

***MANAGEMENT IN THE
NEW ECONOMY.
CLASSIC AND MODERNITY***

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Preface

The first decade of 21st century brought essential and suddenly changes in management theory and practice. The new trends and approaches are appeared, and the earlier theories are modified as well. The main reasons of these changes are connected with internal modifications of organizational behaviors and with external modifications depended on organizational environment changes such as information revolution, globalization, high speed of capital, technology, information, knowledge flows, mass and easy human migration. These determinants have to change management models. We can also find among traditionally and classic theories some the new ones, as for example value based management, knowledge management, intellectual capital management etc.

Of course, whilst all attention is focused on the managers who have to make these changes happen and are responsible for delivery of corporate strategy. The managers must be and they are masters of rapid change. We can remember that effective modern business management in the “new economy” is founded on coordination of all activities of an organization, not the perfection of one or two in isolation. The company’s approach to motivating and retaining people must provide a backbone to its method of differentiating all activities. The enterprises have to think also about fixed development by realizing investment in R&D and tacit knowledge. It is necessary to achieve product, market and competitive advantages.

Judging by the sheer number of the articles reviewed in this book, the theoretical analysis of different classic and modern management models and approaches has become a dominant field of researches. It depends on facts, that the management literature is progressing through a combination of data descriptions, informal hypothesis testing, as well as structural tests of theory. It is because, on the one

hand, management research in the past 20 years has allowed the field to develop a somewhat distinct research identity in terms of issues, questions, and paradigms. For example, organization metaphoric approach is good example for this case. On the other hand, management in the “new economy” research has moved so close to corporate practice that researches in human resources management, knowledge based management etc. are virtually indistinguishable in terms of tools and research methodologies.

Three main parts are covered in this book: Socio-Management, Human Resources Management and Tools of Competition. We have 15 outstanding chapters in this book besides this preface, each representing an original contribution that achieves the goals of review and synthesis of an important topic.

Five articles are printed in the first part called “Socio-Management”. The first article of this part presents Japanese thinking about management. The author wants to show the light for the world of economics from the viewpoint of traditional Japanese ethics of Samurai (Bushido). The next chapter presents social factors and performance of elite which hinder organizational development. The study included in chapter three surveyed managers to measure their perceptions about the morality of specific earnings actions. The fourth paper outlines the results of an empirical study of the personal financial attitudes of owners of small, medium and micro enterprises. The last article from this part of book refers development of digital society.

The second part of book refers to very good known classic and modern management approach – Human Resources Management. The first chapter of this part is kind of searching solution about future of HR management. The aim of next article is the analysis of chosen aspects of the management of the social capital in two spheres - the enterprise and the city. The third article from this part of the book presents ways of influencing the knowledge based mana-

gement on the human resources management. The purpose of the last article from this part of book is to show a process of the influence of the human resources management as applied in the states of European Union, on the development of public administration in new states of the Union.

The third and the last part of the book, “Tools of Competition”, is begun by the article about the competition policy in the European Union. The next chapter refers innovation process in small and medium enterprises (SME) based on the case of Romania. In the sequence article we can read about the knowledge management in eco-tourism organizations. The next paper discusses functioning and development of SME sector and presents the development strategies typical for small and medium-sized business entities. The last from this part of book presents concept of supply chain management.

Why should you read this book? There are two simple reasons. First, good reviews are rare. Second, each topic has provided valuable perspective for the future and potentially research and analysis.

The book is written by leading empirical researchers from several countries and scientific centers, and remains active in their respective areas of interest. The writing style makes the chapters accessible to students, scientists and management practitioners. For doctoral students and seasoned academics, the surveys offer dense roadmaps into the empirical research landscape and provide suggestions for future work.

We would like to thank all of the contributors for their hard work and patience to seeing this book to fruition.

Warsaw, December 2009

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Part I
Socio-Management

Kiyokazu Nakatomi
“BUSHIDO” OF THE ENTERPRISE

Introduction

Because of the world simultaneous recession, managers in Japan and all other countries in the world laid-off employees by reason of the global economic downturn. In Japan, first the managers dismissed the temporary workers. Soon, managers laid-off permanent employees. The firing of employees appears to be an easy and quick restructuring. But essentially, restructuring is not firing. It means that managers change the position of employees, entire sections and reform the system from the long-term perspective. A worker is a human being. He is not a working machine. Through the work, he has the opportunity of new creations and the new discovery of techniques and systems. Under the threat of firing, the worker cannot bear creation and discovery. In the severe recession, how should our economy be and how should the managers behave?

I want to show the light for the world of economics from the viewpoint of traditional Japanese ethics of Samurai (Bushido).

Until now, most of the countries in the world followed the economic policy of the USA. But after the financial crisis, we cannot follow the policy of the USA with complete devotion. All countries do not depend only on the USA; they must have economic policies of their own views. It is similar to that each country has its own language. Japan must have a unique policy of economics, enterprise management and politics. For that, Japan needs thoughts and a philosophical base. The Samurai spirit (Bushido) is famous as a traditional Japanese spirit. The Samurai is a symbol of justice that de-

fends and helps the weak people in Japan. However, Confucianism influenced the Samurais. During the Edo era (1603-1867), Confucianism was recommended as the state study and religion by the Tokugawa shogunate. The shogunate changed the policy from military power to academy. Samurais made efforts to study and excel in martial arts. As a result, the peace in the Edo period lasted about 260 years. The Samurai spirit (Bushido) was shaped by the Confucianism. Therefore, first I treat of the theory of Justice by Confucius as the origin of Samurai spirit (Bushido). Then, as mentioned supra, the Samurai is the symbol of justice in Japan, and justice is the theme of the following chapter. The justice of Confucius is combined in his way of life.

Justice is courage

To Confucius, justice is “benevolence” after all. But the meaning of benevolence is very deep and wide. I think of benevolence from the viewpoint of contemporary problems. In recent years, the USA has started two wars - one in Afghanistan, and one in Iraq. Yet, the USA still cannot find the light of a solution. When the USA attacked Iraq, President George W. Bush declared, “The countries that do not agree with the USA are enemies.” This is the typical and traditional logic of European philosophy (Aristotle’s logic). It demands “yes” or “no”, “true” or “false” and “white” or “black”. It always presses a straight choice between two things. Surely this logic is useful for definite unknown things. When man does not know his position in a place, he uses the logic, “North” or “South”, “East” or “West”. This “alternative” logic is very effective in our ordinary life. Martin Heidegger (1979: 10) named the work as the definition of subject-field (Sachgebiet). President George W. Bush adopted this logic unreasonably, because there were few countries of approval. By stating, “The countries that do not agree with the USA are enemies”, the

friendly nations, - Japan, France and Germany - were embarrassed. Especially, Japan who is under the Japan U.S. Security Treaty has a strong connection through politics, economics and military relations with the USA. As Japan could not be an enemy of the USA, Japan ratified the attack on Iraq. Regrettably Japanese politicians said nothing, and did not have the courage to stand against the USA.

"Faced with what is right, to leave it undone shows a lack of courage."

From this sentence, we can understand that what is right (justice) is courage. Furthermore Courage means honesty in benevolence. Japan's actions show a lack of justice from the viewpoint of Confucius. Contrary to Japan's actions, Foreign Minister of France Dominique Galouzeau de Villepin (1953~) stood against the USA, with a strong speech to the United Nations. His attitude was very impressive. Likewise, the government of Germany was also against the USA. Those countries that opposed the USA were later oppressed by the USA in the business and trade sectors afterward. Many companies lost the business opportunities. But those country's leaders were fundamentally opposed to the USA's actions, and had the courage to show it. As England agreed with the USA, soon the Japanese government, too, showed strong support. The US military attacked Iraq under the pretext of the "eradication of mass murder weapons". The attack succeeded on the surface, and the Japanese government helped with the reconstruction of Iraq.

Although the USA was able to defeat the Hussein Administration, it is now failing to restore the order. The attack began in March 2003, and has already lasted five years. The confusion continues even now. A typical phenomenon is that car bombings take place frequently. Cars rush into the American trucks, hotels, and assembly halls. It seems like a revival of the "Kamikaze". I addressed the formation of Japanese fascism and kamikaze in my essay: "Theory of

Peace by Confucius. From the viewpoint of Philosophy of Nothingness and Love" (Nakatomi, 2007). The origin of kamikaze lies in the divine thought that the Tennou (emperor) is a god. Many young pilots crashed into the American aircrafts and warships with bombs during WWII. The spirit of kamikaze changed to "100 million total honorable deaths". It was so abnormal that the USA prepared atomic bombs. We must never repeat such a tragedy. Yet, the tragedy of the kamikaze is repeating itself in Iraq- the origin of car-bombing lies in Japan's kamikaze. American soldiers always have to be on their guard for car-bombings. Extreme tension bears great tragedy. A single mistake could have grave consequences - e.g. the incident of Sonmi Village in the Vietnam War. The US soldiers, extremely worried about Vietnamese guerrilla attacks, murdered all the people (504 persons) of Sonmi Village on March 16th 1968. This was done despite the fact that the villagers themselves did not resist. War drives man mad. There are many dangerous possibilities everyday.

Additionally, Jihad is allowed, only at the time when the opposite force attacks, in the name of Allah. In the Koran, suicide attacks like car bombings are not written. There is a description about paradise after death. In paradise, a martyr would be taken care of by a heavenly maiden (Hur al-ayn). But we cannot find a description of suicide attacks. If the Koran taught car-bombing, it would have occurred in ancient times too. But such a thing is not recognized. Essentially, as God created humans, a human does not have the right to kill other people, nor himself in Judaism and Islam. From this idea, we can see that the Koran actually forbids suicide. Sometimes man uses the Koran for the purpose of committing car bombings; he would justify the car bombing by religion. The justification of car-bombings by religion invites misunderstanding and prejudice about Islam. It is a way of thinking that portrays Islam as militant and sui-

cidal. Therefore Islam is "devilish". Contrastingly, Christianity is "justice". We must erase such prejudices. In its original form, Islam is friendly and peaceful. It plays a major role as one of the three great religions. It is said that the total number of Muslims is one billion. We can neither exclude such a great religion nor induce the confrontation of religions through an attack like that of the USA. The cause of the current confrontation lies in the misjudgment and prejudice of George W. Bush. He aimed to get rights to oil and was overcome by the pressure of military industries. It seems that the true cause of the war has been concealed by a religious cause. But the reality of the situation is severe. Though the USA defeated the Hussein Administration by sheer power, it is impossible to establish order and peace by such power. Now, the USA is thinking of a time when the army can withdraw from Iraq. This alone proves that "power" does not equal "justice".

Confucius lived in an age of war and confusion. It was an age that practiced the idea "power equals justice". He was an orphan, and he faced nothingness as the lack of parental love and a home. But though he was in such unlucky conditions, he made an effort to study, and eventually got the position of Minister of Justice. Much like today's "American dream", he realized his hope through great effort and hard work. Ordinarily, man thinks purely about the maintenance of his position. But Confucius hoped for peace more than the maintenance of his own position. Though he planned the theory of disarmament, he was failed. He lost his position. We must learn the way of Confucius. It is very important to consider, "What does a national leader intend or aim to do?". Confucius researched peace and justice as benevolence. According to Confucius, justice is benevolence (honesty and consideration).

The master said, "How pretty Fan Hsü! is! When those above love rites, none of the common people will dare be irreverent; when they

love what is right, none of the common people will dare be insubordinate; when they love trustworthiness, none of the common people will dare be insincere. In this way, the common people from the four quarters will come with their children strapped on their backs..."

In this part, there are some significant relationships:

Rites-reverence, righteousness-subordination, trustworthiness-sincerity.

Tzu-lu said, "Does the gentleman consider courage a supreme quality?" The Master said, "For the gentleman, it is morality that is supreme. Possessed of courage but devoid of morality, a gentleman will make trouble while a small man will be a brigand."

As justice is the benevolence of honesty and consideration, I say that justice is the consideration of weak and poor people. Therefore justice is to help and support those weak and poor people. Many disadvantaged people gather to places that realize justice. Confucius always researched justice as benevolence. But George W. Bush, on the other hand, relied on sheer power and failed. Furthermore, he failed in terms of economic power as well. Recently, a big financial panic has attacked the USA. It has destroyed the world economic system and greedy individuals' dreams for riches.

Justice is simplicity and thrift

From the American dream to a new Universal Dream

Over a period of about 10 years, the USA, Russia, China and European countries have comparatively developed stably. Russia entered the realm of advanced countries and China succeeded in the Beijing Olympic. It seemed that Japan, too, had recovered economic power after the bubble depression. But then a big investment bank, Lehman Brothers of the USA, suddenly went bankrupt. From there, a global financial panic occurred, rippling outward from the USA.

After the collapse of the Soviet Union, the USA became the world leader in military and economic power. A vast country and abundant resources have supported the development of the USA. If man sweats blood, man can muddle through any economic condition. But the USA, the world leader in sciences, gave birth to a new type of "financial technology" that is aimed at making large amounts money. Man calls it the "Alchemy" that produces big money and big assets. As Japanese people are influenced by Confucius, they incline to save comparatively more than invest in stocks. On the other hand, American people incline to challenge new businesses, speculate and buy stocks more than savings. Therefore the average stock prices in the USA are very high. They always want to find a new chance and produce profit. This idea stems from the basic spirit of the USA- the spirit of challenge. They seek a wide gorgeous mansion, a pool, a tennis court and a golf course. This is the typical American dream. It is said that the salary of one investment bank was about one or two million dollars. One of the directors got about 480 millions dollars in total. There are many rich people like that in the USA. They want to increase their assets and buy more stocks. Their desires are almost infinite. Financial engineering invented new insurances (goods, system) adequate to suit the desire.

First, Credit Default Swap (CDS): it is originally insurance intended for companies, but that is only one aspect. There is another aspect- that is insurance for the risk of bankruptcy. If a company goes bankrupt, the beneficiary gets the money from such insurance. A new business where a company can receive insurance money is born. The high-risk business grew widely. The beneficiary issues new stock and insurance- Collateralized Debt Obligation (CDO) - that good stock and defective stock are mixed. The new stock and insurance are sold all over the world to enterprises, financial banks, and others.

A big stock (money) expansion began and continued. A big castle that was made of cards was built. But financial engineering did not expect chain bankruptcy. It happened. It seems like that if one card falls, then the other cards, too, fall immediately-like dominoes. A big economic balloon exploded like an atomic bomb. A sudden fall in the stock prices occurred and affected Japan, England, China, Russia, Germany and countries all over the world. Soon panic over a new Depression came. This is the tragedy that monopolistic economics have invited. From this arise important questions: What did economists do in the world? Why didn't they give a warning to those in the business world?

First it is the problem that modern economics has had all along - economics requires the increase of economic activity. In the theory of national income analysis, man uses a 45°line. It means that income equals consumption and savings. If income increases, proportionally consumption and savings increase. This is the basic theory of modern economics. By looking at the graph for the income analysis, we can understand the scale of economics easily. But there is a limitation. The formation of the theory (e.g. John Maynard Keynes) relies on the vast land area and abundant natural resources of India. Therefore modern economists used a one-to-one ratio, a diagonal line, 45°line and they persisted to support the fixed ideas that the scale of economics must be expanded. By that reason, economics always thinks of the theory of economic scale expansion. This theory is quite suitable for the USA, a rather large country. Until the 1990's, the USA made industrial goods and products. But for the last 20 years, economics in the USA toyed with the theory of insurance and financial engineering recently. This trend also persists in world economics.

Second it is the fact that economics of America have become world economics. Did you know that the Nobel Prize winners for

Economics are almost always American economists? The Nobel Prize for Economics began in 1969, and the number of American winners is 45 people over the course 40 years. It is very famous that great experts of "hedge funds" were the winner in 1997, but their company invited a heavy loss, about 42 millions dollars. Last year, 2008, was the winner; again, an American economist. As America's economic activity accounts for almost half of the world economy, the number of American winners is large. But what about other countries? Though Japan has the world's second-largest economy, there are no Nobel Prize winners for Economics. The reason for that is very simple - Japanese economists merely translate English books into Japanese. There is no original material, and an overall lack of identity.

As Japan is very small and has minimal natural resources, Japanese economists really ought to create their own original brand of economics. Japan does not need to be bound by an American version of economics that bases itself on vast land-area and abundant natural resources. And still more, it does not need to be bound by the formula and graphs of modern economics. The formula and graphs of economics are only tools to help us understand. Many Japanese economists purpose to only use the formula and graphs. These are like symbols of intellect. The result is to follow American economics. When American economics became world economics, it invented new economics, " financial engineering "- like an atomic bomb in the financial world. It is similar to when modern physics first bore atomic energy. In one aspect it could be used for industrial energy; but in another aspect, it could also be used to make an atomic bomb. Until now, economic engineering has produced "invisible big money" much like "imaginary money". The continuous flow had not been stopped. But at last its limitation has come. The Atomic Bomb of economics has exploded.

Third is the fact that man cannot stop the continuous flow of economics. Economics is comprised of business and commerce. Once goods that are produced by economics and investment banks are well under way, the process flows quickly like traffic. During this process, new financial goods are sold in countless numbers. Man cannot stop this flow easily. To stop it, one needs to make a law. The strong flow of trade is tied to the flow of human desire. Man cannot easily overcome this desire. Therefore we need a new philosophy or view of the world to create a new dream and a new brand of economics.

It is said that the damage of this financial atomic bomb is about 50 trillion dollars of the world Gross National Product (GNP). The figures are astronomical. The USA decided to use 700 billions dollars of its citizens' public fund to help fix the damage caused by this economic crisis. Is it justice that man erases the debt of rich people through the taxes and savings of poor people? No, that is not justice. Justice is that rich and strong people help poor people. Such a society where the poor support the rich is no longer sound. The conditions are same in Japan, France and German; now, we philosophers indicate the right path to light amidst our dark and great Depression. The age of luxury is over. It ought to be enough to simply eat delicious food and to have a reasonable house.

To illustrate, man ought to reflect on the example of a former champion of Japanese Sumo wrestling who had to undergo an operation for removing fat from his stomach. He indulged and ate too many delicious foods. Another example shows a famous "protector of the natural environment" living in a wide, gorgeous mansion with a pool and a tennis court. Hardly the environmental saving measures he himself claims to support. Confucius' teaching of simplicity and thrift could be very useful for the people of developed and developing countries.

The Master said, "The gentleman seeks neither a full belly nor a comfortable home. He is quick in action but cautious in speech. He goes to men possessed of the Way to be put right. Such a man shall be described as eager to learn."

From this part, I want to emphasize "nor a comfortable home". Confucius was not poor during the first part of his life. When he was the Minister of Justice, he would have led a comfortable life. But though he was in comfortable conditions, he abandoned his life; he abandoned his position for the policy of peace. By that result, he lost his position and home, and started on a wandering journey. The meaning of "nor a comfortable home" does not of itself forbid having a home, rather, man should not persist in having a home. Still more, Confucius did not have one, but he did have the place where he had taught his disciples. Confucius sought the teaching of philosophy and the making of cultural contributions. The school and residence of Confucius is called the "Temple of Confucius" or "Confucius temple". The largest and oldest Temple of Confucius is found in Confucius' hometown, present-day Qufu in Shandong Province. In Japan, it was called "Shouheigaku" in the Edo era, and now is called "Yushima Seidou", located near present-day Tokyo University.

When man achieves success, especially economic success and social status, he tends to pursue luxury. There are probably many such people in the USA. Therefore, it is the USA that has produced the Economics of Alchemy and lead to our current Great Depression. One desire produces another. It needs to control the desire for us. It not necessary to live a life in search of luxury to merely achieve contentment with one's life is better than seeking after riches. I propose a new vision, a new Universal Dream instead of the traditional American dream. And I offer the following quote for all the leaders

of the world, especially new USA President Barack Obama, with hope:

"If a man remembers what is right at the sight of profit, is ready to lay down his life in the face of danger, and does not forget sentiments he has repeated all his life even when he has been in straitened circumstances for a long time, he may be said to be a complete man."

Code of Ethics of the Samurai (Bushido)

The decision and spirit of Confucius was succeeded by the Samurai Spirit (Bushido). Samurai spirit is justice, benevolence, courage, rites, honesty, consideration and honor. Inazou Nitobe preached " Bushido " in the world. The name of Bushido was spread by his book. He wrote that Confucianism is the origin of Bushido. The code of ethics of Bushido is: ①benevolence and justice, ②rites, ③honesty, ④simplicity and thrift. Such code is found in the Japanese enterprise.

In Japan, there are some multinational enterprises, e.g. Toyota, Honda, Nissan in the auto industry Panasonic, Sony, Hitachi in the electric industry. Generally, these enterprises are well known in the world. They developed in the age of the high economic growth after World War II. Reasons are found in the diligence of Japanese people, the spread of education, the weaker yen and the high rate of savings. Another reason arises for the management of the enterprises that imported new products and new techniques. But the reason from the employment perspective is the lifetime employment. Due to the high level of competition to join a company was difficult, but when a man entered the enterprise, he was educated and trained thoroughly. The enterprise took care of him along with his family. The enterprise provided relocation assistance, company housing for the employees, medical care and even organized sports meetings.

Through such a method, employees and managers had many opportunities to communicate. Under the aura of the job security, employees developed, produced and sold new goods. They could give a full play to their abilities. Under such conditions, Japanese economy revived after World War II and attained a high economic growth. Such companies as Toyota, Honda, Panasonic and Sony developed that way. At the time, these enterprises did not pay attention to immediate profits. About 30 years ago, Toyota researched the control of car exhaust fumes. At a glance the research section was sober and not spotlighted. But today, the research of car exhaust fumes has proved fruitful in the development of hybrid vehicles. In the midst of the world recession, the Japanese government puts great hopes on the sales of hybrid cars. Still more, Toyota emphasizes after service, repair and maintenance. Car dealers respond rapidly. Used car shops are also expanding. New cars are not recommended unjustly, a used car is a good car, too. This is their motto. In North America, Toyota held a big share of the car market. The share is down due to the recession. General Motors, Ford and Chrysler are experiencing the same, to the point of bankruptcy. They are now supported by the American government, but can barely continue.

The management of Panasonic begun under the leadership of Konosuke Matsushita. The success story is very famous in Japan. First, he established a small factory in Kadoma city, Osaka. His management idea was not 'Joy of the stock holders' but 'Joy of the customers' He established a management rule and educated the employees thoroughly. His company rapidly grew by the invention of electric machines. Though he could earn substantial profits, he used some of his wealth and founded a private school for the Japanese politicians; "Matsushita School of Politics and Economics". Dozens of politicians attended. The school is like the school of Confucius. In typical Japa-

nese enterprises, the management made the best use of talents and abilities and lifetime employment was implemented.

But after the American enterprises entered the Japanese market, the lifetime employment policy began to be broken. Head hunting started. Managers scout excellent and skilled employees by attraction of high salaries. In the USA a job change is the evidence of an able person and the possibility to get a good position. Therefore, wages based on job evaluation were introduced in Japan. But there is an important proposition that the USA is a large country with abundant resources. The USA has a large industrial base and a great number and diversity of enterprises. There are so many opportunities to change jobs. On the contrary Japan is a very small country with poor resources. There are little chances to change jobs. Japanese agriculture declined too. Though the conditions of the industrial structure are quite different, Japan followed and imitated the USA. The main outcome of this was the breakdown of the Bubble Economy and the prosperity. About 20 to 25 years ago, Japan entered a bubble boom through dealings in the real estate market. The price of land in Japan rose suddenly and extraordinarily. It is said the price of the land in Japan was double of that of the USA. Japanese enterprises bought buildings in Manhattan. This was the Bubble Economy. As soon as the government control began, the Bubble Economy exploded almost immediately. Some banks and many enterprises went bankrupt. At the time, many enterprises that run into big debts used 'wages based on job evaluation' systems and laid-off employees to decrease their debts. The total damage is estimated to about one trillion dollars. Japanese people paid this debt through the monetary policy: super low interest rate of 0.1 % on bank deposits. But many enterprises reflected on such dismissals, leading enterprises basically restored the lifetime employment.

The Philosophy of Human Resources Architecture in Poland

In Poland young men occupy a large percentage of the population. The generation under 35 years is about 50 percent of the total of the population and the generation under 25 years is about 35 percent of that. In Poland the policy of young age employment decides the future. In 1989, Poland abandoned the socialism and encouraged the market economy. Between 2005 and 2007, Poland achieved a strong development. How may Poland overcome the financial crisis and world recession in 2009 and beyond?

Infra, I do not deal about enterprises such as Toyota and Panasonic but rather I wish to focus on the insights of two publications of Prof. Marcin Waldemar Staniewski (University of Finance and Management in Warsaw) from Poland. One is "Human Resources Architecture of European Union New Member Country: Case of Poland" and the other is "The Elements of Human Resources Management Supporting Knowledge Management".

The former publication describes the Human Resources Architecture identified in the companies operating in Poland. It presents the results of empirical research conducted in the years 2000 and 2002. Human Resources Architecture is presented and it is done by the description of its components that are employment, motivation, training and development of personnel. Prof. Staniewski's research aims at the creation and delivery of value for the customers, the employees, the shareholders (investors) and the community (social responsibilities of the company). As he used the data of 92 companies from different sectors, provided by the Institute for Labour and Social Affairs, we can believe in the scientific and philosophical analysis.

In this publication, he states that the leaders of Human Resources Management achieve the best results from an economic and busi-

ness perspective. For the employees, there is the need to assure the optimal level and structure of employment in respect to the company's objectives.

The companies should raise the motivation of the employees with a rewarding system and the promotion of teamwork, assisting colleagues. Still more, proper training activities should be conducted according to the regulations. An opportunity of personal development to tie their future to the company is one of the strongest motivation factors for many employees. Undoubtedly, the development of Human Resources Architecture in the companies operating in Poland in the past few years was stopped; therefore Prof. Marcin Waldemar Staniewski is anxious for the companies in Poland. "How Poland is going to compete with the companies from the EU?" Without investing in knowledge, in "soft" resources of a company, especially in employees, Polish companies would not be able to compete with their Western rivals. The Polish economy would become a peripheral one and strong foreign companies would dominate its market. Therefore the redesign of the Human Resources Management Architecture is needed. He is thinking of the economy of Poland on a macroeconomic point of view.

The latter publication describes the methods that support enterprise knowledge management activities. This element is human resources management. The essence of this is how enterprises develop the worker's abilities and the motivation for the work. According to his data and graphs, the elements, which most successfully motivated the employees, are the followings. In the case of first market leaders, the system of training of the employees (92%), the system of training of the managing staff (77%), the system of development of the qualifications of the employees (69%), the system of development of the qualifications of the managing staff (62%). In the case of the second class market leaders, the reward system

(76%), the system of the training of the employees (68%), the recruiting and selection system (64%), the system of development of the qualifications of the employees (60%).

Leading enterprises think that the training of the employees is more important than the reward system. Reward is not always a good motivation. Remember the case of Lehman Brothers, a leading investment company in the USA. In this publication there are many teaching instances about management.

