials can provide additional materials and supplies.

Includes the consumable stock and the troops which is intangible and subunits share deposit found on logistic units. The consumable is the amount of material that fighter, machinery, subunits and units it uses to accomplish the mission. The intangible is the man, vehicle, equipment and normally consumed only in situations not only postponed the approval of unit commander.

Deposit rate is the amount of material expected to be the deposits of material units.

3. METHODS AND MODELS FOR CALCULATING THE STOCKS; THE QUANTITY ECONOMIC CONTROL – SUPPLY

A very important action to improve the financial situation of units in different sectors of economic activity is the stock size, which depends directly action level of activation that provide material and financial funds exist or can be provided.

Real storage processes are different, for which the calculations to optimize the training of stocks can not use a single model, is necessary to choose that model which takes into account concrete factors influence the size of stocks for each resource material in the nature and characteristics of supply-storage-consumption. Measurements are made for each stock: current safety, internal transport, conditioning.

Stock production (Sp) is the sum of its parts, that the current stock (Scr), in transport (Str), safety (Ss), conditioning (SCD), domestic transportation (crying).

For example, if the stock of resource material production "and" comprises only current stock and safety, then it will be defined as follows:

The maximum (Spmax):
Determination of stock production is the physical expression by adding elements that compose it, calculated in natural units (kg, m, t), and days in which case determined by the relationship:

\[
\text{Sp}_{\text{max}} = \text{Scr}_{\text{max}} + \text{Ss}
\]

- Average (Sp):
  \[
  \text{Scr} + \text{Sp} = \text{Ss}
  \]

- Minimum (Sp_{\text{min}}):
  \[
  \text{Sp}_{\text{min}} = \text{Scr}_{\text{min}} + \text{Ss}
  \]

In each case, current stock Scr day is defined as the interval between successive deliveries and safety stock days Sz the result of the relationship between physical expression and determined the average daily consumption or using other methods.

For other types of stocks expressed in days will be directly dependent on the duration of conditioning, during internal transport, during the winter, for stocks with this designation.

From the above it appears that stock levels are subject only to the production of current stock, in a similar way be construed evolution of production and stock levels for an extended component (except for setting up separate stock for domestic transport or of the winter - cases in which their movement between consumption and development will make the stock of production that includes).

Sum will be made after prior analysis of the necessity of setting up separate safety stocks, conditioning and domestic transport.

For certain periods of the season, ie winter, stock production is formed in the winter stock (Si), analyzing the need for appropriate and safe setting stock (SSI) to cover claims in the event of the season extended period, such:

\[
\text{Sp} = \text{Si}
\]

or

\[
\text{Sp} = \text{Si} + \text{Ssi}
\]

4. CONCLUSIONS

The approach taken in this paper started from the need to clarify issues related to ensuring adequate logistics support of public institutions with inventory management, an important component of any logistics system. Logistics will become a tool to reach global scientific social structures by which ensure the flow of information, materials, products, people, to conduct all activities with the lowest costs.
In terms of integrated logistics, inventory management and control is so total spending reduction measures as and create added value, stocks are considered an important link in the logistics system. Logistics will remain structure that will provide material and financial resources for the successful organization of specific missions.

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ANALYSIS OF GROUP-BUYING WEB PORTALS IN CROATIA

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Abstract

New business models in e-business area can be found every day. One of it is a group-buying Web portal model. The main idea of online group-buying portals is to recruit enough visitors to generate a sufficient volume of orders to create the basis for discount prices. Customers can get unbelievable discounts on products and services and on the other side sellers can find a new way to sell their products and services, so we can conclude that all parties benefit in that business model. In this paper group-buying Web portals in Croatia market will be analyzed. In Republic of Croatia there are about 60 group-buying portals and 6 group-buying aggregators. Results of that research will show real state of group-buying portals in Croatia, as well as new suggestions for better and efficient business of those Web portals will be exposed.

Key words: e-business, Web portals, group-buying, market, Croatia, discount effects, online auction

1. INTRODUCTION

The Internet provides a powerful tool for developing new e-commerce business models. The popularity of the online auctions creates many new kinds of price mechanisms, where the consumers participate more and more in the price-setting process. The group-buying auction (GBA) is one of them (Chen et. al., 2004). Group-buying portals offers products and services at significantly reduced prices on the condition that a minimum number of buyers would make the purchase. After announcing a offer on group-buying Website, a set number of people agree to buy the products or services. After buying it, they print off a voucher to claim their discount at the retailer. The group-buying portals work by negotiating deals with local merchants and promising to deliver crowds in exchange for discounts.

Group-buying is a popular business model used by many companies in practice. The rationale of group-buying is due to demand aggregation, which benefits sellers by lower marketing costs and coordinated distribution channels. It also benefits buyers by lower costs for product purchases (Hsieh & Lin, 2012).

In group-buying auctions bidders have an incentive to aggregate their bids so that the group-buying portal offers a lower price at which they all can buy the desired goods (Chen et. al., 2009).

Web-facilitated group-buying is now a major phenomenon in China, under the name “tuangou” (Li et. al., 2009).
2. LITERATURE OVERVIEW

A group-buying market may offer multiple items with non-additive values to buyers who are often heterogeneous in their item valuations. The formation of buying groups should concentrate buyers for common items while taking into consideration buyers' heterogeneous preferences over item bundles. Demand aggregation in group-buying benefits sellers, offering lower marketing costs and coordinated distribution channels, as well as buyers, who enjoy lower costs for product purchases. Online group-buying was perceived as one of the most innovative business models of e-commerce, and has been employed by many companies. A central issue within a group-buying mechanism is how to improve the satisfaction of buyers (Li et al., 2009).

Through an analytical modeling analysis, Chen et al. offer insights into how sellers can set their group-buying auction price curves more effectively, so as to take advantage of bidder cooperation to improve auction performance. They argue that the goal of the auction intermediary should be to offer an information sharing mechanism to facilitate bidding ring formation, as a means to maximize the value of this market mechanism (Chen et al., 2008).

Li et al. study the mechanism design problem of coalition formation and cost sharing in a group-buying electronic marketplace, where buyers can form coalitions to take advantage of volume based discounts (Li et al., 2004).

In a group-buying market that offers multiple selections of products, the total surplus of buyers depends on both the prices they pay for the products and their valuation of the products (Li et al., 2009).

Chen et al. explore demand uncertainty in group-buying auctions in terms of the extent of low-valuation demand and high-valuation demand. They focus on the analysis of a monopolistic group-buying retailer that sells products to consumers who express different product valuations. Furthermore, they examine the performance of a group-buying seller who faces competitive posted-price sellers in a market for the sale of the same products, under similar assumptions about uncertain demand. Their findings have relevance to the marketplace for new cameras, next-generation microprocessors and computers, and other high-valuation goods, which are unlikely to be as effectively sold in group-buying markets (Chen et al., 2009).

Due to the small number of orders that occur in the beginning of an online group-buying auction, many potential participants are inclined to wait until the auction price for the sale item falls to an acceptable level. As a result, consumers will tend to wait for one another to join the auction. Kauffman et al. explore three incentive mechanisms to address this problem: sequence-based, time-based and quantity-based incentives. They conducted a series of experiments using an online group-buying auction experimental test bed deployed on the Internet to develop deeper insights into how these incentives work in the context of bakery cookie sales. Their results suggest that consumers view participation discounts as creating the basis for perceptions of greater price fairness in online group-buying auctions (Kauffman et al., 2008).

Xu et al. analyze the history and development of the group buying Web sites in China. They also proposed a new group buying business model. Furthermore, they also gave constructive suggestions for all group buying websites in China which face the fierce competition (Xu et al., 2011).

Erdogmus & Çiçek analyze the online group buying system in Turkey, where the practice of group-buying is quite new. The customers were considered as the population of the sample and in depth interview method was used to shed a light on their motivations, behavior, and perception of the online
buying system. The results of their paper indicate that customers mostly based their decisions on price advantage and discount amount. However, novelty and extraordinary nature of the offer also counted (Erdogmus & Çiçek, 2011).

Stulec et. al. in their paper intend to introduce the general and scientific public with a new form of Internet commerce that found a way to turn the economic crisis to its benefit and to present the findings of a research conducted among university students in Croatia. The purpose of their research was to determine the level of students’ familiarity with group buying concept and to provide the holistic view of students as group buyers in terms of their buying behavior (Stulec, et. al., 2011).

3. METHODOLOGY AND SAMPLE DESCRIPTION

As the basis for conducting this research, use was made of the list of group-buying portals in the Republic of Croatia. The list was made by authors using Web mining techniques. Most of the data were collected from the Web sites of the group-buying portals covered by this research. All the data were collected in the period from 01 February 2012 (the beginning of the research) to 15 February 2012. There are used descriptive statistics methods, as well as inductive conclusions. In Republic of Croatia in the research period there were 59 group-buying portals and 6 group-buying aggregators. A new model for analysing group-buying portals was presented by authors (Figure 1). All group-buying models should be view through five main forms: (1) Communication with customers on group-buying portals, (2) Offers on group-buying portals, (3) Payment methods on group-buying portals, (4) Promotion and post-sales activities on group-buying portals and (5) Usage of Web 2.0 technologies on group-buying portals. The central part of the research analyses the Web sites of group-buying portals with particular regard to that model.

![Figure 1: Model for analysing group-buying portals](image-url)
4. GROUP-BUYING PORTALS IN CROATIA - RESEARCH RESULTS

Although, according to the research list there were 59 group-buying portals in Republic of Croatia, ten of them was temporary closed so a survey was conducted using a data base containing data for the 49 group-buying portals.

4.1. Communication with customers on group-buying portals

Communication with customers on group-buying portals in Republic of Croatia includes contact data: telephone number, mobile phone number, telefax number, e-mail address and address of company that owns group-buying portal and company financial codes: OIB number and account number. Table 1 shows the data on the share of group-buying portals in Republic of Croatia which have the stated forms of communication on their Web site.

Table 1. Communication with customers on group-buying portals in Republic of Croatia on 2012

<table>
<thead>
<tr>
<th>Forms of communication with customers</th>
<th>Share of group-buying portals which have the stated element on their Web sites</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telephone</td>
<td>79,59%</td>
</tr>
<tr>
<td>Mobile phone</td>
<td>48,98%</td>
</tr>
<tr>
<td>Telefax</td>
<td>59,18%</td>
</tr>
<tr>
<td>E-mail</td>
<td>95,92%</td>
</tr>
<tr>
<td>Address</td>
<td>95,92%</td>
</tr>
<tr>
<td>OIB</td>
<td>95,92%</td>
</tr>
<tr>
<td>Account No</td>
<td>57,14%</td>
</tr>
</tbody>
</table>

Almost all group-buying portals have clearly stated their e-mail addresses as well as a physical address of the company, over 95% of them. Telephone number can be finding on almost 80% of group-buying portals. Only 59% of group-buying portals offer telefax number. Due to fact that most people have their own mobile phone 49% of group-buying portals notice their mobile phone number so customers can save their costs if they calling it directly from their mobile phone. Most of group-buying portals have stated their OIB number, but only 57% of them notice their account number. That should be improved, because, many of customers prefers payments with internet banking or payment with general transfer so information about group-buying portals’ account number should be very useful for them and it should be visible on homepage of group-buying portal Web site.

Beside traditional forms of contact data, group-buying portals should offer new ways for Web communication like Skype profile, or WhatsUP profile for free mobile communication.

4.2. Offers on group-buying portals

Offers on group-buying portals in Republic of Croatia include View of offers: daily offers, actual offers and history of recent offers, Special view of offers: offers by location and offers by category of products and services. They also contain special Web pages related to possible business partners and
their offers that could be published on the group-buying portal. Table 2 shows the data on the share of group-buying portals in Republic of Croatia which have the stated forms of offers on their Web site.

**Table 2. Offers on group-buying portals in Republic of Croatia on 2012**

<table>
<thead>
<tr>
<th>Forms of offers</th>
<th>Share of group-buying portals which have the stated element on their Web sites</th>
</tr>
</thead>
<tbody>
<tr>
<td>Daily offers</td>
<td>93.88%</td>
</tr>
<tr>
<td>Actual offers</td>
<td>89.80%</td>
</tr>
<tr>
<td>Offers History</td>
<td>75.51%</td>
</tr>
<tr>
<td>Offers - special view</td>
<td></td>
</tr>
<tr>
<td>Offers by location</td>
<td>81.63%</td>
</tr>
<tr>
<td>Offers by category</td>
<td>34.69%</td>
</tr>
<tr>
<td>Offers - receiving from partners</td>
<td></td>
</tr>
<tr>
<td>Web pages for partners</td>
<td>95.92%</td>
</tr>
</tbody>
</table>

Most of the group-buying portals in Republic of Croatia published daily offers, 94% of them, almost 90% of them published actual offers and 76% of them have information about past offers. Very good information is that about 82% of group-buying portals has sorted their offers by location. But only 35% of them published their offers by category of products and services. That should also improve because customers often search only specific categories of products and services so they don’t want to bother to other categories of products and services. 96% of group-buying portal have special Web pages related to possible business partners and their offers that could be published in the future.

Only by creating unique commodities, having the competitive advantage in regard to price and quality and so on, can group-buying portals meet the customers’ needs and strive for each customer to repeat buying. In this way, group-buying portals can stand out and find the key to success (Liao et al., 2012).

4.3. Payment methods on group-buying portals

Payment methods on group-buying portals in Republic of Croatia includes: payment cards, general transfer, internet banking system or PayWay Gateway system. Table 3 shows the data on the share of group-buying portals in Republic of Croatia which have the stated forms of payment methods on their Web site.

**Table 3. Payment methods on group-buying portals in Republic of Croatia on 2012**

<table>
<thead>
<tr>
<th>Forms of payment methods</th>
<th>Share of group-buying portals which have the stated element on their Web sites</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment cards</td>
<td>93.88%</td>
</tr>
<tr>
<td>General transfer</td>
<td>87.76%</td>
</tr>
<tr>
<td>Internet banking system</td>
<td>85.71%</td>
</tr>
<tr>
<td>PayWay Gateway</td>
<td>79.59%</td>
</tr>
</tbody>
</table>
Most of the group-buying portals in Republic of Croatia offer the opportunity for payment by card, 94% of them. 87.76% of them offers traditional way for payment with general transfer, 86% receive payment with Internet banking system and about 80% of them have their on payment gateway. A payment gateway is an e-commerce application service provider service that authorizes payments for e-businesses. It is the equivalent of a physical point of sale terminal. They protect credit card details by encrypting sensitive information, such as credit card numbers, to ensure that information is passed securely between the customer and the merchant and also between merchant and the payment processor.

4.4. Promotion and post-sales activities on group-buying portals

Promotion and post-sales activities on group-buying portals in Republic of Croatia includes: Newsletters, Frequently asked questions – FAQ, Sitemap and possibility for reclamation. Table 4 shows the data on the share of group-buying portals in Republic of Croatia which have the stated forms of promotion and post-sales activities on their Web site.

<table>
<thead>
<tr>
<th>Promotion</th>
<th>100,00%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group-buying portal description</td>
<td></td>
</tr>
<tr>
<td>Newsletter</td>
<td>100,00%</td>
</tr>
<tr>
<td>Post-sales activities</td>
<td></td>
</tr>
<tr>
<td>FAQ</td>
<td>83,67%</td>
</tr>
<tr>
<td>Sitemap</td>
<td>85,71%</td>
</tr>
<tr>
<td>Reclamation</td>
<td>81,63%</td>
</tr>
</tbody>
</table>

All group-buying portals in Republic of Croatia have a good description about their business and offers and all of them offer possibility to receive newsletter. This is a mail message that the company sends to interested customers on a regular basis. In the group-buying industry, a newsletter contains a variety of information about the offers, which represents direct and the most efficient form of promotion, creating a circle of loyal clients who will return to the Web site and make additional purchase.

Frequently asked questions (FAQ) are listed questions and answers, all supposed to be commonly asked in context of group-buying. 84% of the group-buying portals in Republic of Croatia have a FAQ which helps customers in conducting a business with them.

A sitemap is a list of pages of a web site accessible to crawlers or users. It is a Web page that lists the pages on a Web site, typically organized in hierarchical fashion. This helps visitors and search engine bots find pages on the Web site. Most of the group-buying portals in Republic of Croatia have a sitemap, 86% of them. Stulec et. al. imply that group-buying Web sites wishing to achieve high rate of repeated purchase should pay higher attention to ease of Web site navigation (Stulec et.al., 2011).

In post-service customer support reclamation is crucial activity and customers need to find all relevant information how to complain about product and services that they have bought. Web page with reclamation information offers 82% of group-buying portals in Republic of Croatia.
4.5. Web 2.0 and mobile technologies on group-buying portals

Web 2.0 includes new forms of social computing which bridge over cultural differences and have impact at development of the new Internet services. This kind of systems engages a huge number of users and it keeps developing from day to day.

Usage of Web 2.0 and mobile technologies on group-buying portals in Republic of Croatia includes: RSS, Facebook profile, Twitter profile and other Web 2.0 tools. They also contain special mobile applications for group-buying portals usage. Table 5 shows the data on the share of group-buying portals in Republic of Croatia which have the stated forms of usage of Web 2.0 and mobile technologies on their Web site.

Table 5. Usage of Web 2.0 and mobile technologies on group-buying portals in Republic of Croatia on 2012

<table>
<thead>
<tr>
<th>Forms of Web 2.0 and mobile technologies usage</th>
<th>Share of group-buying portals which have the stated element on their Web sites</th>
</tr>
</thead>
<tbody>
<tr>
<td>RSS</td>
<td>38,78%</td>
</tr>
<tr>
<td>Facebook</td>
<td>97,96%</td>
</tr>
<tr>
<td>Twitter</td>
<td>73,47%</td>
</tr>
<tr>
<td>Other Web 2.0 tools</td>
<td>24,49%</td>
</tr>
<tr>
<td>Mobile applications</td>
<td></td>
</tr>
<tr>
<td>Mobile applications</td>
<td>8,16%</td>
</tr>
</tbody>
</table>

RSS (Really Simple Syndication) is a family of web feed formats used to publish frequently updated works—such as blog entries, news headlines, audio, and video—in a standardized format. Only 39% of the group-buying portals in Republic of Croatia use RSS. Facebook is a social networking service and website launched in February 2004 and has more than 900 million active users. This kind of Web site develop a social relationships based on the Web2.0 Internet technology, maintaining existing social relations. Some social Web sites are also based on the same topic, learning experiences, the same location of weekend trips, thus to expand business or other aspects of social relationships (Xu et al., 2011). Almost 98% of the group-buying portals in Republic of Croatia use Facebook profile for additional promotion. 73% of group-buying portals use Twitter, an online social networking service and micro blogging service that enables its users to send and read text-based posts of up to 140 characters, known as "tweets". Other Web 2.0 tools use only 24% of the group-buying portals in Republic of Croatia. Although many customers visit Facebook and Tweeter in the most common situations, owners of group-buying portals should use more and other different Web 2.0 tools.

Another discomforting statistic is the usage of mobile applications. Mobile applications are software applications, usually designed to run on smart phones and tablet computers. They are available through application distribution platforms, which are typically operated by the owner of the mobile operating system, such as the Apple App Store, Google Play, Windows Phone Marketplace and BlackBerry App World. Mobile applications are downloaded from the platform to a target device such as an iPhone, BlackBerry, Android phone or Windows Phone 7. Group-buying portals should offer free of charge mobile applications with their offers. Only 8,16% of the group-buying portals in
Republic of Croatia have their own mobile application which customers could use directly on their mobile phones and make purchases more easily and comfortable.

3. CONCLUSIONS AND RECOMMENDATIONS

In this paper 59 group-buying Web portals in Croatia market were analyzed. A new model was presented and all results were represented through that model, through five main forms: (1) Communication with customers on group-buying portals, (2) Offers on group-buying portals, (3) Payment methods on group-buying portals, (4) Promotion and post-sales activities on group-buying portals and (5) Usage of Web 2.0 technologies on group-buying portals.

A great deficiency is the lack of opportunity for usage of mobile applications of group-buying portals and lack of offers sorted by category of products and services.

Future analyses should be done from the perspective of customers and from the perspective of group-buying aggregators.

In future, group-buying portals will have a growing importance in e-commerce. It is up to the management of group-buying portals to recognize the importance of the existence of new offers on daily basis, as well as the need for the regular maintenance, the improvement of the Web site, and adaptation to the new trends, especially new mobile applications. The crucial role in accomplishing this goal would have design and efficiency analysis of the group-buying portals Web site. Their Web site will not be only a promotion channel, but also an active generator of the business and development of e-commerce market.

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SUPPLY OF GROUP-BUYING PORTALS IN CROATIA

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Abstract

Group-buying portals are web places which offer products and services at significantly reduced prices but under the condition of minimal number of buyers. Such portals are becoming very popular in Croatia, because they have benefits for both buyers and sellers. Buyers can get a product or service for much lower price than regular, and sellers sell much higher quantity of products or services than usual. Their profit comes from such a large quantity sold at a lower price. This paper analyzes the current situation on Croatian market for group-buying. It is a typical example of oligopoly, which means a small number of suppliers, but with slightly different products and services.

Key words: group-buying, market, Croatia

1. INTRODUCTION

The development of Internet has always had strong influence on the formation of new markets based on web technology. One of such markets is the market for group-buying using web. The basic idea of group-buying is that a group of people who are willing to buy the same product are able to set the price lower than for individual buying. In the terms of group-buying portals, this means that portals offer some product or service at a certain price, that is much lower than in regular shop, but under the condition that some minimum number of people buy it. Buyers benefit from the lower price, while sellers benefit from selling large number of products or services.

In this paper we first show some basic characteristics of group-buying portals, and then we analyze Croatian market for group-buying portals. In the analysis we will show which variables influence the change of the market equilibrium on the market for group-buying portals.

2. METHODOLOGY

In this paper we have used descriptive methods to show the development of group-buying in general and group-buying portals in Croatia. We have also used the method of comparing to analyze the main Croatian group-buying portals. The data about the number group-buying portals and the number of offers have been collected following the group buying-portals on daily basis. Some information about the group-buying market in general has been taken from other authors and their previous papers on the similar topic.

3. DIRECT AND INDIRECT MARKET

Direct market is a market on which buyers and sellers interact directly, without any agent. This means that buyers and sellers meet, and exchange money for products or services. Indirect market is a market
on which buyers and sellers interact indirectly, which means with the help of an agent. Sellers give their products to agents, who search for the buyers. Buyers buy a product or a service from an agent, who transfers the money to sellers. For this activity agent takes provision. Among the various functions of agents (market intermediaries), pricing to match buyers and sellers is the most important one. The difference between the price arranged with sellers and the price under which the product is sold to buyers is the agents’ profit.

Internet was first used as a platform for direct markets. Sellers usually offered their products, and buyers could look at the photos and main characteristics of these products on web sites. If they decided to buy the product, they would pay to the seller and get the product from him. New way of indirect market on the Internet started in 1998. Two online retailers, Mercata.com and Accompany.com began to employ a new type of dynamic pricing model called group-buying discounts. With this approach, consumers can pool their purchase volume together to get a lower price. Sellers benefit from selling large number of products or services.