Conclusions

Prof. Marcin Waldemar Staniewski advocates the enrichment of soft resources, the intellectual education of the employees and the employers, the teamwork and the assistance of colleagues. I believe that his idea about management and economics is adequate to the Samurai Spirit (Bushido). His standpoint that synthesizes the micro and macro economic perspectives is deeply humanistic. Therefore, I find the concrete development of the Samurai (Bushido) in his theory. However, what is this agreement? Japan and Poland are geographically situated far away from each other. If man researches the similarity between both countries, man can find only the damages by World War II and the fact that both are relatively small countries. But the differences between both countries are quite significant. The land is small, but Japan is an island mostly occupied by mountains while Poland is flat and adequate to agriculture and cattle breeding. Regarding the industrial structure, Japan is essentially an industrial country and agriculture declines. On the other hand, Poland is an industrial and agricultural country. On the cultural background, Confucianism and Buddhism influenced Japan while Christianity formed Poland's culture. This difference is symbolized in the Eastern and Western in Philosophies. There is a gap. In modern times, the relationship began, but the exchanges between Japan and

Poland were few. Under such cultural and economic conditions, is it an accident that the ideal image of enterprises in Japan and Poland is similar? No, it is not an accident. It is the evidence of our search being fair. The passion for the conquest of the economic crisis and for justice and peace created the philosophical intuition that overcame the gap between Japan and Poland, further more East and West.

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Vladimir Boguslavskiy

***SOCIAL FACTORS AND PERFORMANCE OF ELITE
WHICH HINDER ORGANIZATIONAL DEVELOPMENT***

Introduction

Despite possible differences in official ideology the drawbacks of social organization and the absence of sound approach to social and personal conflicts cause constant demolition of existing formal institutions for the sake of the survival of the system. The neglect of these drawbacks brings about old problems to be transferred to the “new” state. The level of social and human capital and its proper utilization guarantees progressive development. The shifts in organizational policy is also reflected by the consequent shift in the theoretical paradigm, from treatment of a participant of the structure as an object, then as the user and finally as the client. The lack of social capital generates a vicious cycle, which brings about the necessity of object-based relations and the spread of all-pervasive protecting informality to compensate for object-based relations.

The quality of organization can be measured by only the efficiency of production. Such an approach obscures the wide range of social phenomena which are behind the curtain of pure economic matters of cost-benefit analysis. Herbert Blumer, one of the classics of symbolic interactionism expressed this vision of the processes of industrialization in his book “Industrialization as an Agent of Social Change” (Blumer, 1965). The development of industrial relations is a two-sided process and in order to understand it in its complexity one has to consider both the influence of local culture on industrial governance and the influence of industrial relations on the culture of community. Social organization, in turn, closely interacts with

industrial organization. Though one can lead to the other, the main share of the responsibility lies on the managers from both the private and public sector. Emil Durkheim, one of the founders of holistic sociology that recognizes “social” as the matter independent from the will of people, nevertheless in the footnote to his “Method of Sociology” exemplified a kind of exclusion by using the notion “social force” that relates to the feature possessed by bureaucrats (Durkheim, (1938) [1895]: 145). The distinctive social role of a person with power is recognized by many other authors. The oriental scripture Bhagavad-Gita contains the following verse about it: “Whatever action is performed by a great man, common men follow in his footsteps. And whatever standards he sets by exemplary acts, all the world pursues” (B.G. 3:21). The tradition of elite research in the modern period dates back to the writings of Vilfredo Pareto (1968 [1901]). This “social force” or organizational behavior of the “man of power” is a decisive issue for the proper functioning of the system of administration both in the private and public sphere. To avoid being dependent on the personality of “men of power”, a special organizational device called “bureaucracy” was established. Max Weber studied it and presented results in his renowned works (Weber, 1958). He described the features of the progressive organization, which in his time achieved supremacy in efficiency over family businesses, clan activities and adhocracies. Weber’s summary of the main features of the progressive administration, which was separated from local particularities, became a guideline for implementing it all over the world. All the following schools of administration concentrated on the drawbacks in the ideal model of Weber. The Max Weber’s brother, Alfred Weber, also observed organizations and pointed out the negative phenomena of “split of personality” of the bureaucrats of his time (Shpakova et al., 2003). The latter day achievements of organizational science are inspired by the management of culture (Crozier, 1967). At any rate, successful

organizational governance depends to a great extent on the personal engagement of bureaucrats or managers. No matter how effectively in the short-run the organization of labor can isolate performance from personality, the time of collusion of both will come sooner or later. And the first reaction will be within the manager's staff, though the most tangible results will become visible by the performance of the ruled, especially during the survival test of the adversary environment.

It is in the core of survival of any economic policy both on the local and global level, irrespective of its ideological color, that is clear in the example of Russia. This paper reviews existing theories of administration from the viewpoint of the inter-temporal shift of the object-user-client paradigm, showing how participation influences this transition.

First I demonstrate that the roots of social conflict are in the presence of two rivaling forces within a human. This conflict manifests itself in the framework of power related interactions which are also connected with the economic activities of people. And the main role in this conflict is played by the management of public and private organizations, which define the pattern of relations in the society. The attempts to isolate the performance of society from the influence of managers' behavior and attitudes will either fail or will bring about high risk of totalitarian rule consolidation if they succeed. The first close alternative to the relations where an individual becomes an object for manipulation is the user-based relations where one has multiple choices but is not always aware of it. To move beyond the user-based to client based relations where the choices are openly offered to an individual requires not only awareness but also readiness to participate in order to employ the revealed possibilities. The lack of awareness and participation, which are the main elements of social capital, leads the system to the re-

turn to the periodic oscillations between the object based system of bureaucratic administration and the spread of informality accompanied by nepotism, corruption characteristic to pre-industrial forms of administration.

Honest or smart. The origin and nature of basic social conflict

Nowadays within the humanities, which deal with the wide range of economy related phenomena, the orthodox approach of economic theory is gradually giving way to more complicated and interdisciplinary systems of description and explanation. One of most promising of them is economic sociology of conventions.¹ On the other hand, in order to understand the role of the orthodox approach in the modern development of many economic disciplines it is necessary to reveal its ideological side, thanks to which economics survived despite poor explanation and predicting power. The strength of it lies in the normative foundations which are in the basis of prosperous economic systems, namely the rationality of law-abiding actors. In other words, what every society badly needs is “honest and smart people”. Just like many other abstractions used in economic theory, this basic principle contains a contradictory self-destructing requirement. “To be honest” in an absolute sense means to be ready to eliminate competitive advantages which make one better off at the start. “To be smart” entails being able to acquire as many advantages as possible and use them to obtain even more advantages, thus, following the logic of an individual, maximizing the bulk of utilities in disposal in unlimited way. This conflict become especially substantial when the issues of the shadow economy and corruption come into consideration, which are in turn relevant

¹ For an exhaustive description of the process and implication see Beamish, T., Biggart N., 2003.

problems for many countries including Russia, Poland and other post-communist countries of Eastern Europe.

One well-known Polish businessmen and statesmen, who was prosecuted for a corruption-related activity, several years before the case had been a member of scientific group studying corruption in the framework of the Lech Walesa Institute program. In the book based on research results, he wrote the following:

The social consciousness has already consolidated the opinion that theft, deceit and corruption had become the agents of social changes. Indeed, we are building an economy whose prosperity has to be brought by the “invisible hand of market”, although the concentration of capital necessary for such a market is being achieved by means of the “invisible stealing hand (Cwiklinski & Urban, 2006: 1).

Professors often forget to tell students of economics that the “invisible hand of market” conception emerged in the framework of the wider context of Adam Smith’s world, who was professor of ethics and author of the book that become recently popular among modern economists “The Theory of Moral Sentiments” (Smith, 1790).

Another example of the failure of economics to explain phenomena having a direct reference to the industrial relations is the issue of labor-capital interaction in the economic theory of factors of production. Here the labor and the capital are described as two equal factors of production – the statement opposition to which has changed the world. However, among the equations and formulas of standard textbooks on economics introducing for instance the notions of ratio of capital to labor, and drawing the linear model of demand and supply, Samuelson notes that the redistribution of income between capital and labor as factors of production depends on “local circumstances” or “tradition”. It is absolutely neglected here that in industrialized countries a lot of people had to sacrifice personal freedom and sometimes life to change “the tradition”. Hence,

in an economic science there is still a lack of a general consensus on these matters. The lack of a scientific answer on how the “surplus value” should be shared prevents the labor-capital consensus and provides the grounds for permanent social conflict.

By providing two of these examples, I have shown how the social conflict originates from the inner personality conflict of the choice of “honest or smart”. There are many readers which would question the universality of the notions, but it would be hard to refuse their conflict nature. And when comparing both of them the honesty would attract much more attention than smartness perhaps because many of us have strong excuses of the harm that we have been directly or indirectly doing to other people. This is because economic competition first requires the smartness from us. Material prosperity is often treated as the proxy of it. The Russian ‘nouveau riche’ had simple logic – to take advantages by violating the laws and to use this advantage to obtain even more power so that to control the labor by using capital. Was that honest? If yes, then the simplicity of this technique impeaches the smartness of these anecdotic personalities. Knowing it for the American question: “If you are so smart why are you not that rich?” I have the Russian answer: “If I were that rich – why would I need to be that smart?”

The role of the management in basic social conflict

In the modern world, partly because of the collapse (or breakdown – as some claim) of the Soviet Union, the conflict between labor and capital has taken the shape of a kind of Cold War. The growth of prosperity enables individuals to change their side. Joint stock companies with their shares dispersed among the vast population and state programs of small business support, socially oriented labor legislation make it more real. To some extent it is similar to establishing the Geneva Convention, which defines the rules of war due to the impossibility to outlaw war as it is. Employee share

ownership is an effective tool to reduce basic conflict (Kalmi, 2000), but this and other forms of cooperation are often offered only for the management. And the management takes the decision about the necessity to involve lower level employees into the participation on the basis of higher rank interaction than traditional and bureaucratic execution of the duties. The latter requires much more interpersonal and communicative skills. In the developing and new capitalist countries it is not true even for that degree and the most common way of the conflict resolution is the “stick method” (Staniewski, 2006)

Trade unions and worker councils have become an integral part of the capital-labor relations in developed countries, which despite the tremendous share of government spending in the GDP are still called ‘capitalist countries’. Another situation is in the ‘new capitalist countries’, where the degree of negation of labor protecting institutions is seemingly proportional to their (at least formal) universality in the past. Comparing Russia and Poland we can see higher labor protection standards in Poland at a lower level of the shadow economy and corruption. The non-transparency of Russian joint-stock companies and voluntarism of blocking share holder, as well as built-in tax law violation does not permit effective influence of employee in the role of shareholder or trade union member on the enterprise performance, unless one is in the key management position.

The formula of wild capitalism that is in Russia now, i.e. “Winner takes all” recently caused the emergence of the new business practice of property redistribution called “raiding”. The “raiders” are aggressive financial groups often connected with organized crime circles and engaged in the seizure of enterprises by means of fake documents, “bought” court decisions and abrupt attacks on the premises (particularly headquarters) in order to capture control of

financial flows. There are cases when “raiders” use brigades with more than thousand men armed with baseball and iron sticks and chains to eliminate in non-lethal way the security and to penetrate the target buildings. The employees of such enterprises are manipulated by the top-management in order to be involved into the conflict and to let the firm save on security agency. Their interests, nevertheless, will not be cared about either by the old or by the new raiders’ administration. Medium level managers are in a vulnerable situation during the attack of the raiders. If they stop working then they can lose their job if the raiders succeed. If they continue to work they automatically become betrayers if the raiders fail.

Cooperation as the basis of successful enterprise is in many ways refused in post-communist societies as the reaction to the enforcement of it by the former power. As the authors of a book that is the report of many years of research on entrepreneurship in Poland state: “Under communism, various types of institutions aimed at eliminating (at the worst) or limiting (at the best) private business activities” (Slomczynski, 2005: 35). It is a common and simplified view of the winners in the ideological struggle on the processes that took place under “the communist rule”. The initial sense of the policy was not to eliminate or limit the initiative as it is but to reorient to the common or public benefit. However utopian the idea is – it is in the basis of the “economy of participation”, the difference is in the degree that the private sphere has to be sacrificed for the sake of the public sphere. What the communist ideology overestimated was the ability of a human to be zealous enough while working for a public enterprise with the capacity of private business activity. And the temptation to follow private interest to the detriment of public interest increased with the rank of an official. Finally the managers in the Soviet Union formed a quasi-market of the ranks, decisions and other attributes of power which opened the way to the possession of tangible assets and privileges (Kordonskiy, 2000). Another

important drawback was the overestimation of the equality of the members of society and the neglect of the scarcity of entrepreneurial resource.

The capital-labor conflict is the particular case of more general conflict between the ruler and the ruled. Different forms of social participation, 'social capital' related activities are instruments that alleviate conflict by social compromise. The role of the state here is the prophylaxis of the considerable escalation of the conflict and the emergency help for the victims through the social security system. The socialist or communist paradigm was supposed to completely eliminate this permanent conflict. However, the result was that myriads of small, micro and medium conflicts of 'capitalist' society were replaced by one macro conflict – between the state and the citizen. It was expected that after the concentration of many conflicts into one the latter would be first controlled then annihilated by means of the merger of the state and the citizen into one. The execution of the procedure was entrusted to the Soviet bureaucracy. The next section deals with the real performance of the Soviet bureaucracy that prevented the plan of social transformation from being realized.

Ideal versus real bureaucracy

The rationality of bureaucracy in socialist countries had a peculiar character. It was rational in the sense that a bureaucrat turned into a "homo economicus" deprived of moral values since the traditional and religious institutions were suppressed by communist ideology and the new philosophy was so utopian and irrational that it could not substitute them in practical matters especially when the 'honest or smart' conflict was concerned. Trotsky wrote about it:

The power in Russia is captured by the bureaucracy. Although everything in the country belongs to the state, the very state belongs to

the bureaucracy. Sociological problems seem much easier in reality if social phenomena are being described single-sided. There is nothing more dangerous than not to notice reality for the sake of logical harmony. The elements of reality violating harmony of your scheme to-day, tomorrow will destroy its relevancy completely” (Trotsky, 1967: 249).

Trotsky was right in the sense that the power was kept by the bureaucracy or by managers, he just did not want to recognize the universality of and necessity for complicated social systems. His mistake is similar to the mistake of all revolutionaries which destroy Bastille prisons and then create labor camps on the field, which even theoretically makes new prisoners’ situation worse than their previous one. The unprecedented rate of imprisonment and labor encampment with inhuman conditions in the Soviet Union under the Stalin (Dzugashvili) regime was incomparable to the punishments imposed on Russian revolutionaries by the Tsar (Russian Emperor). Communists built their ideology on depicting the cruelty of autocracy in the textbooks on history when describing the imprisonment of the participants of the XIX century revolt of “Dekabrists”. Few historians knew that the first Russian Cooperative was established in 1831 in Siberia by the Dekabrists – a fact impossible to imagine in, say, Stalin’s “Gulag” one hundred years later.

Hence, efficient bureaucracy is a crucial mechanism for implementing ideas. The bad performance of the mechanism causes temptation for revolutionaries of all kinds to use unlimited violence to destroy it. However, as Russian history has proven, the unhealed diseases of administration such as corruption, nepotism and non-participation of the officers are transmitted through generations and regimes, and after the regular “progressive move” bring about the necessity to demolish the whole system as it happened during the Chinese cultural revolution after decades of communists power.

Thus, the quality of the management that often takes after the patterns of state administration is the main factor of sustainable development. And for the new Russia the threats to its integrity and prosperity are the same as those which brought about the demolition of the communist regime.

Weber wrote that “Modern bureaucracy in the interest of integrity has developed a high sense of status honor; without this sense the danger of an awful corruption and a vulgar philistinism threatens fatally” (Weber, 1958: 88).

In my opinion, it is not the external signs of the bureaucracy (written documents, hierarchy, paid service, etc.) that are the key elements of sustainable public or private administration but the ‘status honor’ of the managers. Without it the pattern of performance will be similar to those described by Weber for the patrimonial and other forms of pre-bureaucratic administration. What actually in Russian public and private administration main is - the absence of ‘status honor’. The cruelty of the natural and social multicultural environment for the Russian state required rulers to be no less cruel towards their own people to establish and to defend the state. Civil society institutions could not be developed in the military state. However, no war consists of battles exclusively, and during more peaceful times the ruling class tried to compensate for the losses at the expense of the ruled. The total deprivation of the dignity, culture of prison (10% of the population had experience of imprisonment during the communist rule) are not the conditions for emergency ‘status honor’ of ‘honest and smart’ public or private administration so the people rather rely informal networks. How these informal networks change the content of bureaucracy and the dynamics of the development of the institutions will be shown in the next section.

From object to user and the problem of awareness

The importance of efficient bureaucracy for the functioning of any complicated social system is difficult to overestimate. Scientific research on bureaucracy first emerged with Max Weber's sociological essays. On the one hand, bureaucracy was treated as an impersonal mechanism that was designed for transmitting orders from higher to lower hierarchies, while on the other hand it was to become a kind of bolster to institutionalize and preserve the legacy of the great ideas which were implemented in the past by a charismatic personality (Weber, 1947).

At the beginning of organizational science bureaucracy was established to execute the action upon the object. The object can be the consumer of the end product as well as an employee. Successful performance of this system was based on the subordination of the object to the purposes of the Manager. Alfred Weber, who contemplated the white collar community of his time, described the shift of the way of life and customs of an individual involved into industrialization. He, unlike his brother, Max Weber, treated bureaucratization as a negative social phenomenon that stimulates the emergency of masses of people with an unnatural form of the realization of personal needs, particularly by means of the carrier in the structure of bureaucratic organs, which required the dissolution of personality in the office. The full capacity of this process appears in totalitarian societies having anti-human objectives in principle (German Sociology, 2003: 262-275).

The early success of bureaucracy as a form of administration was based not only on the technical supremacy of the procedures but also on the possibility to employ lower social strata in the administrative service. For many of them the appointment was a chance to go beyond the limits of "debility of rural life". The new ascriptions in the bureaucratic machine were the rise in the social structure. Here

one could grow further only thanks to the execution of the orders. However, the perfection of the German bureaucratic machine was achieved by the time of the Holocaust. The Jewish people murdered in the concentration camps were not considered as people but only as the objects for the processing. With perfect rationality the golden crowns of their teeth were collected separately from their skin, hair, shaving-brushes, foot-wear – as you can see this all in the Auschwitz-Birkenau Museum in Oswiecim, Poland.

The anti-humanism of this system was also implemented in Stalinist society but the Russian situation was different than the German one. The revolution caught the Russia off guard with unfinished industrialization and bureaucratization. The Tsarists' administration always depended on non-bureaucratic procedures of autocracy and could not succeed in creating proper bureaucracy because of the inbuilt controversy between old style nobility supremacy and the bureaucratic apparatus with employees from the lower social strata. This situation was beneficial for the revolutionization of these strata. Most of the early Russian terrorists of the 19th century were from the strata of professional bureaucracy. After the demolition of the former power, the Bolsheviks in Russia as well as later the communists in China had to rely on the existing offices and hired the same employees (Wang, 2001), but always under the political supervision of party commissioners. The severe repressions of Stalin prevented corruption by the systematic extermination of the high ranking bureaucrats, which helped to support the fear but weakened the expertise. After the death of Stalin nothing preserved the system from the spread of informal networks. A French researcher of organizations wrote that Russians in the bureaucratic system have to resort to violating the law in order to execute their obligation towards the state in response to impossible objectives. As the result, they always have a complex of being a criminal. Citizens

become materially and morally dependent on the central administration. The only protecting mechanism is to enter into an elementary informal group, because the relations are distinctively warm and full of care (Crozier, 1967: 232).

The words of Crozier, which referred to the communist times of Russia, are to a great extent relevant to the present reality of Russian public administration and private business relations. The upper strata of the administration express aspiration (at least in words) to stop these relations although thanks to these relations in many cases they obtained their own positions.

With the theoretical development of the administrative science, a new Managerial School emerged, and it was different from classical bureaucratic theory because it paid more attention to the economic stimulation of an employee. One was still treated as the object but oriented toward private interest; thus, a person was not deprived of the “natural aspirations” by the fact of joining the organization. The school of administration consolidated bureaucracy and economic theory and is known as classical management or public choice theory. According to modernization theory, which received some empirical support from the recently introduced World Value Survey, Russia according to many indicators of social-economical development is 60 to 80 years behind the developed countries (Inglehart & Welzel, 2005). In terms of administrative relations, the classical managerial approach is only under implementation here. The transition to the managerial approach is marked by changing the role of an employee or end consumer from the object of the system to the user of the system. User-based relations are characterized by granting a human more options to choose from, but only if he is interested in them or cares about them. This includes the whole range of organizational or administrative relations from the protection of the rights to the freedom of choice. Participation here is no longer lim-

ited by the place in the hierarchy but clustered in the sphere of material interest.

The next generation of organizational theories is represented by Human Relation School, which can be considered as an attempt to cope with that range of informal relations that emerged as the reaction to the implementation of the “object” approach. Here the behavior is considered in terms of sentiments, personal orientations and values which are manifested in the participation in informal groups. The formal structure of the organization is considered as the external variable of the system, which a person functions in (Barnard, 1938).

Informal relations are the core of Russian industrial and public administration structure. They penetrate all and the system expels those who are considered as alien to it. In a recent interview one of the businessmen who functions in the highly profitable business connected with alcohol production responded to my question about the share of profits spent by him for informal protection in the following way:

This is the wrong approach, and the Western definition does not fit here. It is an absolutely different construction when one has personal property that belongs to him, and then he makes a business out of it and he can share the profit with, say, racketeers. We have seigniorial relations. Nothing has changed from John the Terrible's times, we are still classified as earls and serfs²

After additional questions I understood that most of the luxurious businesses are controlled by the regional and city public administration officials, who incorporate new people into the enterprise only on the basis of personal relations. They define part of the profit that will go to the personal disposal of a participant and de facto are owners of contributions of the latter.

² Interview in Rostov-on-Don (Russia) 19.06.2006.

The attempts of the government to influence these preindustrial relations do not go beyond promoting the classical bureaucracy scheme that, in turn, as it was shown above, is comprehended by the population as detrimental and personally more dangerous than the informal one. Russians generally know about the possibilities of formal methods of solving their problems but have no experience with using them (see Tables 1 and 2).

Table 1. Attitude of Russians to the efficiency of different methods to impact the power

| The ways of influencing the state administration | Consider as effective methods, % of the respondents | Used in the last year, % of the respondents |
|--|--|--|
| Strike, manifestation and other forms of social protests participation | 12.8 | 3.2 |
| Political party activities participation | 5.3 | 1.3 |
| Trade union and labor circles participation | 11.4 | 4.3 |
| Official applications to state departments and media | 18.5 | 4.2 |
| Use of personal connections | 19.2 | 8.2 |
| Court applications | 20.1 | 5.2 |
| Bribing | 10.1 | 5.5 |
| There are no effective ways/did not attempt | 45.7 | 77.5 |

Source: IKS I RAN July 2003

According to the data of the survey presented in the table it is clear that almost half of Russians do not see any efficient ways to influence their superiors. Moreover, among those who know about

some methods only less than half actually referred to them, although among those who referred to them half will use informal ways including illegal forms.

Table 2. Formal and informal measures of influence on the power structure: actual and potential participation frequency and difference

| Formal | Potential, % | ACTUAL, % | Actual as share of potential |
|---|-------------------------|----------------------|---|
| Trade union and labor circles participation | 11.4 | 4.3 | 38% |
| Political party activities participation | 5.3 | 1.3 | 25% |
| Official applications to state departments and Media | 18.5 | 4.2 | 23% |
| Court applications | 20.1 | 5.2 | 26% |
| Strike, manifestation and other forms of social protests participation, | 12.8 | 3.2 | 25% |
| Mean for formal activities | 13.62 | 3.64 | 27% |
| <i>Informal</i> | | | |
| Use of personal connections | 19.2 | 8.2 | 43% |
| Bribing | 10.1 | 5.5 | 54% |
| Mean for informal activities | 14.65 | 6.85 | 49% |

Source: Author's grouping of IKSI RAN data. IKSI RAN July 2003

The formalization of relations by the classic bureaucratic scheme of industrial relations (if it is successfully implemented) makes an organization vulnerable to the voluntarism of the one who receives "the captain's chair". In the conditions of low awareness about the rights and possibilities to influence "the captain" the only way of protection becomes informal relations built according to the patterns of the pre-bureaucratic hierarchy of authorities. This proves that a user-based administrative structure is not stable and has a

transitive character. The question is where it will eventually go if “users” do not actually use the possibilities which are at their disposal. There are two options – it will go back to the object-based system or ascend to the client-based system that will be further discussed.

From user to client. The problem of participation

The relations based on classical bureaucracy make an employee and a consumer an object deprived of free will, and the structure becomes better as it more efficiently removes personal features inconsistent with the objectives of the system. The management conception of administration pays more attention to personal needs but only in a limited way within the range of the economic man’s preferences. Attention to informal relations in conjunction with a managerial approach brings about user-based relations that are being implemented in Russia now. However, the user-based system of relations is vulnerable to the unawareness of users. The implementation of the next stage of client-based relations in turn is vulnerable to non-participation.

Client-based administrative relations assume that all possible solutions for the client (employee or end-consumer) are provided beforehand, so he would not have additional, say, transactional costs on finding information on available options. Hence, the system not only turn an individual into an object deprived of free will, or even not knowing about the possibilities, but treats the individual as the client, who is not just given a phantom perspective of his actions but is provided with a full range of instruments to achieve the required personal and professional expectations.

Among the new schools of administrative thoughts representing the client-based approach the first was the Human Resources (HR) School. It considers individuals as the sources of hidden reserves. As

Staniewski shows success is brought about by the implementation of the important elements of it which include (Staniewski, 2008):

- Organizational culture
- Qualifications of the staff
- Qualification of the employees
- Motivation of the staff and employees.

It refers to high-ranking needs in Maslow's hierarchy. Unlike the classical management approach, where the decision is transferred top-down, in HR management the flow of information is redirected, and it has to move then from lower to higher levels. Here the problem of participation is reflected in the proportion of individuals willing to be engaged in providing information since there is always the possibility of misinterpretation, falsification and neglect. The client can finally receive full information but he/she will not be able to interpret it or will not use the possibility. In the following table the results of the survey provide evidence that although Russians know about the possibilities of participating in social life very few of them really wish to do it (See Table 3).

Table 3. The potential of Russian respondent's participation in social life

| Participated, % | The form of participation | Ready to participate, % |
|----------------------------|---|--|
| 23.4 | Collective accomplishment of commonly used infrastructure (houses, playgrounds, etc.) | 43.8 |
| 10.0 | Targeted local actions participation. | 16.4 |
| 3.8 | Self-government participation. | 6.5 |
| 10.2 | Humanitarian relief collection | 27.9 |
| 9.0 | Election companies participation. | 8.9 |

| Participated, % | The form of participation | Ready to participate, % |
|----------------------------|---|--|
| 5.9 | Labor circles participation. | 9.1 |
| 2.8 | Meeting and trade union strikes participation | 4.4 |
| 2.7 | Charity, NGO, remedial actions and other funds participation. | 10.2 |
| 1.0 | Local political party participation. | 1.9 |
| 1.8 | Religious organizations participation | 2 |
| 0.6 | Others kinds of participation | 0.5 |
| 58.3 | Didn't do any \\\ I'm not going to! | 37.5 |

Source: Ibid.

Low participation in social life means low level of social capital – the notion that came into the scientific lexicon of economics and economic sociology with the evidence of its explanatory power of the difference in the rates of economic development (Social Capital, 2000). This and other peculiarities of Russian society are similar to many other societies of the developing countries, which is the reason why some researchers that believe in the dichotomy of collectivists and individualistic economies assign Russia to collectivists and reject the applicability of the conventional approach (Kirdina, 2004).

On the other hand, the analysis of basic characteristics of societies ranked as Oriental reveals social-psychological constructions and basic elements similar to those of Western societies. Thus, the issue in question is how to distil and combine them to acquire the composition necessary for sustainable development (Boguslavskiy, 2005). And here we approach the concerns of the neo-rational, cultural or “complex” school of administration.

According to this school, members of an organization are involved in the complex and dynamic socio-political system, in which the satisfaction of an individual and his/her social needs are realized in the context of power relations. This school to some extent competes with but also complements HR approach. Here we are dealing with the culture-management. The success of it depends on suiting the purposes of the organization to the culture of society the way to achieve economic parameters and be aware of the impact of the organizational relations on the general culture.

Hence, the growth of social capital has crucial importance and is connected with the transition to client-based organizational relationships. The lack of social capital brings about the threat of returning back to the object-based administrative relationships characterized by depriving individuals even of the rights given to them by the user-based system. Classical bureaucracy can be an effective mechanism for creating social order, but from being familiar with the Holocaust one has to think about the long term price that the society has to pay if it refuses to spend much time and effort into changing the culture.

Conclusions

The neglect with which classical economics treats the distinctive character of labor as a factor of production caused the inability to explain important social phenomena. The labor-capital conflict is the private case of more general conflict of the rulers and the ruled. The social conflict itself is rooted in the inner conflict of the choice between self-oriented and socially-oriented behavior. The most important consequences of the inner conflict dwell within the minds of the elite or managers or rulers. Both capitalist and socialist political economy are dependent on the rate and proper organization of human participation in creative activity. The responsibility for the

involvement of the population in creative activities lies with the elite. The inability to do it brings about the decision to demolish the present system, but the new one will have to face the same problems. Regular collapses are guaranteed. The key element in any structured social relations is the treatment of the participants. The increase of social and human capital in the developed world caused a gradual shift of the paradigm of the organizational thought. There was consequent shift from the treatment of an individual: from being an object, deprived of choice, to a user who has the choices but is not given information about it, and finally to client, provided with all instruments of choice in advance. The user-based system is not stable and has a transitive character since it depends on the awareness of a user who has considerable transaction costs in obtaining information about the choices. The question is where it will eventually come if “users” do not actually use the possibilities, which are in their disposal, there are two options – it will come back to object-based system or ascend to the client-based one. The level of social capital has crucial importance for transition to client-based relationships, the lack of it as it is in Russia brings about threat of returning back to object based administrative relationships, characterized by the deprivation of individuals even of the rights given them in the user-based system. The bureaucratic system is the best solution then, though it is always vulnerable to and challenged by informal relations, corruption, nepotism, etc.

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Leonie Jooste

AN INVESTIGATION OF THE ETHICS OF MANAGING SHORT-TERM EARNINGS

Introduction

The problem with managing short-term earnings is it becomes an ethical practice, regardless of who is or may be affected by the practice or the information that flows from it. If an accounting practice is not explicitly prohibited or there is a slight deviation from accounting regulations, then short-term earnings management is vulnerable to misinterpretation, manipulation, or deliberate deception.

Students adopt the attitudes of their professional reference group before they commence their professional careers. Therefore, the ethics of earnings management affects the accounting educator. In the wake of the publicity received by Enron and WorldCom on financial failures and fraud, and the subsequent legislation, there is little evidence in the literature that the profession is educating accountants about earnings management.

This study surveyed students and business managers at the University of Wollongong in Dubai to measure their perceptions about the morality of specific earnings management actions. The evidence shows that there is no significant difference between the perceptions of business managers and students regarding the morality of earnings management. Furthermore, the survey indicated that there is no significant difference between genders regarding the ethicality of twenty earning management practices.

Short-term earnings are managed in most if not all companies. It can be defined as any action on the part of management which affects reported income and which provides no true economic advantage to the organisation, even if it may be detrimental to the com-

pany in the long-run (Merchant & Rockness, 1994). Bruns and Merchant (1990) conducted a survey of the readership of the Harvard Business Review (HBR) on the acceptability of practices in earning management. The results were characterised as “frightening” and the authors observed that anyone who uses information on short-term earnings is vulnerable to misinterpretation, manipulation, or deliberate deception as some of the earnings-management practices can be immoral and unethical.

Many cases of financial frauds and failures in companies have come to light throughout the world. After the major accounting scandal of Enron and WorldCom, and the subsequent demise of Arthur Anderson in America, business ethics have attracted increasing research attention at a global level. Business ethics not only revived academic’s and practitioners’ interest but also gave full support to the view that there is a lack of ethics and ethical behaviour on the part of business and their managers (Karassavidou & Glaveli, 2006).

The failure of a company is not simply a matter of accounting and auditing but the involvement of a convergence of factors including personal values, integrity and ethics. As scandals of public companies become more on the forefront one realises that people and not accounting is responsible for the major losses suffered by innocent people. Where people are to blame, the assumption can be made that they are people with poor ethical values and integrity (Akers, Eaton & Giacomino, 2004).

Although a professional code of conduct exists to deal with the behaviour of the accounting profession, an individual’s behaviour is still affected by his or her personal values. Therefore, having a code of ethics is not enough or has little meaning (Verschoor, 2002). Woo (2003) is of the opinion that knowing what is right is not the same as doing what is right. A survey by Toffler in 2003 (Akers, Eaton & Giacomino, 2004) showed that corporate values are guided by honesty, integrity, trust, respect and then maybe commitment or team-

work. But after an investigation with groups of employees the results turned out differently. Research shows that personal values influence behaviour and not a code of ethics (Eaton & Giacomino, 2000, 2001).

Akers, Eaton and Giacomino (2004) agree that the individual members of a company may not necessarily internalise the publicly stated values of their employers. Hence, the behaviour of these individuals would be inconsistent with the stated values of the company. In this regard, business schools which are considered a basic source of providing managers and entrepreneurs seem to be blamed for much of the unethical behaviour in business (Karassavidou & Glaveli, 2006).

This has consequences for the accounting educators as the values extolled by educators may also not necessarily be internalised by the students. Therefore, many universities and in particular business schools it has become compulsory for students to take a business ethics course. In the context of accounting education, this study proceeds with a survey to determine if accounting students and business managers have different views on the morality of earnings management practices. This study also tests for differences by gender.

Literature review

In 1990, Bruns and Merchant reported on a questionnaire regarded by auditors as short-term earnings management situations. The HBR readers were asked to rate the earnings management actions in the questionnaire as some were ethical and other clearly unethical. The authors observed that they were shocked with the result and that some earnings management practices could be labelled as immoral and unethical.

Subsequent to the Bruns and Merchant study other researchers (Merchant & Rockness, 1994; Priest, 2002; Khaled ElMoatasem Abdelghany, 2005; Akers Eaton & Giacomino, 2004; Elias, 2004; Marquardt & Wiedman, 2004; Giacomino & Akers, 2006) embarked upon research in earnings management and corporate ethical values. The questionnaire of Bruns and Merchant (1990) was also used by Merchant and Rockness (1994) where general managers, staff managers, operation-unit controllers, and internal auditors were sampled.

Elias (2004) did a survey on certified public accountants (CPA's) and reported on their low perceptions of corporate ethical values. Furthermore, it was noted by Priest (2002) that unethical earnings management practices could be attributed to the failure of corporate ethics. Khaled ElMoatasem Abdelghany (2005) found that companies should apply more than one measure for the quality of earnings as management may manipulate the earnings to achieve predetermined targets. In many companies, concern for the bottom line or "making the numbers" seems to override any concern for ethical values (Verschoor, 2002). Companies use various devices to influence earnings outcomes, including "big bath" charges and the abuse of materiality and revenue recognition principles. Allowable discretion, which can be permissible under GAAP, may also be used by managers to boost or lower earnings by a few percentage points (Durfee, 2006). These practices tend to erode the quality of earnings and financial reporting and deceive financial statement users.

Despite the general utilization of earnings management, widespread confusion and disagreement remain over what the concept of earnings quality should include. With the highly publicised financial frauds and failures, the profession has emphasised the importance of the concepts of earnings management and as a result, many accounting journals have invited and published research articles that deal with earnings management.

Researchers (Eaton & Giacomino 2000, 2001; Akers Eaton & Giacomino 2004; Giacomino & Akers, 2006) proposed a methodology to incorporate in accounting programmes to measure and change students' personal values. Surveys were performed (Eaton & Giacomino 2000, 2001; Giacomino & Akers, 2006) to determine the personal values of internal auditors, business students, gender and different disciplines. In response to corporate scandals and the realisation of what is at stake, Woo (2003) supports including ethics in curricula. Many schools of business have initiated new business ethics courses, developed cases, conducted workshops and held seminars in ethics. Woo, however, raises the question whether business schools can teach MBA students right from wrong when the average student is between 26 and 28 years old. Karassavidou and Glaveli (2006) investigated the ethical orientations of undergraduate business students in Greece. An internalised code of ethics was developed and it appears that students' ethical judgements were influenced by the internalised code of ethics.

Giacomino and Akers (2006) surveyed students and business managers to measure their perception of specific earnings management actions. The questionnaire used in their study was similar to one used by Bruns and Merchant. The same rating system as Bruns and Merchant (1990) was used but two practices were omitted as the authors believed it did not qualify as earnings management practices. This study uses a similar questionnaire as Giacomino and Akers (2006) with the aim to determine the ethical perceptions of students, business managers and genders.

Research methodology

This study conducts a survey of undergraduate accounting students and business managers at the University of Wollongong in Dubai (UOWD). The aim is to measure their perceptions about the

morality of specific earnings management actions and to determine whether students and business managers have different views about the ethics of earnings management practices. Furthermore, the aim is to determine if the perceptions of respondents differs by gender.

The main research question

The problem with managing short-term earning in all companies is that if an accounting practice is not explicitly prohibited or if there is only a slight deviation from accounting regulations, then managing short-term earnings becomes an ethical practice, regardless of who may be affected by the practice or the information that flows from it.

Woo (2003) observes that having a code of ethics in a company is not enough and it is not enough to make students aware of ethical issues because knowing what is right is not the same as doing what is right. Therefore, it is of interest to research the morality perceptions of students and business managers on specific earnings management actions. In Table 1 twenty actions related to ten earnings management practices are given. Some of the actions are ethical. Others are judged by some people to be unethical and the judgments as to the degree of severity of the infraction may vary. Annexure 1 depicts the actual questionnaire given to the respondents to complete.

Table 1. Short-term earnings management practices

| Action | |
|---------------|---|
| 1 | Paint ahead of schedule. |
| 2a | Defer expenses to meet annual budget. |
| 2b | Defer expenses to meet quarterly budget. |
| 3 | Defer supplies expenses by delaying recording invoice. |
| 4a | Credit that is more liberal terms to reach budget target. |
| 4b | Work overtime to reach budget target. |

| Action | |
|---------------|---|
| 4c | Sell excess assets to reach budget target. |
| 5a | Prepay expenses to reduce income by \$60 000. |
| 5b | Increase reserve for obsolesces, reduce income \$700 000. |
| 6a | Reduce reserve for obsolescence to continue work. |
| 6b | Reduce reserve for obsolescence to meet budget target. |
| 7 | Bury scrap costs in "other expenses", no income effect. |
| 8a | Request deferred billing for supplier, \$30 000. |
| 8b | Request deferred billing from supplier, \$500 000 |
| 9a | Raise return forecast from 22% to 35%, actual 22%. |
| 9b | Raise return forecast from 22% to 35%, actual 35%. |
| 10a | Accelerate delivery to customer by 3 days. |
| 10b | Accelerate delivery to customer by 16 days. |
| 10c | Accelerate delivery to customer by 28 days. |
| 10d | Accelerate delivery to customer by 42 days. |

Research method

This paper is a descriptive study in which a questionnaire was used to determine the perceptions of two groups of people, 70 business managers and 61 students. Managers were represented by MBA students at the UOWD and the second group, the students, were represented by financial accounting students at the University enrolled in the BCom programme.

The questionnaire involves practices of short-term earnings management and was completed by 131 respondents. The questionnaire is similar to a questionnaire used in a survey in the USA by Giacomino and Akers (2006). It includes twenty items that relate to ten earnings-management practices. The practices involve the choice and timing of operating events and the choice and timing of recognition of specific revenues and expenses.

The respondents were informed that the questionnaire referred to a \$1 billion company consisting of different divisions. Each divi-

sion has a turnover of \$100 million and net profits before taxation of \$12 million with a financial year ending on 28 February. The respondents were required to rate each question on a 5-point scale ranging from 1 to 5 as follows:

1 = Ethical Practice.

2 = Questionable Practice. I would not say anything to the person involved, but it makes me uncomfortable.

3 = Minor Practice. The person should be warned not to engage in the practice again.

4 = Serious Infraction. The person should be severely reprimanded.

5 = Totally Unethical. The person should be fired.

In Table 2, a breakdown is given of the respondents by group and gender.

Table 2. Demographic data

| Respondents | | |
|--------------------|------------------------|-----|
| Groups | Students (S) | 61 |
| | Business managers (BM) | 70 |
| | Total | 131 |
| Gender | Male (M) | 43 |
| | Female (F) | 75 |
| | No response | 13 |
| | Total | 131 |

The results

The frequency distributions of the responses were calculated in total and by group, for each of the twenty earnings management actions. Secondly the mean value of each item was calculated and the responses categorised from “Totally Unacceptable” to “Ethical

Practice". An analysis of variance was then used to measure the differences between the respondents.

Based on the mean values of responses and the frequency distributions, it was found that no practice was rated as "Totally Unacceptable", with a mean above 4.5, or as an "Ethical Practice" with a mean below 1.5. These mean values and standard deviations are given in Table 3.

Table 3.

| Rating of earnings management actions | | | |
|---------------------------------------|---|------|---------|
| Ethical categories | Action | Mean | Std Dev |
| Totally unacceptable (4.5 – 5) | None | | |
| Serious infraction (3.5 – 4.5) | Bury scrap costs in "other expenses", no income effect (7). | 3.56 | 1.15 |
| | Request deferred billing from supplier, \$500 000 (8b). | 3.5 | 1.0 |
| Minor infraction (2.5 – 3.5) | Defer supplies expenses by delaying recording invoice (3). | 3.2 | 1.0 |
| | Accelerate delivery to customer by 42 days (10d). | 3.2 | 1.2 |
| | Defer expenses to meet annual budget (2a). | 3.0 | 1.03 |
| | Defer expenses to meet quarterly budget (2b). | 3.0 | 1.1 |
| | Request deferred billing for supplier, \$30 000 (8a). | 2.94 | 1.05 |
| | Accelerate delivery to customer by 28 days (10c). | 2.94 | 1.04 |
| | Raise return forecast from 22% to 35%, actual 22% (9a). | 2.91 | 1.03 |

| Rating of earnings management actions | | | |
|--|--|-------------|----------------|
| Ethical categories | Action | Mean | Std Dev |
| | Increase reserve for obsolesces, reduce income \$700 000 (5b). | 2.83 | 1.02 |
| | Raise return forecast from 22% to 35%, actual 35% (9b). | 2.8 | 1.1 |
| | Prepay expenses to reduce income by \$60 000 (5a). | 2.77 | 1.24 |
| | Accelerate delivery to customer by 16 days (10b). | 2.66 | 1.05 |
| | Reduce reserve for obsolescence to meet budget target (6b). | 2.59 | 1.05 |
| | Reduce reserve for obsolescence to continue work (6a). | 2.54 | 0.87 |
| Questionable practice (1.5 – 2.5) | Sell excess assets to reach budget target (4c). | 2.4 | 1.2 |
| | Paint ahead of schedule (1). | 2.3 | 1.1 |
| | Work overtime to reach budget target (4b). | 2.3 | 1.0 |
| | Accelerate delivery to customer by 3 days (10a). | 2.3 | 1.08 |
| | Credit that is more liberal terms to reach budget target (4a). | 2.29 | 1.05 |
| Ethical | None | | |

The results were analysed and it was found that:

1. Two of the twenty practices were rated as a “Serious Infraction” with a mean between 3.5 and 4.5.
2. Thirteen of the practices were rated as a “Minor Infraction” with a mean between 2.5 and 3.5, and

3. Five practices were rated as a “Questionable Practice” with a mean between 1.5 and 2.5.

The results show that the respondents do not support the acceptability of these practices, since not one practice was deemed as an “Ethical Practice”. For the five practices that were rated as “Questionable Practices”, the respondents would not say anything to the person involved, although it made them uncomfortable. In addition, for the thirteen practices categorized as “Minor Infractions”, the respondents believe that the person involved should be warned not to engage in the practice again. Whereas, for the two practices viewed as “Serious Infractions”, the respondents believe that the person involved should be severely reprimanded and finally not one practice was rated as “Totally Unacceptable”, and therefore, no-one would be fired.

When comparing the responses between genders, it was found that males have a stricter view than females for ten of the 20 practices. When using a 0.05 difference in the mean values as significant, not one of the differences is significant. In the nine cases where females were stricter, only two are significant. Therefore, it can be said that there are no significant differences between genders regarding the ethicality of the twenty earnings management practices. The only actions found to be of significance is action 4a, credit that has more liberal terms to reach budget target and 4c, sell excess assets to reach budget target.

Table 4: Mean value significant difference by gender and group

| Action | | Group | | Gender | |
|--------|---------------------------------------|-------|-------|--------|------|
| | | S | BM | M | F |
| 1 | Paint ahead of schedule. | 2.1 | 2.4 | 2.4 | 2.2 |
| 2a | Defer expenses to meet annual budget. | 2.77 | *3.22 | 2.91 | 3.05 |
| 2b | Defer expenses to meet | 2.9 | 3.1 | 2.9 | 3.0 |

| Action | | Group | | Gender | |
|--------|---|-------|-------|--------|------|
| | | S | BM | M | F |
| 3 | quarterly budget. Defer supplies expenses by delaying recording invoice. | 3.1 | 3.2 | 3.1 | 3.3 |
| 4a | Credit that is more liberal terms to reach budget target. | 2.44 | 2.16 | *2.5 | 2.1 |
| 4b | Work overtime to reach budget target. | 2.4 | 2.2 | 2.5 | 2.2 |
| 4c | Sell excess assets to reach budget target. | 2.3 | 2.5 | *2.7 | 2.2 |
| 5a | Prepay expenses to re- duce income by \$60 000. | 2.63 | 2.89 | 2.83 | 2.76 |
| 5b | Increase reserve for obso- lesces, reduce income \$700 000. | 2.62 | *3.01 | 3.0 | 2.8 |
| 6a | Reduce reserve for obso- lescence to continue work. | 2.46 | 2.61 | 2.54 | 2.53 |
| 6b | Reduce reserve for obso- lescence to meet budget target. | 2.64 | 2.56 | 2.7 | 2.5 |
| 7 | Bury scrap costs in “other expenses”, no income effect. | 3.34 | 3.67 | 3.7 | 3.6 |
| 8a | Request deferred billing for supplier, \$30 000. | 2.85 | 3.01 | 2.93 | 3.0 |
| 8b | Request deferred billing from supplier, \$500 000 | 3.4 | 3.5 | 3.3 | 3.6 |
| 9a | Raise return forecast from 22% to 35%, actual 22%. | 2.85 | 2.97 | 3.0 | 2.9 |
| 9b | Raise return forecast from 22% to 35%, actual 35%. | 2.7 | 2.8 | 2.7 | 2.8 |
| 10a | Accelerate delivery to customer by 3 days. | 2.22 | 2.38 | 2.3 | 2.4 |

| Action | | Group | | Gender | |
|--------|---|-------|------|--------|-----|
| | | S | BM | M | F |
| 10b | Accelerate delivery to customer by 16 days. | 2.69 | 2.62 | 2.7 | 2.7 |
| 10c | Accelerate delivery to customer by 28 days. | 2.98 | 2.91 | 2.9 | 3.0 |
| 10d | Accelerate delivery to customer by 42 days. | 3.2 | 3.2 | 3.1 | 3.3 |

* Difference in mean values is significant at a 0.05 level.

With respect to differences by groups, the results show that the business managers had stricter views on fourteen of the twenty actions of which two are significant. For the five actions where the students had the stricter views, none are significant. Therefore, the assumption can be made that there are no significant differences between business managers and students regarding the ethicality of earnings management practices. The actions found to have significant differences are action 2a, defer discretionary expenses to meet quarterly budget, and 5b, increase reserve for inventory obsolesces; reduce income by \$700 000.

According to Bruns and Merchant (1990), managers determine the short-term reported earnings of their companies by:

a) Managing, providing leadership, and directing the use of resources in operations.

b) Selecting the timing of some non-operating event, such as the sale of excess assets or the placement of gains or losses into a particular reporting period. and

c) Choosing the accounting method that are used to measure short-term earnings.

A total of 131 respondents completed the survey and the greatest concern of the findings was the total lack of agreement. Not one action was unanimously found ethical or unethical, but varied from

“serious infractions” to “questionable practice”. The judgements about all earnings management practices varied considerable.

Conclusions

Earnings figures should have integrity and should not be the product of manipulations with the intention to purely increase the reported income of a company. It should also be reliable, in the sense that it must be an indication of the quality of earnings and the future earnings (Bernstein & Siegel, 1979).

Casual observers of the financial reporting process may assume that time, laws, regulations and accounting standards have restricted accounting practices to those that are moral, ethical, fair and precise. But most managers know that managing short-term earnings can be part of their jobs (Bruns & Merchant, 1990). In this study it was found that there is a high level of disagreement among the business managers and students regarding which short-term earnings management practices are ethical. Business managers generally took a stricter position than students. Students tended to judge the practices more ethical than business managers did, whereas males viewed the practices slightly less favourably than females.

For many of the practices it was found that respondents were influenced by amounts and timing. In actions 8a (request deferred billing for supplier, \$30 000) and 8b (request deferred billing for supplier, \$500 000), materiality became a factor. Where the amount involved is \$30 000, the respondents rate action 8a as a “Minor Infraction”. However, where the amount is \$500 000 in action 8b, it is rated as a “Serious Infraction”. Similar with the timing of transactions, where the delivery date was accelerated by 42 days (action 10d) the earnings management practice were viewed more unethical than in action 10a, where the delivery date was accelerated by 3 days.

The results of this study, similar to other studies (Fischer & Rosenzweig, 1995; Giacomino & Akers, 2006) have implications for academia. Business students need more exposure and understanding of earnings management. There should be regular reports of fraudulent practices as a result of earnings management by the media and academic journals. Fisher and Rosenzweig (1995) suggest that greater emphasis be placed in the accounting curricula on earnings management practices. However difficult, it should be integrated into business courses or a separate business ethics course or an accounting course taught by accounting and ethics academia.

Giacomino and Akers (2006) suggest that the “real-world” aspects of earnings management practices be enhanced and that experienced business professionals become an integral part of accounting courses. Differences between business managers and students should be minimised as conflicting opinions begin to develop during undergraduate business education. Students appear to begin adopting the attitudes of their professional reference groups before they even commence their professional careers. By using experienced professionals during lectures and make discussions of earning more realistic, there is an expectation that the differences between students and business managers may be reduced.

Since the study by Bruns and Merchant (1990), there has been increased research regarding the morality of earnings management practices. The importance of ethical practices has been recognised due to the highly publicised financial failures and frauds such as Enron and World Com, and subsequent legislation to comply with (Sarbanes-Oxley and Corporate Governance).

This article can serve as a starting point and the survey repeated in later years to determine if there are changes in the ethical views of students towards a desired end. Furthermore, if courses are introduced to address such aspects of earnings management a survey

can determine whether it contributed towards changing the views of the students or if there is more room for improvement. Woo (2003) questions whether ethical courses included in curricula will support students to have the will to act once they are in the corporate setting to do what is right.

Enron and World Com scandals and the demise of Arthur Anderson have received worldwide publicity. Since then there was an outcry for sound accounting practices and corporate governance. It is also important to determine whether and since the scandals and pressures to adherence to corporate governance have changed views on the moralities regarding earnings management practices. In this regard, harmonising reward structures with ethical principles is an area where management accountants and financial managers can be very helpful (Verschoor, 2002).

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ANNEXURE 1

Questionnaire on ethics

This questionnaire includes short descriptions of a variety of actions that individuals have taken. Some of these actions are clearly ethical. Others are judged by some or most people to be unethical, and the judgments as to the degree of severity of the infraction can vary widely.

Please indicate your judgment as to the acceptability of each of the practices using the following scale:

- 1. Ethical practice
- 2. Questionable practice. I would not say anything to the person involved, but it makes me uncomfortable.
- 3. Minor infraction. The person should be warned not to engage in the practice again.
- 4. Serious infraction. The person should be severely reprimanded.
- 5. Totally unethical. The person should be fired.

(Assume that the divisions referred to are part of a \$1 billion corporation, which has a January-December financial year. Each division has annual sales of \$100 million, with annual before-tax operating profit of \$12 million.)

Answer each question separately. (Assume the incidents are independent.)

| QUESTIONNAIRE ON ETHICS | | Ethical Practice | | | Totally Unethical | |
|-------------------------|--|------------------|---|---|-------------------|---|
| Action | | 1 | 2 | 3 | 4 | 5 |
| 1. | The division's buildings were scheduled to be painted in 2002. Since the division's profit performance was way ahead of budget in 2001, however, the | 1 | 2 | 3 | 4 | 5 |

| QUESTIONNAIRE ON ETHICS | | Ethical Practice | | | Totally Unethical | |
|---|---|------------------|---|---|-------------------|---|
| Action | | 1 | 2 | 3 | 4 | 5 |
| division general manager (GM) decided to have the work done in 2001. Amount: \$150 000..... | | | | | | |
| 2. | The GM instructed his employees to defer all discretionary expenditures (e.g., travel, advertising, hiring, maintenance) into the next accounting period so that his division could make its budgeted profit targets. Expected amount of deferral: \$150 000. | | | | | |
| | a. The expenses were postponed from February and March to April in order to make the first quarter target. | 1 | 2 | 3 | 4 | 5 |
| | b. The November and December expenses postponed to January in order to make annual target. | 1 | 2 | 3 | 4 | 5 |
| 3. | On December 15, a clerk in the division placed an order for \$3 000 worth of office supplies and the supplies were delivered on December 29. This order was a mistake because the division GM had ordered that no discretionary expenses be incurred for the remainder of the fiscal year, and the accounting policy manual states that office supplies are to be recorded as an expense when delivered. The division GM learned what had happened, however, and to correct the mistake, he ordered the accounting department not to record the invoice until February. | 1 | 2 | 3 | 4 | 5 |

| QUESTIONNAIRE ON ETHICS | | Ethical Practice | | | Totally Unethical | |
|-------------------------|---|------------------|---|---|-------------------|---|
| Action | | 1 | 2 | 3 | 4 | 5 |
| 4. | In September, a GM realized that the division would need strong performance in the last quarter of the year in order to reach its budget targets. | | | | | |
| | a. He decided to implement a sales program offering liberal payment terms to pull some sales that would normally occur next year into the current year; customers accepting delivery in the 4th quarter would not have to pay the invoice for 120 days. | 1 | 2 | 3 | 4 | 5 |
| | b. He instructed manufacturing to work overtime in December so that everything possible could be shipped by the end of the year. | 1 | 2 | 3 | 4 | 5 |
| | c. He sold some excess assets and realized profit of \$40 000. | 1 | 2 | 3 | 4 | 5 |
| 5. | At the beginning of December 2001, a GM realized that the division would exceed its budgeted profit targets for the year. | | | | | |
| | a. He ordered his controller to prepay some expenses (e.g., hotel rooms, exhibit expense) for major trades show to be held in March 2002 and to book them as 2001 expense. Amount: \$60 000 | 1 | 2 | 3 | 4 | 5 |
| | b. He ordered his controller to develop the rationale for increasing the reserve for inventory obsolescence. By taking a pessimistic view of future market prospects, the controller was able to identify \$700 000 worth of finished goods that | 1 | 2 | 3 | 4 | 5 |

conservative accounting would say should be fully reserved (i.e., written off), even though the GM was fairly confident the inventory would still be sold at a later date at close to full price.