4. THE DEVELOPMENT OF GROUP-BUYING

Modern group-buying started in China under the name tuangou, which means “team buying”. The main characteristic of tuangou is that buyers have leveraged their power through group-buying. Tuangou takes advantage to the group-buying websites for the confirmable product price, more income sources, lower customer attracting cost, more product categories and lower inventories.

Tuangou emerged in 2001, and in first five years, the estimated sales through tuangou in Shanghai and Beijing reached billions RMB Yuan, millions consumers participated in tuangou, and the sales of some tuangou sites, such as Liba and Qeeka, had increased by 100% a year during 2005-2007. The base for the development and success of tuangou is an active Internet platform. Today tuangou sites have become important competitors to some traditional retailers.

The idea of tuangou was developed into group-buying portals all around the world. In last ten years they become very popular and they have had significant annual growth in most European countries. The situation on the market for group-buying portals can be shown at the next graph.

The graph 1 shows the typical microeconomic model of the market. The vertical axe shows the price and the horizontal axe the quantity. The curves D1, D2 and D3 represent the market demand and the curves S1, S2 and S3 market supply. At the beginning there were just few suppliers of group-buying portals. At the same time almost no one knew about this possibility of buying, so the demand was also

very poor. This situation is shown on the intersection of curves S1 and D1 – the market price is P, and
the equilibrium quantity Q1.

With the development of the market for group-buying portals, both curves shifted to the right. The
curve D shifted to the right because of the entry of new suppliers on the market, while the curve S
shifted to the right because more and more people decide to buy products and services using group-
buying portals. This changes shift the equilibrium quantity – it rises, but the price stays unchanged,
because of the increase in supply and demand in the same time.

Graph 1: The market for group-buying portals

There are two main variables that cause these changes in supply and demand. The first one is the
number of suppliers, which is rising, and consequently the market supply rises as well. The second one
influences demand curve. If more and more people become conscious about group-buying portals,
certain number of them decides to take part in group-buying, and this leads to the rise of market
demand.

5. ADVANTAGES AND DISADVANTAGES OF GROUP-BUYING

As all other ways of buying, group-buying has positive and negative aspects. Here we will discuss
both of them from the aspect of buyers. Of course, these advantages and disadvantages are very
individual, and every buyer can decide which of these are more important.

The main advantage of group-buying is saving money. Products and services that are offered on
group-buying portals are discounted from 50% to 90% comparing to the regular retail price. Big
discounts are greatly appreciated by buyers. They are attracted to the product or service and can
possibly turn into loyal customers in the future.
Group-buying portals usually offer a wide range of products and services. Buyers can choose a product or service based on their personal needs and interests. Group-buying portals can save not only money, but also time. Finding products and services on a portal and paying them online can save time, because buyers do not have to search the place where to buy and then go there and make the payment. The majority of products offered on group-buying portals include in the price the cost of sending them to your home address.

One of the main disadvantages of group-buying is that you buy something you would not buy otherwise. People are often attracted by big discount and they buy something because it is a good chance, although they do not need it. Even if this happens only once, it can be regarded as unnecessary expense that could have been avoided.

Some of the prices offered at group-buying portals do not look as cheap as they should be. In other words, in some cases people think that the offered price could also be reachable without group-buying portals, in individual buying.

Comparing advantages and disadvantages of group-buying portals, we can conclude that more and more people see more advantages than disadvantages. This is the reason why the number of group-buying portal customers is rising from the beginning of group-buying.

6. CROATIAN MARKET FOR GROUP-BUYING

Group-buying has become very popular in Croatia in the last couple of years. The first group-buying site in Croatia, Kolektiva, started at the beginning of 2010. Till the end of that year, the number of group-buying sites in Croatia increased on 15. The most popular sites today are: Kolektiva, Ponuda dana, KupiMe, Grupnjak, Povoljno, TiDamTiDam, Trebam to, Grupni popust, Kupujmo povoljno, Plati manje etc.

The models of group-buying sites in Croatia are very similar. They all offer products or services at their web sites on a daily base. The price is reduced from 50 to 90% compared to the regular price. Usually for the group-buying to succeed, minimum 10 people should make the buying. To buy an active offer, one has to be registered, and after choosing the offer, one has to make the payment. There are more ways of payment, but the most popular are Internet banking and Credit cards.

Once people register, they must give their e-mail address, and this becomes the main promotion channel. Every morning group-buying sites send daily offer to all registered users. This means that every user gets the offer on e-mail, and can look at products and services offered that day.

Next table shows the main Croatian group-buying portals, together with the number of active offers on the 27th March 2012.

According to the number of active offers on 27th March 2012, the most popular group-buying portal in Croatia is Ponuda dana, followed by KupiMe and Kolektiva. There are more than 200 active offers daily, and about 25% of this number is offered by Ponuda dana. Four biggest group-buying portals in Croatia hold about 75% of the market, analyzed by the number of offers.

Next three pictures show three Croatian portals for group-buying, which had most offers at the moment of writing the paper. There are: ponuda dana, KupiMe and Kolektiva.
Table 1: Main Croatian group-buying portals and the number of active offers

<table>
<thead>
<tr>
<th>Portal name</th>
<th>Number of offers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ponuda dana</td>
<td>58</td>
</tr>
<tr>
<td>KupiMe</td>
<td>37</td>
</tr>
<tr>
<td>Kolektiva</td>
<td>31</td>
</tr>
<tr>
<td>Povoljno</td>
<td>28</td>
</tr>
<tr>
<td>Grupnjak</td>
<td>17</td>
</tr>
<tr>
<td>Trebam to</td>
<td>12</td>
</tr>
<tr>
<td>TiDaniTiDam</td>
<td>11</td>
</tr>
<tr>
<td>Grupni popust</td>
<td>10</td>
</tr>
<tr>
<td>Plati manje</td>
<td>5</td>
</tr>
<tr>
<td>Kupujmo povoljno</td>
<td>1</td>
</tr>
</tbody>
</table>

Picture 1: Ponuda dana portal

Source: www.ponudadana.hr

Picture 1 shows the homepage of Ponuda dana portal, as the portal with most active offers at the moment of writing this paper. Offers are divided into several categories, such as: top offers, food, home, travel, health, beauty, education. These are the most popular categories not only on Ponuda dana, but on all other group-buying portals in Croatia.
Picture 2 shows the homepage of KupiMe portal. Categories of offers are listed on the left (travel, products, beauty, sport and recreation, food and drink). The central part of the page is dedicated to the top offer of the day, in this example it is gymnastics.

Picture 3 represents the homepage of group-buying portal Kolektiva, which is the first Croatian group-buying portal. Kolektiva has all active offers on the homepage, and top offers are being exchanged at the top of the page. Kolektiva also gives the possibility to view all old offers, that are not active any more.

The total number of group-buying portals on Croatian market is 59, but of this number 9 are not active. Despite the large number of buying portals, the most popular ones have the biggest market share. This is the reason why the market for group-buying portals in Croatia is oligopoly and not monopolistic competition.

The model that was shown on the Graph 1 can also be applied for Croatian market. At the beginning just few group-buying portals offered were active, and very small number of people knew about the possibility of group-buying. The market was developing, which means that both supply and demand curves were shifting to the right. This led to larger quantity of products and services sold using group-buying portals.

Based on the data shown above, we can conclude that Croatian market for group-buying is an oligopolistic market structure. The main characteristics of such market are small number of sellers (group-buying portals) and products that are similar, but not the same. Biggest portals hold large market share, and have significant market power. As the market for group-buying portals is relatively new in Croatia, we can expect that the number of group-buying portals will grow, as well as the number of buyers.

7. CONCLUSION

In this paper we have analyzed the supply of group-buying portals in Croatia. Group-buying started in China as tuangou. Very fast it became popular in the whole world. In last couple of years group-buying portals are extremely popular in Croatia. The main reason for such popularity arises from the fact that people want to buy products and services paying lower price than in regular individual buying. Buyers are satisfied because they get product or services cheaper, and sellers are satisfied because they sell large quantity, and their profit comes from the quantity they sell. Croatian market for group-buying portals is oligopoly, because there are many group portals, but just few of them have large market share. In the future we can expect the market for group-buying portals in Croatia to develop further, which means that more and more people will be included in group-buying.

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GLOBALIZATION PROBLEMS IN MODERN DEMOCRACIES
Elnur Hasan MIKAIL

Abstract

If it can be shown that peace is one of the first outcome of the Democracy movement, many else will follow this in time. Today is defined by the awakenings or new awakenings that attract attention by the common social identification which is completely different than defining by being a member of a nation state or a social class.

Consequently, this work of mine involves a struggle in analyzing problems of the present age with building a multi dimensional commentary theory, and contributing to building a livable world in the next century that will understand the global phase of capitalism in all its complexity. The work asserts that globalization that brings description and critique to be highly valued for the fast and rooted changes we live in, crises we face, particularly the crisis of representative democracy, provides very important contributions especially by philosophers like Diamond, Plattner and Sartori, in order to understand the present age.

Key words: Democracy, Globalization, Modern, Problems, Turkey.

INTRODUCTION

Sectionalism, language, cultural assets, tribal or ethnic devotion, devotion to a religious group, devotion to a local community are some of the many forms the reawakening has taken. It will take a lot of time to make a complete list of these new movements, in other words, old-school movements reviving nowadays, in both West and East or in the Third World countries. These form an important part of the State, especially the nation State crisis (though the issue here is the conceptual State). In my opinion, the State crisis is the result of the conflict between the idea that state is the only political system available in the world and the international character of capital and beyond that the globalization of the economic life in the capitalist countries of the world in general. Besides, globalization demands the crisis management to run in a worldwide level. Brotton Woods associations – especially International Monetary Fund (IMF) and the World Bank – serve this purpose and the economies of North and East are given at these tyrants’ service. In this context, restructuring programs imposed by force don’t bear their names and what they want is their structural adaptation. The underlying thought is the make cyclical adaptations which will comply with the short-term idea of obtaining the financial profitability of capital surplus without making changes in the structures that will lead to a new market activity and market expansion. The intensification of globalization ended the coincidence of areas. Now, two conflicts define the world Capitalism.

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On one side, the central points of economical powers that administrate the savings were repositioned exteriorized beyond the borders of one country; and on the other side, there isn’t a worldwide level of social, political, communal, ideological and cultural framework that will create coherence in the administration of the whole system. In the political aspect, crisis management lean upon the effort of forcing the second part of the conflict, which is the state, to accept that the administration of the society by the market is the only way. Extensive anti-state ideologies and applications form a part of this logic.

If peace can be shown to be one of the first fruits of Democracy movement, many others will follow this in time. Definition of the present day, as entirely different from being a member of a nation state or social class, resides in awakenings or new awakenings noticed by mutual social values. Territorialism, language, cultural presence, tribe or ethnic loyalty, devotion to a religious group, belonging to a regional community are just some of the forms that awakening takes. It will take a long time to form a complete list of this new movement, or stated otherwise old fashioned movement revitalizing, in both East and West, or Third World countries.

These form an important view of State, especially nation State (actually mentioned here is the conceptual state) depression. In my opinion, State depression is the product of the conflict between capital being international, furthermore globalizing of economical life in capitalist countries of the world in general, and the thought that state is the only political system present in our world. Besides, globalization demands that crisis management functions in world scale as well. Deepening of globalization put an end to this overlapping of areas. Now world Capitalism is defined by two conflicts. On one side, center of gravity of economical powers managing capital is placed outside of one country; on the other hand, there is no social, political, national, ideological and cultural structure to enable a global incorporation in managing the whole system. In its political dimension, crisis management is based on the struggle to overpower the second pillar of conflict, i.e. the state, by convincing that management of society through market is the only way to go. Comprehensive state-opposing ideology and applications form a part of this logic. For approximately half a century, international and national borders and identities were shaped according to the presence of a world composed of Leninist regimes guided by Soviets in different forms and varying degrees.

Soviet block is gone, and this may be followed by Soviet Union which is actually an empire. The "Leninist disappearance" changed the geopolitical reference frame used for self relating and definition for a long time in the world as well. For example, Third World defined itself in the 1955 Bandung Conference as being apart from the West on one end and the Leninist world on the other. Political identity of independent countries in Africa, Asia and Middle East in the past has been largely negative. These countries were neither liberal nor Leninist.

We will start the job by defining broadly the democracy and the general concepts that differentiate it as a unique system regulating the relationship between governors and those governed. Then, we will review the methods in short, i.e. the necessary rules and regulations needed for democracy to last. Lastly, we will discuss two important principles that make democracy work. Although the principles are not clearly included in the general concepts or methods, democracy could have a rough appearance without the effects of these relating to basic structural conditions. One of the main themes of this examination is that democracy is not solely composed of a group of organizations.

Many types of democracy exist, and different applications of these can produce a series of effects having similar diversity. The unique shape that democracy takes is dependant upon both socio-economical conditions of a country and resident state structure along with its political applications. Modern Political Democracy is a form of administration in which governors are held responsible in
state matters by citizens reacting indirectly, via competition as well as cooperation of their elected representatives, due to their actions. A regime or administration system is the whole of: models specifying admission method into basic state duties, the characteristics of people accepted or rejected to/from these positions, the strategies they may use to hold these positions, and the rules to be obeyed when making decisions regarding the state. In order to be processed appropriately, this whole mentioned here should be institutionalized. That is, various models should be commonly known, applied and accepted by the majority. Moreover, the mechanism preferred in institutionalization should be the collection of written rules included in a written constitution even though many lasting norms could have an unwritten, interpretative or conventional basis. This work analyzes Globalization and Democracy. Relations between Democracy and Globalization with Modernism, Liberalism, Intellectual Age, Marxist Theory and Capitalism have been investigated. Besides, above mentioned theory is examined in a written form by comparing it with other Democracy Approaches and Ideological Philosophies, employing works written by other Modern Globalization and Commentary Democracy Theories critiques, and new solutions are produced. Globalization and Democracy concepts are very important in many branches of Political Sciences and Social Sciences. Globalization supporters and critiques entered heavily into the intellectual agenda of the world within the last 25 years. The discussions based on these concepts gained extraordinary popularity.

FIRST CHAPTER

1. GLOBALIZATION

International and national borders and identities were shaped according to a world that consists of Leninist regimes that were directed by Soviets in different forms and several levels for nearly half a century. The Soviet block vanished and The Soviet Union, which is actually an empire, may, too. “Leninist disappearance” have also reformed the geopolitical reference view they have been using to define and liaise themselves for a long time. For example the Third World confined themselves by differentiating themselves from the West on one side and from the Leninist world on the other side in the Bandund Conference in 1955.

1.1. New World Disorder

Borders are the indispensable elements of a definable and consistent identity. Whether these borders are territorial, ideological, religious, economical, social, cultural or related to their various elements, decay and shattering of these indicate that there is probably a traumatic effect. This is usually the situation when the borders are determined by categorical terms like the way it happened during the Cold War.

We need to respond to a world which will be dangerous and more complex and which we are less familiar with in time. What should be done in the future is to define new national and international borders and to define the new identities that emerge as a result – “naming” and “confining”. The Soviet Union Middle Asia Republics, which were home to more than 50 million muslims in U.S.S.R, wanted independence.

Barbara Crosetta made this observation in a New York Times report published recently. The increase in the disorder and the turbulence, the emergence of influential leaders and movements, and the chance of analyzing and forming new life forms emerged in a political world whose borders have been defined well in both national and international sense but which is progressing into stagnancy.
The increase in the Genesis environment doesn’t mean that the developments will be like an apocalypse or incomprehensible. The theoritician is in a better situation in understanding the internal connections and meanings of incidents, since the Genesis environments develop from named and confined environments while being opposed to them. After Fascism-Nazism ended and Leninism vanished, what is next? What should be the most probable developments in a world that is ruled by Liberal Capitalist civilizations. Let me mention a general tendency that I know for certain. Liberal Capitalist democracy has created oppositional groups that are not homogenous. Romantic “ayatollahs”, aristocrats, Roman Catholic Church and Fascists. Despite the real and profound differences that separate this oppositional groups, it is possible to notice a common criticism. Liberal Capitalist democracy is despised because of its exaggerated emphasis on individualism, materialism, technical success and rationalism. That the Catholic church prefers family over individuals as the basic unit of the society and the Nazis’ “race” choice are different as positive alternatives, there is a common theme: Liberal Capitalism is accused of not valuing the collective character in the nature of human existence.

1.2. The Period After War (1945-1990) and New Globalization

Anyway capitalism, which had become Worlds economic system, protected two properties inherited from its historical evolution when it came out of the World War II;

Historically constructed bourgois nation states. These had created the center of world’s system altogether. It symbolized social structure for the direction of national capitalist economies. Each of these states were involved in violent actions with each other. As the result of the industrialization of the central countries throughout 19. Century, the absolute contradiction between the industrialization of these countries and the lack of industry in the surroundings. These 2 properties disappeared progressively in the episode after war. The surrounding countries of Asia and Africa regained their independencies. They entered the era of becoming industrialized even though in an unequal way.

Thusly, the homogenous appearances; the products of the previous common lack of resources of any non-industrialised industry, caused the difference between partially industrialized Third World and non-industrialized Forth World to grow. The capital influenced in such a vast way that the national production system shattered. It reformed as globalized production system’s pieces. We can take the present day as the transitionary period from the old system to the new system and as the period after war.

This situation brings forth the question of how we should name the new system’s properties and its ambiguities and how these are supervised, in short, one of defining the pushing power behind progress. Answering these questions requires absolutely uniting various ideological and political replies given to the analysis of laws governing capital investment and to the threats forming due to the capitalist spreading mentality. Eventually the future is always undetermined.

Because the existing evolution of capitalism is being limited by the necessity of political agreement between social interests. The capital enforces it-self in such a vast way that the national production systems shatter as a piece of global production system and reform. Here I will remind briefly the answers I offered up in the last few years, especially the ones in Chaos Empire-1993

1.3. The Future of Global Polarization

Likewise, Liberal Capitalism, periodically, had invited passionate critics because of its inclination of bypassing or neglecting human’s need for safety and its supression of extravertionist human action and its spontaneity. But nothing throughout the last two centuries had had a center place or the
capacity to stimulate the opposition for the Liberal Capitalism as the accentuation of the rationalism principle that is not binded to the individual and related the social lifes organizing principle by the Liberal Capitalism.

Liberal Capitalist Democracy has been denying the ethos of safety and exhaltation, progress which elevated human above absolute necessity and the level of violence. This refuse has stimulated certain criticisms which also take place in Liberal Society and also aided in the formation of two contradictory movement as Nasizm and Stalinism. But, no matter how impressing are the victories won by Liberal Capitalist democracy over the Catholic Church and Fascist and Nazi movement and now Leninism, they stay as partial victories. Just as everything would not occur as equal because the liberal capitalist democracy owns a partisan identity, it can not make everything in an equal way.

The West, as long as it protects its partisan identity will witness progressively the appearence of the outside or inside forces dedicated to its destruction or its correction, the forces accentuating group belonging in any way, extroverted behaviors, collective solidarity and heroic action.

One of the well-known places of these movements will be 3.World. After the independence of India in 1947, many opponents of the Liberal West saw 3.World as a source of hope. But this hope has not been fulfilled upon yet; Maybe except fanatic Islamism, no where in 3.World appeared a new life style.

CHAPTER TWO

2. THE DEMOCRACY CONCEPT

We will begin to the work by largely defining democracy and the general concepts that differentiate it as a unique system which manages the relationship between those governing it and those being governed by it. After this, we will take a look at the methods, namely the rules and the orders which are required for the democracy to be resistant. Finally, we will discuss two important principle making Democracy advanced.

Although the principles are not between the general concepts or methods clearly, in case which their influences related to their conditions are inexistent, Democracy can exhibit a though appearance. One of the essential themes of this essay is that the democracy does not consist of a group of instutions at all. Many types of democracy exists and their different executions provides likewise a series of influence exhibiting diversity. The authentic form that democracy takes depends on both Socio-economical conditions of a country, both on its established governmental structure and political practices.

2. 1. Complexity Period in the Democracy Term

How the people who has longing to democracy can teach the rules, the power can change their discourses and perhaps can receive a prize. The resident institutional interests as the interests that the power carry on their power are not at all a stable quality. According to Guillermo O’Donneil and Philippe by force of change and property of regime, to estimate the behavior of normal social science methodology resist in a scientific manner to the group’s benefit, structure and value is not a time any longer avail. The elements like this in the context

14 DIAMOND, Larry; PLATTNER, F., Mare, Demokrasinin Küresel Yükselişi, Yerkin yayınları, 1. Baskı, Ankara, 1995, s. 34-67
unstructured transition are out of use as valid estimate measurements. The perception of interests can change, the classification of alliance can be put aside. Institutional identifications can lose their attraction, cultural values can no longer lead. The thing that orient the power except some stubborn is the perception in process of change concerning to the others’ behaviors and profit of cost. Here, the cause of why the power change their behaviors isn’t critically important. Ever though nothing else persuade those to change, inactiveness, the financial and political costs that exceed the benefits and the break down of the goals can persuade them to abandon. The situation in the Eastern Europe is seen like this.  

Now, even though the power who change their behavior against the difficulties I have alined don’t want the democracy, they are obliged to support the democracy. Those can beleive that some liberalization measures are not enough, but they soon discover that truth from the observation of Tocqueville 16, the biggest dangerous for the cruel regime is the moment when they begin to ease their press. Other reforms can be more compulsory, and those reforms can be started by even not the same people at the power, perhaps by the power who have more reformist tendency. Thus, the thing which began as the old regime’s recovery effort can take a very different and unpremeditated direction 17.. Discussed in the eastern europe’s regimes, being not only a dilemma but also a destructive breakdown in the goals and wills; this scenario is very suitable for this area.

2. 2. The Decision Process Of the Democracy

When discussed to make a choice between democracy and it’s alternatives Eastern Europe approaches a way which has no point of no return but this doesn’t mean democracy at the Eastern Europe leads an easy life.

At least; we can now agree that 4 Eastern Europe Country: Poland, Hungary, Czechoslovakia and old East Germany have no possibility to turn to Communism. But, whether the conditions which will maintain the democracy in the long term are existing? Said about this issue; the civil society and the market are vital importance for democracy and there can not be a democracy without civil society and a civil society without market.

But, this is a precondition language consisting of a rowed evolution in this time 18. As normal if we suppose this is like that, now as At the Eastern Europe, this row can be reversed when the extreme decisive events deflect the fluence of the history 19. In those conditions at first democracy, the people who has longing to democracy and many more can consciously choose. Thus, once democracy is chosen, resuming of it requires a market. In this condition the creation of a new market is almost inevitable. Because of the principality view is not only a political transition, but also a social-economic transition at Eastern Europe, this double affair is especially none. But the opposite of that can be claimed. The similar and close relationship between the transition social and political economy can help to walk the first one piggyback of the second, instead of endanger both 20.