6. The next year, the division described in question 5b sold 70% of the written-off inventory, and a customer had indicated some interest in buying the rest of that inventory the following year. The GM ordered his controller to prepare the rationale for reducing the reserve for obsolescence by \$210,000 (i.e., writing up the previously written-off goods to full cost). The GM's motivation for recapturing the profit was:

- a. To be able to continue working on some important product development projects that might have had to be delayed due to budget constraints

1 2 3 4 5

- b. To make budgeted profit targets.

1 2 3 4 5

7. In July 2002, a GM noticed that scrap costs in the plant were running way ahead of plan. So that senior management would not become alarmed, he instructed his controller to "bury" most of the scrap costs in other expense accounts where they would not be noticed. Over the remainder of the year, the controller buried approximately \$60,000 of scrap costs. Effect on net income: zero

1 2 3 4 5

8. In November 2001, a division was

straining to meet budget. The GM called the engagement partner of a consulting firm that was doing some work for the division and asked that the firm not send an invoice for work done until the next financial year. The partner agreed. Estimated work done but not invoiced:

- a. \$30 000

12345
- b. \$500 00

12345

9. A GM had an idea for a new product. She asked her marketing people to conduct some focus group interviews and a field study to determine the market potential, and she asked her controller to estimate the costs of entering the market. The projections promised only a 22% return when the desired return for his business was 35%. However, still convinced that the product was a good idea, the manager "jacked up" the sales projections and "shaved" the cost estimates to show a forecasted 35% return. The GM's superiors were preoccupied with other problems, and they did not question the projections. Thus the new product was approved.

- a. After six months of sales, the product earned a 22% return.

12345
- b. After six months of sales, the product earned a 35% return.

12345

10. At the end of December, a division was struggling to meet its profit targets. The GM told his production manager to ship some customer orders early so that the associated revenue and profits could be

recognized in the current year. The items were in inventory, and expected delivery times were two days. The customers' firm delivery dates were:

| | | | | | |
|----------------|---|---|---|---|---|
| a. January 3 | 1 | 2 | 3 | 4 | 5 |
| b. January 14 | 1 | 2 | 3 | 4 | 5 |
| c. January 28 | 1 | 2 | 3 | 4 | 5 |
| d. February 12 | 1 | 2 | 3 | 4 | 5 |

DEMOGRAPHICS:

Gender: Female ____ Male ____

Qualification: _____

Miemie Struwig

***THE PERSONAL FINANCIAL ATTITUDES OF SMME
BUSINESS OWNERS IN SOUTH AFRICA***

Introduction

This paper outlines the results of an empirical study of the personal financial attitudes of owners of small, medium and micro enterprises. Most research into financial literacy and personal financial management is focused on the general public (Brown, Saunders & Beresford, 2006). This research is however focused on small, medium and micro enterprises (SMMEs), because the socio-economic function performed by SMMEs is widely recognized, both internationally and in South Africa. The intention is to explore this fairly unresearched field so as to identify the specific needs of SMME owners in this sector.

The results of 274 SMME owners indicated unfavourable attitudes towards personal finance. The unfavourable attitudes noted may be due to gaps in the personal financial knowledge of SMME owners. More favourable attitudes and greater personal financial knowledge can contribute to the individuals being able to manage their personal finances properly. Despite the limitations, this study makes a distinct contribution to the literature on the personal financial attitudes of SMME owners in South Africa. As exploratory research ought to lead to suggestions for future research, this exploratory research indicated some topics for future investigation.

People are living in a world of rapid change. There are continuous advances in technology, financial instruments and product innovations. Changes in the financial services sector, new regulations, intense competition between businesses and more complex financial

transactions, all create a new environment which increases the complexity of successful personal financial management (Aziz, 2005).

Although many studies (e.g. Godwin, 1990; Garman, Leech, & Grable, 1996; Parrotta & Johnson, 1998; Plaatjes, 2004) have been done on personal financial management, few studies exist to investigate personal financial management in the SMME sector

Joo and Grable (2000) state that the reasons why individuals make inappropriate, inadequate and ineffective financial decisions are because of the lack of personal financial management knowledge, lack of time to learn about personal financial management, complexities in financial transactions and the extensive variety of choices in financial products/services.

Many of the problems that small business owners face with regard to their business and family's finances could be avoided by spending more time on personal financial management. Given the importance of the SMME sector in South Africa and the lack of personal financial management skills of the owners, it is imperative to equip SMME owners with the necessary skills to succeed in their business.

A study by Parrotta and Johnson (1998: 67) indicated that individuals, whose attitudes are more positive toward their personal finances will follow, better personal financial management practices. This research will investigate the personal financial attitudes of SMME owners in South Africa to enable a better understanding of their financial practices. The intention is to identify the specific needs of SMME owners.

In this paper a literature overview will first be given. Thereafter the research methodology is outlined, followed by the results of the empirical survey. To conclude some recommendations, suggestions for future research and the limitations of the study is discussed.

A definition of personal financial management

Although there are many studies in the area of personal finance, many fail to define the concept personal financial management or personal finances properly. Gitman (2003) outlines finance and indicates that financial services are the section that will include the delivery of financial products to individuals. Swart (2002) only describes a model that he created for personal financial planning. There is only reference made to the importance of managing money and the author only describes the management process of individual households, but there is no clear description of personal financial management.

Some studies also use alternative terms, for example, Godwin (1990) uses the concept family financial management and refers to it as “planning, implementation, and evaluating by family members that is involved in the allocation of their current flow of income and their stock of wealth toward the end of meeting the family’s implicit or explicit financial goals.

For the purposes of this study the definition by Struwig and Plaatz (2007: 19) would be adopted namely:

“Personal financial management can be defined as “a set of activities, including planning and decision making, organizing, leading (implementing) and controlling the allocation of income and the accumulation of wealth by an individual or family, with the aim of achieving implicit or explicit goals in an efficient and effective manner”.

The importance of personal financial management

The following trends in South Africa highlight the importance of personal financial management in general:

1. people have a poor savings culture;

2. many young individuals think retirement is only an issue for the aged;
3. change in life-expectancy levels and its influences;
4. complexity of the financial environment;
5. changes in the taxation laws;
6. South African Revenue Services (SARS) introduced a new simplified income tax filing system;
7. demand for financial planners;
8. New National Credit act introduced in South Africa;
9. attractive ways to spend Money.

The importance of personal financial management to SMME owners

The reasons why SMME owners should regard personal financial management as important is because the financial management challenges of a SMME are very similar to what households face, albeit in a different context. The personal household and the SMME are also closely linked because many SMME owners use their own personal money to finance their new ventures.

Owners of SMMEs face the situation where they need to remunerate themselves for their own time and effort. A careful balance must be created in order to satisfy both their personal and business's financial needs. The more money that is left in the business will enable the business to grow more or could even lead to the opposite if too much money is taken out of the business (Carniol 2005). Owners of SMMEs also need to consider the type of business and its legal structure, because this will also have an impact on their personal finances.

If the owners of the SMMEs are concerned about their personal finances, the time and energy that is focused on these concerns will prevent them from being maximally productive in their business endeavor (Williams, Haldeman & Cramer, 1996: 152).

A SMME owner's personal financial success depends on the success of the business, but the opposite is also true, that the success of the business is also dependent on the financial attitudes of the owner. Thus, it is sensible to create synergy by paying attention to both the personal and the business's finances.

It is also important for SMME owners to seek alternative remuneration as these individuals do not always enjoy the same benefits granted to employees of large businesses. The SMME owners have to make personal provision for retirement and medical cover as they do not receive assistance from an employer.

Personal financial management will also help an individual to experience a balanced lifestyle, increased self-worth, better relationships with people, improved health, increased wealth, peace of mind and prosperity (Swart, 2003: 1). It is imperative for individuals to be aware of the many factors that could positively or negatively impact their financial position both now and in the future in their personal capacity and in business sense (Swart, 2002:18).

An individual's attitude towards life and money will influence his/her financial life. A good understanding of personal financial matters will lead an individual to be more aware of his/her life and current financial situation. This in turn will lead the individual to develop a positive attitude towards life and money, which will have a positive impact on all aspects of life (Swart, 2003: 4).

Personal financial attitudes

Attitudes are defined as "and individual's state of mind, their opinions and judgements about the world in which they live in" (Pankrow, 2003: 1).

In the psychological literature an attitude is defined as "a psychological tendency that is expressed by evaluating a particular entity with some degree of favor or disfavor" (Eagly & Chaiken, 1993: 1). Financial attitudes can be considered the "psychological tendency

expressed when evaluating recommended financial management practices with some degree or disagreement" (Parrotta & Johnson, 1998: 60).

An individual's attitude towards life and money will influence his/her financial life. A good understanding of personal financial matters will lead an individual to be more aware of his/her life and current financial situation. This in turn will lead the individual to develop a positive attitude towards life and money, which will have a positive impact on all aspects of life (Swart, 2003: 4).

A study done by Parrotta and Johnson (1998: 70) indicated that personal financial management is predicted better by financial attitudes than by financial knowledge. This finding has implications for educators and professionals in this field, because in order to increase the use of recommended financial management practices, people need to be convinced of the importance of good personal financial management. Individuals need to be motivated to perform the recommended financial management practices, instead of simply teaching them general skills.

Research methodology

The research paradigm

Given the purpose of the study the positivistic (quantitative research) paradigm deemed to be the most appropriate paradigm. This study made use of descriptive research, but it was also exploratory in its nature, because there were few earlier studies to which the researcher could refer to for information about this problem (Struwig & Stead, 2001: 10).

The aim of the study is not to analyse the sample individually and in a subjective manner, but rather to get a holistic view of SMME owners' personal financial management attitudes.

The sample

This study made use of non probability sampling. Only probability sampling provides estimates for precision and the opportunity to generalize the findings to the population of interest from the sample population, but exploratory research does not necessarily demand this (Cooper & Schindler, 2006: 408). It was the intention of this study to explore the field and not to make conclusive statements.

The sample for this study included owners of SMMEs, of any nature, operating in Nelson Mandela Bay in South Africa. A convenience sample was drawn as a complete sample frame of all businesses did not exist.

The research instrument

To develop an instrument to obtain the relevant information, the researcher made use of an existing model developed by Struwig & Platjes (2007) which addressed the various components of personal financial management. These components include:

- (a) *Component one*: The basic concepts in personal finances
- (b) *Component two*: Management of personal finances
- (c) *Component three*: Risk management
- (d) *Component four*: Investing in financial resources
- (e) *Component five*: Planning for the future, and
- (f) *Component six*: Miscellaneous.

As the model was developed for individuals, it had to be slightly modified to be relevant to this study of SMME owners. The module was then use as a base to formulate questions.

A section of the questionnaire focused on the demographic details of the respondents, size of the business and also the form of business. Another section of the questionnaire dealing with personal financial attitudes, consisted of 19 statements using a 5 point Likert

type scale where respondents had the choice of strongly agree to strongly disagree.

The development of the instrument was done following scientifically accepted procedures. The following procedure was used to develop the instrument:

The questions and statements were critically formulated for the purposes of this research.

Two experts were asked to comment on the questionnaire.

The questionnaire was tested by means of a pilot study. The aim of the pilot study was to test whether the SMME owners are willing to participate in this study (especially because this research deals with personal financial management), if they find the questionnaire easy to fill in and also if they understand the questions.

After the pilot study, the questionnaire was slightly changed to incorporate the findings of the pilot study.

Two experts were asked to review the questionnaire again, after the changes were made.

A second pilot study was done to test the new questionnaire, thereafter a few changes were made again, which resulted in the final questionnaire.

This procedure was selected to ensure the validity and reliability of the instrument.

Fieldwork

The primary data for this study was gathered by means of an empirical study where respondents were asked to complete a questionnaire. Two hundred and eighty three (283) questionnaires were hand delivered by fieldworkers to the owners of the SMMEs. This study made use of self-administered questionnaires, because:

- It ensured a high response rate as the questionnaires were distributed to respondents to complete and was collected personally by the field workers.

- Most of the items in the questionnaires were closed-ended, which made it easier to compare the responses to each item.
- It is cost effective, especially because a large sample is involved.
- Questionnaires are familiar to many people, nearly everyone has had some experience completing and it does not make people apprehensive (Walonick, 2000).
- A questionnaire is easy to standardise therefore reducing the amount of bias in the results as there is uniform question presentation (Walonick, 2000).
- Questionnaires are generally less intrusive and the respondent can complete the questionnaire in their own time (this was an important consideration, because most SMME owners/managers are very involved in their businesses).

The questionnaires were distributed with a covering letter including the following:

- An explanation of the relevance of the study.
- A brief description of the objectives of the study.
- Assurance and confidentiality.
- Contact details for any additional questions with regard to the study.

Of all the questionnaires distributed, only 275 were suitable for quantitative analysis.

Results

Data preparation

The data for this study was entered in a spreadsheet format into Excel, which was appropriate for the statistical program (Statistica, V6) to analyse the data. Suitable codes were also allocated for missing data and incorrect data entry.

The respondents of the study

The descriptive statistics of the study show that of the 275 respondents, 72% were male, whereas 28% were female and the majority of the respondents, 32%, were between the ages of 45 and 54. Only a small percentage, 2% of the respondents were over the age of 64. It can be implied that the traditional retirement age of +/- 65 is prevalent amongst entrepreneurs in South Africa, which is not necessarily the case world-wide.

In terms of the marital status, the majority of the respondents were in their first marriage. The majority of the respondents had either a grade 12 certificate or higher qualification (combined 92%). Of the respondents 51% indicated that their formal education included commercial subjects.

Of the respondents, 44% had less than 5 years experience (Less than five years and less than one year combined) and 29% of the respondents had less than 10 years, but more than 5 years experience.

A greater part of the respondents are either jointly, 109 (40%) or individually, 131 (47%) responsible for the management of the household income. Of the SMMEs in the sample, 139 (50%) were considered small (employing 5 to 50 employees), 117 (43%) were regarded as micro (employing 1 to 4 employees) and only 19 (7%) were medium-sized (employing 51 to 200 employees).

The majority of the sample, 112 (41%) were closed corporations and 82 (29%) were sole proprietors. A small percentage, 18 (7%) of the respondents formed part of a partnership and only, 9 (3%) respondents formed part of a trust.

Results of the SMME owners' attitudes regarding personal financial management

Table 1 provides a summary of the results of the SMME owners' personal financial management attitudes. The questionnaire elicited

ing responses for this section consists of 5 point Lickert type questions. The five point Likert type responses were collapsed into 3 sections, namely good, average or weak. The percentage of respondents who strongly agreed or strongly disagreed (where appropriate) with the statements were grouped accordingly.

A weak response (either strongly agree or strongly disagree depending on the type of statement) was regarded as a percentage between 0-39%, an average response (40-65%) and a good response (66-100%).

Table 1. Summary of the smme owners' attitudes regarding personal financial management

| | | Rating criteria | | |
|---|--|-----------------|---------------------|-----------------|
| Item | Description | Good (66% +) | Average (40-65%) | Weak (0-39%) |
| Component 1: Basic concepts in personal finances | | | | |
| C2 | Financial plan is needed in order to be financially successful | | 40% | |
| Component 2: Management of personal finances | | | | |
| C3 | Budgeting is not only for people who know how to work with money | | 64% | |
| C14 | Income from the viewpoint of job | | 58% | |
| C4 | Planning and saving for major purchases | | 52% | |
| C10 | Use of credit cards to satisfy wants | | 43% | |
| C16 | Problem with lending money to friends and family | | 43% | |
| C6 | Payment of account in one lump sum versus paying for in installments | | 42% | |

| | | Rating criteria | | |
|--|---|-----------------|---------------------|-----------------|
| Item | Description | Good (66% +) | Average (40-65%) | Weak (0-39%) |
| C12 | The amount of money that they owe others | | | 36% |
| C13 | Satisfaction with level of savings | | | 30% |
| Component 3: Risk management | | | | |
| C7 | Consideration to change to another medical aid | | | 32% |
| Component 4: Investing in financial resources | | | | |
| C1 | Investment in a “can’t miss” stock opportunity | | 59% | |
| C17 | Earning a high income does not mean your wealthy | | | 35% |
| Component 5: Planning for the future | | | | |
| C11 | Income adequate to pay monthly expenses | 68% | | |
| C14 | Respondents are earning a fair amount in the business | | 58% | |
| C5 | Respondents who need to do retirement planning | | 54% | |
| C18 | Satisfaction with retirement provision | | | 35% |
| C9 | Intention to leave business for better paying job | | | 21% |
| Component 6: Miscellaneous | | | | |
| C8 | Products, services and tools available through internet to assist personal financial management | | | 39% |
| C19 | Respondents who would prefer to listen to others for advice | | 42% | |

From Table 1 it can be seen that the respondents' attitude towards the importance of a financial plan was regarded as average under the component that deals with the basic concepts in personal finances. For the component *management of personal finances*, the respondents' attitudes towards budgeting and planning were also regarded as average and the respondents' attitude towards their income was regarded as average, but their attitude towards the level of their savings was regarded as weak. Only a small percentage of the respondents do not worry about the money that they owe others, this response was regarded as weak. A possible reason is that the respondents' response to whether they plan and save for major purchases was regarded as average.

For the *risk management* component, the respondents' attitudes towards changing to another medical aid were regarded as weak. None of the responses under the *investment component* was regarded as good; for example, only a small percentage of the respondents' realized that earning a high income does not mean that the individual is wealthy.

For the *planning for the future* component, the respondents' attitudes towards their satisfaction with their retirement provision were regarded as weak and their attitudes towards the need for retirement planning were regarded as average.

In the *miscellaneous* section, the weak responses were related to the respondents' attitudes toward product, services and tools through the internet which could assist them in personal financial management.

From Table 1 it is clear that only 1 of the 19 attitudes were rated good, 11 were rated average and 7 were rated weak. One can thus conclude that the sample SMME owners have unfavourable attitudes towards personal financial planning.

Summary of the results of more advanced statistics

The high internal reliability of the questionnaire (Cronbach Alpha of 0.82 for the section on financial attitudes) enabled the researcher to make use of more advanced statistical measures. The relationship between the independent variables on the financial attitudes was established by means of a one-way ANOVA.

The independent variables was first compared with the whole of section C (as the dependent variable) and a statistical significance ($p < 0.05$) was required. Where a statistical difference was found, the relationships of the individual statements were determined.

Table 2 summarizes the results obtained through a one-way ANOVA.

Table 2. Summary of the results on the relationship between the independent variables and the respondents' personal financial attitudes

| Independent variable | P.Value | Statistical significant difference | Specific personal financial attitude variables having a statistical significant relationship with the independent variable |
|---|---------------|------------------------------------|--|
| A1: Gender | 0,67 | No | |
| A2: Age | 0,02* | Yes | C6, C8, C9, C16 |
| A3: Marital status | 0,047* | Yes | C9, C10, C13, C15 |
| A4: Education | 0,01* | Yes | C5, C12, C15 |
| A5: Formal education with commercial subjects | | | |
| A6: Function in business | 0,05 | | |
| A7: How long | 0,009* | Yes | C1, C9, C11, C17 |

| Independent variable | P.Value | Statistical significant difference | Specific personal financial attitude variables having a statistical significant relationship with the independent variable |
|--|----------------|---|---|
| the SMME is owned by the respondent | | | |
| A8: Who manages the income of the household? | 0,39 | No | |
| A9: Size of the business | 0,22 | No | |
| A10: Form of enterprise | 0,26 | No | |

* Statistical significant at a 95% confidence level

Table 2 indicates that the following independent variables had a statistical significant relationship with the responses in the personal financial attitudes section: age, marital status, education and how long the SMME is owned by the respondent. As individuals get older, they also gain more experience with regards to personal financial management, married people also have more responsibilities and need to take care of their personal finances, the longer the SMME is owned by the respondent, the more experience the individual has of finances.

Recommendations and discussion

Unfavourable attitudes were noted for SMME owners in South Africa. More favourable attitudes can contribute to the individuals being able to manage their personal finances better.

The majority of the respondents had either a grade 12 certificate or higher qualification and 51% indicated that their formal educa-

tion included commercial subjects. This is an indication that these respondents have adequate numeracy and literacy levels to facilitate the acquisition of personal financial skills.

Few educators teaching entrepreneurship courses link their subject to personal financial management. For example, none of the current entrepreneurship modules offered at both undergraduate and post graduate level at the higher institution that the researcher is lecturing at, include personal financial management as one of its focus areas. It is very important that appropriate personal financial management modules be included in these programmes and not only in finance related modules/programmes.

Limitations of the study and suggestions for future research

The biggest limitation to this study is due to the fact that the sample is not selected randomly and not every member of the population had a known chance of being selected, which makes it difficult to generalize the findings of the study to all SMME owners in South Africa. The researcher found that there was a strong bias towards male respondents. It should, however be noted that there are almost twice as many male entrepreneurs in South Africa as female entrepreneurs (Driver, Wood, Segal & Herrington, 2001: 22).

Due to using a convenience sampling method, there were not many black SMME owners included in this study. It would have been insightful to also investigate the differences (if any) between the personal financial attitudes of other racial groups and cultural orientation.

This study was only exploratory in nature and not all the different personal financial management components were covered in depth. Exploratory studies should provide topics for future research and the following may be considered:

- To investigate SMME owners personal financial knowledge and practices and compare it with their attitudes.

- A future study could focus on the personal financial management training needs of SMME owners
- A future study can distinguish between SMME owners' personal financial knowledge, attitudes and practices based on different cultural backgrounds.

Despite the limitations, this study makes a distinct contribution to the literature on the personal financial management attitudes of SMME owners in South Africa.

Conclusions

The primary objective of this study was to investigate the personal financial management attitudes of SMME owners. Although many studies (e.g. Godwin, 1990; Garman, Leech, & Grable, 1996; Parrotta & Johnson, 1998; Plaatjes, 2004) have been done on personal financial management, few studies exist to investigate personal financial management in the SMME sector. The intention was to explore this fairly unresearched field so as to identify the specific needs of SMME owners/managers in this sector.

The empirical survey indicated that SMME owners have unfavourable personal financial attitudes. The unfavourable attitudes noted may be due to gaps in the personal financial knowledge of SMME owners. More favourable attitudes and greater personal financial knowledge can contribute to the individuals being able to manage their personal finances properly.

Despite the limitations, this study makes a distinct contribution to the literature on the personal financial attitudes of SMME owners in South Africa. As exploratory research ought to lead to suggestions for future research, this exploratory research indicated some topics to investigate.

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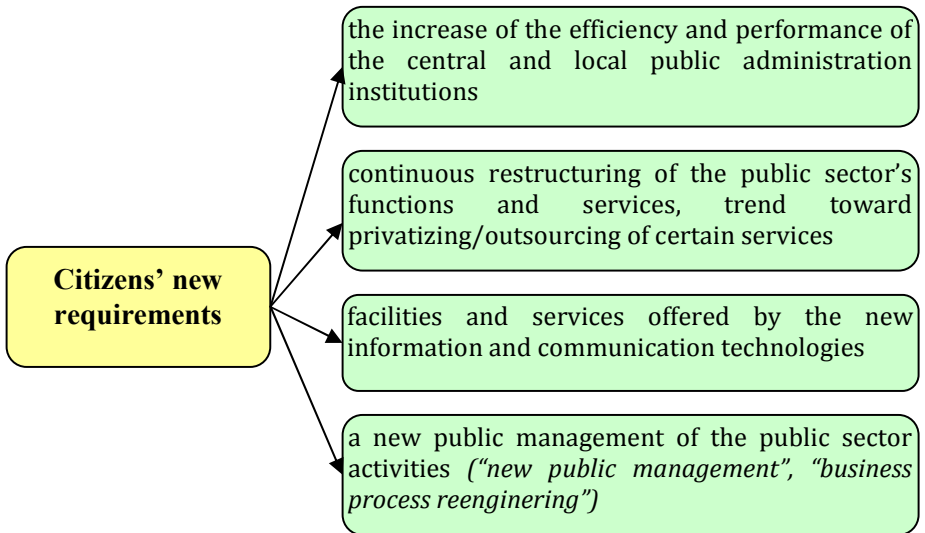
***THE CITIZEN – THE BENEFICIARY
OF THE DIGITAL SOCIETY***

Introduction

New skills have been developed by digital culture to the customers that make them more exigent and demanding. It is expected that IT application to contribute greatly to the improvement of the relationship government-citizens, taking into account that the citizens with a certain level of education require measurable transparency and efficacy for the public services. The key element of the „e-Government” concept is the improvement of the relationship and the fluidity of the exchange of information between the public sector, the citizens, and the business milieu. The object of the electronic government is the assurance of the access to the public information, supply of services, increase of the citizens’ implication to the governing process, improvement of the public services quality the effectiveness of the public administration. For public institution the pro-active role of the public servants, as the pillar of knowledge management behavior will increase the success of e-Government and its faster acceptance by large citizen segments. At the following level, the relationship between government and citizen becomes interactive, the communication taking place in two direction of data exchange. Further, at a more advanced stage, transaction services are possible – payments and taxes, other services with sensible data. An example of governmental IT application in Romania is the Integrated System of Management and Control (IACS) used by Agency for Payments and Intervention in Agriculture (APIA) for farmers financial assistance under structural funds.

The entrepreneurial spirit, favorable for the financing and developing of new ideas, will support the development of the new digital culture. The main beneficiaries, at least conceptually, of the new type of society are the citizen and the consumer. The citizen is the inhabitant of a country that acts in public matters/affairs, according to a set of rules (rights and obligations). His main acting field is the public sphere, where he interacts and communicates with other citizens. The consumer is a buyer or user of resources (in the form of goods and services) of a private nature (in the market) or of a public nature (public goods and services). His chief field of action is the market, the way the Romanian Centre for Integrated Education in its documentary the New Economy (www.crie.ro) pointed out. While the citizens express themselves as against the public matters (including the political ones) the consumer acts in respect of the matters of the economic nature. All citizens enjoy equal rights and obligations; consumers are not equal from the point of view of obtained and used resources (Hilton, 2003: 5).

Under the present conditions, the governments have to cope with new pressures with the view to meet the citizens' needs and requirements (figure 1). The matter becomes so much complex as the socio-politic environment is checked by multiple interests and challenges on long term regarding the transition to the new economy, globalization, sustainable development. The use of the information and communication technology can contribute greatly to the improvement of the relationship government-citizens, taking into account that the citizens with a certain level of education require measurable transparency and efficacy for the public services (services that have to meet their requirements and exigencies for quality, at as low as possible costs). The governments, on the other hand, are aware of the fact that they cannot put into life their policies, however good they are, without the effective support of the citizens.

Figure 1. Exigences related to the information society

This aspect becomes critic under the situations where the governments have implemented major reforms on socio-economic scale or have to meet long-term challenges (sustainable development, globalization). More citizens consider themselves entitled to be informed and to understand the information communicated by the public administration; to take part in the process of taking the decisions regarding the national/local governmental policies and the supply of the public services (their expressed opinions to be taken into consideration); to benefit by the public services that follow their requirements and to have option possibilities regarding these services (i.e. quality, costs) (Gay, Davis, Phillips, Siu, 2005: 34-39).

These exigencies can take different forms depending on who express them: individual citizens (especially as public services users or individual decision makers) or groups of citizens with specific interests that act as agents between the individual citizens and the government. The dialogue government-citizens has however some limits: if certain groups of interests get more involved in the process of political decision taking, through lobby actions can affect (or hamper) some positive governmental actions. Another matter is the breaking up of the citizens' interests and the multitude of options that the governments have to cope with.

As consequence, the mutual confidence is an essential condition under this type of dialogue (Conning, Loui, 2004: 8, 38). The increase of the public services demand, the budgetary restrictions, human resources costs, the new facilities offered by the technology have represented challenges bringing about new concepts – „online government”, „e-Government”, „electronic democracy”.

e-Government an actual solution

The key element of the „e-Government” concept is the improvement of the relationship and the fluidity of the exchange of information between the public sector, on one hand, and the citizens and the business milieu, on the other hand. The term e-Government refers both to the supply of information and services to the citizens and business society (external applications), and the use of IT and communication in the public institutions (internal applications). The object of the electronic government is the assurance of the access to the official /public information, supply of services by electronic means to the citizens and business society, the increase of the citizens' implication to the governing process, the improvement of the public services quality, the effectiveness of the public administration (figure 2). The implementation of the electronic government aims at specific segments: the assurance of the transparency

of the public administration; the creation and implementation of information systems and applications, meant to support the processes of politic, social, economic reform (the development of the public information infrastructure, dedicated to the implementation of the electronic government; the increase of the level of public servants skills in the IT and communication field); the development of the legal framework regarding the electronic governance and democracy (Keys, Fulmer, Stumpf, 1996: 41-52).

The implementation of e-governance needs a coherent architecture of systems and software, and a set of generic services. It must be developed a sure and modern infrastructure, permanently updated, in view of meeting the users requirements and adequacy to the technologic progress. The electronic governance changes both the relationship between the citizens and the structures of the public administration and the relationship within the administration (this implying the informatization of the inter-sectorial interaction processes). The integration of the existing departmental and territorial information systems represents a major step to the implementation of some electronic governance solutions. The ununivoque approach of this matter can lead to an exaggerate complexity. The alternative lies in the implementation of certain unique procedures, mechanisms, and tools that will assure an efficient and operative integration (Jiwa, Lavelle, Rose, 2005: 34-37).

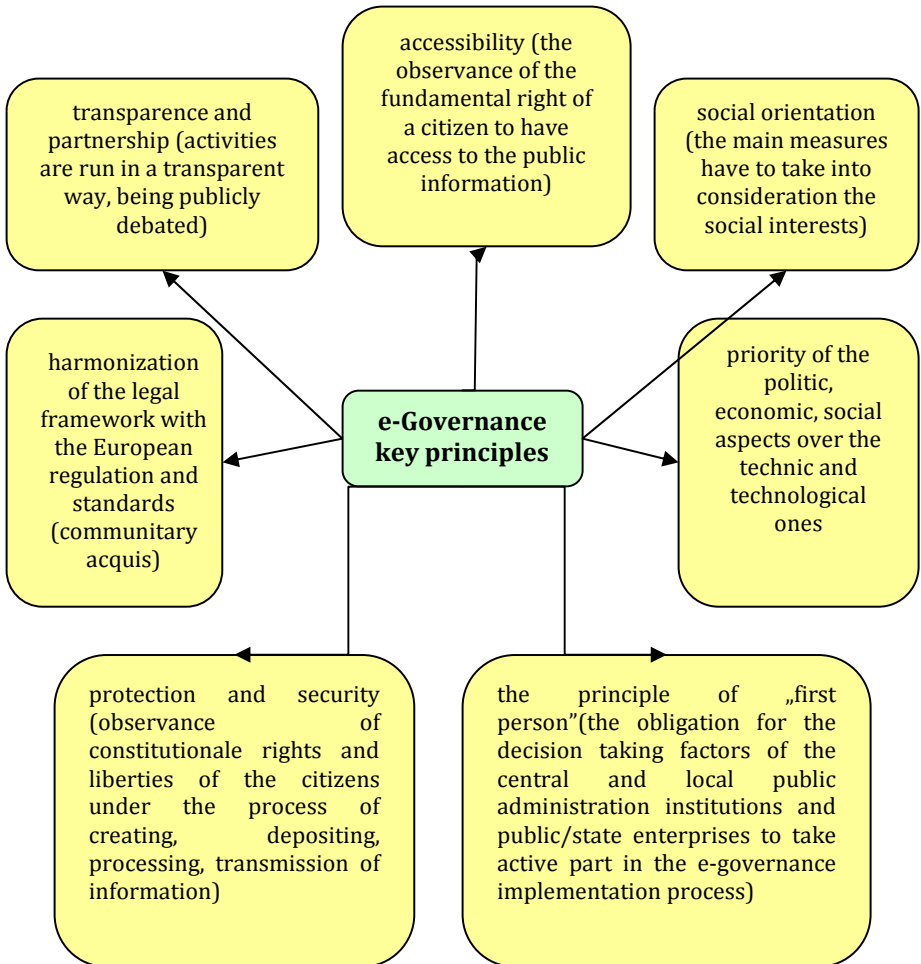
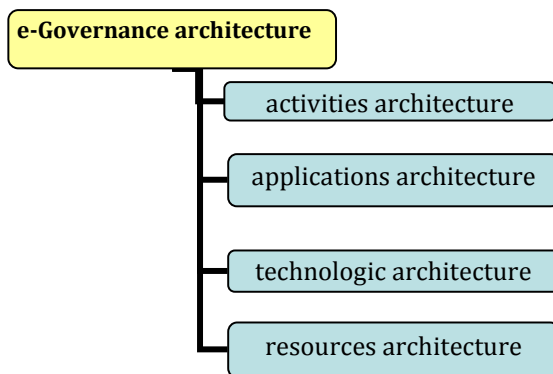
Figure 2. Electronic government – main directions

Figure 3. e-Government architecture - constituent elements

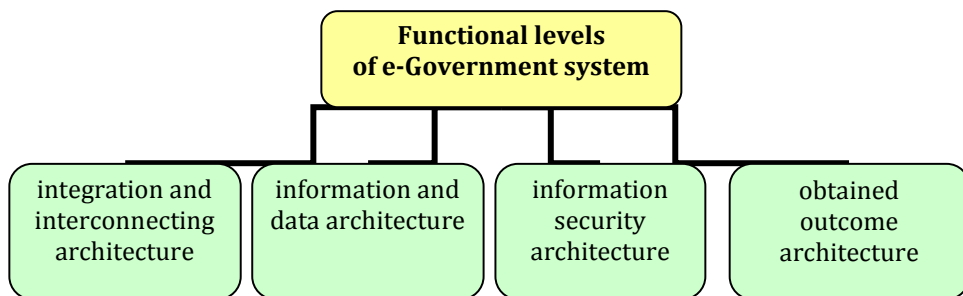
The unitary architecture of e-government represents the integrated view on the activities of the State's institutions, including the way that the information and communication technologies assure the necessary assistance for the activity (figure 3). Without a systemic approach, the implementation of e-governance initiatives will be confronted with an increased number of inefficient problems and expenses.

In a structured way, the correctness of the projects, the coordination and the estimation of their efficiency, the optimization of expenses through the elimination of parallelisms, investments in future technologies and compatible systems are assured. In order the e-governance to function as a unique system it is necessary to assure the integrity and interoperability of al the components, the data compatibility, the guarantee that the information acuity and protection are assured. It is, also, important to assure the possibility of evaluating the productivity and efficiency of the governance, from

the separate information processes and systems to results. The human resources in the public sector will have to stand a restructuring of its architecture depending on new requirements and facilities (both in structure and as education). The implemented technology will need the personnel/staff training „on job” or „off job” (Staniewski, 2006: 5-13). The on job training has the advantage of specificity and focusing on objectives, has an intensive characteristic, and is most of the time achieved by those that are drawing up the systems and applications.

These functionalities of the e-government system are assured (on the three levels) by another four elements: the integration and interconnecting architecture; the information and data architecture; the information security architecture; the obtained outcome architecture (figure 4).

Figure 4. Electronic government – functional elements



The integration and interconnectivity architecture assures the possibility of interaction and exchange of data between ministries, agencies, local administrations, citizens, and the business society (Levine, Baroudi, Levine, 2001: 5). The most important parts for the

assurance of these interactions are the secured governmental Intranet and the governmental portal. The information and data architecture will assure the use of certain technologic centralized standards for the standardization of activities, as well as the assurance of transactions and information security (authentication, the use of smart-card technologies etc.). It aims at data, information exchanges, metadata, the data search.

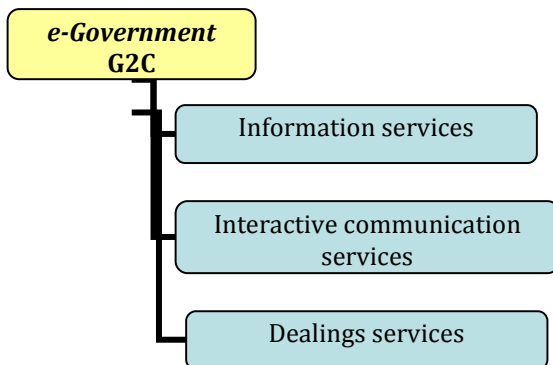
The architecture of information security includes methods, mechanisms that will make the information inaccessible to unauthorized persons, will hinder the falsification of transmitted information, and the unauthorized use of the services destined to specific categories of users. The outcome architecture represents a balanced system of metric and general indicators, used for the evaluation of the productivity, efficiency¹ e-government for the entire vertical framework (from the physical parts, separate information processes and systems to the main results of the activities and their strategic consequences.

Services offered to citizens under the digital society

In spite of the fact that, in the European Union papers, a special stress are putted on the external applications, these cannot be independently achieved by the internal applications, but are directly conditioned by their quality and efficiency. The services offered to citizens (the e-Government concept includes also other components: G2G – inter-departmental relationship, G2B – relationship with the business society, G2E – relationship with the employees) under the label e-Government G2C (Government-to-Citizen) are, mainly, of three types² (in accordance with the offered functions) (figure 5) (Prattipati, Satya, 2003: 3).

¹ Obviously, the estimation of the e-governance efficiency is worked out depending on the outcome.

² Centrul Român pentru Integrarea Educației (2005) 3;

Figure 5. e-Government services for citizens

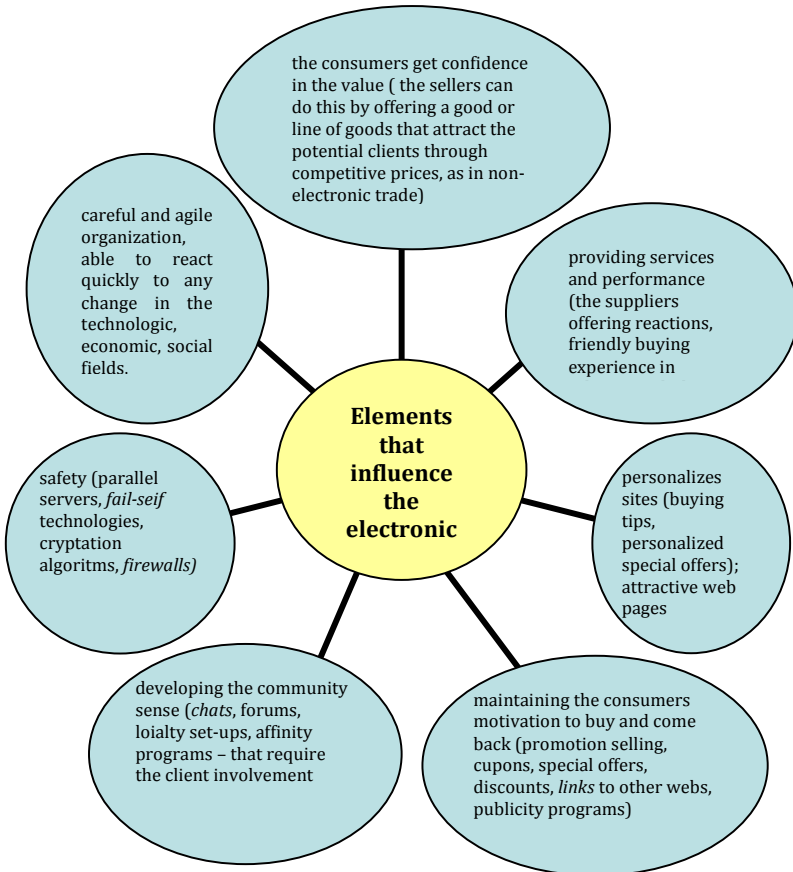
The information services allow the access, on request, to sorted and systematized data (ex. web sites). They can be of different types: for daily needs (information on labor, social protection, dwelling, education, health, culture, transportation, environment etc.); for tele-administration/management (the list of public services, guide of administrative procedures, registrars and public databases); for taking part to the politic life (laws, parliamentary papers, political papers/programs etc.). The services of interactive communication allow the interaction with individuals or groups of persons (ex. e-mail, debates lists etc.) They can include services: regarding the daily life (debates, answers to questions regarding labor, social protection, dwellings etc.); services for tele-administration (e-mail contacts with the public servants); for taking part to the political life (political debates, e-mail contacts with political people etc.). The dealing services allow the conveyance to the citizens of different electronic forms (administrative or voting ones) and /or the online purchase of goods and services. They include

services of the following categories : for the daily life (ticket booking for different events, training courses etc.); for tele-administration (filling in and submittance of electronic forms, fiscal declarations); for taking part to the political life (referendum, elections, expressing own opinions etc.).

The dealing services are considered as being the most representative ones for the future e-Government, filling in and submittance of electronic forms by the people having an important role in the relationship with the public administration³. Carrying out of these services – open to the citizen and the business environment – needs important investment, as well as the re-engineering of the administrative processes and a new culture for the public servant. The implementation of the e-Government concept brings about a number of connected advantages (derivative ones), for instance the stimulation to use information and communication technologies having as an example the governmental institutions, and the development of value added new services in the private sector, using the information supplied by the governmental institutions.

A national outlook on the information society does not have to separate the social and societal aspects by the technical, industrial, and economic ones. It is essential to regard the information society as a „society of learning”, where the emphasize is put not only on the assurance of the physical access to the new networks and services of communication, but, also especially on the capacity to transform the information into knowledge (figure 6) (Turban, Jae, 2001: 34-39).

³ Centrul Român pentru Integrarea Educației (2005), 4.

Figure 6. Factors that influence the e-Commerce

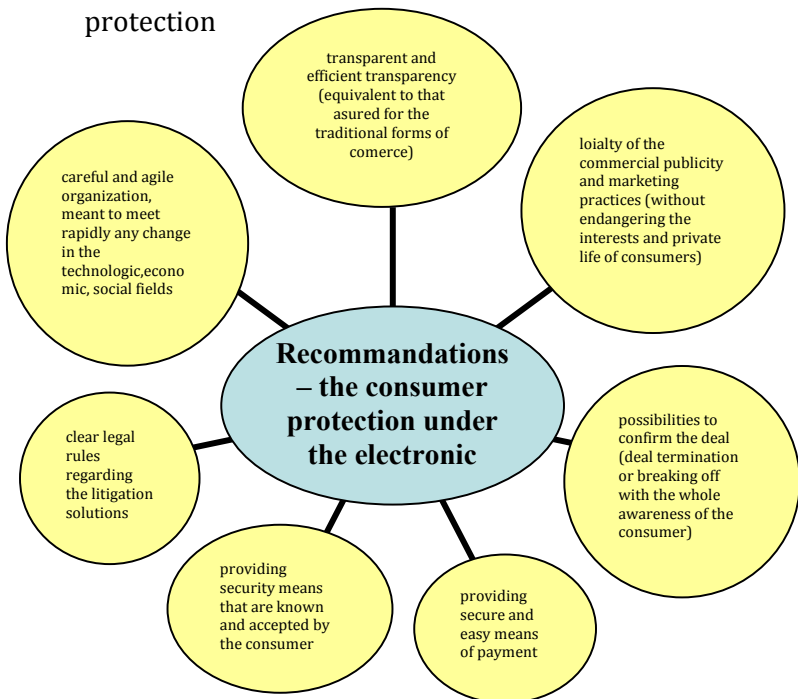
„Knowledge management requires the change of the role of the top and linear managers from the reactive to the pro-active in the spheres of learning (mentoring, coaching), the creation of the business identity of the employees, development of the organizational culture, facilitating the sharing of knowledge in the organization and the creation of the values essential for customers, employees and shareholders. Human resources management specialists, besides their actual roles, should play the role of the encouragers in the sphere of acquisition and creation of knowledge and the creators of changes. Human resources management unit, particularly on the central level of a large enterprise, should become the business partner of the administration of the enterprise oriented at the creation and adoption of personnel strategies, new methods and tools of human resources management, taking into account significant values of human capital of the enterprise.” (Staniewski, 2008: 283-291). For public institution the pro-active role of the public servants, as the pillar of knowledge management behavior will increase the success of e-Government and its faster acceptance by large citizen segments.

At the same time, the trend to individualize induced by the use of new technologies has to be controlled in view to maintain the social solidarity. The information society – through the transformation brought about in the industrial structures – leads to the disappearance of certain jobs and the creation of new ones, to important changes in the labor organization and quality. With no adequate policies, which take into account these major transformations of the labor market unwanted consequences can occur on a social scale (Yap, Jayoti, Burbidge, Kathryn, 2006: 39-45).

The achievement of consumers' education and sensitization about the advantages and risks of the electronic commerce is done through comprehensive methods of information. The continuous

education and sensitization of consumers regarding the electronic commerce is achieved through the permanent collaboration between the governmental officials, enterprises, and consumers representatives (Stern, Kaufmann, 1985: 52-73). The granting of legal guarantees to the consumer that uses the electronic transactions through the public communication networks (regarding to both the purchased goods or service, and the delivery conditions). In addition, clearer mechanisms and regulation are necessary for solving the claims and litigations (figure 7) (OECD, 2005).

Figure 7. e-Commerce environment – Factors of consumers protection



Case study – the payment information system for farmers

One of the main conditions that the Romanian State had to comply with in view of absorbing the European funds for direct payments to the farmers was the building up of a system to assure the management and strict control of subsidies attraction so that to avoid the Community budget fraud. This is named the Integrated System of Management and Control (IACS). Its creation, implementation, and management have been assigned to the Agency for Payments and Intervention in Agriculture (APIA).

This system is build up of an assembly of components including personnel, procedures, information and communication technology. These components are: (1) database of subsidies applications; (2) the system of identifying the farming lots (LPIS); (3) farms registers; (4) stock registers; (5) control system (administrative, cross ones, on the spot, by teledetection).

All these parts of the system are aimed at managing the farmers' subsidy requirements and to assure the correctness of the data declared by these, in view of avoiding the fraud of the Community budget. This control of the correctness is done by comparing the farmers declared data in their subsidy application with a number of referring data, stocked in the information system databases.

As the amount of direct payments awarded to a farmer depends directly, on the land area used by the farmer, the most important role within IACS is hold by the system of farming lots identification (LPIS).

In view of the good carrying on of filling the application procedure SAPS, the APIA's centers are endowed with modern IT equipment and procedures, purchased under PHARE programs: computers, multifunctional printers, satellite, connected to the VPN network. LPIS is a complex technical, organization, systemic and

essential system for avoiding the frauds and contains: (1) the registration of the farms; (2) digitization; (3) lot identification; (4) updating physical blocks. This was built up based on orto-plans that help at the physical blocks identification. A unique system of physical blocks nationally identified. The National Cadastre and Real estate Publicity Agency submitted to APIA the orto-plans that cover the whole country area. Based on these, APIA sold by auction the digitization of the physical blocks in a unique identification system at national level. These two types of data (orto-plans and physical blocks) are united in a geographical data system (GIS).

A consortium of companies has worked out the components of the informatics system of APIA, one developed the farmers registering system, the financial - accounting system the schemes of market regulation, the papers management system, and optimized the administrative control module, and the other worked out the data collection, administrative control, on field control, payments calculation, and authorization modules. The IT system developed for APIA has begun to run beginning with November 2007. The payment calculation, administrative control and on field control modules are changed as soon as changes of rules and procedures occur or the institution declare new requirements. In addition, it is periodically updated based on the orto-plans and according to the European legislation

In 2007, there were, by IACS criteria, three categories of farmers: farmers that registered themselves in the Farms Registrar and identified their farming lot (a connection between their lots and the physical blocks was carried out); farmers that entered their data in the Farms Registrar, but did not identified their farming lots (there is no correspondent identifier with the physical block); farmers that neither registered in the Farms Registrar nor has any connection between the used farming lots and the physical blocks system. APIA keeps at the farmers' disposal the graphic materials representing

orto-plans with the physical blocks from the villages where they exploit the land. The farmer has to fill in the subsidy application, where he declares the number and size/area of the exploited lots. He will work out a plan of these farming lots, on the graphic material offered by APIA. The farmer, at the local APIA center, will submit the application and the graphic material.

An APIA expert formally checks the applications and the identification on maps. In the case, formal errors are found, the farmer is asked to rectify. When the application is formally complete and correct, it is accepted by the APIA consultant and entered in the database. The written data in the application for payment are entered in IACS database (the database of payment applications) with the aim at their processing. The data entering takes place as soon as applications are submitted during March-June period of each year. The correct entering of data is the responsibility of APIA's staff. Each office worker that has access to the data entering has a user name and personal access password that is secret and untransmissible. Two APIA experts in accordance with the "principle of the four eyes" perform the data entering from the applications into the database:

- an officer enters the data from the payment application based on the area, into the IACS database of areas
- the second one checks if the data from the application form, based on area, were well entered by the first one.

At the end of the period when the applications for subsidies are submitted, a crossed checking takes place, where the sum of the farming lots areas is compared with the reference area at each physical block level. All the farmers from the physical blocks with errors are automatically putted on a list for the on-field control.

The Romanian State and the European Union accomplish administrative controls of the subsidies requests, including a check up of

the eligible areas and their payment rights. The administrative controls referred in the Regulation (CE) No.1782/2003 allow the detection of the disorders, especially the automatic detection, by using the computerized tools, including the achievement of cross controls that point out the following aspects: (1) the declared payment rights and those on the declared lots, in view of avoiding the multiple allowance, in an inadequate manner, of the same subsidy, for the same calendar year and to prevent a inadequate cumulating of the aid; (2) payment rights, to verify their existence and eligibility for aid; (3) the declared farming lots in the unique aid application and the reference lots included in the farming lots checking system aiming at verifying their eligibility for aid; (4) the payment rights and the determined area, for verifying if these rights are accompanied by an equal number of eligible hectares; (5) the proof papers, contracts and declarations of farming and, where it is the case, the concordance between the declared farming lots in the unique aid application and the proof papers, contracts or the farming declarations, to verify the eligibility of the respective area for aid.

After the clarifying of the cross-checking identified disorders another adequate administrative procedure will be applied, and, when it is considered appropriate, an on-field control. The on-field controls aim at the farming lots where aid is requested for under the support schemes according to the Regulation (CE) No.1782/2003. However, the effective inspection on field, as part of the on-field control, can be limited to a sample which represents at least half of the farming lots, application for aid were submitted for. The zones that are to be controlled by teledetection will be selected on the basis of a risk analysis or at random. The photo interpretation of the satellite and aerial images is made for all the farming lots comprised in the applications that have to be verified for the recognition of the land covering and to measure up the areas. The on field inspections are done for all the farming lots for which the accuracy of the decla-

ration cannot be verified. According to the competent authorities on-field reports and based on the photos interpretation will be provided additional information that will supplement the database.

Eventually, the system performs an automatic risk analysis. Its outcome is another list with farms that will be controlled. This sample has to cover minimum 5 percent of the whole aid request. These farms are cumulative selected, either based on certain risk factors (the amount of the required aid, the existence of past financial incidents, the farming lot area, the type of culture, etc.) or on an aleatoriu process of selection, so that each farm can have the chance to be selected for control. The sample from this point is separated in two categories: farms that will be controlled on the spot and farms controlled by teledetection, with the help of the satellite images. The APIA inspectors will conclude control reports for selected farms that will be entered into the APIA database. The specialized APIA organisms (on-field control) or the private contractors that are delegated to achieve this task will do teledetection controls and conclude reports of the control that are entered into APIA database.

The system will determine precisely, for each case of exception, the amount of penalties that is to be applied and the adequate corrections for the database updating according with data collected on the field. The output will be the lists with the payments beneficiaries and the adequate amounts for the owned or rented areas. The department of APIA that approves the payments checks the lists, the amounts and offers the final approval for payment. The bank transfers money directly in the farmers' bank accounts.

In the year 2008, about 60 percent of the farmers registered in the database and it is estimated that this will increase to 90 percent during 2009. This will allow the control and allotment of the aid to farmers from European funds, until 2013, under good conditions and reduced risks of fraud. The end of the aid program for agricul-

ture in 2013 will not end the use of the system; on the contrary, it is validated with this occasion the value and utility of unitary national databases. The registering of all farmers in the IACS database, either by lots identification based on orto-plans and their on-filed control or by teledetection, will allow the approach of a new stage, namely the online use of the lots situation for meeting different requests of the farmers.

Conclusions

At European level, the services offered to citizens and businessmen through the electronic means are delivered on more levels of complexity: information (the delivery of information regarding the public services and the public organisms activities); unidirectional inter-action (downloading forms from the Internet); bi-directional inter-action (forms processing, including authentication, circulation of electronic records); dealings (data transmission, decision taking, delivery, inclusive the payment by electronic means).

The external circuit includes the public infrastructure that provides the citizens and business interaction with the public administration. This is built up of information systems that serve the interaction between citizens/people and business with the administration through the governmental portal and will comprise two components of e-Government – „government- citizen”(G2C) and „government-business”(G2B). In view of making services more accessible, these have to be structured to meet the citizens' needs and expectations. By means of the governmental portal, at the initial stage, the citizens are offered the possibility to access, in real time (online), different information of public interest. At the following level, the relationship between government and citizen becomes interactive, the communication taking place in two direction of data exchange. Further, at a more advanced stage, transaction services

are possible – payments and taxes, other services with sensible data.

Moreover, the citizen will require that his matter to be more rapidly solved, without being aware of what institution is responsible, the levels of decision, and the existing complexity, what databases have to be accessed.