16 AMİN, Samir, Küreselleşme Çağında Kapitalizm, Sarmal Yaynevi, 1. Baski, İstanbul, 1999, s. 23
17 a.g.e., s. 67-90
18 ZÜRKHER, Eric-Jan, Modernleşen Türkiye’nin Tarihi, İletişim Yayınları, 2. Baskı, İstanbul, s. 23-29
20 AMİN, Samir, Küreselleşme Çağında Kapitalizm, Sarmal Yaynevi, 1. Baskı, İstanbul, 1999, s. 24-29
Beside, the claim of not existing an interest directed to market at Eastern Europe drive us into a mental corner. Explaining the the arise of the market at the early on modern Europe is almost impossible with such a judgement.

THIRD SECTION

3. THE GLOBAL RISE OF THE DEMOCRACY and REFORM STRATEGIES

Modern political democracy is a polity that is held accountable in the public sphere by the citizens acting indirectly, as a means of the chosen agents competitions and cooperation.

A regime or system of government is the whole of the mandatory rules of the modals which determines the methods of entry to the civil service, the featured of those people who is accepted or declined to those duties; the strategies which they can use to have those issues; taking the decision which connected the public. Properly the mentioned whole must be institutionalized. That is, various modals should be known, applied and accepted as a habitual by the majority. Moreover, the mechanism preferred at the institutionalization should be a whole of written rules of a written constitution although highly lasting norms can be a traditional base or unwritten opinion.

3. 1. The Power Concept and the Democracy

By the means of being economic or making comparison, generally those features, rules are brought together and entitled a general name. Democratic is one of those. The others are Otocratic, Authoritarian, Despotic, Supporter of a dictatorial regime, Imperious, Totalitarian, Absolutist, Traditional, Monarchic, Oligarchic, Plutocratic, Aristocratic and Sultanic. All of those regimes can diverge to smaller subgroups. As all of the regimes, administrators are needed in the democracies, in other words to the people who can give lawful directions to the others and occupies the authority chairs. The thing which seperates the democratic administrators from not democratic are the norms which determines how the previous came to power and the applications that hold responsible those because of their behaviors.

3. 2. Global Democracy Expectations

Putting the historical change that the word “democracy” has undergone and all these falsified and phony usage aside, we can say that, as generally understood, this term contains there resultant. As an example of these phony uses; we can list:

- Socialist Democracy,
- People’s Democracy,
- Islamic Democracy.

If we make a differentiation between democracy and sovereignty of the common people, sovereignty of canaille, majority rule is to be deficient. The principle of majority rule doesn’t form the democracy on it’s own. We know tyranic regimes that have majority support including Nazi Germany and Iran theocracy. We don’t name a regime “democracy” in which 51% of the population can put the remaining 49% of the population to the sword without being punished. As that fact that we can concieve the regime which runs without securing the equality of forcible and pre-known legal rules
and individual rights shows, the first and the second of the resultants mentioned above are not sufficient without the existence of the third one.

CONCLUSION

In this study, Globalization and Democracy are analysed. The relations that democracy and globalization have with Modernism, Liberalism, Age of Enlightenment, Marxist Theory, Capitalism have been studied.

The terms “Globalization” and “Democracy” present great importance in most of Political Science and Social Science. The supporters and critics of globalization have entered into the world’s intellectual agenda effectively in the last 25 years. The argumentations founded on these topics gained tremendous popularity. The study claims that globalization which has made negligible criticism on quick and fundamental changes we are living in, the crises we face, especially representative democracy crisis, contributed a lot particularly by the scholars such as Diamond, Plattner and Sartori in order to comprehend the time period we are living in.

Summing up in this study of mine, there is an endeavour to analyse the problems of our era with a construction of multi-faceted critical theory and establish a liveable world in the next century that can comprehend global phase of capitalism along with its complexity.

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PARAMETERS AND AREAS OF SOCIALLY RESPONSIBLE INVESTING

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Abstract:
In article parameters of socially responsible investing are being analyzed. The Area of concern of SRI industry is reviewed. The key strategies investors are typically engaged in SRI are listed. Author considers historical development of concept corporate socially responsible investments in a cut of political processes and the period of social development and analyses modern SRI.

Key words: socially responsible investing, green investing, ethical investing, social justice, corporate governance, screening, impact investing, community investing.

1. INTRODUCTION
Socially responsible investing (SRI) is a sustainable, socially conscious, "green" or ethical investing. It can be defined as any investment strategy which is oriented for both financial return and social benefit. Generally, socially responsible investors support corporate practices which promote environmental stewardship, consumer protection, human rights, and diversity (Figure 1).

Figure 1. ESG Issues – Areas of concern of SRI industry

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Corporate socially responsible investors exclude from investment portfolio businesses involved in alcohol, tobacco, gambling, pornography, weapons, and/or the military. They also avoid to invest in regions or countries which suspect policy of discrimination, social abuse of minorities, women, they do not invest in production of products or services that includes harmful substances for human’s health etc. The areas of concern recognized by the SRI industry can be summarized as environment, social justice, and corporate governance—as in environmental social governance (ESG) issues.

2. DEFINITIONS OF THE SRI STRATEGIES

**Environment** – investing in technologies with best use of valuable raw materials, and feeding the benefits of action straight through to the bottom line.\(^23\)

**Social justice** is justice exercised within a society, particularly as it is exercised by and among the various social classes of that society. A socially just society is based on the principles of equality and solidarity, understands and values human rights, and recognizes the dignity of every human being.

**Corporate governance** is "the system by which companies are directed and controlled". It involves regulatory and market mechanisms, and the roles and relationships between a company’s management, its board, its shareholders and other stakeholders, and the goals for which the corporation is governed. In contemporary business corporations, the main external stakeholder groups are shareholders, debt holders, trade creditors, suppliers, customers and communities affected by the corporation's activities. Internal stakeholders are the board of directors, executives, and other employees.

**Screening**, which includes both positive and negative screens, is the practice of evaluating investment portfolios or mutual funds based on social, environmental and good corporate governance criteria. Screening may involve including strong corporate social responsibility (CSR) performers, avoiding poor performers, or otherwise incorporating CSR factors into the process of investment analysis and management. Generally, sustainable and responsible investors seek to own profitable companies that make positive contributions to society. "Buy" lists may include enterprises with, for example, good employer-employee relations, strong environmental practices, products that are safe and useful, and operations that respect human rights around the world.

**Impact investing**\(^24\) refers to investments made based on the practice of assessing not only the financial return on investment, but also the social and environmental impacts of the investment that happen in the course of the operations of the business and the consumption of the product or service which the business creates. They are investments made into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return.\(^25\)

**Community Investing** directs capital from investors and lenders to communities that are underserved by traditional financial services institutions. Community investing provides access to credit, equity,
capital, and basic banking products that these communities would otherwise lack. In the US and around the world, community investing makes it possible for local organizations to provide financial services to low-income individuals and to supply capital for small businesses and vital community services, such as affordable housing, child care, and healthcare.

**Shareholder advocacy** involves sustainable and responsible investors who take an active role as the owners of corporate America. These efforts include talking (or "dialoguing") with companies on issues of social, environmental or governance concerns. Shareholder advocacy also frequently involves filing, and co-filing shareholder resolutions on such topics as corporate governance, climate change, political contributions, gender/racial discrimination, pollution, problem labor practices and a host of other issues. Shareholder resolutions are then presented for a vote to all owners of a corporation.

In addition to stock ownership either directly or through mutual funds, other key aspects of SRI includes shareholder advocacy and community investing. The term “socially responsible investing” narrowly refers to practices that avoid harm of any groups of stakeholders, excluding from investment portfolio production which does not guarantee safety of the products or services. However recently the SRI area was extended by founder of Domini Social Investments, Amy Domini, who has stated that shareholder advocacy and community investing are pillars of socially responsible investing.26

### 3. THE HISTORICAL OCCURRENCE OF SOCIALLY RESPONSIBLE INVESTING

The historical occurrence of socially responsible investing belongs to the Religious Society of Friends (Quakers). In 1758, the Quaker Philadelphia Yearly Meeting prohibited members form participating in the slave trade – buying or selling humans. One of the most articulate early adopters of SRI was John Wesley (1703–1791), one of the founders of Methodism. Wesley's sermon "The Use of Money" outlined his basic tenets of social investing – i.e. not to harm your neighbor through your business practices and to avoid industries like tanning and chemical production, which can harm the health of workers. Political climate of 1960s made it impact on modern socially responsible investing. During this period, socially concerned investors had increasingly interest to address equality of women, civil rights and labor issues. Dr. Martin Luther King organized several projects devoted to social problems: the Montgomery Bus Boycott and the Operation Breadbasket Project in Chicago established the beginning model for socially responsible investing efforts. It combined arrangement of boycotts and direct action appeal to specific corporations. During 1950s and 1960s, trade unions used multi-employer pension fund monies for targeted investments. The United Mine Workers fund invested in medical facilities, for example, and the International Ladies’ Garment Workers’ Union (ILGWU) and International Brotherhood of Electrical Workers (IBEW) financed union-built housing projects. Labor unions also sought to leverage pension stocks for shareholder activism on proxy fights and shareholder resolutions.27

In 1978, SRI efforts by pension funds were spurred by The North will Rise Again: Pensions, Politics, and Power in the 1980s and the subsequent organizing efforts of authors Jeremy Rifkin and Randy Barber. By 1980, presidential candidates Jimmy Carter, Ronald Reagan and Jerry Brown advocated

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some type of social orientation for pension investments. SRI had an important role in ending the apartheid government in South Africa. International opposition to apartheid strengthened after the 1960 Sharpeville massacre. In 1971, Sullivan joined the General Motors Board of Directors and became the first African-American on the board of a major corporation. He went on to serve on General Motors' board for over 20 years. In 1977, Sullivan developed a code of conduct for companies operating in South Africa called the Sullivan Principles, as an alternative to complete disinvestment. As part of the Board of Directors at General Motors Sullivan lobbied GM and other large corporations to voluntarily withdrawal from doing business in South Africa while the system of apartheid was still in effect. The Social Investment Forum, now known as the US SIF – The Forum for Sustainable and Responsible Investment, was founded in 1984 as one of the first organizations serving social investors.

The mid and late 1990s saw the rise of SRI’s focus on a diverse range of other issues, including tobacco stocks, mutual fund proxy disclosure, and other diverse focuses. Since the late 1990s, SRI has become increasingly defined as a means to promote environmentally sustainable development. Many investors consider effects of global climate change a significant business and investment risk. CERES was founded in 1989 by Joan Bavaria and Dennis Hayes as a network for investors, environmental organizations, and other public interest groups interested in working with companies to address environmental concerns. Since 1989, representatives from the SRI industry have gathered at the annual SRI in the Rockies Conference to exchange ideas and gain momentum for new initiatives. This conference is produced by First Affirmative Financial Network, an investment advisory firm that specializes in sustainable and responsible investing. The conference has attracted over 550 persons annually since 2006.

The first sell-side brokerage in the world to offer SRI research was the Brazilian bank Unibanco. The service was launched in January 2001 by Unibanco SRI analyst Christopher Wells from the São Paulo headquarters of the bank. It was targeted at SRI funds in Europe and the US, although it was sent to non-SRI funds both in and out of Brazil. The research was about environmental and social issues (but not governance issues) regarding companies listed in Brazil. It was sent for free to Unibanco's clients. The service lasted until mid-2002.

29 Ceres - Coalition for Environmentally Responsible Economies - <http://www.ceres.org/> 
Table 1. SRI among the world investment funds

Source: concluded by author based on sources: [1-12]
P – Positive Investment
X - No Investment: excludes investments engaged in this activity
R - Restricted Investment: seeks to avoid poorer performers in this area
No - Screens --: does not screen investments in this area

4. SOCIALLY RESPONSIBLE INVESTING IN EUROPE AND U.S.A.

Socially responsible investing is a booming market in both the US and Europe. Assets in socially screened portfolios climbed to $3.07 trillion at the start of 2010, a 34% increase since 2005, according to the US SIF's 2010 Report on Socially Responsible Investing Trends in the United States. From 2007-2010 alone, SRI assets increased more than 13%, while professionally-managed assets overall increased less than 1%. As of 2010, nearly one of every eight dollars under professional management in the US is involved in socially responsible investing—12.2% of the $25.2 trillion in total assets under management tracked by Thomson Reuters Nelson.

Research estimates by financial consultancy Celent predict that the SRI market in the US will reach $3 trillion by 2011. The European SRI market grew from €1 trillion in 2005 to €1.6 trillion in 2007.

In 1985, Friends Provident launched the first ethically screened investment fund with criteria which excluded tobacco, arms, alcohol and oppressive regimes. Since 1985, over 90 investment funds have launched offering a wide range of investment criteria; both negatively screened and with positive investment criteria i.e. investing into companies involved in promoting sustainability (Table 1).

Barchester Green Investment Barchester Green Investment launched in 1985 and is the UK's longest established ethical investment specialist IFA (Independent Financial Adviser) firm. Barchester is still one of the largest of the UKs advisory firms specialising in this market with £110 million in assets under advice and several thousand clients in the UK and Europe. 31

5. CONCLUSIONS

Socially responsible investing (SRI) is sustainable, social, ethical, mission-based or green investing, this financial approach allows investors to make money supporting environmentally-sensitive business ventures. Those may be in existing or emerging green industries. SRI approach allows investors to positively express their values on corporate behavior issues such as social justice and the environment through stock selection - without sacrificing portfolio diversification or long-term performance. Positive screening pushes the idea of sustainability, not just in the narrow environmental or humanitarian sense, but also in the sense of a company's long-term potential to compete and succeed. Positive investing is the new generation of socially responsible investing. It involves making investments in activities and companies believed to have a positive social impact. Positive investing suggested a broad revamping of the industry's methodology for driving change through investments.

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ENERGY SECURITY OF THE EUROPEAN UNION AND COHESION POLICY

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Abstract

The paper presents the issue of energy security of the European Union. Discussed the priorities of the European Union's energy efficiency, reduce greenhouse gas emissions and develop renewable energy sources. It was noted that since the implementation of the Union's ambitious energy and environmental objectives requires considerable funding, they must in part met from the budget of the European cohesion policy. Attention was drawn to the growing dependence between the implementation of the UE energy and environmental objectives and cohesion policy, in particular its funds.

Key words: EU energy security, energy solidarity, climate protection, renewable energy, greenhouse gas emission, Connecting Europe Facility

1. INTRODUCTION

The basic objective of this article is a synthetic presentation of energy security issue of the European Union taking account of cohesion policy. Energy is ubiquitous in a life of societies. It is hard to imagine a life without using it. Accessibility to energy is a indispensable condition for prosperity, development and safety of citizens, enterprises, regions and countries. The price of energy is the constituent of the price of almost all, both intermediate and final goods. Thus, it directly translates on the competitiveness of Community’s economy on the global market. That is why, the basic challenge for the European Union is a guarantee of energy supply in reasonable prices to all European consumers. Being aware of the issue, the Union has fixed three objectives concerning energy efficiency, reduction of greenhouse gas emission and development of renewable energy. Realisation of these objectives serves for support changes towards low-carbon policy, which uses the resources rationally, and it will contribute to increase competitiveness and greater energy security of Member States. However, it requires considerable financial expenditures, which will be covered from EU cohesion policy resources.

This issue is the subject of the article. In this article presents considerations about energy safety and EU energy solidarity. The Kyoto Protocol and the climate and energy package records, connected with the protection of environment, are discussed. Then, priorities of European energy security policy are presented as well as examples of cohesion policy activities, connected with creating conditions for energy security of the European Union.

2. ENERGY SECURITY – CONCEPT, CONDITIONINGS

According to polish law regulations, energy security is “an economy condition, which enables to meet current and future requirements of consumers for fuel and energy technically and economically
justified, in accordance with environmental protection requirements” (Prawo energetyczne, 1997). The objective of energy security is to supply all consumers (enterprises and households) with fuels and energy sufficient to satisfy their needs. It is important for energy access to be available in economy justified costs, to allow for different supply sources, environmental protection requirements and optimal use of local energy sources (Ministerstwo Gospodarki, 2009). The assurance of energy supply security is of a key role for action and development of global market and society. Energy issues are also connected with the following issues (Pelka, 2008: 1-10):

- Country’s balance of payments of importers and exporters of energy and energy resources,
- Political and economic ambitions of energy producers,
- The need for political and economic independence protection by the importers in the context of interdependence of parties,
- Situation on the capital and foreign exchange markets.

Dynamic economic increase in the developing countries and the shortage of sufficient improvement in energy efficiency among developed countries cause a rapid increase in the demand for energy. According to The International Energy Agency’s forecast, world’s demand for electric energy will increase by 2.5% per year by 2030. The biggest increase is in China and India – due to faster economic, demographic and consumption growth. For instance, 36% of the total estimated increase in energy consumption falls on China, and 18% on India. Fossil fuel, which constitutes over 75% of the total energy consumption between 2007 and 2030, will remain prevailing source of energy. In the forecast term, use of coal, then natural gas and oil will increase the most. Although, oil share in the production of energy decreases from 34% to 30%, it will still remain the prevailing fuel. Coal will remain the prevailing fuel in electric energy sector. Its share in the world’s production of electric energy will rise by 3 per cent, reaching 44% in 2030 (International Energy Agency, 2009). According to the forecasts, as time goes by, the dependence of European Union from the import of energy resources will increase. It is assumed that in 2030, 93% of consuming crude oil and 84% of natural gas will come from the import. Such high level of external satisfying the need for natural resources brings economic and political risk of collapse of supplies. It constitutes a big challenge for the Union, because as far any actions ensuring solidarity between Member States in case of energy crisis, have not been introduced, and some countries (e.g. Baltic countries, Poland) are dependent on one gas supplier (Świeboda, 2009:6).

3. EUROPEAN UNION'S ENERGY SOLIDARITY

Energy security is a public good. It should be assured by public authorities. Growing dependence on energy import from unstable regions and the dependence on suppliers constitutes high risk for European countries. Some of significant producers and consumers use energy as means of political pressure. Other threats concern the influence of external objects on the EU internal energy market. These objects do not apply to the same market rules and are not subject to the same competitive pressure in their countries. It results from the experience that, when acting individually, ensuring energy security by individual countries is not an easy task. An effort must be made by all Member States within the EU energy partnership, which means the return to the European Atomic Energy Community guidelines. According to European Commission, the European Union's external energy policy must be cohesive (supported by all policies and countries), strategic (fully accepting geopolitical security issues concerning energy) and integrated (oriented towards initiatives, from
which can be expected that actions on Union level may have significant influence on supporting its business) (Commission of the European Communities, 2006 a: 1-5). It is not about questioning the right of particular Member States to maintain their own external relationships in order to ensure energy security and to choose their internal energy sources. To ensure the safety of emergency, all UE countries should focus on inter alia creating legal basis of anti-crisis aid for each Member State, in case of blocking the supplies from outside; building interior (cross-border) connection systems, which will create a distracted transportation system between Member States (Netka, 2010). Undoubtedly, energy security can be reinforced by geographical diversity of energy sources, differentiation of transit tracks and energy transportation methods, use of new energy-saving and energy- efficient technologies in energy supply, use of renewable energy sources and increasing their shares in overall energy balance (Commission of the European Communities, 2006 b). Efficient and competitive interior energy market will provide benefits in energy supplies for Europe.

The Union energy market would contribute to achievement of competitive energy prices, energy saving and increasing investments level. Thus, the EU must unify its regulations and build commonly exploited infrastructure, which guarantee repetition and persistence of energy resources supplies. Foregoing experience shows that all inevitable conditions to create common energy market in Europe have not been fulfilled. What is more, energy business in EU countries is not the same. As an example may serve the German-Russian North European gas pipeline at the bottom of Baltic Sea (built by consortium of the German EON and BASF and the Russian Gazprom, from Wyborg in Russia to Greisfwald in Germany). Paradoxically, building of the gas pipeline violates the European solidarity rule – when the Union will build two-way transportation connection between Member States- which, in a long term, may cause increase of security of energy supply not only to Germany, but also to the whole European Union.

4. CLIMATE PROTECTION

Threats to energy security and the climate must be considered together. For many years, the European Union actively participates in actions to counteract climate change. The UE introduces rules of law and directives, channels funds and programmes, which major objective is decreasing the demand for energy from conventional sources, supporting energy effectiveness and development of energy produced from renewable sources. Under the Kyoto Protocol, signed 11th December 1997, the European Union obligated to limit greenhouse gas emissions by 8% per year in 2008-1012, in comparison with the emissions in 1990.

According to the European Commission, meeting EU commitments to take up actions towards greenhouse gases should occur in the centre of European energy policy for three reasons (Commission of the European Communities, 2007):

1. CO₂ emissions coming from energy sector constitute 80% of all greenhouse emissions within the EU, thus emissions limitation will stand for less consumption of energy and higher degree of using clean energy produced locally.
2. Reducing more and more exposure of the EU to the fluctuation and increase in oil and gas prices.
3. Potentially, creating more competitive the EU energy market, which will stimulate arising technologies and jobs.
More ambitious environmental objectives than in the Kyoto Protocol took into consideration in the Energy and Climate Package, accepted by the European Council in December 2008. The major objective of the package, called 3x20, applies for:

- rationalisation in energy use and limiting of its consumption by 20% in years 1999-2020;
- reducing emissions of greenhouse gases by, at least, 20% till the end of 2020, in comparison with the level in 1990, including possibility to increase this amount up to 30%, on condition that other developed countries pledge themselves to comparable reduce of emissions;
- increasing renewable energy shares by 20% in overall energy consumption (including 10% of biofuels shares in transportation).

In the Package, consisting of six directives, the following subjects were discussed:

1. Promotion of renewable energy (Directive 2009/28/EC). The objective of the directive is the assurance of achieving 20% of renewable energy shares in the final EU energy balance in 2020. For each country the rate was determined independently (for Poland it is 15%). The directive relates to three sectors: electric energy production, heat production and transportation (it is about ensuring 10% of biofuels share in transport sector). The directive assumes possibility of including renewable energy produced in new, common projects realised by the EU countries together with third countries, to the country's balance.

2. Car emission norms (Commission of the European Communities, 2007). Agreed a proposal for reducing carbon dioxide emission by cars upon the average level of 120g CO₂ emission by the year 2012. After 2012, car producers who do not fulfil emission norms will pay penalties for exceeding the limit.

3. The fuels specification (Directive 98/70/EC). The directive stipulates the obligation to monitor level of pollution emission and use of fuels as well as limiting it by 10% by 2020 (500 million tons). The directive also introduced new regulations concerning the amount of sulphur and polycyclic aromatic hydrocarbons in fuels (decreasing SO₂ and PAHs emission).

4. Common effort towards emission limit (Decision 2009/406/CE). The decision applies to emission reduction by 10% from the sectors without ETS: transport, building, services, agriculture and industrial waste sector. Ceilings are different for each Member State and depend on the level of GDP for 1 citizen (e.g. Poland, because of economic development prospects, will be able to increase the emission in these sectors by 14% in comparison with 2005).