In this way, the government can evaluate with electronic means the powers/competences of subdivisions and employees and will remove parallelisms, restructure the administrative background on an informatics prospective, to obtain a final good result. On this way, structures will be optimized, this having therefore not necessarily staff discharges but cost cuts depending on the level and contribution of each administrative unit to the information efficiency of the online governance.

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Part II
Human Resources
Management

Adina Tarry

***THE FUTURE OF HR MANAGEMENT:
REVOLUTION OR EVOLUTION?***

Introduction

In the last 20 years organizations, and the business world in general, have experienced an unprecedented rate and pace of change. This has mainly been driven by technology and globalisation, both causing a radical change in the way organisations operate as well as the jobs and skills that people need to bring with them develop and utilise. Whole industry sectors have disappeared, shrunk or migrated whilst new jobs and related competencies have been born to create a brave new world of recruitment. People with a new paradigm of alignment between a transactional exchange of skills versus opportunities have replaced the old paradigm of loyalty and paternalistic attachment to employers. In this new configuration the HR function has been under pressure not only to grow and develop but actually fundamentally transform in terms of what and how it delivers to businesses. This has triggered a transformation of the function of personnel to that of HR Management. This new function is expected to deliver both a tactical and strategic contribution to business and align itself internally and externally with the vision, mission and business goals of the organisation. As such HR has become a powerful and respected partner around the board table. However this level of maturity for the HR function cannot be achieved without undergoing its own internal transformation. This requires an inward scrutiny of the skills, mind sets, culture and visionary capability of the HR management professionals to ensure they deserve the elevated contributing status they should hold as a strategic partner to business success rather than a cost centre. This

journey is underway and not without its pains and casualties. It is a patched and uneven landscape not only in the new EU entrant countries but also in the western industrialised world. The HR profession continues to remain “work in progress”, blending old and new in a transformative evolutionary journey.

HR management within a business, technology and global context

To understand where the HR function is today it is imperative that we remind ourselves of the bigger picture and the more holistic approach of our subject (Tarry, 2006).

The face of the world has been irreversibly changed by a few technological events starting in the 1980s. They have modified the workings of an office forever and organisations today are no longer what they used to be. The employer-employee paradigm has shifted from a paternalistic model where ‘doing one’s best’ assured longevity and compensations for loyalty, to a situation where the company is an opportunistic user of skilled and efficient people, who in turn use the organisational environment to pursue their own goals. These could be of a material as well as knowledge and self realisation based needs.

Not only the change itself but the pace of change in the last 20 years has been faster than the changes that occurred in the last 200 years and this is something that is challenging both organisational structures as well as individuals in organisations, particularly management.

The most significant technological changes were the fax machine (replacing the telex machine and often the post) and then the PC (replacing manual information processing, storing and transmission). These two brought about unprecedented speed and flexibility for managing, storing and transmitting office data. They also in-

creased the speed of interoffice transactions from weeks, days or hours, to real time instant transmission-reception).

The fax machine transmitted information instantly, but initially raised questions on fraud and document authenticity, a very key concern in banking transactions especially those involving payments of large amounts of money or commercial agreements. But its glory was short lived!

The PC steadily conquered almost every desk at work, in most companies, taking over the data previously stored and processed by large mainframe computers. These required complex data manipulation, in order to extract it and then turn it into reports, a lengthy and specialist process which produced an outcome that was not very easy to use or quickly customise.

Since then, computer power has increased almost to the full capability of current technology whilst the price of this technology has dramatically decreased. The fax machine has been replaced by the possibility of transmission of data, sound and vision, as attachments to e-mails.

The Internet was unleashed soon after and today the amount of information on line is practically infinite and impossible to use at its fullest potential because it is far too vast for our capability.

We also live in an information rich and time and wisdom poor world!

People have been left behind in terms of operating speed, let alone the need to cope in a very short time with an increasingly rapid pace of change. This, however, has not reduced the expectation that humans become able to fully adapt and utilise this new technology to its capacity; in fact, it is not only an expectation but a demand. Consequently today millions of us spend hours and days, staring at a screen, motionless, except for small eye movements to read text and hand movements to utilise mouse and keyboards.

Only time will tell how bad this is for our bodies and souls but specialists in ergonomics, sociologists and psychologists are watching this space with some concern and a lot of serious questions as yet unanswered. The fact is that the brain has not evolved in the last 20 or even 100 years as fast as the world around us, and the reptilian brain remains the main leader of our behaviour, emotions and ability to process information at cortical level (Tarry, 2008; 2008a).

In addition to these changes, consumers have also become more and more aware of their power (actual or perceived) to expect or even demand a bigger choice of products and services (needed or not) and so the world is now an increasingly and relentlessly competitive place, where more and more products and services are invented and released to the market.

Much of this sophistication, however, is over-engineered, which does not prevent suppliers and manufacturers from constantly releasing yet another new product, or version of a product, with more features than its predecessors, in spite of the knowledge that only a small percentage of the add-ons will be used, rendering its enhanced capability pointless.

This productivity and sophistication was itself aided by the development of IT, and personal computing, followed in the 1990s by the Internet revolution, all with more connectivity and greater complexity.

The new technologies created and integrated software to run manufacturing, financial transactions, ordering of materials and services in the supply chain, selling, servicing after sale, and ultimately placing “everything online”.

To analyse and demonstrate the full significance of this impact, one could look at the manufacturing process, arguably the most complex business process there is. It starts with the market and new product development, moving through to product sampling and piloting, then new product release, mass production and sales.

This is followed by after-sale support which in turn generates more business as well as ideas for new products. This reaction to market needs or perception of needs is fed back into the product development loop, thus closing the business cycle.

In this process, it is increasingly software development and its finest outputs, modular, scaleable and integrated, which bring together the head and tail of the business process. Within these integrated systems, any change introduced into the data anywhere, can trigger an alignment of all the other segments of the system, reflecting that change and impacting on everything, from resources and raw material ordering, to warehousing and man-hours requirements on the factory floor (Tarry, 2006).

Simultaneously, aspects of manufacturing previously known as materials management, national and international logistics, warehousing and distribution, and production have all come together under a unifying banner, the “supply chain”.

This chain includes anyone and everything that has in any way a connection with a particular product, which is to say clients, suppliers, sub-contractors and shareholders.

This integrated manufacturing environment of today, which includes all business facets put together, would be unthinkable without the use of this common “glue” known as ICT – information communication technology.

The telecommunications industry has followed in the footsteps of IT, becoming its best complementary carrier. Unlike, say, ten years ago, the telecommunications of today are run by software; hence the more modern term to describe the integration of the two strands into ICT.

A perfect example of this very profitable marriage is the Call Centre, also called, for the appeasement of customers and users, by the more glamorous names of “Contact Centre” or “Customer Care Cen-

tre”, or “Client Support” centre. ICT is behind all of them whatever the name, and we are aware of the users’ increasing resentment of the way they operate.

For all its advantages, DIY customers of today, who can order products, pay bills, print statements and install and fix products themselves, are the same people who get more and more angry at being left to wait at the end of a telephone, hoping to be given some attention by a talking machine., which only understands a set menu of possible events, so removed from reality and the human mind, which has to deal with an infinite number of possibilities and occurrences.

The centres are designed for maximum efficiency, successfully “breaking” the barriers of geography, biology and time. They operate 24/7, around the world, following the sunrise and they “never sleep”. In a way, this also goes for the “call centre agents” who man the phones attached to their heads and watch the screens on the desks before them, with an efficiency performance indicator of 58 or so seconds in every minute.

This type of technological integration, performance and demands on humans has, needless to say, re-charted the waters of professional qualifications, job definitions, performance parameters and capabilities, required of today’s worker (Tarry, 2006).

“Now” is the time when the majority of companies in the developed world, as well as most individuals, are technologically equipped and challenged to the full. The cost of technology is being driven down and most companies and individuals share more or less the same tools and software.

Competition and the advent of the ‘empowered consumer’ is pushing the drive for cost cutting and efficiency to the point where suppliers have to pay to be listed as preferred suppliers. The profits of many players who contribute services and materials to the manufacturing of bigger and better things is reaching the point of almost

driving them out of business. In this context of high performance, high competition, high demand and high technology how can a company still maintain the edge over another, with so many things being equal?

The answer to that is “People” (Tarry, 2008).

In other words, the human element, the very source of invention, increased productivity and utilisation of technology; those who make the industry and economy go round.

Demographic data in the West are dire and predict a shortage of available labour due to decreased birth-rates, increased longevity and a negative ratio between the young productive population and the rest.

The silver lining here may be that in the not too distant future, women, people over 40 and 50 and other “less desirable” groups on the fringe of employability today, may come into their own. They will be called upon to fill the increasing gap of skills and redress the potential imbalance of the workforce.

But technology was not the only force turning the world of work into what it is today. Another factor driven by increased competition and fixation on cost cutting, almost “at any price” is the phenomenon of globalisation.

Businesses have increasingly done away with geographic barriers taking on a global dimension (Staniewski, 2006; Tarry, 2006). Manufacturing, sales, service and product development have been moved around the planet, depending on where the work force was most effective and qualified, whilst also being less costly.

Manufacturing was one of the first casualties of this trend, seeing factories shut down in established economies, moving to larger production centres in developing countries. Thus it became almost standard practice for one point of manufacturing supply to satisfy

demands of a whole region (typically Asia-Pacific, Europe, Middle East and Africa and the Americas).

The logistical aspects of the supply chain have now come into their own. Warehousing, stock and distribution tracking, local/international transport have now become fascinatingly sophisticated, all controlled by special software packages that track stock movements with great accuracy, transporting finished good to individual destinations. The concept of 'just in time' (JIT) is applied rigorously to manufacturing as well as distribution, using the new technology to minimise cost of materials, stock management and poor quality.

In the face of such technological change for the better, the new structures of global companies also had to integrate one other element of their operations, namely, the workforce (Tarry, 2008a).

Organisations have been facing the challenge of integrating workers from around the globe, often managed remotely by bosses sitting at the other end of the world, trying to motivate and roll out, into different cultures, models and work practices generated at the other cultural pole.

This phenomenon only mimicked something that was happening across the world of its own accord as large numbers of people were crossing borders, of their own volition, spurred on by perceived differences in affluence, increased communication and ease of travel.

The planet has become increasingly integrated, culturally cosmopolitan and economically globalised, with companies worldwide becoming micro-representations of society at large.

The world of the last 20 years has been reshaped by continuous change and the pace of change has increased in line with the speed of technology which makes information and infrastructure available as fast as the time needed for an electronic bill payment, and often faster than we may have wished.

To keep pace with this new, slimmed down operating model a new way of organising a company was needed to render it more flexible and nimble, able to respond to market and client requirements faster and more efficiently.

The matrix organisation was born.

The utilisation of skills and resources on a project basis, deploying and re-deploying a company's pool of people, quickly and in accordance with the latest business demand.

The implications of this in terms of job nomenclature and skill set are as obvious as they are deep. Many of the jobs we casually talk about these days simply did not exist even five years ago.

At a time when business managers are busy "doing" and not "reflecting" and where they, as well as the business, are measured by the bottom line, and not by their triumphs of yesterday but those of now and tomorrow, a new imperative has clearly emerged.

"People specialists", aspiring to be at least involved in conversations about people in companies, and treated as respected partners with their business counterparts, need to become able to clearly and confidently articulate answers to questions such as:

"What can you do for me?", "What do you know, that I do not ?", "What can you do better than I do already ?" and most importantly, "Why should I give you any time, in my busy day?"

This dynamic is the dawn of the new age in HR and Business Psychology.

At this point we need to raise the question about why are we covering at some length aspects that belong more to macro economics than the stated subject of this book.

This is a legitimate question, if it were not for the fact that it is from this brave new world that companies are and will be recruiting its resources and talent. It is also to this demanding new world that working people will need to pledge their skills, motivation, experi-

ence, personality and creativity through the value they will add to the economic process and its outputs (Tarry, 2008).

It is about this world that the Human Resources function must know if not everything at least a lot and it is this context, economic and international, that should be present in the Human Resources specialists' and Business Psychologists' minds, at all times.

Those who are interested in the lives of companies today and particularly in the way roles and functions are being refined and redefined on an ongoing basis in today's changing and challenging world of work, will certainly have noticed the trials and tribulations of the HR profession.

Overview of the people management function

Since the late nineties and more vigorously in the last five years the profession has been undergoing a painful, if much needed, transformation which is still in progress, challenged by a lack of clarity and insufficient research.

The new face of the Human Resources profession has been set forth like a steamroller. It is meant to wipe out the old and prepare the seeding of the new, usually, and unfortunately, by decree of the powers that be, at senior level. There is rarely appropriate communication and buy-in by the people who were asked to transform and embrace this new professional guise.

More damagingly, it has gone ahead without the proper transformation programme meant to select, train and reshape. Instead they populate it with able and motivated professionals, capable of analysis, design and implementation of this strategic planning and management of the work force resourcing, in concord with the business vision.

Whilst the "old" has been ousted, the "new" does not have meaning for many of those who need to embrace it. Nor do they necessarily have the skills or even the inclination to effectively contribute to

such mission critical implementation. Yet the pressure on them is there and their business clients are very impatient and demanding.

So what is this transformation and more importantly why has this occurred?

In most cases it relates to triggers found outside, in the big picture, as discussed in the first section, in the context of the global economy, the advancement of technology and overall nature and tempo of the fundamentally different way of conducting business that has emerged in the last 15 years or so.

The people's function, is challenged to its core by extremely complex, dynamic and demanding circumstances, with impatience from business management having to deal , with a "cost centre" which has to prove its worth and allocate it a budget, from an ever decreasing allowance.

Originally known as the personnel function, the department had to hire, pay and administer the movement of workers through the bowels of the enterprise. It was regulated by few restrictions and kept simple and predictable by a set of administrative rules which were sufficient to support the paradigm "just do your best and the company will look after you" in a job for life scenario where people moved from station to station, or not.

Large companies had a person dedicated to this personnel activity, smaller ones combined it with another function, and gave it to a manager to administer, or better still, allowed the functional supervisors to 'do personnel' as well, for their team of employees.

"Personnel staff" of the old school had to be good administrators, tactful, organised, good at sticking to the rules and mindful of details and correctness of administrative outputs (Staniewski, 2006).

But the world out there was not standing still. Apart from the tremendous changes in technology, legislation, values and beliefs at large, perceptions, politics, governments and civil liberties; the de-

mands besieging organisations were also changing, mirroring the outside world.

Like it or not, the advent of new regulatory measures, at national and international level, as well as the involvement and emergence of all kinds of pressure groups, all of which collectively, produced a sophisticated and regulated backdrop to how people are employed and treated by their employees, were met with equally strong and often contradictory internal demands for leaner, more effective and faster ways of working, to meet competition, save money and satisfy increasingly savvy and demanding shareholders.

In organisations, the people and the “people’s people” found themselves caught between everything from non-discrimination, equal opportunity, health and safety, employment law, industrial relations (all covering employment relations) to unprecedented operational pressure. They were expected to adjust to change, perform, transform and make a profit for the shareholder (possibly the real client of most large organisations) along with customers. The main difference between them being that one collects on the benefits of share value, generated by the money spent by the other.

In this new world where there is time only for doing and for counting bottom line profits, what is there left to do for the newly named HR profession?

The change of name reflects new ways in which that profession is exercised, in terms of tools, methods, best practice and technology. It is all part of the trend that in the last ten years has glamorised all known jobs from the secretary who became an executive personal assistant, and the hairdresser, now known as a hair stylist or consultant, via the interesting profession of “nail artist”.

So what’s in the name that HR is using, which truly reflects a difference and novelty to support an identification of and with, its current status?

Academics have dedicated and continue to dedicate time to research, trying to map expectations and a definition of what the HR role is or should be or could be. This is of course a difficult task as dealing with expectations on one side and reality on the other may at times lead to different if not opposite findings.

Furthermore, academics are busy operating in the academic world, which is most of the time, perhaps for a good reason, different from the world of business. Their agenda may still be different because despite Academia being forced to take a more commercial view of their own activities and strengthen their links with business they still have to ensure immediate financial benefits from their work.

But what do we know today about the HR profession and its contributions?

We know that there are HR professionals and HR specialists in areas such as employment law, health and safety (Tarry, 2008a), industrial relations, payroll, training and development, recruitment, compensation and benefits.

These areas of specialism are supported by customised and relevant software tools and also deal with specific information which constantly needs to be updated. They also require good administrative and communication abilities and an inclination for attention to detail.

Regardless of a company's profile or business field, most companies will have to have in place people designated to deal with the legislative, administrative and regularity aspects of employee relations. They also need to cover the more sophisticated aspects related to strategic planning of resources, business continuity and succession planning.

What we immediately notice is that there are two general categories of activities: one related to the here and now. This needs to be

tactical and part of the everyday hum of the human resource engine. The other needs to look at the more long-term aspects of human capital, be it one year ahead (as in a graduate recruitment programme, for instance) or further into the three or five year projections for, say, the top management team engaged in development and succession planning.

They also, depending on the business, have to consider the question of emerging skills and coveted specialised resources of tomorrow.

The strengths, skills and motivating drivers to deal with long-term or shorter-term activity and job content are clearly different. Therefore the profile of the people who do the different jobs, is quite likely to differ.

Strategic and tactical HR deliverables and the interconnected alignments

One can define the HR function's contribution to organisations along what is called a horizontal and a vertical contribution.

The horizontal contribution is about: recruitment (Staniewski, 2006), selection, health and safety (Tarry, 2008a), reward and remuneration, development, training and payroll, performance review, competencies mapping – all tactical activities- whilst the vertical contribution links into the company's vision and mission statement as well as the short and long term business objectives, alongside which the HR function must develop its own, aligned to that of the business.

The next requirement for highly functional HR delivery of services is the most critical and related to alignments.

One alignment needed is between the elements of the horizontal aspects of HR – known as a horizontal alignment – the other is the vertical alignment of the strategic HR's goals and mission, to that of business vision and mission.

Finally the horizontal and vertical alignments need to also align between themselves.

This may appear complicated but in fact it is only a complex perspective due to the fact that organisations themselves are complex systems, evolving and therefore dynamic. The notion of dynamism also implies alignments between the elements that are components of the system in question.

The research figures (Staniewski, 2006) clearly reflect the activity and contribution of each of the segments of the horizontal deliverables of HR (recruitment, selection etc.) but also clearly demonstrates that congruence and synergy – alignment- between the elements is somewhat lacking. The outcome can only be one; that is, a lowered functionality in the service of the organisation.

The case of new EU entrants from the former Eastern Europe (Staniewski, 2006) is quite interesting in that they carry a mixture of legacy and novelty. On the one hand they have an advanced HR model due to mixed and western capitalised companies which have opened offices there . They practice a consistent HR model in all subsidiaries, and therefore find themselves more or less aligned to the rest of Europe. On the other hand, local companies which not only have a more antiquated personnel function, but also continue the cultural legacy of the communist period, not to mention a generational mix. Three generations (pre and post market economy) are still currently active within the workforce: one which has spent most of its life under the communist regime, another one which has been in transition and finally the third, grown up under exposure of free market economy and industrialised countries aspirations and values, creates a very interesting melting pot. Quite likely, these generations are carriers of a culture with values and aspirations, possibly antagonistic, and with a world view that is as different as the typing machine of the 60's and the email with its sound and vi-

sion attachments of today! By contrast their western counterparts have an HR function that may be at different stages of evolution (from personnel to HR Business partners) but have a certain consistency of context (market economy and strong impact of technology in delivery of HR services to organisations).

Process and technology alone could not possibly align and harness this internal diversity in any one given organisation, quite the contrary, process and technology may well become jeopardised by lack of buy-in from the various groups, unless beliefs, vision, motivation and inspiration come in to play their critical role (Staniewski, 2008; 2006).

Different generations and groups driven and motivated by different, sometimes antagonising goals and expectations, plus all the other external and internal environmental factors, create a very complex (Tarry, 2006) and potentially uncontrollable mix (Tarry, 2008).

So the new joiners of the European Union (Staniewski, 2006) may have to sustain their efforts around technology, process and product quality advancement, but concentrate even harder on monitoring and contributing to the cultural change of values and beliefs, which is the one “soft” key to the hard bottom line measure of business success (Tarry, 2008).

This challenge is something that a non sophisticated HR function will have difficulties in managing effectively, let alone providing leadership for.

The more strategic aspect of the HR contribution to the organisation is captured indirectly in the research (Staniewski, 2008) which refers specifically to knowledge management. But of course knowledge is an asset and in today’s world without a doubt the most competitive assets that people bring to their organisation. In this context again it is interesting to note the importance of various parameters measured in the research, for instance technical knowledge and

culture contribution to the success of an organisation (Staniewski, 2008). Culture however is a more all encompassing concept and in fact in an organisation is the only parameter that touches absolutely all the activities and functions of an organisational complex system. This is why its importance cannot be overestimated. Interestingly knowledge and culture are also linked in circular causal relationship, in that a culture fostering knowledge and knowledge sharing will be conducive to a more knowledgeable and “learning organisation” and vice versa (Tarry, 2008). However given that culture will eventually be responsible for fostering attitudes and practice related to training and development as aspects of tactical but also strategic resilience and capability, one could conclude that culture is the essential driver. The people responsible for organisational culture and setting the correct cultural tone are the management team (Staniewski, 2008) starting with the CEO. Therefore again the impact of personality and culture – individual and collective – cannot be underestimated. The captains of such effort of transformation and change are organisational leaders and managers, who are, on the one hand, just individuals, people following their own motivational, cognitive and emotional journey, on the other hand, powerful and instrumental in the organisation’s business journey towards success. If the management team and the top leaders walk the talk and lead by example (Staniewski, 2008a), that example will be followed by most and therefore they are responsible for setting the trend. It is with these top leaders that the senior HR managers and ideally HR Directors will sit at the table to plan and implement the future of the organisation and how that future could be made possible by having the right resources available. Therefore the power and contribution of the HR function is paramount. But in reality the status of the HR function in organisations is usually far from being high.

When HR professionals changed their business titles from Personnel to Human Resources, did they change their mindset, or assess their own abilities, likes and dislikes, and acquire necessary training to support the, hopefully chosen!, clearly defined and understood new roles to fulfil what was now expected of them? The answer is for the most part probably no.

What is unclear is who exactly called for and triggered the transformation of the function from Personnel to Human Resources; it is probably the profession itself, or rather those in the profession who have a sense of the value of their contribution, their capability to serve business and decided that they deserved more respect and an appropriate status, to enable them to fully express their capabilities.

What is clear is that today the newly named HR profession is looking for an identity, a new confidence and a high new status in the eyes of its “client”, the Business, whilst the business is often having very little time for the HR function, unless it is able to prove it can provide support where it really counts, i.e. the bottom line (Tarry, 2006).

The future of the HR function and the challenges ahead

So what needs to happen to implement and develop a happy and respectful, possibly symbiotic relationship between a business and its HR function?

The first thing HR has to do is to become aware of what its areas of expertise are and confidently and professionally advertise them as such, making it clear to the business that it is the HR function which knows more about specific subjects such as, legislation, regulation, and administration matters and therefore needs to be invited in as advisors and involved in any decisions that eventually will impact on these areas.

This type of HR activity, which falls either under the specialist or administrative banner, is probably the one that every single com-

pany must see exercised and therefore be omnipresent in the organisation.

The terms utilised in the current professional language are unfortunately ambiguous in that a lot of HR people who are called HR generalists are in fact specialists in one, two or more specialised areas such as payroll, training and development, compensation and benefits, health and safety, employment law, industry standards, HR operations processes, etc.

The same people may also be called consultants, and exercise the same role as the generalists in certain HR areas. One thing is clear about all these roles, namely that they require people who are good at administration and detail, who like to operate in the here and now, the tangible and the concrete, who are efficient “doers” and have the ability to manage projects and solve problems whilst often working within the “confines” of frameworks, systems and processes, and also the boundaries (legal, regulatory, mandatory, compliance, adherence) of a specific “content”

Broadly speaking, these HR professionals fall into a shared service, administrative and operational involvement with the day to day energy and continuity of the business process from the tactical point of view of managing a company’s resources.

Another aspect that the HR profession should own and service, relates to the more long-term needs of human capital, the organisation as a whole, as a mini-society, its culture, its position in terms of competitive edge (Staniewski, 2008; Tarry, 2008) represented by specific skill and know how, the prognoses of future success and longevity in a competitive and fast changing market.

So what would they need to enjoy, know about and be comfortable with, for this type of work?

The following: organisational culture, functional sub-cultures, management styles per function and the top management team, the

leadership and the profile of the “paramount” leader, corporate governance, corporate citizenship, environmental matters, work/life balance, ethics and code of conduct, moral transparency of staff and particularly the leadership team, the behaviours, values, beliefs, symbols, rituals, artefacts which all define the organisational culture, what the company’s strategy is, who the competitors are, their weaknesses and strengths, the match between the HR strategy and the business strategy, corporate policies and procedures (Tarry, 2008).

Ideally, they should also have hands on business experience or at least understand business very thoroughly and be able to sit as an equal and articulate partner at the table with business management, have a voice and make a contribution, by emphasising that no matter how good the business plan and strategy are, they will be nowhere without the right people who should be available and willing to take the business into the future and make it a success.

The skill and profile of this type of HR professional, usually known as HR partners or HR consultant is specific again. The profile of such a person will have more to do with long-term thinking, a preference for the big picture and possibilities, an inclination for discussion, an advisory, consulting, facilitating, influential and listening approach, an ability to research and work with large amounts of information of a diverse range, a creative utilisation of knowledge and experience accumulated in the past but constantly modified to suit and be projected into the future.

Most organisations should have a combination of the two complementary HR capabilities, tactical/operational and strategic/visionary, as a part of their HR activity and, depending on the size of the company, the industry it operates in, its international span, its public visibility and liability, the degree of weight and sophistication of the two aspects will vary.

In this context the make up of the HR team should also reflect the business reality and should enjoy a higher status, proportionate to the contribution it makes to business, through its specialist and strategic input.

This is not to say that the two aspects of HR, tactical and strategic, do not overlap. They actually do in terms of policies – which are strategic statements – and procedures – which are concerned with implementation, as well as in some contexts, life/work balance which links straight into operations. The more the contribution, the greater the need for a structure able to contain HR professionals who are suited and trained for their respective roles (Tarry, 2006).

To achieve this, the first step is for the HR function to undertake a self-assessment. This is a time for introspection and reflection to establish the preferences of everyone in the team. It needs to ascertain the true competence and ability to add value and deliver to increasing business expectation, in a context which is also increasingly complicated and challenging not to mention fluid (Tarry, 2006).

The outcome of such a process will be a better career path and job description, better job satisfaction and certainly a higher professional profile in the eyes of the business.

After all, the change of name from Personnel to HR also means a change of job content.

A business card can be printed and replaced overnight; the skills, competencies and mindset required for a new job, cannot.

Conclusions

More now than ever before, people in organisations have become the most valuable asset that organisations have. They are (Tarry, 2008), the competitive edge combined with the outcome of knowledge and shared knowledge (Staniewski, 2008), as a source of innovation. Although people are much more difficult to manage and know than process and technologies, it is the management of talent in organisations that will yield the best return on investment. In order to achieve this utilisation, the HR function has to rise to the challenge of this complete, technological, globalised and fast changing world (Tarry, 2006) and become a necessary partner to business leaders, to provide the resources for them to achieve business goals. The challenges that the HR function is facing are two fold: first it needs to be correctly structured in order to satisfy both the horizontal (Staniewski, 2006) and vertical alignment within itself and also to business. The second task is for HR to take a good look at itself as a profession and recruit, select and develop its own professionals appropriately (Tarry, 2006), to ensure the right and relevant skills for the job.

This overview of the HR function has purposely been positioned from a holistic perspective, combining knowledge provided by multiple areas of specialism, to avoid too narrow a focus. Instead it integrates and make sense of a practitioner's experience of over 25 years in business, enhanced by practice of coaching, business psychology and HR consulting, alongside an academic involvement. The various HR related activities have been explored to highlight its tactical and strategic contributions as well as the need to align these elements within themselves and also with the business. The HR function has also been positioned within the wider system context (Tarry, 2006). This allows it to explore the many elements that have pressured this function to change and evolve in order to respond to

the new realities of the organisational world. We have also touched upon the importance of the “soft” aspects of an organisational asset, as a competitive edge, manifested in knowledge management. This in turn has been seen to have a strong link to culture and management style (Staniewski, 2006). We have made a case for increasing the weighting of the importance of the people element, in the success of organisations and how the culture of organisations is being set and promoted by managers and leaders. They in turn, need to develop themselves and gain the strength of self belief and skills, to cascade it down to every individual (Tarry, 2006; Staniewski, 2008). They should advocate an integrative perspective, an enhanced emphasis on the intellectual capital, innovation and creativity as being the new assets and drivers of competitive advantage in the 21st century (Tarry, 2008). It was acknowledged that this is admittedly, a much more challenging task than controlling processes, however the rewards could be high; it may well be that harnessing people’s collective ingenuity, as well as the leadership’s vision and motivation, is what will drive the progress of business. The critical role of HR in this mission has been highlighted together with the acknowledgement that the function itself is far from having reached the required maturity and that uneven levels of capability are currently present both in developed western countries as well as the new EU joiners. This need for the HR function to mature and evolve itself to a new level of capability and readiness cannot be underestimated and this is a developmental and evolutionary journey that the HR function is yet to complete.

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Zdzisław Sirojć

THE MANAGEMENT OF THE SOCIAL CAPITAL

Introduction

The purpose of the article is characterization of the social capital. The author presented the notion of the social capital, structure of the social capital, the management of the social capital and some aspect of the management of the social capital in the firm and in the city.

We can examine the social capital in different aspects: the organization, the region or the State. We can relate it to small groups as well as to whole societies.

The aim of the article is the analysis of chosen aspects of the management of the social capital in two spheres - the firm and the city.

The notion of the social capital

The social capital has not been defined in clear-out manner, till now. The creators of the idea of the social capital in the different manner tried to determine its essence.

P. Bourdieu treated the social capital as the sum of the current potential resources, connected with the membership of the group, giving to her members the specific support (Rak-Młynarska, 2004: 497-498; Bourdieu and Wacquant, 2000).

J.C. Coleman (1998: 95 & next) comprehended the social capital as the ability of the interhuman cooperation within the framework of group and organization for the purpose of the realization of common interests.

F. Fukuyama (1997: 39) perceived the social capital as the ability consequential to the spread of the confidence within society or its parts.

R.D. Putnam (2000) qualified the social capital as the confidence, norms and connections facilitating the cooperation in achieving the mutual benefits.

The works of creators of the idea of the social capital contributed however to the considerable progress in its defining.

In our considerations we will comprehend the social capital as norms, customs, terms and organizational solutions determining the given values and facilitating organization of the people for the purpose of in favor activities of the common good.

We differentiate the social capital from the human capital by which we will comprehend management and employee competences, their knowledge, skills, motivations and attitudes for work (Staniewski, 2008: 23).

The structure of the social capital

The analysis of the idea of the social capital permits to distinguish its most important components.

The social capital are perceived by researchers connected with the World Bank, which distinguish following elements: structural, regulatory and behavioural capital /tab. 1./.

Tab. 1. The elements of the social capital according to the World Bank

| The elements of the social capital | The structural capital | The regulatory capital | The behavioral capital |
|------------------------------------|-------------------------|--|--|
| | The social nets | The social norms | The indications of the cooperation and mutual activities |
| | The social groups | The examples of the realization of the values and business | |
| | The social structures | The confidence | The indications of collective activities |
| | The social institutions | The solidarity | The exchange of the information |
| | The inquiry channel | The customs and manners | |
| | The acquaintances | | |

Source: Ch. Grootaert, T. van Bastelar /ed./, 2002. *Understanding and measuring social capital. A multidisciplinary tool for practitioners*, The World Bank, Washington D.C., p. 3, behind: M.Theiss, *Operacjonalizacja kapitału społecznego w badaniach empirycznych*, in: H.Januszek /ed./ *Kapitał społeczny we wspólnotach*, Wyd. AE w Poznaniu, 2005; 61.

The social capital and the management

The growth of requirements concerning the management of different social and economic subjects causes the necessity of the improvement of different elements, including the management of the new sphere, which is the management of a social capital.

By the management of the social capital we will understand intentional activities of the manager oriented on the creation, the development and the utilization of immaterial resources included in each components, bearing in mind common good and bringing definite advantages to social and economic subjects.

In the process of the management of the social capital we can distinguish the following elements:

- the construction of the strategy of the development and of the utilization of resources,
- the identification of resources,
- the evaluation of resources,
- the creation of conditions of their development,
- the monitoring of processes aimed at the development of resources,
- the estimation of the results.

In the management of the social capital we can use the matrix of Włodarski (2006), that is to say the matrix of manners of the management of the social capital. It contains four areas of possible influences: the administering, the management, the effects and the tolerance.

Making use of it, we can show different aspects of activities of managers connected with values.

Some aspects of the management of the social capital of the firm and of the city

The management of the social capital can take place on different scale: of the group, the organization, the region or the State. Mentioned surfaces of the management are characterized by the definite specificity, what best can be presented on the example of the firm and the city /tab. 2./.

Tab. 2. The specificity of the management of the social capital / in the enterprise and in the city /

| The area of the management of the social capita | The requirement towards the managers of the firm | The requirements towards managers in the city |
|---|--|---|
| The strategy | Indispensable | Desirable |
| The identification of the resources | Indispensable | Recommended |
| The valuating of the resources | Indispensable | Desirable |
| The creation of the conditions of the development | Necessary | Necessary |
| The monitoring of the processes | Indispensable | Indispensable |
| Estimation of the results | Necessary | Recommended |

Source: The elaboration of the author.

The differences in the management of the social capital of the enterprise and of the city are determined by the following factors:

- the target of the management /in the firm - the profit, in town the satisfaction of the needs of inhabitants/,
- the complexity of the structure /the structure of the management of a city is more complicated/,
- the size of the subject /the city is often a subject considerably more complicated/,
- the amount of connections /relations in the city there are definitely more numerous/,
- the character of the interaction /in the firm direct contacts dominate, in the city indirect, most often anonymous/,
- the manner of appointing managers /in firms by the appointment or by designation, in cities by elections/,
- professionalism of managers /high in firms, low in cities/,
- criteria of the estimation of managers /in the firm based on economic indicators, in town on social and psychological indicators/,
- the manner of the measurement of resources /in enterprise is possibly most exact, in cities - estimated/,
- the quality of the management /is diverse in firms, in cities - most often low/.

The knowledge of the management of the social capital in different surfaces demands the application by managers of different methods and tools of the management. The superficial analysis of problems permits however to ascertain, that firms better administer the social capital than cities. This results is due to the various character of both sorts of subjects as well as to the different nature of tasks they were created for.

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Amalia Venera Todoruț

***WAYS OF INFLUENCING THE KNOWLEDGE
BASED MANAGEMENT ON THE HUMAN
RESOURCES MANAGEMENT***

Introduction

In this paper I proposed approach issues of relationship and interdependence of human resources and management based on knowledge. I presented during the paper the new type of human resource management and new challenges which are noted in the current economic conjuncture and their influences on human resource management. We have also shown which is the new type of organizational culture and its impact on management based on knowledge. I focused also on the modalities, how influence of the management of human resources and the management based on knowledge materialized in: the organization employee involvement, strong motivation and retention of employees in the firm based on knowledge, connection of management based on knowledges and the human resource management on the firm strategy, development of employees capacity and the intellectual capital, the creation and maintenance of learning practices widely used in business.

The issues related to economics, business and management based on knowledge illustrate that human resources are becoming more important and complex than in previous economic systems. Therefore, increases also the importance of human resource management, with substantial alteration of its contents.

Such as the most valuable company resource - knowledge - belong to the employees, any immediate activity of employees affect the management based on knowledge (Staniewski, 2008: 283).

Nature itself and ways how to obtain the competitive advantage are changing. "The new competitive advantage and the new barrier for organizations of the XXI century is represented by the knowledge of human resources" (Chan, 2002: 45).

In parallel, productivity, the modality and main result of expression of human resources, acquires a new content. It has shaped a new paradigm of productivity, that in the new economy, productivity means "what, how much and how well is using the resources available in order to increase customer satisfaction. Knowledge, intellectual capital and time have become the most relevant resources. People being the only source possessing the ability to think and implement new ideas, are occupying the central position in the formulation of relevant productivity strategies" (Tottderdill, 2002: 12-13).

In this context it has produced major changes in employment places to the following levels of:

- knowledge, creativity and innovation, becoming the core work of processes at all levels of organization;
- partnership and dialogue, determining the preconditions of employment environment in which production and innovation are the property distributed and shared widely;
- place of persons which are conducting work processes and procedures for exercising them, in addition to classical arrangements appearing new forms of work (home, on line-work, etc.);
- work team, which becomes the main characteristic of work processes, both for the routine and the creative phase, of development.

The new type of Human Resources Management

The new type of Human Resource Management, outlined in knowledge-based businesses presents more characters that distinguish by the classical management of human resources:

- focus on approaching the human resources from the perspective of amplify and efficiency the knowledges treatment;
- inclusion in the scope of coverage not only employees but also the other main stakeholder of the organization;
- intense differentiation of approaches, decisions, actions and behavior specialists in the field of human resource management, in order to be able to take into account the heterogeneity of effective human resources involved in the organization, characteristics, motivations and their expectations;
- drawing in a participatory manner, in the meaning of direct and intense involvement of professionals rely on knowledge in conducting human resource activities that concern them, starting from their design careers;
- an expression of intense creativity in all the management processes of human resources, in order to be able to devise appropriate solutions to the many new elements, involving in the effective and efficient human resources use;
- design and operation of human resources activity in a flexible manner, constantly changing the content and functions, corresponding to endogenous and exogenous developments of organization;
- retention in the company of professionals rely on knowledge, of their elite, becomes a central function of management based on knowledges, which largely depends the functionality and performance of the enterprise;
- the subordination of all actions in human resources in order to achieve competitive economic performance and ensure business sustainability;

The defining features mentioned are reflected in all the processes that constitute the human resource management, leading for some of them to spectacular changes.

It notes in the current economic conjuncture a new approach to management in general and human resource management in particular, so as to be able to cope with several types of challenges related (Nicolescu, Nicolescu, 2005: 271) to:

- the individual, on request of opportunities to acquire and develop new skills associated with new forms of work;
- managers, entrepreneurs and employees, which must accept the inevitability, uncertainty and confusion associated to changes, which involves considerable effort on learning and experimentation, but can be achieved in a "win-win" conditions for those involved;
- the employees and employers unions, extending their roles in ensuring the richest sources of knowledge and proactive in supporting and upgrading working processes;
- organizations and intermediary organizations - such as universities, regional development agencies, organizations can support economic development
- the creation of capabilities and expertise in the forms of work organization, are involved in the distribution of knowledge, determination and resources for new construction networks of relationships based on knowledge

There is remarkable therefore the complexity of content management of human resources in an economy where information is an element of strategic development of an organization.

The new type of organizational culture and its impact on Knowledge Based Management

Switching to the enterprise and management based on knowledge is necessary to start building a new culture, which itself is an intangible resource management of the organization.

Organizational culture is an important factor that determines human resources development based on knowledge management. According to some specialists (Staniewski, 2008: 284), the organizational culture has a 79% share in the development of knowledge-based management, followed by level of qualification of managers (77%), level of qualifications of employees (72%) and motivating of staff (54%).

The organizational culture of a company based on knowledge presents, in essence, the following characteristics: first the location of people and knowledge and not material elements; open external and internal stakeholder, focused on satisfying the consumer products and services organization, responsive to news in all activities of the company, support for sharing knowledge, centered on individual and organizational learning, and encouraged the creation of new innovation in the organization's activities, focusing on the intense participation of employees in decisions; motivating for taking risks, actions and performance, based on fairness and mutual respect for all stakeholderii; tolerance for errors and failures, particularly in the processes of innovation; promoter of change in all areas of activity of the company; protective bandage from the knowledge of employees and other stakeholder; centered on sustainable performance group; places emphasis on developing understanding, cooperation and collaboration between specialists.

The issue on which relies the construction of such organizational culture is as follows:

Table 1. The construction parameters of organizational culture based on knowledge

| No.crt | Parameters | Characters |
|--------|------------|---|
| 1. | Vision | Incorporating stimulating, broad and committed ideas. |
| 2. | Direction | Clearly indicate a precise trajectory followed by stakeholders of the organization |
| 3. | Impact | Determine to obtain results different from other companies |
| 4. | Challenge | Establishes the organization and employee goals and tasks higher from the current period |
| 5. | Listening | Ensure that what will tell each employee will be heard by the managers and owners |
| 6. | Validation | Appreciation and recognition of appropriate skills and contribution of individuals and group |
| 7. | Learning | The acquisition by employees at all times of new knowledge, skills, abilities. |
| 8. | Autonomy | Development of power to act for employees in large limits, using a variety of forms and methods |
| 9. | Values | Harmonization the values of each person with the organization |

Source: Nicolescu O., Nicolescu L., -The economy, firm and knowledges based management, Economic Publishing House, Bucharest, 2005, p. 283.

At each firm, the parameters are incorporate in the organization strategy, which coordinates illustrate the essential development coordination of organization. Without a realistic and coherent strategy, centered on the creation, acquisition, sharing, use, protection

and enhancement of knowledge, which has yet from the start the reshaping of organizational culture, it cannot quickly build a business based on knowledge performance.

The second major issue for the organizational culture based on knowledge is the degree of involvement of lower level managers, heads of teams, offices, etc in proceeding of the strategy. Of course, implementing any strategy requires, first, a strong commitment of higher level managers in this process, since they trigger the mechanism of change. Given the fact that means reshaping organizational culture change in each hand, they largely depend on the degree of involvement and demonstrated competence of managers who lead them directly. When the team bosses, office, offices, etc. by decisions, actions, behaviors, and - primarily - through personal example is in consonance with the new culture parameters, then the doers will evolve rapidly and substantially in that direction. New organizational culture based on knowledge is an essential component of environment favorable for knowledge to which competing all components of management organization and which ultimately makes the decisive sustainability of their performance.

Influence of Human Resources Management on the Knowledge Based Management

The specialists (Carteer, Scarbrough, 2001: 43) after the studies have identified the main modalities on which the human resources management influences the firm and the knowledges based management.

Table 2. Modalities to influence the human resources on the knowledges based management

| No.crt. | Practices of human resources | Impacts of human resources management | Results(effects) in knowledges management |
|---------|--|---|--|
| 1. | Strong involvement of management in carrying out activities | Involvement of organizational employees | Positive responses to initiatives of management based on knowledge |
| 2. | Adapting human resources management to specific of employees based on knowledge | Strong motivation and retention of employees in the firm based on knowledge | Increase the employees performance based on knowledge |
| 3. | Harmonization of internal and external practices of human resources | Connection of management based on knowledge and human resource management to the strategy of firm | Codification and personalization of firm strategy |
| 4. | Connecting human resources management practices in developing social capital and human capital | Development of employee capabilities and intellectual capital | Give to company the flexibility and innovation of a long-term strategic |
| 5. | Development and support processes of learning in the organization | Creating and maintaining learning practices widely used in business | Improving "sharing" the processes of learning and tactical knowledge across the organizational |

Source: Nicolescu O., Nicolescu L., The economy, firm and knowledge based management, Economic Publishing House, Bucharest, 2005, p. 285.

As result from the examination of the elements incorporated in the table, there are multiple and intense connection between human resources and management based on knowledge. In fact, without management of human resources adequately can not build or operate the Knowledge Based Management. Implementing a Knowledge-Based Management, which incorporates a substantial module of human resource management, is subject to construction, operation and competitive of knowledge-based company. Also no "management based on knowledge can not function independently - he enters into interaction with various elements of the organization" (Staniewski, 2008: 290).

Implementation of Knowledges Based Management are organized according to specialists (Koeng, Willet, Yap, 2001) on human resources management, as illustrated by the presentation of general principles for design and implementation of knowledge management based on:

- treatment of knowledge as a determinant item of performance and functionality of the organization;
- approach and use of knowledge to their multiple dimensions and multiple modalities, focusing on the strategic ones with importance to the organization;
- focus the management on treating the complex knowledge within the frame of organization;
- integration of information and communication processes in the processes and relationships to forecast, organization, training, coordination and control - evaluation of the company;
- identification, use and exploitation of knowledge requires effective management solutions that combine personnel with specialized information of technologies, communication, performance;

- awareness of all employees of the organization that accessing and gaining knowledge is only a start which has to be followed by the use, recovery and protection of knowledge;
- induction to the staff organization the concept that design and behavior in the use and sharing of knowledge with other people is a normal and effective practice to organization and individuals;
- the upper turning of knowledge is achieved not primarily through the approach of organizational hierarchy, but through networking also horizontal and crossing mechanisms, internal and external to organization, in order to work predominantly on the principles of market economy;
- making a special attention to people, processes and areas of work where they produce and use new knowledge in an intensive manner;
- based on knowledge management is a continuous process that does not end as long as the organization;
- knowledge is a source of power for individuals and organizations;
- knowledge management is expensive, but is more expensive to neglect them;
- knowledge management requires managers and management organizations specializing in this field;
- transforming the company into an organization that teaches permanent;
- protection of individual and organizational knowledge of the company;
- the objectives and criteria for assessing the necessity and quality of management based on knowledge for managers and specialists which practice it, are illustrated by the performances obtained by the respective firms;

Despite all the radical changes that occur in management based on knowledge, its finality does not change: the procurement of goods and services competitive in the market, generating added value and profit.

Conclusions

Based on the presented issues we can conclude that the human factor and, human resources management has a decisive role in shaping and the development of management based on knowledge, as well as the shape of company and knowledge-based economy

The existing changes to the level of human resources to the management based on knowledge are determined also by the changes what occur in labor markets, namely: high mobility of specialists; short-term employment positions in companies, the widespread use of temporary work, independent contracting specialists and other forms of employment on short periods, developments of professional careers involving frequent start-ups or engaging in a company just established, the proliferation of intermediaries in the labor market in the form of agencies, which helps professionals to be employed temporarily; motivation flexible of specialists, employment of persons whereas possessing specific skills.

It notes in the knowledge-based economy conditions the expanding of flexible employment of employees to adopt some flexible forms of wage.

There are specialists (Staniewski, 2006: 9) which says that there is a tendency to switch from fixed salaries to flexible wages.

Concluding, the human resource, increasingly complex, acquires an increasing role in the enterprise, and obtaining, storage, use and recovery requires a new approach, special efforts and even much creativity.

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Janusz Soboń

THE HUMAN RESOURCES MANAGEMENT IN THE POLISH ADMINISTRATION

Introduction

Poland, to create the public administration after the year 1989, took pattern on West-European solutions. Accepted solutions were typical for early stage of the development of these bureaucracies. At present, however, there is a need of the new approach, adequate to the political, economic and social situation in the contemporary world.

The purpose of the present article is to show, on the example of Poland, a process of the influence of the human resources management as applied in the States of European Union, on the development of public administration in new States of the Union. This process is also important for other former post-socialist States which undertake the construction of the modern public administration (Sirojć, 2005: 27). Human Resources Management is a strategy and a practice of acquiring, using, developing of employee and retaining their skills in organization (Staniewski, 2008: 57).

Individual features of administration are maintained in States of European Union. Each State has its own model of administration, conditioned historically or by present needs of State. Union has no regulating authority in the field of Civil Service. We can therefore observe institutional autonomy of State administration of each of member States. However, in the State administration of members of European Union we can observe certain general tendencies (Bossaert, Demmke, 2003): standardization of management of human resources of governmental Civil Service and of private sector con-

cerns especially system of wages, system of retiring, introduction of system of management aimed at the results, time of work, model of estimation and promotion of employees, similarity of rights and duties of civil servants and private clerks, rationalization of management in Civil Service, liquidation of privileges.

Three models of administrations dominates in European Union: British, French and German, and in a lesser degree Swedish. As concerns particularly Civil Service in the States of European Union, there are two systems: promotional /career/ and positional.

Characteristic elements of the system of career are:

- statutory contract of work and official nomination of civil servants,
- nomination only to a first post in Civil Service,
- legal requirements concerning education and qualifications needed for a job,
- limited recognition of professional practice in private sector,
- systems of salaries fixed by the law /promotion according to job seniority/,
- lifelong work duration,
- ethical code of civil servants /with special disciplinary rules/,
- work process more of the nature of command then directed on aims,
- secondary role of principle of reaching the results,
- upper limit of age for undertaking a work,
- limited mobility,
- salary unconnected with results.

Among characteristic elements of positional system we can mention (Mróz, 2000):

- employment on base of free contract,
- appointment to a concrete post of work,
- acceptance of professional experience obtained in private sector,

- easiness to move,
- lack of obligatory training requirements,
- salary connected with results of work,
- acceptance of foreign professional experience.

Promotional system dominates in: Austria, Belgium, France, Greece, Spain, Portugal, Germany, Slovenia, Slovakia and Cyprus. Positional system exists in: Denmark, Finland, Netherlands, Sweden, Estonia, Great Britain and Italy. Mixed system, containing the elements of promotional and positional systems, exists in: Poland, Czech Republic, Hungary, Lithuania, Latvia and Malta.

Among a lot of rules which are the base of different models and administration and administrative systems, there are (Sirojć, 2004: 43):

- democracy,
- law-abidingness,
- nonpolitical attitude,
- impartiality,
- professionalism,
- accessibility and subordination to State and society,
- frankness and structure,
- effectiveness and efficiency,
- organizational progress,
- responsibility for results and effects of decisions,
- competitiveness,
- planning of activities,
- subsidiary,
- permanent professional development,
- social consultations.

Poland, when creating new State administration after 1989, modeled it on classical western bureaucracy, especially on French solu-

tions, although the tradition of organization and of preparing systematically personnel for administration in Poland dates back to the beginning of XX century. The accepted solutions are typical for early stage of bureaucracy and are characterized by privileged, professional Civil Service, while in the west of Europe we observe opposite tendency, aiming at lessening the differences between rights and duties of State and private officials.

The membership of European Union forced new members to adapt themselves to the tendencies, which at present exist in the countries of this group, especially (Malicki, Soboń, Sirojć, 2007: 693):

- elasticity of employment and voluntary rotation of employees between different geographical regions and State institutions,
- demand for movements of workers between private and public sector,
- increasing importance of information technology,
- changing of internal and international environment of administration,
- employment in State administration based on competence and effectiveness,
- europeization of law,
- convergence of organizational structures.

The influence of the process of European integration on the Human Resources Management in the Polish public administration is very positive. It is performed by: the legislation of the European Union, the jurisdiction of the European Court of Justice, the transfer of experiences resulting from the international cooperation.

Legal and administrative systems of member States are subject to continuous changes. Although the European Union has no authority to regulate the Civil Service in individual States, the influence of the process of European integration on this service is constantly in-

creasing. In some spheres these dependences are very strict, eg. in the planning and the environmental protection.

Researches showed that national traditions and philosophy of the administration as well as a degree of institutionalization in member States had great influence on the legislation of the European Union. On the other hand, the EU legislation and jurisdiction forces the harmonization of institutions, legal systems and Civil Services in member States.

The exchange of best experiences in the sphere of the Human Resources Management in the public administration embraces also standards and procedures of right conduct. This concerns:

- planning of human resources,
- recruitment and professional selection,
- estimation systems,
- motivational systems,
- but also:
- regulation of the working hours,
- co-ordination of social insurance systems,
- exchanges of public officials.

Numerous relations of the Polish and foreign public administration bore already fruits in form of positive changes in the human resources management: many institutes and plants fulfilled ISO standards, quality of the workplaces improved, large number of individuals gained fluency in foreign languages, many new procedures were introduced the quantity of teaching courses has grown as well as desirability of the work, etc (Malicki, Soboń, Sirojć, 2007: 293).

The necessity of changes in the Polish legislation concerning the public administration depends also on objective processes of domestic transformation and processes on the international scene, as:

globalization, internationalization, modernization or rationalization of management (Sirojć, 2004: 173-174).

Changes that happened lately in the Polish public administration were intent on its improvement. It is difficult to say whether the result will be satisfactory. All depend on the realization. If nominations for the most important administrative positions are to be on the basis of political key – it will be the step backwards. If, however, such appointments are based on objective criteria of competence and efficiency – there can follow the improvement in the management of the State administration.

Experiences of the time of transformation are essential from different points of view. Changes in the human resources management in the public administration constitute a very important aspect of these experiences. Their practical meaning is vital, because it refers to the great area of system transformations: from Berlin to Ulan Bator and from Tallinn to Tirana (Sirojć, 2008: 150).

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Part III
Tools of Competition

Roxana Maria Ispas
THE COMPETITION POLICY
IN THE EUROPEAN UNION

Introduction

The reflection upon the process of European integration requires a preliminary elucidation of its content. The term of integration is used in a sociological way to designate the establishment of a tight interdependence between the parts of a living being or between the members of a society, a union consisted of multiple entities or several groups of individuals.

The specialty literature gives numerous meanings to the notion of international economic integration: passing from microspaces to macrospace, the creation of larger and larger economic progressive elimination from the economic relations between different states, the economic stability and efficiency of the relations between states.

Thus it must be understood the fact that the economic integration is not a purpose in itself, but a means, a way towards achieving some objectives. One of the objectives which is tended to is the achieving of a perfect competition, the ideal case, if this purpose is not achieved, any means is tried in order to reduce the factors which lead to an unloyal competition.

The paper is structured on presenting the basic concepts of competition, in general, as well as in the European Union, by exemplifying the phenomenon as well as the role of the states and of the European Commission upon competition.

Competition and the policy competition – Basic concepts

The term of competition designates “the relations between all those who act on the same market for achieving their own interests in terms of economic freedom”. In the same time, competition re-

flects “the rivalry, the dispute between the respective economic entities which follow the same purpose and that is why their interests become contradictory”. Competition is a fundamental condition of the market economy being considered as the most important cause of the economic and techno-scientific progress.

In a comprising enough way, competition is a rivalry, a fight taken by economic means (reducing the costs, launching new products, buying shares) and extraeconomic means (industrial espionage, sabotage actions) between producers or dealers, monopolies, countries for producing and retailing some goods, monopolizing some markets and obtaining huge profits.