5. Carbon capture and storage (Directive 2009/31/EC). The directive’s objective is to promote the newest technologies within carbon capture and storage. The technology includes capturing of CO₂ from flue gas streams and its transport to suitable storage place. All coal-fired power stations built after 2015 should be equipped with CCS installation, that is why Member States should identify areas, where CO₂ may be stored.

6. Emission Trading Scheme review (Directive 2009/29/EC). The most important, apart from renewable energy development, tool to fight CO₂ is European Union Emission Trading Scheme (EU ETS) introduced by Directive 2003/87/WE (2003). The system was created to reduce costs of climate protection borne by some of the enterprises, which emit CO₂. EU ETS basic was to establish emission limit for each Member State, which has an obligation to register trading permits. Rate of emission converts into Union Allowances (EUA) which are distributed to economic subject from countries licensed to trade EUA. If, thanks to modernization, an enterprise
reached higher level of CO₂ emission reduction, it would get more units than needed, which means that this margin can be sold to another enterprise- the one holding less EUA than needed. The established distribution of schemes is in force for a particular period of time. The first term, between 2005 and 2007, was a pilot stage when fundamental to functioning of emission schemes market infrastructure was built. In present commitment period, i.e. 2008-2012, EU enterprises, especially those from the poorer Member States profit from many free permits, and if they ran out of them, they must buy some on the market. From 2013 the pool of free permits to CO₂ emission will decline every year, so that 100% of them is bought in auction in 2020. Moreover, every year the amount of permits brought in to EU market will be smaller in order to achieve EU reduction objectives). Emissions trade was supposed to be so expensive that use of fossil fuels, especially coal, would be uneconomic. High prices of permits were to force enterprises to reduce pollution emission. However, from 2008 emission schemes prices have fallen from 24 euros to 7 euros per tonne as a result of world’s financial and economic crisis. If such permits’ prices level maintains members of the system will rather buy the schemes than realize low-emission technologies investments. To avoid it, the European Commission offered to cancel even about 10% of permits to CO₂ emission granted to EU countries for 2013-2020. If the Commission’s proposals are implemented then the economies of countries, which power industry is based on traditional resources (e.g the Polish economy) will bear costs connected with reduction of greenhouse gases emission.

5. PRIORITIES OF EUROPEAN ENERGY POLICY

In July 2009, in Copenhagen, the EU leaders proposed as a major objective reduction of greenhouse gas emission for at least 80% to 2050, in relation to its level in 1990. Stages in achieving assumed objectives are presented in Roadmap 2050. A practical guide to a prosperous, low-carbon Europe (2010) and in A Roadmap for moving to a competitive low carbon economy in 2050 (European Commission, 2011a). It was agreed that in 2005-2015 actions within five priorities will be realized.

1. **Energy efficiency.** Extension and improvement of financial incentives for infrastructural investments will contribute to improvement of energy efficiency in the whole economy. It was acknowledged that costs of energy sector transformation will rise considerably, if there is a lag in measures realization within energy efficiency. That is why programmes aiming at supporting innovations and reduction of transactional costs in energy sector should be launched.

2. **Low-emission technologies.** Measures in fixed time will not be about launching breakthrough technologies, but stable, in some cases significant improvement of existing technologies. The critical importance will have coordination of support and location of such technologies as: CCS, photovoltaics, sea wind energy, biomass, electric vehicles, fuel cells, integrated heat pumps, heat storage systems, HVDC, High Voltage Direct Current, with the respect of common standards. Support research and development sector within developing geothermal systems, large-scale systems of electrochemical storage and other new technologies having a chance for a breakthrough serve the purpose of declining costs of technological transformation.

3. **Networks and integrated market transactions.** Key factor of economy decarbonisation till 2020 is a significant increase of mutual connection on electrical energy markets. Investing in more intelligent systems of managing loads and decentralized supply of electrical energy was found essential. It is also required to introduce efficient regulations within transportation and distribution
of energy, development of regional integrated approach to planning and operating of networks and markets, and support of stakeholders.

4. **Change of fuel in transportation and building sector.** Aggressive penetration of electrical vehicles, hydrogen fuel cells and biofuels markets depends on urgent measures within tightening emission norms, technology development programme and standards for infrastructure. It was acknowledged that in the nearest future certain conditions should be created to develop heat pumps, biomass technology and biogas within energy efficiency programmes.

5. **Markets.** Taking into account introducing changes in energy sector there should be an increase of investments in low-carbon technologies. It is expected that most of such investments will be funded by private investors. Their activity in this field will rise providing they make sure new investments are profitable. Thus, it is essential to establish rules and conditions for further functioning of high-emission objects.

Aspirations of the EU, which is responsible for 14% of world’s pollution emission, to increasing the level of restrictions in CO₂ emission in 2030 or 2050 is most of all premature and unjustified. The more so because according to the regulations of United Nations Organization climatic conference in Durban (The Durban Pact), not faster than in 2015 there will be an arrangement on binding global agreement within emission reduction, which will operate from 2020. Involving all countries in obligation to reduce emission causes protests of developing countries. It is already known that three biggest economies – the USA, China and India – responsible for 50% of global emission are not interested in reducing greenhouse gas emissions. Large Asian countries have been in a phase of intense industrialization, what causes a rapid growth of demand for energy and increase in CO₂ emission. Additionally, emission increase in China and India is caused by transferring production from EU to these countries, which conduces their economic development. Although fast economic growth, they are still poorer countries than the developed ones, which is their reason for not agreeing to emission reduction. In this situation, prolonging the Kyoto Protocol may serve not to protect climate but as a justification for the lasting EU climatic policy, which loses its legal justification without it.

6. **THE COHESION POLICY ROLE IN THE EU ENERGY SECURITY**

Improvement in energy security requires considerable financial expenditures of enterprises in different industries in order to improve their energy-saving and greater respect for natural environment in economic activity. On the basis of conducted analysis it has been defined that European energy system requires investments worth about one billion euros. Within the sum, it is estimated that only on important for Europe transmission *networks to transport* the energy and gas are needed investments worth approximately 200 billion euros, 100 billion euros from this sum should be paid by market itself, whereas the remaining 100 billion euros require public sector measures to attract indispensable investments. Without the budget resources support some infrastructural investments will not be realized or will be realized with delay. That is why it is essential for realization of energy sector projects to engage the EU budget resources within cohesion policy. The need to finance these measures from the Structural Funds was taken into consideration in Integrated Guidelines for Growth and Jobs 2005-2008 (Commission of the European Communities, 2005). The guidelines linked cohesion policy with the Lisbon targets and then with objective of Europe 2020 strategy (European Commission, 2010). It is established that financial expenditures for realization of the Lisbon targets will be 60% within Convergence Regions of Member States and at least 75% within States Competitiveness and Employment Regions (*earmarking of funds*). The Commission has suggested two
programmes for 2007-2013, which finance developmental research and innovations within energy and ecology:

1. Seventh Framework Programme for Research, Technological Development and Demonstration Activities. It consists of four specific programmes (Cooperation, Ideas, People and Capacities), complemented by a specific programme embracing nuclear research (EURATOM) and measures of Joint Research Centre (JRC) (Decision No 1982/2006/EC).

2. Competitiveness and Innovation Framework Programme (CIP). It supports innovative measures within medicine, nanoelectronics, embedded systems, aeronautics and air transport, hydrogen and fuel cells and global monitoring for environment and security. CIP includes three programmes: Entrepreneurship Innovation Programme (EIP), The Information and Communication Technologies Policy Support Programme (ICT-PSP) and Intelligent Energy - Europe (IEE).

Connecting Europe Facility with 50 billion euros budget will work in 2014-2020 (European Commission, 2011b). This facility constitutes an element of sector policy concerning infrastructure. It will contribute to improvement of energy security and increasing EU ecological economy by supporting more environmental friendly means of transport, fast broadband connections and by making it easier to use renewable energy, in accordance to aims of Europe 2020 strategy. Connecting Europe Facility will help in achieving Single European Market by focusing on smart, sustainable and fully interconnected transport, energy and digital networks (European Commission, 2011c). It is assumed that thanks to the new facility the quality of mutual networks connection over Member States’ borders as well as stability growth and supplies security will improve. Investments from the following sectors will be financed from structural funds: electricity, and gas transportation, smart grids deployment, electricity highways and cross-border carbon dioxide networks.

7. CONCLUSIONS

Safe access to energy at reasonable price is presently, the key factor for growth and competitiveness of countries and regions. Thus, energy security of European Union and reduction of greenhouse gas emission have come into prominence lately. Confirmation of this statement is designating a strategic energy objective consisting on transformation of Europe into economy of high energy efficiency and low emission of greenhouse gas. Achieving designated objective will require increasing of investments within energy effectiveness, renewable energy as well as energy infrastructure in Europe determining the right functioning of competitive interior energy market. Further development and modernization of mutual connections between networks over Member States’ borders will be of top importance. Realization of these investments will contribute to creating new work places and the economy growth, which major reason and effect will be knowledge and innovations. A significant source of financing energy infrastructure is European cohesion policy, especially from the time of adoption reception of the Lisbon strategy. It manifests itself in earmarking of funds, which is concentration of some structural funds around priorities stemming from the Lisbon strategy and also related to energy and environment. In a 2014-2020 financial perspective, by the means of Connecting Europe Facility, investments within the trans-European energy and gas transportation networks will be financed. It confirms growing connections and relations between energy security of the European Union and cohesion policy.
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MANAGEMENT OF THE FINANCIAL RESULTS OF AN ECONOMIC UNIT IN FINANCIAL REPORTS – SELECTED THEORETICAL AND PRACTICAL ASPECTS

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Abstract

In global economy, which is rapidly developing in terms of capital markets, economic units management staffs make use of various, increasingly „refined” tools to shape the results presented in financial statements. More and more frequently arise questions about the essence and scope of earnings management. Academics and practitioners face a dilemma – what kind of activity belongs to the earnings management sphere and which should be no longer linked to this concept. The article reviews the definitions of earnings management on the basis of literature, using this background to emphasise the essence of the concept. The significance of the duration of a period in which objectives (strategies), techniques and tools of earnings management are considered has been pointed out. The application of certain earnings management instruments does not have to involve introducing changes in data contained in financial statements for a given year. On the basis of selected cases, the article proposes a broader understanding of earnings management.

Key words: earnings management, objectives of earnings management, accounting policy, financial reporting

1. INTRODUCTION

One of the main goals of economic activity is to make a profit. The financial result is one of the basic values determining the financial condition of an economic unit. This makes information about the financial result particularly significant for the owners of an economic entity, investors and potential investors. Information on the unit’s results presented in a financial statement proving its good financial condition may contribute to its improvement, for example through an increase in shares prices, a greater interest on the part of potential investors and contractors.

Being aware of the „impact” of information about the financial result shown in financial statements, economic entities’ management boards often attempt to additionally influence it. The aim of managers is to adequately present the desired level and structure of this outcome. Such activity frequently results from the fact that remunerations of management board members are dependent (especially in a form of managerial contracts) on the unit’s results and the owners’ acknowledgement of the fulfilment of duties by the management board members. It might also be a consequence of an adopted strategy of creating the holding structures and the goal of managers might be to report the biggest possible loss instead of a profit.

The aim of the study is to show that the fulfilment of earnings management objectives does not necessarily entail changes in financial reporting in an annual period.

An equally important aim is to show on the basis of selected cases’ analysis that the scope of earnings management instruments is broader than that of accounting policy tools.
The study contains the following theses:

1) The problem area of earnings management goes beyond the scope of the accounting policy. For this reason, the set of earnings management instruments is wider than the set of accounting policy instruments.

2) Over a longer period, earnings management is not always adequately reflected in financial statements.

3) Currently, in the case of this concept, the notion „earnings” should be understood broadly – within the meaning of „comprehensive income”.

2. THE ESSENCE AND OBJECTIVES OF EARNINGS MANAGEMENT

2.1. The notion of earnings management

The earnings management concept was born at the end of 20th century as a result of capital markets dynamic development and the improved methods of economic units management. At the same time, stakeholders attached more and more importance to information contained in financial statements. Managers noticed financial auditing imperfections and possibilities to change data reported in financial statements provided by accounting policy instruments (Healy P.M., Wahlen J.M., 1999).

While carrying out their interests, economic units’ managerial staffs started to intentionally use accounting tools in order to change data on the financial results presented in financial statements.

Literature presents different looks at the essence and scope of earnings management. The most frequently quoted definitions have been presented in Table 1.

<table>
<thead>
<tr>
<th>Author</th>
<th>Definition</th>
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<tbody>
<tr>
<td>Healy, Wahlen,</td>
<td>“Earnings management occurs when managers use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers”</td>
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<tr>
<td>1999</td>
<td></td>
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<tr>
<td>Healy, Wahlen,</td>
<td>“Auditing is imperfect, management’s use of judgment also creates opportunities for “earnings management”, in which managers choose reporting methods and estimates that do not adequately reflect their firms underlying economics”</td>
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<tr>
<td>1998</td>
<td></td>
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<tr>
<td>Mckee T.E.</td>
<td>“Earnings management is defined as reasonable and legal management decisions making and reporting intended to achieve stable and predictable financial results”</td>
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<tr>
<td>2005</td>
<td></td>
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<tr>
<td>Bagnoli, Watts,</td>
<td>„Earnings management is a purposeful intervention in the external financial reporting process, with the intent of obtaining some private gain”</td>
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<td>2001</td>
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<tr>
<td>Schipper,</td>
<td>“Earnings management is a purposeful intervention in the external financial reporting process, with the intent of obtaining some private gain as opposed to, say, merely facilitating the neutral operation of the process”</td>
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<tr>
<td>1989</td>
<td></td>
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<tr>
<td>Levitt, A.,</td>
<td>„Earnings management is a grey area where the accounting is being perverted, where managers are cutting corners; and, where earnings reports reflect the desires of management rather than the underlying financial performance of the company”</td>
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<tr>
<td>1998</td>
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<tr>
<td>Scholer F.,</td>
<td>“The level of earnings management can be defined as the relation between the accruals and the cash flow, suggesting that managerial intent affects the occurrence and magnitude of the accruals which requires assumptions and estimates of future cash flow”</td>
</tr>
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<td>2005</td>
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Source: in the table
The majority of definitions raise the issue of taking decisions by the management board in order to make changes to financial statement items.

Such changes may cause a particular effect in the reception of the financial condition of a unit, but this effect is not always compatible with the expectations of financial statement recipients. By making changes in the reported items, managerial staffs frequently intend to trigger a particular reaction of stakeholders, e.g. selling or purchasing more of this unit’s shares, concluding a particular transaction, increasing the number of clients. More and more often the real effects of the fulfilment of an earnings management strategy adopted by the management board are visible only after a period of a few years, which will be discussed in the further part of the study.

It happens that management board members, whose remunerations and further contracts depends on the results achieved by the economic unit, by means of adequately selected, not always honestly used instruments, try to evoke a reaction of e.g. investors owing to which a real profit will be achieved. Therefore, one might say that by reporting an artificially increased profit, management boards sometimes want to cause a reaction which will materialise it in the next period.

There is also another opinion according to which any changes to financial statement items, which are not only related to the financial result, but are a consequence of particular intentions of the management board to change the picture of the economic entity’s financial condition, should be included in the area of earnings management. It is worth emphasising that proper earnings management is confirmed in the cash flow in subsequent periods. This is an effective verification of the „purity” of managers’ intentions (Scholer F., 2005). Particularly important is the level of interference in the values reported in financial statements. Another problem is connected with the level of interference beyond which we no longer deal with the earnings management area, but with the forging of reported data. Definitions of earnings management in literature are grouped into white, grey and black ones, according to the criterion of degree and purpose of the management board’s influence exerted on the items of financial statements by means of adopted tools (Ronen J., Varda Y., 2008). What seems crucial to understand earnings management is the quality of a financial statement, especially its reliability and relevance.

„White” definitions perceive earnings management as a process of supplementing or, actually, specifying the data reported in a financial statement by managers, who select adequate accounting methods and procedures, according to their additional knowledge about the economic unit or future cash flows. Such activity does not infringe the reliability of a financial statement.

The grey level encompasses definitions in which earnings management is accounting activity which leads to the fulfilment of interests and benefits of the management board.

Earnings management on the black level involves management board’s practices that come down to using appropriate „tricks”, the aim of which is to change the reporting data and, in consequence, mislead the stakeholders (especially potential investors). So understood earnings management results in the infringement of the financial statement’s reliability. An example of a „black” definition is the one quoted by K. Schipper (Schipper 1989). Earnings management can be classified into three categories: fraudulent accounting, accruals management and real earnings management.

Fraudulent accounting involves accounting choices concerned with accounting law. Accruals management involves with accounting standards choices that try to “obscure” or “mask” true
economic performance. Real earnings management “occurs when managers undertake actions that
deviate from the best practice to increase reported earnings” (Dechow, P.M. and Skinner, D.J., 2000).

2.2. Objectives of earnings management

The establishing of earnings management objectives should be considered from the point of view of
the analysed period duration. The management board of a unit may have an objective for a period of a
few years, which is difficult to be identified in its activities concerning the annual financial statement.
From the point of view of the financial statement stakeholder it might be impossible to combine the
short-term objectives with the goal specified for a period of e.g. 4-5 years.

Literature quotes the following major objectives:

- Income smoothing – which consists in reporting a more stable profit,
- Avoidance of accounting loss – which consists in taking action aimed at reporting even the
  smallest profit instead of a loss,
- Avoidance of earnings reduction – which consists in avoiding to report a lower level of profits
  than in the preceding year,
- Aggressive accounting – striving to report a higher level of profits in relation to the previous
  year,
- Big bath – striving to increase the losses.

An objective quoted in literature is managers’ reporting of lower profitability than the real one,
especially in contacts with institutions such as Anti-monopoly Office or trade unions (Schipper, 1989).

A particularly important thing in earnings management is making specific estimates the results of
which affect the values presented as reported items. Examples of such accounting discretionary
judgements include:

- Long-term construction contracts, which require estimates of Progress towards completion
  and costs to complete; “managers could use optimistic estimates of progress towards
  completion to inflate earnings” (Jackson, S.B. and Pitman M.K., 2001),
- Depreciation computations, which require estimates of useful lives.

Literature usually quotes three major earnings management techniques:

- choice of accounting methods,
- revision of estimates,
- acceleration or deferral of revenues expenses ((DuCharme, Malatesta, Sefcik, 2001).

The following are quoted as additional techniques:

- Long – lived assets sales,
- LIFO layer liquidations,
- Debt – equity swaps,
- Debt defeasance.
Earnings management employs various instruments. Most of them are accounting policy instruments, which are reflected in the balance sheet law and manifest themselves in a form of choice options, concerning e.g. the parameter of estimate, method of estimate, classification. In Poland the basic legal act of the balance sheet law is the Accounting Act, and for some units – IAS/IFRS.

In practice the fulfilment of a particular earnings management objective requires different groups of instruments to be applied simultaneously. An example of a selection of instruments is adopting the loss increase strategy. In order to achieve such a goal, a unit will increase losses, e.g. by creating reserves, stagger the costs and revenues over time, create impairment losses on receivables and stocks, select parameters decreasing the financial result, apply fixed assets progressive depreciation.

The published research results prove that earnings management is often used in order to report a slight profit instead of a loss and is carried out mainly by means of managerial accruals, inventory and receivables (e.g. Scholer F., 2005).

Special, frequently negative, significance is emphasised in the case of companies introduced to public trading. The larger the scale and the level of earnings management application, the greater are future expectations of potential investors.

In many areas of the balance sheet law we can talk about accounting subjectivity. Choice options, the application of which leads to different results, increase this sense of subjectivity from the point of view of managers.

Proper economic practices within the scope of earnings management should result from transparent rules and accounting principles as well as their exhaustive interpretations, leaving no place for ambiguity (Parfet W.U., 2000). However, solutions to all problems cannot be included in specific regulations, no matter how extensive the latter might be. Hence, particular importance should be attached to the development of adequate standards which allow these problem solutions to acquire a more explicit character.

There is therefore a problem of earnings management scope. Does the lack of accounting policy tools application mean that we no longer deal with earnings management?

3. INFLUENCING A FINANCIAL STATEMENT THROUGH EARNINGS MANAGEMENT – ANALYSIS OF SELECTED CASES

A strategy adopted by the management board of an economic unit in order to shape the image of its outcome in the financial statement results in the introduction of appropriate changes to the reported data by means of adequate tools. These tools are also called accounting policy tools. They are mostly related to a current and balance sheet estimate of assets and liabilities. Typical accounting policy tools include:

- The use (method) of fair value to evaluate financial assets, investment property
- Impairment losses on receivables,
- Impairment losses on stocks,
- Balance sheet depreciation,
- Residual value,
- Method of overestimated value of fixed assets, intangible assets,
• Creation and release of reserves for accounts receivable,
• Principles of income recognition, in particular due to long-term contracts.

Depending on the strategy adopted by a unit, the application of these tools causes adequate changes in the level of reported revenues and costs. If e.g. the goal set by the management board of a unit is to increase the reported profit (aggressive accounting), it may be achieved by:

• Decreasing the costs,
• Increasing the revenues,
• Using both methods simultaneously.

If the goal set by the unit’s management board is to increase the reported loss (big bath), this effect can be achieved by inflating the costs and understating the revenues. Using the creation of reserves as an example of an accounting tool, it is possible, by assuming appropriate estimates, to create a reserve on a higher level, thus increasing the costs, or release the reserve at a moment convenient for the achievement of the goal and in consequence increase the revenues.

The above mentioned earnings management tools are at the same time typical tools of accounting policy.

However, one of the major earnings management instruments is adequate shaping of a transaction, which ensures the fulfilment of its goal. The management board of a unit takes decisions regarding the type of transaction, the price of transaction, the term of its effecting as well as the term and form of payment. This way it directly influences the revenues and costs contained in the report. However, this decision area should not be identified with choice option within the framework of the accounting policy. In the opinion of the author of this publication, this issue belongs to the management area. The accounting system, including the managerial one, provides decision makers with an appropriate database, which is supposed to enable and make it easier for them to take an optimal decision from the point of view of the adopted strategy. It should be emphasised that decisions concerning the adequate management of a particular transaction belong to earnings management, and are not included in accounting policy tools. On the other hand, the accounting policy is „activated” as a manner of recording the effected transaction results in the accounting books and reporting them in a financial statement. If showing the effects of this transaction requires adequate staggering of revenues or costs over time and the balance sheet law allows the unit to choose a manner of their settlement, which determines different results, we deal with the accounting policy.

Case 1.

Having adopted the „big bath” goal, the management board of unit A took a decision to purchase a service - renovation of the building where the unit has its head office at a net price of EUR 200 000. The evaluation of the technical condition of the building, the decision concerning the scope of renovation, the term of fulfilment and the service price are elements of transaction management according to particular intents on the part of the management board. This is included in the scope of earnings management, but does not belong to the accounting policy sphere. On the other hand, decisions regarding the adopted period of this cost settlement belong to the area of the accounting policy and determine the level of costs reported in subsequent years.

Another problem is whether the management board’s decisions related to the fulfilment of an adopted earning management objective are always „properly” reflected in financial statements. A question might therefore be asked whether in the event the management board’s goal is to increase the reported
profit and it takes a decision to carry out additional operations, which result in reporting higher costs and, in consequence, a reduced annual result in the statement, we can still talk about earnings management.

In the opinion of the author of this publication, a decisive issue is the period in which particular transactions or a series of transactions are considered.

Case 2

The management board of company A follows the strategy of reporting a more stable profit. The results achieved in the current year guarantee the reporting of a profit considerably higher compared to the previous year. At the same time, the management board forecasts a much worse situation next year (significant lowering of the profit level in relation to previous years). At the end of the current year a decision was taken to provide company B on a free-of-charge basis with a production machine, whose initial value was EUR 100 000 and depreciation to date reached EUR 80 000. The net value of the machine is the same as its market value. The management board of company A agreed with the management board of company B that in the next financial year company B would provide transport services for company A at a price with a lower margin. Before charging the margin, the total costs of these services amount to EUR 400 000. Company B charges a 15% margin, but for transactions with company A it has fixed a 5% margin.

In the current year, company A will report costs higher by a net value of the production machine – EUR 20 000 and EUR 4 600 resulting from 23% VAT charged. In the next financial year the company will „save” EUR 40 000 (15% margin on EUR 60 000 – 5% margin on EUR 20 000) on transport services. Eventually, company A will lower the costs by EUR 15 400 (EUR 40 000 – EUR 24 600).

In the context of the above example, the earnings management goal adopted by the management board in a period of 2 years was achieved. Accounting policy tools – choice options – were not used for this purpose, but appropriate changes in financial statement items were made by means of adequately conducted transactions. The question arises if the financial result reported in the current year is objective and compliant with the true and fair view principle. The final result is in this case made up of a series of transactions appropriately staggered over time. In the opinion of the author of the publication, in each of the two subsequent years the financial result is presented in a proper way. Worth emphasising is the fact that the achievement of earnings management goals may result in appropriate „corrections” in financial statements while ignoring the accounting policy tools.

4. COMPREHENSIVE INCOME OF AN ECONOMIC UNIT

The concept of earnings management was born in a period when the word „earnings” referred to a net financial result reported in the profit and loss account. Currently this notion should be understood in a much broader way. One of the changes introduced in financial reporting is that related to the scope and structure of the final result of an economic unit. Pursuant to IFRS 2, a comprehensive income statement was introduced, in which the net financial result as well as other comprehensive incomes are reported. The items of other comprehensive incomes result mainly from the application of fair value in

32 Calculations have been based on a 23% VAT rate applicable in Poland
a balance sheet evaluation of assets and are related to the revaluation capital reported in liabilities of a unit’s financial condition statement.

Figure 1  The structure of comprehensive income

\[
\text{Net profit/ loss} + \text{Other comprehensive incomes} = \text{TOTAL COMPREHENSIVE INCOME}
\]

Source: study on the basis of the structure of a financial statement – comprehensive income statement

Total comprehensive income is a change in the equity capital which took place in a given period due to transactions as well as other events other than changes resulting from transactions effected with the owners acting in the capacity of shareholders.

Total comprehensive income includes all elements of „ profits and losses” as well as „other comprehensive incomes”.

Other comprehensive incomes can be defined as the items of revenues and costs (including corrections resulting from reclassification which have not been recognized as profits or losses (e.g.):

- changes in revaluation surplus (IAS 16 „Tangible fixed assets”, IAS 38, „Intangible assets”),
- Profits and losses resulting from conversion of financial statement items (IAS 21 „The effects of changes in foreign currency exchange rates”),
- Profits and losses due to revaluation of financial assets available for sale (IAS 39 „Financial instruments: recognition and evaluation”)

Currently, the concept of earnings management refers to the shaping of comprehensive income. For this reason, special importance is attached to balance sheet policy tools, which result in the reporting (increasing, decreasing) of other comprehensive incomes items. An example of such instruments are:

- Financial instruments reclassification,
- The method of fair value for financial assets evaluation,
- The method of fair value for investment real estate evaluation.

While pursuing e.g. the goal of increasing the reported comprehensive income, managers of an economic unit must choose accounting policy tools very carefully, as frequently the choice of a method for financial assets evaluation in fair value results in an item of other comprehensive incomes instead of a net profit/loss.

Case 3

An economic unit has long-term financial assets (100 shares acquired at a purchase price of EUR 10). On the balance sheet date the exchange rate of these shares is EUR 12 for a share. It is assumed that
fair value is the current exchange rate of a share. Pursuant to IFRS 39, while adopting the method of shares evaluation according to fair value, the unit at the same time reports the revaluation capital, which is a surplus of the share balance sheet value over the purchase price, i.e. EUR 200. The net profit/loss will not change. If the unit chooses the method of purchase price decreased by impairment write-offs, the total comprehensive income will not be changed. If, however, the unit takes a decision to reclassify the shares as marketable ones, the value of revaluation capital is transferred into financial revenues, which will be reported as revenues in the current period, therefore they will increase the net profit/loss.

5. DISCUSSION

The scope of earnings management instruments is wider than that of accounting policy ones.

The analysis of cases 1 and 2 indicates that the period of earnings management application is particularly important for an analysis (strategy) of objectives and tools of their achievement. The fulfilment of earnings management strategy does not entail changes in the annual financial statement for the first of the considered periods in every case. Frequently, this requires an analysis of a longer period, e.g. 2 or 3 years. Tools applied by managers may cause changes in the level and structure of the financial result reported in the financial statement for the subsequent financial year. If we consider the effects of earnings management application only in the scale of a year, the strategy adopted by the unit’s management board may turn out difficult or impossible.

The analysis of case 3 reveals that appropriate classification of financial assets is very important in the management of other comprehensive incomes as well as net profit/loss.

In the case of the unit’s comprehensive income management an important issue is the expectation of the financial statement stakeholders with regard to the level of net profit/loss. If it is the level of comprehensive income, and not the level of net result that is important for shareholders, investors, the management board – while fulfilling particular objectives of earnings management – has a much greater choice of tools. If importance is attached mainly to information about the level of net profit/loss, and other comprehensive incomes are less significant, the scope of tools will be respectively smaller.

The conducted analysis leads to the conclusion that in the context of contemporary economy the area of performance management should be understood broadly.

In the publication the following definition of comprehensive income management is proposed:

Comprehensive income management includes all kinds of activity undertaken by the management board of an economic unit, using the accounting policy instruments as well as financial instruments in order to influence the elements of comprehensive income in a direct or indirect way, and in consequence, change the financial condition of this unit, which ensure an appropriate reaction of the financial statement recipients, and finally, the fulfilment of expectations and strategies of the management board over a longer period (a few years).

5. CONCLUSIONS

Economic units more and more frequently resort to earnings management instruments. The greater the importance that financial statement stakeholders attach to the reported data, the larger is the scope and
intensity of earnings management application. When evaluating the activity of managers in the area of earnings management, it is more and more often necessary to take into account periods of many years. The intentions of company management boards may not be clear in the scale of one year and it would be difficult to identify the instruments and methods they use.

Some earnings management tools do not have to cause changes in financial statements for a given period. Here particularly important are instruments of economic transactions management.

For this reason, the set of earnings management tools does not coincide with the set of accounting policy tools, especially in a short period of e.g. one year.

Another conclusion is related to the term „earnings”. For many years the activities of managers have been focussed on changes in net profit or loss. Currently, financial statement users, in particular prospective investors, with increasing caution observe also other comprehensive incomes, which will become an „object” of management on the part of managers. Until present it has been happening on a small scale. Changes in the balance sheet law concerning the structure and scope of financial statements will entail the development of new tools for influencing various elements of comprehensive income.

For this reason, a broader – in relation to earnings management – definition of an economic unit’s comprehensive income management has been proposed in the article.

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INFLUENCE OF ORGANIZATIONAL CULTURE DETERMINANTS ON INNOVATION AND FIRM’S SUCCESS

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Abstract
In post-industrial economy the knowledge of factors that promote or inhibit innovation is of great importance. There is an agreement in literature about the importance of organizational culture for creating innovation in companies. Firms have to meet certain requirements in terms of their internal behavior and external relationships in order to innovate. It appears that innovation will only flourish under the right circumstances, which are determinants of organizational culture. Because there is a research gap concerning relationship between organizational culture promoting the creation of innovation and success of firms which can be expressed by its financial condition, the empirical survey aimed at obtaining answer to this question.

Key words: organizational culture, determinants, innovation

1. INTRODUCTION
In post-industrial economy survival of organizations depends in great extend on their ability to create innovations. The culture in organization may be a factor influencing the extend to which innovation occur in organization (Tesluk et al., 1997, Judge et al. 1997; Martins & Terblache, 2003; Martins et. al., 2004). Organizational culture lies at the heart of innovation (Tushman and O’Reilly, 1997). Successful organizations must create an institutional framework in which creativity and innovation are accepted as basic cultural norms if they want to foster innovation. The knowledge of factors that promote or inhibit innovation is of great importance because innovation was recognized as a major force in economic development (Freeman & Soete, 1997).

According to Schumpeter (1939) any doing things differently in the realm of economic life can be considered innovation. These things can vary with regard to their degree of difference and their location in economic life. Innovation derived from invention is mostly referred to as radical innovation. Innovation that is not new to the world as a whole has a lower degree of intrinsic newness. Such innovations are referred to as applied or incremental innovations. They frequently occur after a radical innovation has been established, being more or less extension of the major innovation. Innovation can be also defined as the process of transforming the ideas or inventions which are the point of departure into reality, which means: the transformation of an invention into a market product, the implementation of an idea for new market behaviour, the conversion of new knowledge about the production process into a change in that process. Innovation has been generally studied either from an industrial economy perspective or from a business management perspective. Vega-Jurado, et al. (2008) state that studies in the field of industrial economy explain the level of innovation in the firm in terms of the structural characteristics of the industry in which it competes. It is also possible to find
general patterns of technological change associated with specific industries, or with broad industry categories (Souitaris, 2002). Studies in the field of business management focus on identifying the internal characteristics of firms that affect their innovation behaviour.

Organizational innovativeness can be defined as an organization’s overall innovative capability of introducing new products to the market, or opening up new markets, through combining strategic orientation with innovative behavior and process (Wang and Ahmed 2004). Dobni (2008) suggests that the extend to which an organization can be regarded as innovative will be circumscribed by its culture. The standards for innovativeness is multi-dimensional, and grounded in product, process, behavioral (cultural), and infrastructure aspects.

Culture is a system of communications which incorporates the biological and technical behavior of human beings with their verbal and nonverbal systems of expressive behavior (Herbig & Dunphy, 1998). Culture is also defined as the deeply seated values and beliefs shared by employees at all levels. It is communicated and reinforces through symbolism, feelings, language, behaviors, relationships, artifacts (Schein, 1984). Culture influences behavior of the individuals and existing cultural conditions determine whether an innovation will be adopted. Existing culture influences tolerance of new ideas and inquisitiveness. The extant literature points to culture as the linchpin to innovation in organizations. As suggest Herbig & Dunphy (1998) culture has a profound influence on the innovative capacity of a society. A society’s values provide social direction to the process of technological development because culture may either foster or inhibit technological development. Culture tends to operate as a source of authority, aspiration, responsibility, influencing the course of technological advance and the creation of material culture. The change organization’s focus to innovation requires often a change in the organization’s general cultural orientation.

Dobni (2008) defines innovation culture as a multi-dimensional context which includes the intension to be innovative, the infrastructure to support innovation, operational level behaviors necessary to influence a market and value orientation, and the environment to implement innovation. The level of innovation within a society is directly proportional to the encouragement and status given to entrepreneurial efforts within the culture (Herbig & Dunphy, 1998).

There is an agreement in literature about the importance of organizational culture for innovation (Chang & Lee, 2007; Martins et al., 2004; Mumford, 2000). Firms have to meet certain requirements in terms of their internal behavior and external relationships in order to innovate. The key role of culture in innovation pointed Ahmed (1998), Dobni (2008), Jamrog et. al. (2006), Lau & Ngo (2004), Martins et. al. (2004).

The basic elements of culture have a twofold effect on innovation in process of socialization and coordination. In socialization, employees can know whether creative and innovative behaviors are part of the path the firm treads. The business can at the same time, through activities, policies and procedures, generate values, which support creativity and innovation. In this way innovative capacity will improve (Tesluk et. al., 1997).

2. DETERMINANTS OF ORGANIZATIONAL CULTURE INFLUENCING INNOVATION

The literature provides a strong link reflecting relationship between culture and innovativeness. Hurley and Hult (1998) found that levels of innovativeness in an organization are associated with cultures that emphasize learning development and participative decision making. Also, the antecedents of an innovation culture are similar to those of a market-oriented culture (Dobni, 2008). Market orientation
is widely known as an organizational culture that supports behaviors that dictate how employee’s think and act as it relates to implementation of marketing concept (Kohli and Jaworski, 1990). Market orientation and innovation are not isolated fields and some tools and policies related to innovation are more heavily used by the firms more orientated to the market (Aldas-Manzano et. al., 2005). Market orientation is a response partially derived from the organization’s innovation culture (O’Cass and Ngo, 2007).

Zdunczyk & Blenkinsopp (2007) suggest that higher-level learning, whilst not simply synonymous with innovation and creativity, clearly incorporates these processes. On this basis, one may expect that factors found to be enabling of higher-level learning will therefore be enabling of innovation and creativity. Dodgson (1993) found the elements that facilitate or inhibit learning: strategy, structure, the uncertainty of the environment, the value attributed to learning by the organization, new technologies, resource allocation policies, individual behavioral characteristics and group dynamics. Factors which influence organizational learning can be summarized as: organizational culture, strategy, structure, procedures, resources (including technology and training), and the stability of the environment (Zdunczyk & Blenkinsopp, 2007). Damanpour (1991) considered the relationship between organizational innovation and 13 of its potential determinants. Nine of the determinants were statistically significant, some of which included: managerial attitude toward change, specialization, technical knowledge resources, external and internal communication, functional differentiation.

Many researchers have worked on indentifying determinants of culture which supports or hinder innovations. Among them are: Ahmed (1998), Filipczak (1997), Herbig and Dunphy (1998), Kaasa& Vadi (2010), Martins et al. (2004), O’Reilly (1989), Straub et. al. (2002), Tesluk et. al. (1997), Ulijn & Weggeman (2001), Waarts and van Everdingen (2005), Westwood and Low (2003). Still very few empirical studies have been conducted to support findings of researches. Martins et. al. (2004) created model which shows influence of organizational culture on creativity and innovation. The influence is divided into five determinants (strategy, structure, support mechanisms, behavior that encourages innovation and communication) which may either promote or hinder creativity and innovation. In strategy especially important are: vision and mission and purposefulness. The origin of creativity and innovation lies in shared vision and mission, which are focused on the future and market-oriented, focusing on customers-problems solving. Also, organizational goals and objectives reflect the priorities and values of organizations and may promote or hinder innovation (Arad et. al., 1997).

According to literature, non-hierarchical structure, work team, autonomy, flexibility, freedom (manifested in autonomy, empowerment and possibility of employees’ decision-making) will support creativity and innovation (Martins et al., 2004; Arad, 1997). Hierarchical structures, formalization, specialization, centralization, rigidity, control, predictability, stability are emphasized as features that will inhibit creativity and innovation. Cross-functional teams which encourage social and technical interaction helping understand other’s perspectives and style of functioning will promote innovation. Support mechanisms such as rewards and recognition, available resources (namely time, information technology, creative people) support innovation (Martins et al., 2004). Arad et. al. (1997) state that if creative behavior is rewarded, it will become dominant way of work because behavior that is rewarded reflects the values of an organization. Values and norms that encourage innovation manifest themselves in specific behavioral forms that promote or inhibit creativity and innovation (Martins et. al., 2004). Support for change is a factor promoting innovation (Arad et. al., 1997; Jonson, 1996, Martins et. al., 2004; Tushman & O’Reilly, 1997). An organizational culture should encourage employees to create new ideas without being harmed when failure happens. A culture in which too many management controls are applied will inhibit risk-taking, which is necessary in innovation (Judge et. al., 1997). Innovative organizations encourage experimentation, rewarding both successes
and failures. Such organizations tend to have similar cultures (Robbins et al., 2003). An organization should create a tolerant atmosphere in which mistakes are accepted as part of taking initiative, regarding mistakes as learning experiences, and assuming that there is a fair chance of risks being successful (Martins et al., 2004). Also, very important in organization is creating a culture of competitiveness which means among others reaching out to external and internal knowledge, encourage debating of ideas, create an environment in which constructive conflict will lead to information flow (Read, 1996). A positive influence on enhancing innovation has open and transparent communication which is based on trust (Barret, 1997). Thus, according to Dobni (2008), a culture supporting innovation engage behaviors that would value creativity, freedom, teamwork, risk taking, be value seeking and solutions oriented, communicative, instill trust and respect, and be quick on the uptake in making decisions.

It appears that innovation will only flourish under the right circumstances, which are determinants of organizational culture. But still very few empirical studies have been conducted to support findings of researches. There is also a research gap concerning relationship between organizational culture promoting the creation of innovation and success of firms. Financial condition of a firm can be such the measure of firm’s success. This paper attempts to fills this gap in the literature.

3. EMPIRICAL RESEARCH

The empirical survey aimed at obtaining answer to the following question:

Is the relationship between organizational culture promoting the creation of innovation and success of firms, which is reflected in a very good financial condition?

The survey questionnaire containing closed question was the tool applied in innovative enterprises from north-eastern Poland. Nonprobability purposive sampling was applied selecting the entities participating in subjective way so that they could be the most useful or representative. The survey was conducted in innovation enterprises that, according to the Oslo methodology, were enterprises that introduced at least one new or significantly improved product and/or one new or significantly improved technological process to the market within the last 3 years. In the sample of 158 industrial enterprises, 10.1% were micro enterprises, employing to 9 employees, 25.3% of small companies employing fewer than 50 employees, 32.3% medium-sized enterprises, where employment does not exceed 249 persons and 32, 3% of the large, employing 250 and more workers. The financial condition was assessed subjectively by the respondents on a scale from 1 - very bad to 5 very good. The use of subjective assessment of the financial condition was caused by the general reluctance of people employed in the enterprises to provide data concerning financial situation of a firm. More than half of surveyed companies (90 companies which represent 57% of the total) stated its financial situation as good, and every fourth undertaking (22.8%) as average. Nearly 18% (28 companies) declared that their financial condition is very good. These were mostly large (20 companies) or medium (8) organizations. A small percentage of the companies surveyed (2.5%) assessed their financial situation as bad. The best financial condition declared big companies. Approximately 84% of these companies felt that financial condition is good or very good. Evaluate their situation worse, small and micro companies, none of which consider it to be very good.

Among the cultural elements that affect the innovation chosen few, which were used in the construction of a questionnaire directed to the companies. As determinants of culture were distinguished: mission and vision, from which comes the need for innovation, flexibility of a firm, the existence of teamwork, communication and information flow in the company, the possibility of
achieving by the staff the objectives in a creative way, time to implement own ideas of staff, creativity of employees, support for business change, competitiveness as a priority, organizational commitment, ability to deal with conflicts within the company, the existence of the bureaucracy, the belief that through innovation an enterprise develops, planning innovation in advance, before competitors introduces them to the market, management support for innovation, successes of innovative activities in the market. The respondents had to respond to the statements according to the 5 point Liker scale. The lower the sum of points obtained in the study, the determinants of organizational culture were more promoting innovation.

The study shows that in enterprises with very good financial situation, determinants of organizational culture were the most promoting creation of innovation. The average sum of points obtained in research was: 1,72 - in the enterprises declaring very good financial condition; 1,85 – in the enterprises with good financial condition and 2,13 – in firms with average financial condition. The highest score (2.72) obtained companies which declared bad financial condition. This means that the organizational culture in these entities favors innovation the least.

In consequence, the hypothesis was formulated as follows:

D
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D
eterminants of organizational culture that fosters innovation contribute to the success of the firm on the market.

In order to verify the research hypothesis was also used statistical analysis using the tangent of the maximum likelihood test \( \chi^2 \), using a computer program SPSS. It showed the existence of statistically significant relationships between:

- The financial condition of the company and the claim that the company employs creative people;
- The financial condition and a statement that through innovation business is growing;
- The financial condition and agreement with the statement that the company plans to innovations in advance, before the competitors bring it on the market (Table 1).

<table>
<thead>
<tr>
<th>Significant correlation</th>
<th>Value of statistics</th>
<th>df (degrees of freedom)</th>
<th>asymptotic (two-sided) significance level</th>
</tr>
</thead>
<tbody>
<tr>
<td>In a company work creative people and financial condition</td>
<td>23,962</td>
<td>9</td>
<td>0.004</td>
</tr>
<tr>
<td>Thanks to innovations our company develops and financial condition</td>
<td>105,759</td>
<td>12</td>
<td>0.000</td>
</tr>
<tr>
<td>We plan innovations before competitors introduce them on a market and financial condition</td>
<td>33,545</td>
<td>12</td>
<td>0.001</td>
</tr>
</tbody>
</table>

Significant correlation at the significance level \( p = 0.05 \)

Source: own research.

Martins and Ternblanche (2003) believe that the recruitment and selection of workers for creative personality support innovation. On the basis of a literature review of management and psychology,
Ahmed (1998) developed the personality characteristics of team innovation. The characteristics of these include: broad interests, a lot of energy, independence assessment, intuition, self-confidence, ability to reconcile contradictions, perceived themselves as being creative, curiosity, perseverance, intellectual honesty. The vast majority of surveyed firms (86%) declaring very good or good financial condition completely agreed or agreed with the statement that their company employs creative people. None of the firm in bad condition did not agree completely with this.

The natural tendency of most workers in the enterprise is devoting most of their time on things, which in terms of their importance for achieving long-term objectives are not worth attention. Very often it is not valid, and the urgency is the most important criterion for deciding what they do employees. Hence, the introduction of planning rules of the organization in terms of innovation is important, even (especially in large companies) necessary for the survival of the company and its development. The vast majority (nearly 80%) of a very prosperous business innovation plan in advance, before the competitors introduce it on a market. Every fifth company in a very good situation, or does not agree or does not deny "we plan innovation in advance, before competitors enter them on the market". It can be assumed that they apply imitative strategy (imitation) in innovation, or produce goods on behalf of other companies. Half of the companies with bad financial situation does not plan innovation.

Companies in a very good financial situation develop their organization through innovations. There is a teamwork in such enterprises supporting innovation. The respondents from all enterprises feel strong support for innovation by management, but the respondents from firms with very good and good financial condition declare this the most. It can be seen that companies with very good financial condition, have vision and mission from which comes the need for innovation. Generally, the lowest average points in the research obtained the enterprises declaring very good financial condition, the highest – in the worst financial situation. So there is a visible relationship between the determinants of organizational culture influencing innovation and financial condition of a firm (Table2-4).

### Table 2. Average points obtained by the company declaring a very good financial condition

<table>
<thead>
<tr>
<th>Development of company through innovations</th>
<th>1,5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Teamwork in the enterprise</td>
<td>1,53</td>
</tr>
<tr>
<td>Strong support for innovation by management</td>
<td>1,53</td>
</tr>
<tr>
<td>Having a vision and mission, from which comes the need for innovation</td>
<td>1,64</td>
</tr>
<tr>
<td>The flexibility of the company</td>
<td>1,67</td>
</tr>
<tr>
<td>Creative employees</td>
<td>1,71</td>
</tr>
<tr>
<td>Competitiveness as a priority</td>
<td>1,71</td>
</tr>
<tr>
<td>Support for changes in the company</td>
<td>1,75</td>
</tr>
<tr>
<td>Open communication and clear communication within the company</td>
<td>1,82</td>
</tr>
<tr>
<td>A strong commitment to the work</td>
<td>1,82</td>
</tr>
<tr>
<td>Planning for innovation in advance, before the competitors bring them on market</td>
<td>1,82</td>
</tr>
<tr>
<td>The possibility of achieving the objectives pursued by the staff in a creative way</td>
<td>2,07</td>
</tr>
<tr>
<td>Ability to deal with conflicts within the company</td>
<td>2,07</td>
</tr>
<tr>
<td>Having time for employees to carry out their own ideas</td>
<td>2,39</td>
</tr>
<tr>
<td>Lack of bureaucracy</td>
<td>2,5</td>
</tr>
</tbody>
</table>

Source: own research.
Table 3. Average points obtained by the company declaring a good financial condition

<table>
<thead>
<tr>
<th></th>
<th>Average Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development of company through innovations</td>
<td>1.58</td>
</tr>
<tr>
<td>Competitiveness as a priority</td>
<td>1.65</td>
</tr>
<tr>
<td>Strong support for innovation by management</td>
<td>1.71</td>
</tr>
<tr>
<td>A strong commitment to the work</td>
<td>1.78</td>
</tr>
<tr>
<td>Teamwork in the enterprise</td>
<td>1.82</td>
</tr>
<tr>
<td>The flexibility of the company</td>
<td>1.87</td>
</tr>
<tr>
<td>Support for changes in the company</td>
<td>1.87</td>
</tr>
<tr>
<td>Ability to deal with conflicts within the company</td>
<td>1.87</td>
</tr>
<tr>
<td>Having a vision and mission, from which comes the need for innovation</td>
<td>1.95</td>
</tr>
<tr>
<td>Creative employees</td>
<td>2.00</td>
</tr>
<tr>
<td>Open communication and clear communication within the company</td>
<td>2.03</td>
</tr>
<tr>
<td>The possibility of achieving the objectives pursued by the staff in a creative way</td>
<td>2.18</td>
</tr>
<tr>
<td>Lack of bureaucracy</td>
<td>2.27</td>
</tr>
<tr>
<td>Planning for innovation in advance, before the competitors bring them on market</td>
<td>2.33</td>
</tr>
<tr>
<td>Having time for employees to carry out their own ideas</td>
<td>2.61</td>
</tr>
</tbody>
</table>

Source: own research.

Table 4. Average points obtained by the company declaring an “average” financial condition

<table>
<thead>
<tr>
<th></th>
<th>Average Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitiveness as a priority</td>
<td>1.77</td>
</tr>
<tr>
<td>Strong support for innovation by management</td>
<td>1.94</td>
</tr>
<tr>
<td>Development of company through innovations</td>
<td>1.97</td>
</tr>
<tr>
<td>A strong commitment to the work</td>
<td>2.03</td>
</tr>
<tr>
<td>The flexibility of the company</td>
<td>2.13</td>
</tr>
<tr>
<td>Support for changes in the company</td>
<td>2.19</td>
</tr>
<tr>
<td>Having a vision and mission, from which comes the need for innovation</td>
<td>2.22</td>
</tr>
<tr>
<td>Teamwork in the enterprise</td>
<td>2.22</td>
</tr>
<tr>
<td>Ability to deal with conflicts within the company</td>
<td>2.25</td>
</tr>
<tr>
<td>Open communication and clear communication within the company</td>
<td>2.33</td>
</tr>
<tr>
<td>Creative employees</td>
<td>2.39</td>
</tr>
<tr>
<td>The possibility of achieving the objectives pursued by the staff in a creative way</td>
<td>2.47</td>
</tr>
<tr>
<td>Having time for employees to carry out their own ideas</td>
<td>2.52</td>
</tr>
<tr>
<td>Planning for innovation in advance, before the competitors bring them on market</td>
<td>2.56</td>
</tr>
<tr>
<td>Lack of bureaucracy</td>
<td>2.97</td>
</tr>
</tbody>
</table>

Source: own research.
Table 5. Average points obtained by the company declaring an adverse financial condition

| A strong commitment to the work | 2.0 |
| Competitiveness as a priority   | 2.5 |
| Strong support for innovation by management | 2.5 |
| Open communication and clear communication within the company | 2.75 |
| The flexibility of the company  | 2.75 |
| Teamwork in the enterprise      | 2.75 |
| Creative employees             | 2.75 |
| Support for changes in the company | 2.75 |
| Ability to deal with conflicts within the company | 3.0 |
| Lack of bureaucracy            | 3.0 |
| Having a vision and mission, from which comes the need for innovation | 3.25 |
| The possibility of achieving the objectives pursued by the staff in a creative way | 3.25 |
| Having time for employees to carry out their own ideas | 3.25 |
| Development of company through innovations | 3.5 |
| Planning for innovation in advance, before the competitors bring them on market | 3.5 |

Source: own research.

CONCLUSION

In post-industrial economy the knowledge of factors that promote or inhibit innovation is of great importance because innovation was recognized as a major force in economic development. There is an agreement in literature about the importance of organizational culture for innovation. Firms have to meet certain requirements in terms of their internal behavior and external relationships in order to innovate. It appears that innovation will only flourish under the right circumstances, which are determinants of organizational culture.

Because there is a research gap concerning relationship between organizational culture promoting the creation of innovation and success of firms which can be expressed by its financial condition, the empirical survey aimed at obtaining answer to this issue.

The study of 158 companies from the region north-eastern Polish confirmed the relationship between organizational culture promoting the creation of innovation and success of firms, which is reflected in a very good financial condition. The enterprises prospering very well received the lowest average total score in the evaluation of the elements that determine the organizational culture, which proves the existence in these organizations a culture which promotes innovation.

The study revealed a statistically significant correlation between a firm and its financial condition in areas:

- Creativity of employees - the more creative they are, the better the financial situation of the company;
- Development of the company through innovation - the more prosperous organizations, the greater the confidence of the respondents, that through innovation company develops;
- Planning for innovation - companies which have a better financial situation often plan innovation.

The results of the empirical research should not be interpreted without taking into account the limitations of the empirical study. First, this study was conducted only in part of Poland and sample was not random. Second, the financial condition was assessed subjectively by the respondents. However, the findings provide useful direction for future research.

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POSSIBILITY OF APPLICATION MANAGEMENT BY OBJECTIVES IN THE RESTAURANTS. ADAPTING THE PHASES OF THE IMPLEMENTATION OF THE MODEL IN THE SPECIFIC AREA IN BULGARIA
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University of National and World Economy
1700 Sofia, Students Town

Abstract
Management by objectives is a widely used and successful method of management since 1960. The presence of certain characteristics and problem areas in restaurants in Bulgaria gives reason to believe that the application of management by objectives can lead to positive change in the sector and its development in parallel with global trends. The report examines phases of management by objectives and implementing them to the specific features of the restaurants. Thus offers a practical model for managers, giving guidelines for action in the implementation of management by objectives in restaurants.

Key words: management by objectives, MBO, restaurants, phases

1. INTRODUCTION
Management by objectives is a widely used and successful method of management since 1960. The presence of certain characteristics and problem areas in restaurants in Bulgaria gives reason to believe that the application of management by objectives can lead to positive change in the sector and its development in parallel with global trends.

The methods used in the present study include:
- Theoretical analysis;
- Surveys;
- Monitoring as an additional method.

2. POSITIVE ASPECTS
Before starting to put performance management into practice, the restaurant managers must be convinced in the positive aspects of this approach and its characteristics. These are the main advantages of the implementation of target management.

It causes great enthusiasm, since target management offers a practical method of management by investing time in planning and reducing the time needed for control. Targeted management leads managers to seriously consider more objectives. Explicit targets help to improve the exchange of information and gives the staff the opportunity to participate in decision-making. In addition, planning
is done in such a way that largely avoid the hazards associated with the difficulties of assessing performance and control.

Further, management by objectives provides staff the opportunity to interact with managers. However, it is a means of providing feedback indicating how successfully the assigned tasks are performed. This allows staff to participate in the development of norms for performance. To know what is expected of staff, it is also necessary feedback on how it actually works. When this connection shows inefficient work, workers should concentrate their efforts and energy on raising labor productivity. Productivity of people with specific targets is higher than that of people who work daily guidelines. Management by objectives when properly applied, represents a viable and powerful strategy to effectively address this challenge. Most organizations underestimate the scope and impact of organizational changes that accompany the management by objectives. This control will not work in an organizational culture adherent to a strict hierarchy, tight control and management by rules and procedures. Organisational change affects every aspect of the operations, including strategic planning, resource allocation and management, evaluation and incentives, monitoring and reporting. This suggests that the organization should be ready to launch a well planned and adequately funded process of change management.

In developing the model for management should consider whether it is already functioning restaurant, or a new one, which has just started its activities. It is assumed that the restaurant worker organization has stated things about mission, strategy, location, facilities.

The composition of the strategy includes elements such as mission, vision, values and competitive advantages.

The above elements can be summarized as "corporate philosophy of government." They are descriptive and in order to be implemented, they must be transformed into real action through strategic objectives, key success factors and specific tasks.

We must clarify that the management system through objectives can be applied in every sphere of business activity, not only in human resources. Also, if the restaurant is now run and managers have decided to apply this type of management - goals and strategy of the organization would be better to coordinate with the expected results and objectives to be carried out in the first phase of management by objectives. To start implementation, the idea must come from managers.

3. PHASES

Fig.1. Phases of management by objectives
3.1 Phase 1 Strategic Planning

Most managers comply with the terms of yesterday because have gathered experience and have succeeded. But management for tomorrow, refers to what should be done rather than what is already done. [1]

At this stage a good idea is to make SWOT and PEST analyzes.

SWOT analyze refers to Strengths, Weaknesses, Opportunities and Threats.

PEST analyze refers to Political, Economic, Social and Technological factors.

The factors of macro external environment must be weighted as well.
Table. 1  The factors of macro external environment.

<table>
<thead>
<tr>
<th>POLITICAL FACTORS</th>
<th>ECONOMIC FACTORS</th>
<th>SOCIAL FACTORS</th>
<th>TECHNOLOGICAL FACTORS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Law</td>
<td>Inflation in%</td>
<td>demographics:</td>
<td>Scientific discoveries, innovations</td>
</tr>
<tr>
<td>Consumers</td>
<td>Factor for growth rate</td>
<td>Number, population growth, fertility, mortality</td>
<td>Innovations in transportation, communications, information, electronics goods / materials</td>
</tr>
<tr>
<td>Labour legislation</td>
<td>Exchange rate against major currencies</td>
<td>Migration, residence</td>
<td>Innovations in transportation, communications, information, electronics goods / materials</td>
</tr>
<tr>
<td>Tax legislation</td>
<td>Interest rate</td>
<td>Age, sex, marital status</td>
<td>Technologies to protect the environment and cleanliness in urban</td>
</tr>
<tr>
<td>Protection of competition</td>
<td>Gross domestic product in the lev</td>
<td>Education, occupation, income, social groups</td>
<td>Alternative products places and natural resources</td>
</tr>
<tr>
<td>Protecting the environment</td>
<td>Unemployment</td>
<td>culture</td>
<td></td>
</tr>
<tr>
<td>Health protection, ensure hygiene and safety of products and services</td>
<td>Inactive population in %</td>
<td>Material and spiritual values</td>
<td></td>
</tr>
<tr>
<td>Tourism Act</td>
<td></td>
<td>Code of Conduct</td>
<td></td>
</tr>
<tr>
<td>Unions</td>
<td></td>
<td>Traditions, customs, fashion</td>
<td></td>
</tr>
<tr>
<td>Financial Institutions</td>
<td></td>
<td>Beliefs, ideas, attitude</td>
<td></td>
</tr>
<tr>
<td>Organizations protect private interests</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial Institutions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Political conflicts</td>
<td>Terrorist Attack</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Strikes, protests, business</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

[2]
Factors of the microenvironment must be weighted as well.

**Table.2 Factors of the microenvironment**

<table>
<thead>
<tr>
<th>Factors of the microenvironment</th>
<th>Key features of the organization</th>
<th>Resources of the organization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer demand / markets</td>
<td>Name</td>
<td>Material</td>
</tr>
<tr>
<td>Competition</td>
<td>Legal status</td>
<td>Financial</td>
</tr>
<tr>
<td>Analysis of strengths and</td>
<td>Core Business</td>
<td>Intangible</td>
</tr>
<tr>
<td>weaknesses of the organization</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Suppliers</td>
<td>Hygiene</td>
<td></td>
</tr>
<tr>
<td>Intermediaries</td>
<td>Location</td>
<td></td>
</tr>
</tbody>
</table>

[3]

**Table.3 Factors internal environment and their impact on organizational development**

<table>
<thead>
<tr>
<th>Factors internal environment</th>
<th>Processes, activities and systems</th>
<th>Management</th>
<th>Image, popularity and uniqueness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Resources and Social</td>
<td></td>
<td>Objectives, strategies, plans. Systems management: cost, human resources, quality, environment, products markets. Values, skills and knowledge desired of managers</td>
<td>The image is a combination of ideas and beliefs that people have about the organization or its products and services, and brand name, full activity. The image is a complex of associations and institution about the firm or company. They are the product of the mind which seeks to handle the variety of data organization</td>
</tr>
<tr>
<td>Environment</td>
<td></td>
<td>Management: cost, human resources, quality, environment, products markets. Values, skills and knowledge desired of managers</td>
<td></td>
</tr>
<tr>
<td>Service and operating staff</td>
<td></td>
<td>Management: cost, human resources, quality, environment, products markets. Values, skills and knowledge desired of managers</td>
<td></td>
</tr>
<tr>
<td>Administrative staff and</td>
<td>The technology of production and sales, delivery and transport, EMS information, supply of raw materials, goods and resources and more. Technology serving the clients</td>
<td>Management: cost, human resources, quality, environment, products markets. Values, skills and knowledge desired of managers</td>
<td></td>
</tr>
<tr>
<td>personnel executives</td>
<td></td>
<td>Management: cost, human resources, quality, environment, products markets. Values, skills and knowledge desired of managers</td>
<td></td>
</tr>
<tr>
<td>Atmosphere; Relationships</td>
<td></td>
<td>Management: cost, human resources, quality, environment, products markets. Values, skills and knowledge desired of managers</td>
<td></td>
</tr>
<tr>
<td>Work as a team and groups</td>
<td></td>
<td>Management: cost, human resources, quality, environment, products markets. Values, skills and knowledge desired of managers</td>
<td></td>
</tr>
</tbody>
</table>

[4]
### Table 4  SWOT analysis

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Atrract customers</td>
<td>To competitors</td>
</tr>
<tr>
<td>Atrract customers</td>
<td>To competitors</td>
</tr>
</tbody>
</table>

**Opportunities**
- Markets, sales, clients
- Competitive advantages

**Threats**
- Markets, sales, clients
- Competitive advantages

---

External environment [1]

SWOT analysis can be depicted as well by the following figure. [5]

Fig.2. SWOT analysis

![SWOT Analysis Diagram](image-url)
The managers should also assess the strengths and weaknesses of the organization to customers.

<table>
<thead>
<tr>
<th>Strengths and weaknesses to customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name</td>
</tr>
<tr>
<td>Activities and History</td>
</tr>
<tr>
<td>Location</td>
</tr>
<tr>
<td>Hygiene</td>
</tr>
<tr>
<td>Facilities</td>
</tr>
<tr>
<td>Intangible resources</td>
</tr>
<tr>
<td>Staff</td>
</tr>
<tr>
<td>Atmosphere</td>
</tr>
<tr>
<td>Corporate Culture</td>
</tr>
<tr>
<td>Image associations</td>
</tr>
<tr>
<td>Popularity</td>
</tr>
<tr>
<td>Originality</td>
</tr>
</tbody>
</table>

[6]

After making these analyzes, based on the information they can answer the following questions.

1- Where have we been so far and where are we now?
   - An objective analysis of the external environment (competitors, threats and opportunities) as well as their strengths and weaknesses is needed.
   - A response to what stage of development is the organization is required.
2- Where will we be in the future if we continue our current course of development?
3- Where do we want to be in the next 3-5 years?
   - An organization unaware of its mission, scope of activity, goals and objectives, looks like an unmanageable ship.
   - Getting from point A (now) to point B (3-5 year endpoint)
   - Detailed plans are drawn up, defining the necessary actions and resources.
4- How will we know that we have reached the end point?
   - On the basis of predefined values. [7]

After the managers have responded to all the items the analysis must be combined with economic budget purposes. Important role here will be that of the accountants or financial advisors.
This phase is to assess the human resources to date. To answer the above questions, managers need to establish new ones, such as:

- Staff- sufficient or not?
- Qualification - good or not good?
- Motivation - positive or negative?
- What prospects for staff alone sees himself as a development of this restaurant?
- What prospects for the management sees each member of staff?
- What is the level of service?
- Turnover - great or little? Reasons for it?
- Age and sex structure?
- Educational structure?

What employees think about the restaurant and how they see its future development?

To assess these parameters must first be adopted criteria that according to management, each employee must meet. At a later stage, these criteria will come and work characteristics.

To explore these indicators and categories would be better to use questionnaires aimed at staff, who have questions of both types (open / closed). Also held individual meetings with each staff member as to prevent factors concern calls can be made with an outside specialist or internal one, to which employees are equally susceptible, and surveys can be anonymous. Can also be applied game models and situations. This is very useful, especially if the staff is young and inexperienced. It would be very helpful if managers seek information about the departure of employees, managers or staff ask or post a poll conducted for his cause.

A more precise knowledge in languages, or specific area of work will be enjoyed testing. To get real answers, the survey can be anonymous and no identifying signs and issues. Here are some sample surveys, it is a complete version.

3.2 Phase 2 Setting goals

The objectives and tasks are defined by SMART principle
- Specific - specific organization units, assistants;
- Measurable - it is necessary to determine the parameters for calculating productivity;
- Achievable - achievable, realistic;
- Result-oriented - oriented toward results rather than effort;
- Time-based - it is necessary to establish time requirements for each goal.

Goals should not be too many on each level. As optimal are considered 3-5 main goals. Goals determine the direction of development and usually are distributed top-down - from the overall corporate-oriented norms and actions.
In turn indicators express the results of actions to achieve the organization goals and they are determined bottom-up. The actual procedure of survey and interview, control, removal of conclusions and making recommendations and working methods can be carried out by an external expert and the internal auditor or by a member of the management staff.

As metrics into turnover and turnover in the relevant institution, taking into account every 1 and 3 months and an analysis of effectiveness. Other indicators are also observed, some of which have a subjective element, but in most cases must be considered the overall results in order to detect possible problems.

Indicators can include:
- Number of clients served,
- Average client order
- Offering various types of products from the menu (which in most cases can contribute to increased turnover)
- The number of complaints, evaluations given by customers.

In the current case, depending on the policy periods of paid staff, put an average of the turnover in the same period for the previous year (basic turnover) by increasing its value by 5-10% and is given as the minimum required to implement each employee. In its execution without being paid more than the normal wage / salary for his over-30% is given with normal fixed salary before bonus and in excess of the rate of 50% is paid a higher pre-contractual bonus.
Table 6. Turnover - Wage

<table>
<thead>
<tr>
<th>Turnover for the same period last year (basic) plus /+/% of increasing</th>
<th>Wage plus /+/% bonus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic + 10%</td>
<td>Normal wage</td>
</tr>
<tr>
<td>Basic + 30%</td>
<td>Normal wage + bonus</td>
</tr>
<tr>
<td>Basic + 50%</td>
<td>Normal wage + bigger bonus</td>
</tr>
<tr>
<td>Basic + 100%</td>
<td>Normal wage + the biggest bonus</td>
</tr>
</tbody>
</table>

Managers should make an analysis and design of positions, including:

Activity (design) defining, analysis of content, functions and relationships between positions in which are taken into account both technological and economic demands of work and individual needs of the executive. Thus are provided baseline data for determining criterion in the selection and evaluation of staff form which is the basis for appraisal and pay system. The results of the design and analysis of the positions are a necessary component in the process for determining training needs and development.

Analysis study and formulate tasks, duties and responsibilities is associated with work skills, knowledge and abilities.

The design of positions based on the views of managers about how the job should look like. Prepare officials with characteristics in which they appear and some of the requirements to be monitored in the next step of selecting staff. They contain the duties and responsibilities of employees. There have been additions and minor changes to suit most accurate management by objectives.

3.3. Phase 3 Establishment of duties and responsibilities

An important prerequisite for the fulfillment of the strategy is to reach consensus on the obligations and responsibilities of all levels. Effective delegation of authority is essential. If staff will be responsible for results, they must be clearly authorized to be given the power they need to perform their jobs. Entitlement is achieved through progressive human resource management, which allows flexibility in determining how staff do their work while giving priority to the measurement, control and managing of the results.

The activity is enhanced when staff who actually do the work, have power and duties that are delegated to them directly. This type of delegation goes beyond the traditional justification based on effectiveness or efficiency and requires a significant rethinking management systems and practices.

Procedures in carrying out recruitment are:

- Defining the requirements for the restaurant category and the number of candidates.
- Using the results of the analysis work to determine the criteria for applicants.
- Finding and attracting candidates.
- Interview with a set.
- Evaluation of the activity "recruitment".

Determining the needs of human resources - analysis and design jobs. Design of job descriptions. Planning the size and structure of human resources.
3.4. Phase 4 Measurement of activity and results

Information to be reported will come from:
- Software Program
- Observations of Governors
- Observations of waiters, bartenders and cooks
- Questionnaires to customers
- Surveys and tests to employees

Some information is subjective and therefore are used as many sources to obtain an objective assessment. The control system must be established on the basis of information sources. Data derived from a computer program should be broadcasted in the form of statements and reports, whose features will be required in the selection of software.

Personal conversations are also appropriate to place the end of quarters, because there are features of the organization that may be overlooked or covered by the questionnaires.

Also must first examine and explore the different standards for various products on offer. It's appearance meals / drinks and time to issue orders. Data that can draw on international and Bulgarian experience, which has documented results. It should however be expected values for the time of issuing an order to precisely and stick to them 100% because during the working day is a busy and more relaxed moments, which will certainly affect those numbers.

The restaurant over time will establish and own values and parameters of work which will be more real.
Results are reported every 1 and 3 months, and in the end of the year, and now the analysis is carried out in the next phase.

3.5. Phase 5 Analysis of performance and results

This analysis is carried out by their managers or supervisors. The analysis is important for control of projects. Measurement and control of information requires an iterative process of evaluation, comparison and interpretation. Once data has been interpreted comes the time for an analysis whether the predefined objectives have been met.

Staff motivation is also an indication how the system works. If employees are more highly motivated than the period before the introduction of management by objectives, it would mean that they paid to their efforts are valued correctly.

3.6. Phase 6 In this phase are included the use of information on activities and results reporting activities and outcomes of the owners and feedback.

These activities could be separated in different phase if the managers consider as a better version.

- Use of information on activities and results

This information is useful for many purposes, including decision making, improved business processes, documentation of progress and reporting on organizational effectiveness. But a change of plans and strategies can usually be done only by senior management. To make the process effective information must be translated in the form of reports, in most cases is done by a computer program and reported to managers and owners, which takes place in the next phase.
This phase will identify problem areas and employees. With those difficulties in work must work hard to train or assist them in any other way to overcome the problems.

- **Reporting on activities and outcomes to the owners.**

Reports must be clear and precise and to discuss with their direct managers or executives to understand what is the way of getting to the observed positive or negative results. Owners may not require reporting in a short period as one month or three-quarter, but certainly at least 6 months must be made clear so as not to miss the moment to correct the path or to avoid mistakes.

- **Feedback**

This is the final step to a complete range of process management. After the examination and identification of bottlenecks managers and owners make an informed decision on what direction to go change or maintain the course, if the reports are positive. This later formed the basis for the next stage of planning and implementation management. You can change targets if they are too high, because unrealistically high expectations lead to lower staff motivation. Managers are those who may consider, in consultation with managers, employees that need team building, further clarification or otherwise. They will do an analysis of costs and outcomes, whether the budget is covered or there is a need for adjustments. Most importantly, senior management is fully aware of the system results to provide correct and accurate assessment. Otherwise it is best to hire external experts.

After examining all the phases through which the management by objectives and characteristics of restaurant management in the country will do a little summary of the most important moments in the management by objectives.

### 3. 7 simple steps to manage through the results

There are seven simple steps to follow in managing the results:

- **R** Review, current job tasks and responsibilities - they are discussed with each employee and further decisions are being made.

- **E** Establish established and measurable outcomes and deliverables. Measurable results are focused on quantity, quality, time, cost, information, methods or steps required to complete a task.

- **S** Specify specific, which is obtained by monitoring the achievements and results in temporary checkpoints and deadlines.

- **U** Use language Use language that avoids subjectivity, ambiguity and interpretation. Clarity and certainty.

- **L** Link Connecting the results and goals for organizational purposes. It is important for managers to devote time to see the importance of staff work and function in the organization of the objectives of the mission, products and services.

- **T** Track intermediate results of execution. Follow-up allows you to assess how the employee is doing compared to previous period.

- **S** Schedule Current evaluation and revision as necessary. This applies to both current and for the formal assessment of the effectiveness of employees in the process of management by objectives.[9]

We should not forget to give immediate feedback. In addition to regularly scheduled reviews of the results should be used every opportunity to provide feedback to employees. [10]
Improving labor relations: the maintenance of labor peace between rulers and ruled, between employer and employees. Man is seen as a resource as part of the management of human resources but is also a person who feels has its own interests and goals and is influenced by the work atmosphere. A manager is required except a decent wage, to provide an atmosphere conducive to their subordinates in the workplace and understanding, because it favors to maximize their potential deployment, better work performance and hence improve labor relations.

Management by objectives is proved positive influence method. With proper application leads to increased work efficiency, increase revenue and quality of services, improve staff motivation and faster development of the organization.

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Evaluating performance and providing feedback to employees

PRINCIPLES, RULES AND RESPONSIBILITIES IN MANAGING FINANCE
OF PUBLIC ENTERPRISES
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E-mail: silvana@eccf.ukim.edu.mk

Abstract
The development of private and public enterprises depends on the quality of law that ensures increased trust, lower costs, and smaller number of disputes.

Good management in the public enterprises, especially in the finance sector, should improve the efficiency and the access to assets (capital). The choice of the "exact", management model depends on the overall institutional capacity a country.

Due to that, in this paper an accent is given to the finance management in the public enterprises.

The financial manager should play a crucial role in ensuring successful performance of the enterprise. That means that the manager should support (help) the development of plans and should find different opportunities for attracting businesses. The management in the public enterprises carefully manage the assets (capital) with increased awareness and responsibility towards the fact that they are spending "state money".

In order the spending of the state (public) money to be efficient, a higher responsibility, short term and long term planning, cost control, well defined accounting procedures, employee trainings in the financial management area and team work, are acquired.

Only on that way the goals and the high level commitments will be achieved.

The integral role of the financial management of the public enterprises provides strategic measures in facilitating the process in achieving accountability.

Key words: public enterprises, financials, managers, costs

1. INTRODUCTION
The problematic of managing public enterprises becomes much more prevalent in the last two decades, mostly due to its specifics procured in shareholding conditions or different approaches in the privatization of state capital.

Every decision that has been made has a financial implication in both private and public enterprises.

The financial management team has a specific function which provides support and advice for the managers.

Good financial managing is achieved by enhancing the control of costs, efficient spending of state capital, which will lead to new opportunities and overcoming crisis.
The Public Sector in Republic of Macedonia is consisted of the Government, Ministries, Funds, Municipalities and public enterprises.

One of the most powerful instruments of public authority and interest are the public enterprises. MMF and the World’s Bank, known as the carriers of global standard, consider good managing of private enterprises as a fundament of successful and stable economy.

2. RULES AND PRINCIPLES OF PUBLIC ENTERPRISES

The subsistence of public enterprises in specific parts in the economy of Republic of Macedonia should provide:

- Technical and technological unity of the system, which leads to more efficient organization of responsibilities;
- Concordance of individual and total economy development;
- Protection and improvement of goods of public authority.

With all the respect to public services in EU and the need of profiling the public sector in Macedonia, we have to pay attention to some policies that are relevant for success:

- **Continuity** - due to the importance of the goods and services offered, public services are obliged to provide continuous, on time and safe delivery of the goods.
- **Equality** - Customers are equal in terms of nationality, language, social or other cultural differences. This term is also known as “active neutrality” or “positive discrimination”.
- **Efficiency** - the executive should work with maximum efficiency, which means producing with minimal expenses, which also include the costs for ecological aspects.
- **Quality** - satisfying customer’s needs and expectations. This includes: consulting with the public and getting information, respecting deadlines and delivery conditions, maintaining and repairing, insurance payment etc.
- **Adaptation** - constant adaptation to new and more advanced technological changes.
- **Transparency** - especially in the sector of financing and formulation of prices.
- **Participation** - consulting citizens in formulation of services, delivery or evaluation.

Public services are obliged to respect certain organizational principles which take care of tradition, but in the same way they pay attention to restore modern and flexible organization.

2.1 The following six principles of organization that should be respected are systematized like this:

1. **Relativity and subsidiarity.** With regards that there exist different combinations and ways of achieving almost the same results, the principle of relativity demands differentiation, pluralism, even experimenting. Subsidiarity is known as defining of activities that are performed locally, regionally, nationally and on European standard.

2. **Separation of the functions of the executer and regulator-controller.** In every regulated activity we should appoint regulator, who can be of state administration or independent, but with a conscience of his/her activities in accordance with the policies, and also one or more
executers responsible for supplying services. A differentiation of opportunities is needed when we ratify the status of the regulator and executor, who will correspond to different situation in the sectors, countries.

3. **Transparency in the relationship between executors and state.** Location, rights and obligations that the public services have are different from those of the other enterprises, which results in diverse relation between them and the state.

A public authorized document with determined activities, obligations, sources of financing and general description of the way of work should be available for everyone.

4. **Collaboration between executors and public enterprises.** Most of them are organized in networks and sometimes they make the decisions together, for example taking over some actions as: collective research, collective managing in infrastructure, offers for collaborative services, activities in import or export etc.

5. These initiatives, which are considered as a recent approach to existing problems, should encourage but with a certain amount of control which will offer transparency and protection from public interest.

6. **Social modernization in managing.** By this we can summarize: regulating employee’s right of strike, formulating syndical organizations, constant improvement etc.

7. **Pluralistic evaluation.** Executors, as well as regulators are subjected to regular, objective, pluralistic evaluation, open to all interested. Evaluation reports are done in public by competent authority.

Despite the innate perception of these enterprises as natural monologues due to the globalization of world industries, technological changes and deregulation in the field of previous monopolistic industries, in the last few decencies, these enterprises faced the need of reconstruction of their position in the industry.

Simplified, former main features of public enterprises-monopoly position and exclusivity in organizing and performing the work-should be understood as transitional characteristics until reaching their industrial maturity.

### 3. MANAGEMENT OF FINANCES IN PUBLIC ENTERPRISES

A general manager who will deliver his responsibilities thoughtfully will lead to an efficient leadership. In this way we will achieve some higher degree of control when we administer financial costs.

Employees that have the capacity or employees who will undergo certain training period for preparing alternative financial plans; developing a system for control that will supply information for checking whether things are done as planned, will help in easier achievement of efficiency.

In order to promote chastity and integrity of work, a good allotment of duties is inevitable, because it will minimize mistakes or conspiracies among employees.

If an efficient and effective utilization of financial resources should exist, we need to provide specialization and separation of labour.

We should be aware of the strong need for coordination by grouping the finances which are connected.
All these facts will ease forming of “responsibilities centers” which will allow comparison among intended standards and accomplished results.

In order to provide security that resources are used as planned, there have been made systems for currency control, whose job is to monitor expenses and quantity of goods which are offered in a specific time.

4. RESPONSIBILITIES OF FINANCIAL MANAGERS

People who are responsible of connecting together the magic words: planning, work and implementation are known as managers or directors.

Obligations and roles that financial managers have are traditionally understood as special function of employees which gives support and advice.

Main functions of one financial manager are:

- Financial planning- a) short-term and long-term planning and evaluation of different activities; b) elucidation of financial implication of rules and regulations; c) defining of activities and programs.
- Budget preparation and Costs control-the manager provides: a) directions and help during budget’s preparation; b) establishing control when classifying costs; c) managing cash-assets.
- Accounting system and procedures- the manager does the following activities: a) makes an accounting system for incorporation of financial and internal controls for satisfying enterprises’ needs; b) makes a system for calculation of costs, participate in special analyses and studies for measurement of costs; c) gives advice to operational directors; d) makes a periodical proceedings on accounting, financial, budgeting and statistical procedures in the enterprise, and improves them when need.

Preparing proceedings for financial control by means of information systems which announce financial and other relevant data for supervisory management. This information should show the setbacks between the budget and present work.

Developing a good relationship with outstanding members (such as state reviser) or stable connection with enterprises whose policies can make certain changes in the financial rules of the company.

Conducting training for employees which offers advising and upgrading.

In times of constant technical and technological development, the training of employees should be constant process which will enable them to upgrade their knowledge and skills.

When talking about managers in public enterprises, they should learn the basics of good communication which will help them in maintaining the quality of staff in the company.

4.1. What is expected from one financial manager?!

Perhaps one of the most important concepts management is that it is a continuous process that reflects normal good management practices of setting direction, monitoring and measuring performance, and taking action accordingly.

Performance management should not be imposed on managers as something special they have to do; it should be treated as a natural process that all good managers follow.
He should separate the most important factors which influence on financial standings.

For example: Can a country maintain economical foundation in order to satisfy cost requirements or income expectations?

Can a community maintain the existing levels of services? The manager should be capable of determining financial affliction and its proportion.

The manager is the key component in keeping up the good work of the company.

It is expected that he/she can help in formulation of plans and options for keeping or attracting businesses.

Considering enterprises, the manager should develop, maintain or expand the sources for income.

Managers are also negotiators in unionist agreements, or community groups which ask for goods or services that include funds.

The manager is the one who controls any financial activity.

4.2. Continuous learning

The premise is that every task that individuals undertake presents them with a learning opportunity, as long as they reflect on what they have done and how they have done it and draw conclusions as to their future behaviour if they have to carry out a similar task. This principle can be extended to any situation when managers give instructions to people or agree with them what needs to be achieved, followed by a review of how well the task was accomplished.

In other words, the requirement is that managers, with their teams and the individual members of their team, should consciously agree on the lessons learnt from experience and how this experience could be put to good use in the future. For example, the manager as a project leader has the task of developing and implementing a new computerized system for responding to customer account queries.

The team would then analyse progress and at periodical milestone meetings would review what has or has not been achieved, agree the lessons learnt, and decide on any actions to be taken in the shape of modifications to the way in which they conduct the project for the future.

Learning is an implicit part of reviews such as these because the team will be deciding on any changes it should make to its method of operation for learning can be defined as the modification of behaviour through experience.

The team would continue to adapt its behaviour as required and at the end of the project the team members would agree, with their leader, what lessons had been learned and affirm how they would need to behave in the future on the basis of this review.

The same approach would apply to individuals. For example, the regional director of a large charity holds a monthly meeting with each of her field officers.

At the meeting, progress is reviewed and problems discussed. Successes would be analysed to increase the field officer’s understanding of what needs to be done to repeat the successful performance in the future.
5. RESPONSIBILITY AND IMPROVED FINANCIAL MANAGEMENT

The end of the 20th century came across clients and founder members who are asking for better goods and services, although resources were undergoing decreasing in every field of government.

Tax collectors opposed the increasing of taxes, and donators were asking for results which will be of their use. In this case managers in public enterprises are asked to use their capital thoughtfully.

Despite this, efforts have been made for making a system that will enable higher responsibility in spending money.

The term responsibility asks managers of each organizational level to be aware of their responsibilities.

This will impose the need of clearly determined goals. Any action should be planned and programmed to display what should be done, what is the allowed quantity of money, which methods can be used and at the end the evaluation process is necessary.

In case of program planning the manager has the obligation for allocation of capital in a way which will perform efficiency. Program planning gives priority to determined goals and tasks that are helping in their accomplishing.

If the manager has less capital than planned, he/she should combine resources in order to achieve set goals. Improved use of resources and avoiding the accession of decisions will be achieved if managers give directions for short-term and long-term planning.

We should define the following elements:

a) Defining of goals
b) Suggestion of plans
c) Expected results for a specific period of time
d) Ways of confirming the efficiency of set goals

Responsibility asks for constant concordance of set or desired goals. The difference between set or desired goals is defined as a gap responsibility. Every manager should aim for eliminating this gap.

The integral part of financial management provides strategies in reaching responsibility.

When we are talking about private enterprises we are talking about state money. How and where are those money spent?

It is very easy for people to get furious when they realize that they pay for manager’s greed, wrong politics, high wages and bonuses that are getting out of control etc. For exiting this crisis and avoiding these events, it is easier to provide coordination between the Government and the State.

The crisis has reached the core, not only in private or public enterprises, but in each segment of society.

The States are concentrated in fast overcoming of the negative effect that crisis cast on them; leaders recognize global recession and they are aware that without synchronized global action there won’t be a way to get out of the crisis.

The actions for overcoming the crisis should not be for one use only, but they should be of fundamental meaning; keeping the stability for long time.
Increasing of the control of expenses in public enterprises, will lead to good financial managing, decreasing of prices and easier payment for those who are poorer.

Requires a quite long time and long term strategies to enable recovery tsunami Finance and its consequences.

6. CONCLUSION

Managing underperformers is therefore a positive process that is based on feedback throughout the year and looks forward to what can be done by individuals to overcome performance problems and, importantly, how managers can provide support and help.

Working in a public enterprise is considered for less effective than private enterprise. This might be due to the indifference of poor results in profit or loss (private enterprise) because the outcome stays in the company.

The manager in the public enterprise is assigned by public authority, which means that he has public responsibility and this is much more complex than in private sector.

Strong implementation of planning, work and expertise in the field, will minimize mistakes; system of control for keeping chastity and integrity and eliminating obstacles which lead to slow crisis’ recovery and reaching success.

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GENDER DIFFERENCES IN TURKEY
CONSUMER DECISION-MAKING STYLES: A STUDY OF YOUNG CONSUMERS
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Abstract
The aim of the study is to analyze the decision making styles of young consumer while purchasing clothes by taking into consideration the gender. By the help of this study, it is attempted to survey how it affects the behavior of decision-making and gender differences. In this study, consumers’ decision-making methods were analyzed by taking into consideration of the approach “Consumer Style Inventory (CSI)” by Sproles and Kendall. The research was conducted with 384 university students. The exploratory factor analysis was used to analyze the decision making styles of female and male. It is noticed that the results of the research have revealed new features of female and male consumers in contrast to results of the original CSI factors. Three new features specific to female; recreational/novelty seeking, variety seeking and satisfaction factors have been newly added while for men, the time-energy conserving, low price seeking and shopping avoidance factors are noticed. The findings will help rebuild of female and male decision-making styles as young consumers and marketing strategies to acquire knowledge about the marketers.

Key words: Consumer Style Inventory (CSI), Consumer decision-making, Gender differences, Turkey

1. INTRODUCTION
Although there are many ways to segment the marketing, today the marketing of products is mainly based on the demographic characteristics of consumers. One reason of being such a popular demographic segmentation could be the correlation between demographic characteristics and private consumption such as shopping or purchasing activities. Demographic variables, such as; income, age, gender, ethnicity, marital status and house-hold size are widely used to partition of consumer markets by the marketers. Among these variables, the gender has been a significant part of market segmentation of products and services and is still going on being one of the most popular formats. (Mokhlis and Salleh, 2009). In many earlier studies, the gender have led to important discoveries in determining consumers’ purchasing decisions and attitudes (Bakewell and Mitchell, 2006; Mitchell and Walsh, 2004; Bae and Miller, 2009; Mokhlis and Salleh, 2009).

Male and female consumers exhibit different behaviours against introduced products. Generally, women feel the need of and show more effort to get comprehensive information about the products whereas male consumers don’t need to get comprehensive information about the products (Barbara, Laroche, Sadd, Cleveland and Browne, 2000). Campbell (1997), suggests that men and women are diametrically opposed to each other and men’s shopping behaviour and perceptions have more different ideology than women’s. The women perceive that shopping is a fun activity to exchange the demands and desires of satisfaction unlike men see it as a necessary activity to resolve the needs.
Women like spending time on shopping, however; men want to do the shopping as quickly as possible and they don’t like shopping, though. Although men spend less time on shopping than females, it is observed that they spend much more than females (Fischer and Arnold, 1990).

Three approaches have been developed in literature to examine the way of consumers’ behaviours on buying attitudes. These are; psychographic/lifestyle, consumer typology approach and consumer styles. Psychographic approach describes more than one hundred characteristics of the consumers’ behaviour. Some of them are very closely connected to consumer choices, while others are associated with general life-style activities. Consumer typology approach tries to define the types of general consumers. The consumer characteristics approach is about consumer decision making process which is about cognitive and emotional orientations (Sproles and Kendall, 1986). Among these three approaches, consumer styles and explanatory approach seems to be more powerful. This is because this approach focuses on consumer decision-making process that draws attention to the cognitive orientations. (Lysonski, Durvasola and Zotos, 1996). In most studies, held earlier, it was showed that there are some differences in male and female consumers’ shopping behavior. This study aims at examining the decision making approaches of young male and female people in Turkey while buying clothes under the light of 40-item- Consumer Styles Inventory (CSI) model of Sproles and Kendall (1986).

2. LITERATURE REVIEW

The basic assumption of the model CSI, is that consumers have the cognitive and emotional orientations determining the consumers’ shopping styles (Sproles and Kendall, 1986). First of all, Sproles (1985) developed a scale to measure consumers’ “general orientations towards shopping and purchase” and with a Likert scale that consisted of 50 Hundreds of brands styles measured the shopping styles of consumers. It was gained nine out of 50 decision-making styles related to the cognitive and affective aspect of consumers’ attitudes. This study was developed by Sproles and Kendall (1986) and formed the basis of a measure set out eight basic consumer decision making property consisting of 40 items called the Consumer Styles Inventory (CSI). These eight properties are as in the following: Perfectionism/high quality conscious, brand conscious, novelty-fashion conscious, recreational/hedonistic shopping conscious, price/value conscious, impulsivity/unplanning, confused by overchoice, brand loyalty conscious. These dimensions form the basis of consumer style inventory. Each is basic feature of the decision-making of consumer for consumption and independently represents a major mental approach (Sproles and Kendall, 1986).

Perfectionism / High Quality consciousness: They try to make the best choice and be the most excellent model while purchasing the products.

Brand Conscious: Consumers prefer the well-known products and advertised brands, and they associate the price with the quality.

Novelty-Fashion Consciousness: These are early adopter consumers who like to take a new and fashionable product.

Recreational, Hedonistic Consumer: The shopping is regarded as an activity of fun and enjoyable exchange for this kind of consumers.

Price / Value Consciousness: Consumers pay attention to the sales price, try to take the best with their money.
Impulsiveness/Carelessness: Consumers do the shopping in an unplanned way and then they may feel the regret.

Confused by Overchoice: These consumers may struggle in making decision of buying the things because of a majority of the store brands and the face of so much information about the products

Habitual, Brand-Loyal Consumer: Consumers are constantly buying the same brand and also they tend to shop at the store (Sproles and Kendal 1990, Bae and Miller 2009, Yang and Wu, 2007)

CSI model developed by researches Sproles and Kendall (1986) have been implemented in many different countries. Hafstrom, Chae and Chung (1992), have implemented the CSI model on Korean and American adolescents to compare the buying styles, and seven at of eight model have showed the similarity with the results of Kendall and Sporall (1986). Only the “novelty-fashion consciousness” dimension could not be confirmed. A new dimension in the study is defined as the factor of time-energy sensitivity. Lysonski and others (1996) have made the factor analysis in their studies by applying CSI model on the students from America, New Zealand, India and Greece. Stated in the analysis results, the original scale is more appropriate for developed countries (such as; New Zealand and America) than the developing countries (such as; India and Greece). Durvasula, Lysonski, and Andrews (1993) confirmed a high level of reliability and validity of the scale via the use of a sample of 210 undergraduate students in New Zealand. In sum, findings from these studies demonstrated the generality of the CSI, identifying some similarities as well as differences in consumer decision-making styles across different cultures. Fan and Xiao (1998) have reduced consumer styles inventory to seven factors after applied the study to college students in China. As a result of the analysis, five factors have been obtained as brand conscious, time-consciousness, perfectionism/quality conscious, price/value conscious and indecision against the diversity. Impulsive shopping and brand loyalty characteristics have not been confirmed with the sample of China. The results of the study have been compared with the results of similar studies examining the American and Korean consumers and it is noticed that consumers’ shopping styles in these three countries are similar.

In a number of studies, CSI model has been applied to investigate the effects of gender differences on the purchase decision. Bakewell and Mitchell (2006) in a study, examining male against female in decision-making styles of consumers, have identified nine joint -decision making styles for both male and female as well as some factors, for male consumers, called as economic considerations, time limitation and store loyalty. Mitchell and Walsh (2004), in their studies which compares gender differences on German consumers’ shopping styles, have applied the consumer style inventory. The researchers in this study have demonstrated that brand awareness, impulsiveness, variety and complexity of the factors of perfectionism are common factors for both sexes. However; the researchers have reported that there are some factors between the sexes. For example, women exhibit more novelty / fashion consciousness, fun shopping, whereas men are more aware of the consciousness of being satisfied with the price and features shopping. Yesilada and Kavas (2008), explored the feasibility study on the CSI model of female consumers in Cyprus, three of the eight decision-making dimension of “Perfectionist, high quality standards,” “Confused by overchoice”, “Brand conscious” is consistent with the attained dimension of Sproles and Kendall (1986)’s study. “Impulsivity”, “Price/value consciousness” and “brand loyalty conscious” of the low reliability level dimensions have emerged at the level of low reliability in the study. In a research done by Bae and Miller (2009) it has been put forward that female students are more impulsive, more impressed by the complexity and diversity of entertainment-oriented, more interested in the brand and quality than male peers on sporting goods purchasing behavior. Mokhlis and Salleh (2009), have applied the model of CSI on Maleysian male and female consumers and, they have identified new characteristics to original
CSI features for consumers. As a result of the research, consciousness of quality, innovation, confused by overchoice, value and satisfaction have been the joint dimension for men and women consumers. For men, the time-energy awareness and brand loyalty, price consciousness for women, shopping, entertainment-oriented and avoidance have become the distinctive features.

3. METHODOLOGY

It is very important to understand consumers’ decision making styles of markets’ developing strategies for businesses. In order to understand the consumer decision making styles, by using CSI model a lot of researches have been done in different cultures, usually on students. The primary objective of this study is to investigate the applicability of the CSI model in Turkey. In this direction the main body of research in Turkey has created male and female students at Nigde University. The number of students studying in the academic year 2011-2012 at Nigde University are 16,216. Convenience sampling method has been used in this study as a sampling method. The survey sample size;\[ n = \pi (1 - \pi) / (e / Z)^2 \] with the formula have been showed with 95% confidence interval formula by taking into account a 5% margin of error has been determined as 376 (Kurtuluş, 1998). A questionnaire applied to 400 students between 27.02.2012 and 30.03.2012, after an incomplete or incorrect screened a total of 384 questionnaires have been evaluated in a questionnaire. While survey creating, CSI scale of Kendall and Sporel (1986) have been used. Also, after examining other studies in the literature using this scale (Hafstrom et al., 1992, Mitchell and Walsh, 2004, Baë and Miller, 2009, Bakewell and Mitchell, 2006, Hanzaee, 2009, Mokhlis and Salleh, 2009), the expressions of the model have been adapted for the Turkish consumers. Before the final version of the survey form, selected 24 students, who can represent the body of the survey, have been interviewed with the aim of determining the purchasing styles and are requested to review of the scale variables to determine intelligibility of the questions. As a result of the pre-assessment of questionnaire, the survey questions have been made more understandable and the survey has been applied to students. The questionnaire consists of two parts. The first section consists of questions to determine demographic characteristics of participants. In the second part of the survey, to determine the way of purchasing styles of young people, 40 judgments have been given in 5 Likert scale. The participants have been asked to respond the questions as ranging from strongly agree to strongly disagree for the judgments. Analyzing the data, frequency distributions, exploratory factor analysis, (EFA) analyzes have been used.

4. RESULTS AND DISCUSSION

When the demographic characteristics of respondents have been examined, 195 respondents (51%) are composed of female students and 184 respondents (49%) are composed of male students. In terms of age groups show that distribution of respondents are between the ages of 19 and 24 and the median age group is 21. The income of families are examined and found that monthly income of the majority is from 1000 to 2000 TL(47%). In the study, the scale factor analysis has been made and a certain number of substances have been tried to demote. In the analysis of variance, the maximum varimax rotation (rotation) has been used. The appropriateness of the data for the factor analysis has been tested with Bartlett test of Sphericity and Kaiser-Meyer-Olkin (KMO). KMO value has been obtained for females as 0.82 and for males as 0.78, this shows that sample size is adequate and the Barlett test result indicates the test is statistically significant. Reliability of the scale of CSI, in the study of Spröles and Kendall (1986), ranges from 0.76 to 0.48. The variables whose load factor are below 0.40 have been excluded from the analysis in this study. In table 1, the indicating factors and the factor
loadings of women buying styles and reliability coefficients are shown. As a result of the factor analysis, the purchasing styles of females is composed of 10 factors and explains 64.23% of total variance. The purchasing styles of males is composed of 9 factors and explains 59.43% of total variance. For females 7 factors out of 10 have been compatible with the CSI scale but 3 factors have been obtained as new ones.

Table I: Results of Factor Analysis for Females

<table>
<thead>
<tr>
<th>Items</th>
<th>Factor Loadings</th>
<th>Reliability</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Factor 1: Perfectionistic, high-quality consciousness</strong></td>
<td></td>
<td>α=0.79</td>
</tr>
<tr>
<td>In general, I usually try to buy the best overall quality.</td>
<td>0.78</td>
<td></td>
</tr>
<tr>
<td>I make special effort to choose the very best quality products.</td>
<td>0.72</td>
<td></td>
</tr>
<tr>
<td>Getting very good quality is very important to me.</td>
<td>0.68</td>
<td></td>
</tr>
<tr>
<td>When it comes to purchasing products, I try to get the very best or perfect choice.</td>
<td>0.62</td>
<td></td>
</tr>
<tr>
<td><strong>Factor 2: Brand Consciousness</strong></td>
<td></td>
<td>α=0.76</td>
</tr>
<tr>
<td>The most advertised brands are usually very good choices.</td>
<td>0.85</td>
<td></td>
</tr>
<tr>
<td>The well-known brands are best for me.</td>
<td>0.76</td>
<td></td>
</tr>
<tr>
<td>Nice department and specialty stores offer me the best products.</td>
<td>0.75</td>
<td></td>
</tr>
<tr>
<td>The most advertised brands are usually very good choices.</td>
<td>0.72</td>
<td></td>
</tr>
<tr>
<td>The higher the price of a product, the better its quality.</td>
<td>0.58</td>
<td></td>
</tr>
<tr>
<td><strong>Factor 3: Confused by Overchoice Consumer</strong></td>
<td></td>
<td>α=0.69</td>
</tr>
<tr>
<td>There are so many brands to choose from that often I feel confused.</td>
<td>0.74</td>
<td></td>
</tr>
<tr>
<td>All the information, I get on different products confuses me.</td>
<td>0.64</td>
<td></td>
</tr>
<tr>
<td>Sometimes it is hard to choose which stores to shop.</td>
<td>0.51</td>
<td></td>
</tr>
<tr>
<td>The more I learn about products, the harder it seems to choose the best</td>
<td>0.42</td>
<td></td>
</tr>
<tr>
<td><strong>Factor 4: Fashion Consciousness</strong></td>
<td></td>
<td>α=0.75</td>
</tr>
<tr>
<td>I keep my wardrobe up to date with the changing fashions.</td>
<td>0.82</td>
<td></td>
</tr>
<tr>
<td>Fashionable, attractive styling is very important to me.</td>
<td>0.76</td>
<td></td>
</tr>
<tr>
<td>I usually have one or more outfits of the very newest style.</td>
<td>0.66</td>
<td></td>
</tr>
<tr>
<td><strong>Factor 5: Price/Value Consciousness</strong></td>
<td></td>
<td>α=0.62</td>
</tr>
<tr>
<td>I look carefully to find the best value for money.</td>
<td>0.67</td>
<td></td>
</tr>
<tr>
<td>I carefully watch how much I spend</td>
<td>0.64</td>
<td></td>
</tr>
<tr>
<td>The lower price products are usually my choice</td>
<td>0.52</td>
<td></td>
</tr>
<tr>
<td><strong>Factor 6: Impulsive Consumer</strong></td>
<td></td>
<td>α=0.61</td>
</tr>
<tr>
<td>I really don’t give my purchases much thought or care.</td>
<td>0.68</td>
<td></td>
</tr>
</tbody>
</table>
As shown in Table 1, the obtained 10 factors for young females are; Perfectionism, brand consciousness, confused by overchoice, fashion consciousness, price/value consciousness, recreational/novelty seeking, impulsive consumer, brand/store loyalty, variety seeking and satisfaction.

Table 2: Results of Factor Analysis for Males

<table>
<thead>
<tr>
<th>Items</th>
<th>Factor Loadings</th>
<th>Reliability</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Factor 1: Perfectionistic, high-quality consciousness</strong></td>
<td></td>
<td>α=0,72</td>
</tr>
<tr>
<td>My standards and expectations for products I buy are very high.</td>
<td>0,76</td>
<td></td>
</tr>
<tr>
<td>Getting very good quality is very important to me.</td>
<td>0,71</td>
<td></td>
</tr>
<tr>
<td>When it comes to purchasing products, I try to get the very best or perfect choice.</td>
<td>0,62</td>
<td></td>
</tr>
<tr>
<td>In general, I usually try to buy the best overall quality.</td>
<td>0,59</td>
<td></td>
</tr>
<tr>
<td>I make special effort to choose the very best quality products.</td>
<td>0,54</td>
<td></td>
</tr>
<tr>
<td><strong>Factor 2: Brand Consciousness</strong></td>
<td></td>
<td>α=0,76</td>
</tr>
<tr>
<td>The most advertised brands are usually very good choices.</td>
<td>0,78</td>
<td></td>
</tr>
<tr>
<td>Statement</td>
<td>Factor</td>
<td></td>
</tr>
<tr>
<td>--------------------------------------------------------------------------</td>
<td>----------</td>
<td></td>
</tr>
<tr>
<td>The higher the price of a product, the better its quality.</td>
<td>0.56</td>
<td></td>
</tr>
<tr>
<td>The well-known brands are best for me.</td>
<td>0.62</td>
<td></td>
</tr>
<tr>
<td>I prefer buying the best-selling brands.</td>
<td>0.74</td>
<td></td>
</tr>
<tr>
<td>Nice department and specialty stores offer me the best products.</td>
<td>0.42</td>
<td></td>
</tr>
<tr>
<td>Factor 3: Confused By Overchoice Consumer</td>
<td>α=0.68</td>
<td></td>
</tr>
<tr>
<td>All the information, I get on different products confuses me.</td>
<td>0.77</td>
<td></td>
</tr>
<tr>
<td>Sometimes it is hard to choose which stores to shop.</td>
<td>0.77</td>
<td></td>
</tr>
<tr>
<td>There are so many brands to choose from that often I feel confused.</td>
<td>0.65</td>
<td></td>
</tr>
<tr>
<td>The more I learn about products, the harder it seems to choose the best</td>
<td>0.61</td>
<td></td>
</tr>
<tr>
<td>Factor 4: Fashion Consciousness</td>
<td>α=0.67</td>
<td></td>
</tr>
<tr>
<td>Fashionable, attractive styling is very important to me</td>
<td>0.81</td>
<td></td>
</tr>
<tr>
<td>I usually have one or more outfits of the very newest style.</td>
<td>0.76</td>
<td></td>
</tr>
<tr>
<td>Factor 5: Price/Value Consciousness</td>
<td>α=0.75</td>
<td></td>
</tr>
<tr>
<td>I look carefully to find the best value for money.</td>
<td>0.86</td>
<td></td>
</tr>
<tr>
<td>I carefully watch how much I spend</td>
<td>0.85</td>
<td></td>
</tr>
<tr>
<td>Factor 6: Impulsive Consumer</td>
<td>α=0.39</td>
<td></td>
</tr>
<tr>
<td>I am impulsive when purchasing.</td>
<td>-0.61</td>
<td></td>
</tr>
<tr>
<td>Often, I make careless purchases I later wish I had not.</td>
<td>0.45</td>
<td></td>
</tr>
<tr>
<td>Factor 7: Brand/Store Loyal</td>
<td>α=0.38</td>
<td></td>
</tr>
<tr>
<td>I go to the same stores each time I shop.</td>
<td>0.64</td>
<td></td>
</tr>
<tr>
<td>To get variety, I shop different stores and choose different brands.</td>
<td>-0.62</td>
<td></td>
</tr>
<tr>
<td>Sometimes it’s hard to decide in which stores to shop</td>
<td>-0.43</td>
<td></td>
</tr>
<tr>
<td>Factor 8: Time-Energy Conserving</td>
<td>α=0.61</td>
<td></td>
</tr>
<tr>
<td>Shopping in different stores is a waste of time</td>
<td>0.76</td>
<td></td>
</tr>
<tr>
<td>I shop quickly, buying the first product or brand I find that seems good</td>
<td>0.72</td>
<td></td>
</tr>
<tr>
<td>I really don’t give my purchases much thought or care</td>
<td>0.67</td>
<td></td>
</tr>
<tr>
<td>Factor 9: Low Price Seeking</td>
<td>α=0.52</td>
<td></td>
</tr>
<tr>
<td>I buy as much as possible at sale prices.</td>
<td>0.76</td>
<td></td>
</tr>
<tr>
<td>I take time to shop carefully for best buys.</td>
<td>0.68</td>
<td></td>
</tr>
<tr>
<td>I should plan my shopping more carefully than I do</td>
<td>0.48</td>
<td></td>
</tr>
<tr>
<td>The lower price products usually are my choice.</td>
<td>0.62</td>
<td></td>
</tr>
<tr>
<td>Factor 10: Shopping Avoidance</td>
<td>α=0.25</td>
<td></td>
</tr>
<tr>
<td>Shopping is not a pleasant activity to me.</td>
<td>0.76</td>
<td></td>
</tr>
<tr>
<td>It is fun to buy something new and exciting.</td>
<td>-0.42</td>
<td></td>
</tr>
</tbody>
</table>

For males 7 factors out of 10 have been suitable with the scale of CSI, but 3 out of 10 have newly been obtained.
As shown in table 2, obtained 10 factors for young males are: perfectionism, brand consciousness, confused by overchoice, fashion consciousness, price/value consciousness, impulsivity/unplanned shopping, brand/store loyal, time-energy conserving, low price seeking and shopping avoidance. According to the data obtained from Table 1 and 2, the six factors are common to young females and males. The followings are brief descriptions of the factors.

**Common Factors**

*Perfectionism/High Quality Consciousness:* For both genders, the score of this factor, which is representing the search for high quality and excellence, is higher. “In general, I usually try to buy the best overall quality” and ‘I make special effort to choose the very best quality products’ variables have reached high scores on the survey and it shows that the expectations of females ones who attend to the survey indicate that as for the quality rank, a slightly higher expectations they have than males. In the Campbell’s (1997) study, it is indicated that young males score of “perfectionism” has reached high score which means that “men don’t pay too much attention in the details” view contradicts the study he carried out.

*Brand Consciousness:* Brand consciousness has been considerably higher factor scores for females and males. Both genders prefer to buy the most advertised and well-known brands. ‘Nice department and specialty stores offer me the best products,’ variable has reached the high score for women, it means that the females give more importance to the visually appeal of the store than men. Having the highest brand consciousness as young shows that young people prefer well-known, high-quality, and high-cost brands.

*Confused by Overchoice:* For both genders, this factor has reached higher score, this shows that because of the abundance of product and brand in the market, decision-making is difficult, and they sometimes give the wrong decisions.

*Fashion Consciousness:* Fashion consciousness factor is a common factor for both genders, but the scores are higher for women in the survey. ‘I keep my wardrobe up to date with the changing fashions.’ and ‘Fashionable, attractive styling is very important to me’ variables are very high scores for women which means that women are closer interested in fashion than men and while shopping for clothes they follow fashion closely.

*Price/Value Consciousness:* In this factor, young people have the awareness of economic thought; that is, they care about the price of their product, their money, and they try to buy the best product by paying less.

*Impulsivity/Unplanned Shopping:* This factor score is higher for young women that shows without making any plans the women do the shopping, and then regret their shopping. Especially store promotions push the women do the shopping. Men behave more planned in their shopping and less regret than women.

*Brand/Store Loyalty:* Males seem to be more faithful to their stores where they shop. Women’s scores are low in brand loyalty segment. Women prefer to shop in different stores since they like the change.

**Female Factors**

*Recreational/Novelty Seeking:* ‘It is fun to buy something new and exciting’ variable has reached a high score for young women that means they love to shop and shopping enjoyment. For men the same variable takes place in ‘shopping avoidance’ factor. Men, on the contrary to women, do not find shopping entertaining.
Variety Seeking: This factor is composed of the variables ‘To get variety, I shop different stores and choose different brands’, ‘I regularly change brands I buy’ and ‘I go to the same stores each time I shop’. The high score of variable ‘To get variety, I shop different stores and choose different brands’ shows that women prefer to meet the needs of different brands in different stores. However, for females ‘variety seeking’ factor reliability coefficient is lower (\( \alpha = 0.38 \)).

Satisfaction: This factor shows that women have high expectations for the products, if the product is not good enough, they experience the dissatisfaction with the shopping. The reliability coefficient for this factor is lower for this factor (\( \alpha = 0.41 \)).

Male Factors

Time-Energy Conserving: This factor refers that male do not spend too much time to compare alternative products in different stores since getting around is a waste of time for male. Factor has a high reliability coefficient.

Low Price Seeking: The four variables are loaded in this factor. This factor shows that men generally prefer a low-priced product and be aware of the sale-prices of the product.

Shopping Avoidance: This factor refers to the fact that the men dislike shopping, unlike women. However, it has very low factor reliability coefficient (\( \alpha = 0.25 \)).

5. CONCLUSION

In this study, using the scale of the CSI, decision-making styles of young people in Turkey are examined by taking gender differences into account. As a result of the analysis, for both genders; perfectionism, brand consciousness, confused by overchoice, fashion consciousness, impulsive/unplanned shopping and price/value consciousness have been the common factors. For females, recreational/novelty seeking, variety seeking and satisfaction factors, whereas; for men, the time-energy saving, low price seeking, shopping avoidance factors have been newly added factors.

Sproles and Kendall’s eight-factor CSI model is used in this study and when it is compared with the previous similar studies, it is understood that this model is not completely consistent for other cultures (Table 3). The reliability coefficients of some factors are low in some cultures while others are higher. However, new features which are specific to men and women in these studies have been determined.

Three out of all factors, which are reliability, perfectionism and brand conscious factors, have been the highest score for both genders. Young people have very high expectations of their products, therefore; make a special effort to find quality products. They believe that multi-advertised, well-known and high-priced product is a higher quality product. After taking into consideration of the sensitivity of young people against high quality and brand, it will be beneficial to offer different payment facilities to be able to meet the expectations of young consumers. In addition, the promotion of products on television and in internet or magazine can be done to attract the attention of young people.
Table 3: Comparison with studies using Turley sample

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</thead>
<tbody>
<tr>
<td></td>
<td>Reliability</td>
<td>Male</td>
<td>Female</td>
<td>Reliability</td>
<td>Male</td>
</tr>
<tr>
<td>Perfectionism</td>
<td>0.47</td>
<td>0.64</td>
<td></td>
<td></td>
<td>0.31</td>
</tr>
<tr>
<td>Brand consciousness</td>
<td>0.78</td>
<td>0.76</td>
<td></td>
<td></td>
<td>0.69</td>
</tr>
<tr>
<td>Fashion consciousness</td>
<td>0.73</td>
<td>0.79</td>
<td></td>
<td></td>
<td>0.69</td>
</tr>
<tr>
<td>Confused by overchoice</td>
<td>0.64</td>
<td>0.71</td>
<td></td>
<td></td>
<td>0.74</td>
</tr>
<tr>
<td>Price-Value consciousness</td>
<td>0.38</td>
<td>0.39</td>
<td></td>
<td></td>
<td>0.75</td>
</tr>
<tr>
<td>Impulsiveness</td>
<td>0.26</td>
<td>0.48</td>
<td></td>
<td></td>
<td>0.64</td>
</tr>
<tr>
<td>Habitual/Brand loyal</td>
<td>0.09</td>
<td>0.43</td>
<td></td>
<td></td>
<td>0.64</td>
</tr>
<tr>
<td>Recreational shopping</td>
<td>0.56</td>
<td>0.38</td>
<td></td>
<td></td>
<td>0.47</td>
</tr>
<tr>
<td>Time-energy conserving</td>
<td>0.61</td>
<td></td>
<td></td>
<td></td>
<td>0.48</td>
</tr>
<tr>
<td>Confused time restricted</td>
<td>0.32</td>
<td></td>
<td></td>
<td></td>
<td>0.73</td>
</tr>
<tr>
<td>Low-price seeking</td>
<td>0.36</td>
<td></td>
<td></td>
<td></td>
<td>0.69</td>
</tr>
<tr>
<td>Store promotion</td>
<td>0.35</td>
<td></td>
<td></td>
<td></td>
<td>0.56</td>
</tr>
<tr>
<td>Bargain seeking</td>
<td>0.59</td>
<td></td>
<td></td>
<td></td>
<td>0.5</td>
</tr>
<tr>
<td>Imperfectionism</td>
<td>0.4</td>
<td></td>
<td></td>
<td></td>
<td>0.37</td>
</tr>
<tr>
<td>Store loyal</td>
<td>0.31</td>
<td></td>
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</tbody>
</table>
Women often do the unplanned shopping and they can give a sudden decision to purchase the things. The effective presentation in the appearance of stores greatly affects women in decision-making process. Therefore, forming an aesthetics and quality image and offering different alternatives in businesses will be useful for women in their decision making process and purchasing process. In the study, it is also noticed that women are more susceptible to promotions which take place in stores since they do the shopping for clothes in an impulsive way. Women like to shop and visit different and new stores to shop. Stores/businesses can provide young women consumers brand loyalty membership cards and store discounts. Males seem to be more faithful to their shopping stores.

Businesses should provide solutions which make the shopping easier for men consumers who have time-sensitivity. Men can be attracted to the shops by the businesses when they design the stores to accelerate decision-making process for men, and when they place the products in sections where male consumers can reach easily in stores. Furthermore, affordable prices and campaigns can be helpful for the male consumers who are price-conscious men and shop discount cards can be offered to male consumers, who often shop, by the businesses.

The reliability coefficients of obtained two factors out of ten for women (variety seeking and satisfaction) and three factors for men out of nine factors (brand loyalty, impulsivity and shopping avoidance) have come under 0.40. The new variables can be added to these factors, indicating low reliability, to enhance the future research and to increase the internal consistency. As in all studies, there are several limitations that affect the reliability of the findings in the study. The sample has been restricted to the segment of students studying at Nigde University in Turkey. This situation limits the generalization of the findings. Consumers in the eastern and western provinces of Turkey can have a very different decision-making style. In addition, only gender differences in the study has been taken into consideration for the decision-making styles of consumers, demographic characteristics have not been addressed to. In future studies and researches, by taking these restrictions into account, the applicability of CSI scale can be examined in wider regions for the general public by taking other demographic variables into account.

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