The competition policy aims at putting into practice and presenting a system which allows a competition without distortions with an economic space. Within the framework of the liberal economic theory, the competition policy aims at creating markets with a perfect competition and preventing the forming of monopolies and oligopolies which impose their prices to the prejudice of the consumer. In the European Union there have been state monopolies in some fields such as: transportation, postal services and telecommunications.

There has to be mentioned the fact that in reality, the perfect competition does not exist, being an ideal situation everyone is tending for and that actually the concrete form of competition manifestation is the imperfect one, where the participants who are differentiated between themselves offer a series of criteria, have a different economic power of more limited and ample information and of a different importance. Perfect competition requires a form of organizing the economy with very strict rules which have in view the setting up of a certain kind of equality of conditions for all the economic agents.

Its characteristics are the following:

- the atomicity of the producers and consumers

- the perfect transparency
- the product homogeousness
- the freedom of acting on the market
- the perfect flow of demand and offer
- the perfect mobility of the production factors
- the economic rationality or efficiency.

The competition policy has in view the ensuring of the framework necessary for performing a loyal competition that is a competition which takes place on condition that the economic agents should respect the norms and means considered correct and established as such through the regulations in force in every state.

If the competition is not loyal (it takes place with means and actions contrary to legal usages and regulations), then it comes to a distortion and a misappropriation of the competition from its purpose by favourizing one or more economic agents and defavourizing others.

The competition policy in the European Union

One of the keys to the success of the European economic integration was consisted of the existence, even from the beginning of the community structure, of a common policy in the field of competition. After 40 years of functioning, this policy continues to be a condition necessary for the existence of the Single Intern Market which ensures the free circulation of goods, services, capitals and persons.

Eventually, the main beneficiary of a free competition policy is the citizen in its triple quality as a:

- consumer (the free competition leads to an offer diversification and to a reduction of the selling price);
- participant on the labour force market (the free competition obliges to a continuous innovation process both of the achieved product and of the production process);

- shareholder (the free competition leads to increasing the efficiency and to gaining high profits).

The free competition between companies favourizes innovation, reduces the production costs, increases the economic efficiency and consequently it raises the level of competitiveness of the European economy. Thus, stimulated by the competition environment, companies offer products and services competitive from the quality and price point of view.

The competition policy in EU, as well as in the other great economic world powers, is based on the concept that the markets of a pure and perfect competition are the most appropriate, capable of ensuring the population's welfare. Consequently, the competition policy aims at limiting, controlling, even forbidding the behavior of the enterprises which are without prejudice to the perfect competition.

Though many economists admit that there can exist, in certain conditions, the so-called "failure markets" which then justify the failure to comply with the rules of free competition between enterprises or the direct intercession of the state for correcting these effects. These failures, for example, can account for the existence of the effects outside the market taken into consideration (the activity of research-development carried out by a big enterprise can create an environment or generate a series of knowledge which is useful to other enterprises too, the last ones without having born their costs) or for the increasing scale efficiency. In this case the efficiency of the enterprises increases according to their dimension and it can be desirable, in certain conditions, for the society ensemble that the markets should not be "atomistic", that is consisted of a great number of small enterprises as in the reference example of the pure and perfect competition.

The monopolies or the enterprises behaving like a monopoly (for example, those who agree upon the price or share the market) are the first ones aimed at through the competition policy.

The term of competition policy is general enough, broadly referring to certain laws and actions taken by the government or, in this case, by the Community in its ensemble (which acts with the help of the European Commission), which are meant to eliminate or at least to discourage the restrictive commercial practices such as cartels, monopolies or other nontariff barriers which could have as a consequence, in the Treaty's terms, "preventing, restricting or distorting the competition".

In the field of competition, the policy forbids practices such as:

- granting public assistance which create distortions in the competition relations between the economic agents;
- establishing the prices through preliminary agreements between producers or suppliers;
- creating cartels which share the market so that they should not compete between themselves;
- the abuse of dominant position on the market;
- achieving mergers which distort the free competition.

The competition policy in EU has the following essential characteristics:

- the great principles of the competition policy are settled through treaties;
- in the Treaty of Rome it is shown that in the field of competition "the community must establish a regime which ensures the fact that competition is not distorted in the common market";
- there are numerous regulations which specifies the implementation of the competition policy principles;

- the European Commission is uncharged with the correct implementation of the law and community provisions;
- the Court of Justice arbitrates the litigations and sets up the jurisprudence.

Rules applicable to enterprises

Generally, these ones aim at the following aspects:

1. The prohibition of any agreement between enterprises, decisions of association and concerted practices which are liable to affect the commerce between member states and which have as an object or effect the obstruction, restraining or falsifying the competition within the Common Market (The Treaty of Rome).

The Treaty also gives examples of such agreements, which are “null by rights”:

- setting, directly or indirectly, the buying or selling prices or other conditions of transaction;
- limiting or controlling production, sales, technical development or investments;
- sharing the markets or the provisioning sources;
- as for the commercial partners, applying some unequal conditions or equivalent performances, thus making them bear or disadvantage in the competition fight;
- subordinating the signing of contracts to accepting by the partners some additional performances which, by their nature or according to commercial usages, have no connection with the object of the respective contracts.

The prohibition of these practices depend on certain conditions:

- firstly, the intercommunitary exchanges must be audited according to the jurisprudence of the Court of Justice of the European Communities even if the partners are situated in the same state;

- secondly, the agreements must have had as an object or effect the retraining or cheating on competition within the community market, which excludes the agreements between the enterprises in the EU which aim the third party countries;
- a last imposed condition takes into account that the prejudice on competition should be important: thus, the agreements of minor importance are in the sphere of derogations, for example, for Small and Middle Enterprises (SME), an agreements does not significantly affect the market conditions when the market share the respective enterprise have does not exceed 5%, and the cumulated annual turnover does not exceed 300 million Euros.

However the Treaty provides also a series of derogations for the agreements which: contribute to “the production amelioration of the products’ distribution” and to “the promotion of the technical and economic progress” and which, in the same time, allow “users to obtain an equitable part of the resulted profit”. Such situations are tolerated only if the producers maintain their capability of offering competitive goods or services. The exemption is of individual nature and is practiced when the Commission expressly authorizes an agreement verified beforehand. Another kind of derogations have a collective character and are applied to a whole series of agreements, a regulation conceived by the Council being necessary, and which specifies certain requests.

Example: the VOLKSWAGEN case

In June 2001, the Commission gave a fine of 30 million Euros to the producer of Volkswagen cars. In 1996-1997, Volkswagen had sent a memorandum to its Dutch concessionaires which urged them not to make price cuts for the new VW Passat. This kind of practices is against the competition rules, because they artificially maintain high prices for the consumer.

Dominant position abuses

This article does not regulate the concentrations, but it limits itself to forbidding the fact of exploiting a dominant position, being rather corrective than preventive. In this case, it is not discussed the place taken in an activity sector, but it is criticized only the fact of obtaining an excessive advantage from this position: “for one or more enterprises, the fact of abusively exploiting a dominant position on the common market or on a substantial part of the common market is incompatible with the common market and forbidden as far as the commerce between the member states is affected.”

In order to determine if an enterprise is or is not in a dominant position, no matter if it belongs to the Community or to a third party country, one firstly judges the market share detained (which must be higher than 50%, and the enterprise must have the capacity of maintaining it). When the enterprise occupies 70-80%, the qualification is automatically done and if there is not the case, then other complementary elements interfere, such as: the reputation, brand, efficiency of the commercial network, technological advance, economic power of the competitors, existence of a latent competition, access to resources and technology. The next stage consists of establishing the abuse, if it exists, taking into consideration only the effects of the company’s behavior and excluding any accusation of fraud intent.

There are presented several situations:

- enforcement in inequitable conditions (prices too high or too low for eliminating some competitor producers);
- limiting the production, sales or technical development in the consumer’s detriment;
- applying a discriminatory treatment to the commercial partners.

No derogation is prefigured as in the agreements' case and the sanction is pronounced by the Commission who, on the decision way, orders the enterprise to put an end to the ascertained situation and can fine it.

Example: THE MICROSOFT CORPORATION CASE

After 5 years of thorough investigation and after 3 years of incrimination communications, on the 24th of March 2004, the European Commission took a decision which established that the American company, Microsoft Corporation, broke the competition rules established through the Treaty of the EC by taking abuse of its quasi-monopoly position on the market of exploitation systems for PC with an aim at restraining the competition on the market of exploitation systems for servers of work groups and multimedia players. Because this behavior had not stopped yet, the Commission asked Microsoft company to divulge to its competitors, within a 120 days' period, information regarding the interfaces necessary for their products to be able to dialogue with Windows exploitation system. Within a 90 days' period, Microsoft also had to propose to the equipment companies (and final users) a version of its Windows exploitation system which does not bear the Windows Media player (WMP). Because there was the case of a "very serious and continuous" abuse, committed for five and a half years, the Commission punished the Microsoft company giving it a fine of 497.2 million Euros.

The concentration – was not stipulated in the Treaty of Rome, but the Commission always took into consideration the fact that it could lead to an abusive exploitation of the dominant position. The regulations in December 1989 and September 1990 covered this lacuna imposing an obligatory notification of the merger and acquisition projects at the European Commission and thus there is established a preventive control from the Commission, which can forbid the con-

centration operations which present an European dimension if they are risking to lead to a dominant position liable to significantly obstruct competition.

Thus, the competition policy is allowed to interfere, at an early stage of a concentration process, approving or forbidding the alliances taken into consideration. The preventive control is applied to the following kind of operations: merger, control take-over, creation of common entities starting from a minimum threshold. This minimum threshold was modified through the Council regulation on the 30th of June 1997. The respective enterprises, out of which at least one belongs to an EU member state, must fulfill certain criteria:

- the cumulated world turnover, which, at the beginning, had to be higher than 5 billion Ecu, was brought to 2.5 billion;
- the turnover obtained within the community space, which formerly had to be higher than 250 million Ecu for at least two of the unities, was brought to 100 million;
- each enterprise must not achieve more than 2/3 of the total turnover in the Commission within one and the same member state.

In this case, the agreement protocol must be obligatory approved by the Commission, this one having though the possibility of suspending it. Practically, the Commission appreciates if there is or there is not a dominant position which constitutes a significant barrier for the competition and decides the approval or forbiddance of the agreement.

Example: THE TOTALFINA – ELF AQUITAINE CASE

In France, TotalFina and Elf Aquitaine proposed a merger which would have allowed the new society to control some markets of mineral oil products in France, which would have involved higher prices for vendors and for consumers (the new group would have represented 50% of the refining capabilities and would have controlled the French import warehouses). In February 2000, the

European Commission authorized the merger of the two oil giants in certain conditions.

In order to solve the competition problems highlighted by the Commission, TotalFina and Elf accepted to cede to the competitors an important part of the aimed operation. The new society would have acquired, for example, a dominant position in selling carbu-rants on highways (it would have had 2/3 of the number of gas stations on highways, which are a significant market with high prices). With the purpose of maintaining a competitive market in this sector, in the consumers' interest, the European Commission forced Total-Fina and Elf to sell about 70 of the 214 gas stations it had, before authorizing the merger. The group also had to give up to the control on the warehouses which supply the oilducts network, the objective being that of keeping, downstream, at the level of retailing carbu-rant and fuel oil, the possibility for competitors of not being the prisoners of a single supplier.

Regulations regarding the interference of the states

The financial intervention of the public power in a market economy must comply with the spirit of this kind of economy. At the level of state intervention, the competition can be distorted through several ways:

- through the privileges the public enterprises producing commercial goods and services might enjoy: these are subject to common laws and must not benefit, on behalf of the state, by any preferential treatment regarding other similar enterprises in the private sector.
- through state assistance and public subventions which can involve a distortion of the competition. The governmental supports for enterprises can take the shape of subventions, credits or preferential interests, debt relieves, tax relieves.

In February 1998, the Commission approved supports in a total value of 1.89 million Euros in favor of developing SME1 in tourism in the region of Dinana in Southern Spain. These supports were granted in order to encourage the investments in new tourist initiatives and to create new jobs, thus contributing to the durable development of a relatively poor region of Europe, Andalucia.

Due to the events on the 11th of September 2001 and to the paralyzing of the Atlantic air space which followed, the European governments were authorized to deposit subventions to their national companies, having as a reason of “exceptional circumstances”.

- through the existence of some national monopolies with a commercial character which often coincided with the public status of some main providers or suppliers of electricity, water, transportations, telecommunications.

The public services and competition in the EU

Regarding the public enterprises and the enterprises responsible for a public service (of industrial and commercial nature), there are three rules:

- the Community neutrality towards the property form (the public character of some enterprises is not in the position of intrinsically authorizing competition distortions);
- the prohibition of obstacles/barriers in the way of competition (except for the services of general interest);
- the main problem is represented by the activities of network public services (railway and air transportations, gas and electricity, mail and telecommunications) which are the object of a deregulation.

The public service can be defined from the economic point of view as being: “a service whose production is made according to the increasing efficiencies (that is the situations when the unitary production cost decreases together with the increase of the quantities

produced) which would justify its organizing in a monopoly, as well as the putting into practice of some managed tariffs and some fiscal mechanisms. The existence of some powerful externalities (that is situations when the decisions of an economic agent have consequences in terms of cost and welfare upon other agents) would confer also a certain character to the public service because correcting these externalities can require an important interference of the state”.

The global level of public assistance decreased in EU with 28% between 1997-2000 (which means a decrease of 23 milliard Euros). The public assistance represented in 2000, 0.99% of EU's GDP and little over 1% of GDP in 2001.

The interference of the European authorities in the network public services was accelerated in the 80's, 90's.

Generally, the devices put into practice clearly distinguish what belongs to the monopoly and what belongs to competition, developing the pattern according to which there can be distinguished:

- the infrastructure, which due to the scale economies, must remain the object of a monopoly, and
- services, which can be supplied by many providers of competition.

The coexistence of the public sector with the private one is organized, being created independent regulation authorities.

At the basis of this pattern, there lies the theory of contestable markets. A market is contestable if entering the market is free (creating enterprises) and if exiting the market is done at a lower cost. A free entrance requires the absence of barriers in penetrating the market and the access to a reasonable price to the available infrastructures which constitutes “essential facilities” to produce. Thus, the threat from the arrival of new competitors is credible.

Example:

- a new operator wants to use the fiber network in order to sell communication services, which involves: not opening the access to this network constitutes a barrier on entering the market and so an abuse of dominant position. Coming out at a low cost means that the risk taken by the enterprise which penetrates the monopoly market is not insurmountable, that is why irreversible fix costs consented on the occasion of entering an activity sector must not be too important because they are not recoverable on the way out if the enterprise decides to cease its activity.
- Air transportation represents the prototype of the contestable market, long before its opening towards the competition within EU on the 1st of April 1997 resulting that on the European market between January 1993 and August 1996 there have been 83 entrance attempts, out of which 35 proved not to be profitable (the airplanes, which are the greatest part of the entrance cost on the market can be bought in leasing and are marketable in case of ceasing the activity, that is why the risk taken is not considerable for the companies which try to establish themselves).

As for the services of general interest, in the communication of the European Commission in 1996, they are defined as being “the activities of services, marketable or not, considered of being of general interest by the public authorities and for this being subject to some specific obligations of public service”. It is especially the case of services of network transportation, energy, communications. It is specified that these services of general interest are the answer to some fundamental needs having a symbolic dimension and constituting an element of cultural identity for all the European countries. In the larger field of the service of economic general interest there comes the universal service which is defined as a minimum offered service whose quality is specified for any user at an accessible price.

Introducing the competition in sectors where it does not exist, maintaining a monopoly in certain segments of activity and putting into practice a minimum public service raise the problem of the authority to define and to make so that the terms of supply are respected, that is why there have been set up some regulation authorities independent from state and from the historical monopolies which guarantee an equitable competition and ensure a good functioning of the universal service.

The role of the European Commission in the competition policy

In order to reach the two objectives of the competition policy, the functioning of the market economy and of the Single Market, two conditions must be fulfilled:

- the competition rules must be universally applied both to the public enterprises and to the private ones;
- the authority of implementing the competition rules must have the capability of imposing penalties, consisting of fines big enough to discourage the breaking of the law.

The Commission can prevent the national authorities from abusively subventioning the national industries by breaking the community competition rules. This way, the subventions granted to airline companies could serve as an example. This sector, which was progressively liberalized in the context of internal market, was traditionally the object of a state control.

The Commission also took charge of the concentrations of great dimensions which carry on a significant part of the activity on the territory of several EU member states. In 1994, the European Commission broke apart and sanctioned three great European cartels, after it discovered secret agreements closed between societies for setting the prices or sharing the Community market, which had as a

consequence the minimization of competition, increase of prices and reduction of the choosing possibilities for consumers.

For example, it was established the existence of a cartel in the field of steel pillars. Functioning since 1984, this cartel involved 17 societies and was managed through Eurofer, the European Association of Metallurgy. There have been fines in a total amount of 104.4 million Ecu. Another example: 23 cement producers, 8 national associations of the cement producers and their European homologues were globally fined with 248 million Ecu, because it was discovered the had come to an agreement not to sell on their intern markets.

The Commission has large powers of investigation, being able to visit the companies suspicious of breaking the free competition and having access to all their documents. The enterprises found guilty of illegal competition practices (concerted practices or the dominant position abuse) can be fined with up to 10% of the last year turnover.

In case there are discovered agreements between companies, suspicious of breaking the free competition and which are in its competence, the European Commission has the following possibilities of action:

- to declare it null through a formal decision, if after the investigations it results that the agreement does not distort the free competition;
- to give an informal administrative letter which allows the operation on the community market because they are operations without a significant impact;
- to accept the operation only fulfilling certain conditions which guarantee the compliance with the free competition;
- to declare it null.

Conclusions

The policy in the field of competition is essential in achieving the intern market, its rationale being that of allowing all the companies to compete on equal terms on the markets of any member state. That is why, the better involvement of the consumers, the increase of the transparency in adopting decisions, as well as the enforcement of the international cooperation are important.

As for the policy in the field of competition it evolved as being one of the most important community policies and also as one of the most important community policies. Although it must be taken into account the fact that member states have their own regulations in the field of competition, the borderline between the national and community competences being sometimes difficult to trace.

The omission perceives the competition policy as a sensitive problem and this especially in the sectors of producing gas and electricity, telecommunications and postal services. But the problem is the same for the financial or transport services to the extent that there are barriers on the way of entering the market resulting from national and local regulations and raising the problem of the access to the networks or other indispensable facilities.

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Irina Purcarea

***THE PROCESS OF INNOVATION IN ROMANIAN
SMALL AND MEDIUM ENTERPRISES***

Introduction

European companies - in particular small and medium enterprises (SMEs) - face increasing competition not only for sales, but also for technical know-how and skills. What is needed at the moment is a dynamic, self-sustaining culture of innovation, where SMEs play an important as the engines of economic growth, as well as the main sources of new employment. This paper discusses the current stage in what concerns the implementation of innovative practices in Romanian SMEs. The first part of the paper focuses on the European framework for SMEs development, followed by a close look at the innovation in SMEs together with the main drivers of innovation. The last part of the paper assesses the relationship between innovation and Romanian SMEs competitiveness, along with a short analysis of the current degree of innovation implemented in Romanian SMEs.

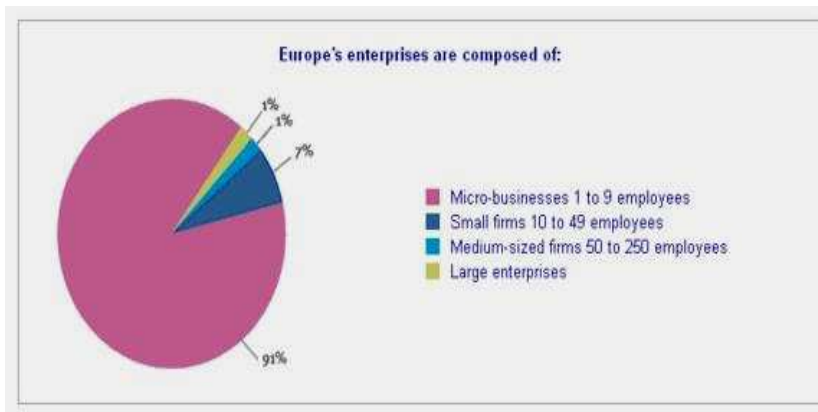
Small and medium enterprises play an important role in any country's economy (Olaru, Purcarea, 2009). They account for over 99% of all European businesses.

The contribution of small and medium enterprises in what concerns creating a dynamic and competitive global economy is highly important. Improving the competitiveness of SMEs has a positive impact on the increase in the number of jobs provided. Therefore, SMEs should continuously identify innovative methods within their organizations, both by developing new products/processes and improving current products/processes aiming to stimulate their competitiveness.

The research and development activities play an important part in enhancing the SMEs ability to innovate. However, the majority of SMEs encounter certain difficulties regarding the financing of such innovative undertakings, urging the implementation of initiatives oriented towards improving the financing framework. Until recently, a number of studies were conducted regarding the evolution of the innovation process in the Romanian SMEs sector. Also, different innovation strategies on regions in Romania were conducted, with an emphasis on stimulating innovation in SMEs.

The current stage of European SMEs development – Romanian SMEs

The opportunities and challenges afforded by globalisation impacts the traditional roles of SMEs relative to their larger counterparts. In an era of globalising markets, when large firms tend to substitute offshore employment for domestic employment, SMEs become even more important for avoiding increases in unemployment and maintaining and even increasing levels of employment (Audretsch, Horst, Kwaak, Thurik, 2009). In addition, SMEs provide a mechanism for the spill-over of knowledge and ideas created but not implemented in large organizations to become commercialized, thereby generating innovative activity and contributing to the dynamism of the economy.



Source: <http://www.eurofound.europa.eu/emcc/jpg/eu06025a-fig00.jpg>

The most striking phenomenon of SMEs is perhaps their contribution to employment in the European economy. No less than 67% of employment in the private, non-financial economy is found in small and medium-sized enterprises. Within the group of SMEs, the micro firms employ most people: almost 39 million, i.e. 30% of the total employment in the private, non-financial economy. So, 92% of all enterprises employ 30% of the total private labour force and are at the same time very, very small. This is important information for policymakers, for instance for those developing programmes for high-tech firms, innovation, internationalisation.

Between 2002 and 2007, the number of jobs in the EU non-financial business sector increased by 8.7 million. SMEs employment growth was 7.3 million.

There are approximately 19 SMEs per 1000 inhabitants in Romania, which is considerably below the EU-27 average of almost 40. The available data point to a slightly less prominent role of SMEs in the local economy as compared to the EU average, as measured by number of employees and the added value.

As regards the hiring index, Romania is ranked at the bottom of the EU-ranking (78 on a scale of 0 to 100 with the EU-average at 33)¹. The situation is only slightly better as regards the index measuring the severing of employment contracts. In addition, social security costs incurred by employers are also above the EU-average. Mirroring the situation of many new member states, the availability of e-government services is lower than the EU-average (35% to 59%). There is a considerable gap between Romania's figures and the EU-average as regards the availability of venture capital, in particular early-stage-businesses (the country ranks last within the EU on this point). The planned share of structural funds 2007-2013 dedicated to stimulating entrepreneurship and SMEs is also significantly below average (3% versus 7,8% for the EU).

In what concerns skills and innovation, the available figures for Romania lag significantly behind the EU average.

If there are any indicators where Romania beats the EU average, they are confined to innovation (although they are not many). The most notable example is the share of SMEs that have new products or income from new products (77% versus for 63% for the EU). In the area of education the only indicator where Romania is ahead of the EU average is the share of SME staff with tertiary education. The indicators on which Romania is furthest away from the EU-average are "innovative SMEs co-operating with other" and the participation rate in learning activities in micro-enterprises", where it comes last within the EU (8,3% to almost 47%). The average expenditure on environmental protection is also substantially lower than the EU-average (ca. €245 as opposed to almost €900) in 2004.

¹ European Commission, SBA Fact Sheet Romania,
http://ec.europa.eu/enterprise/entrepreneurship/craft/sme_perf_review/doc_08/spr08_fact_sheet_ro.pdf

Innovation in SMEs

Innovation is at the heart of economic change. Schumpeter proposed a list of various types of innovations:

1. introduction of a new product or a qualitative change in an existing product;
2. process innovation new to an industry;
3. the opening of a new market;
4. development of new sources of supply for raw materials or other inputs;
5. changes in industrial organisation.

The technological capability of a firm is partly embedded in its labour force. Skilled employees are a key asset for an innovative firm. Without skilled workers a firm cannot master new technologies, let alone innovate. Apart from researchers, it needs engineers who can manage manufacturing operations, salespeople able to understand the technology they are selling (both to sell it and to bring back customers' suggestions), and general managers aware of technological issues.

Capability also depends on the characteristics of the firm: the structure of its labour force and facilities (skills, departments), its financial structure, its strategy on markets, competitors, alliances with other firms or with universities, and above all its internal organisation. Many of these aspects are complementary. A particular skill structure will go hand in hand with a particular type of strategy, financial structure and so on.

There is a widespread recognition that small and medium sized enterprises (SMEs) can make a vital contribution to job creation, competitiveness and growth in the global economy. There is also increasing evidence that new or small firms play an important role in the production of innovation, which is not only considered crucial

to the growth of output, productivity and employment in the economy, but also a fundamental driving force behind rising living standards and greater satisfaction of individual and collective needs (health, entertainment, working conditions, transport, etc.). There is strong evidence that innovation at aggregate as well as at firm level has a positive effect on employment².

Two thirds to three quarters of all R&D activities worldwide are carried out in the business enterprise sector³. Therefore, the business sector is not only the principal financing sector of R&D, it is also by far the main performer of R&D. Moreover, within the 'research fabrics', the business sector is the closest to consumers and therefore best positioned to develop products based on new knowledge (or new combinations of existing knowledge) and to exploit them commercially. The involvement of the business sector in research-driven activities is therefore crucial for Europe's future economic growth and competitiveness.

In this environment, competitiveness at the company level depends crucially on the speed with which new products can be brought to the market place and new cost-saving improvements made. Similarly, the creation of wealth and employment depends to a very large extent on the speed with which scientific and technological breakthroughs are converted into practical and attractive solutions. What is needed is a dynamic, self-sustaining culture of innovation.

Critical to such a culture of innovation are the small and medium-sized enterprises (SMEs) which have in recent years proved them-

² Austrian Institute for Small Business Research (IfGH) and Instituto Vasco de Estudios e Investigación (IKEI), Innovative Small and Medium Sized Enterprises and the Creation of Employment, Vienna 2001, ftp://ftp.cordis.europa.eu/pub/innovation-policy/studies/studies_smes_creation_employment_en.zip

³ European Commission, Towards a European Research Area-Science, Technology and Innovation, http://ec.europa.eu/invest-in-research/pdf/download_en/keyfigures_071030_web.pdf

selves to be the engines of economic growth, and the principle sources of new employment. The new Innovation and SMEs programme - one of seven within the Fifth Framework Programme - places innovation and SMEs at the heart of European research and development. The programme, which is innovative by nature as well as in name, acts as a catalyst at the European level - identifying, developing and sharing best practice between different policy areas, disciplines, sectors and regions - and is developing the tools to enable Europe to innovate, and thus to renew and strengthen its prosperity.

Research and Development (R&D) activities are often considered as being a main driver of economic development, innovation and growth⁴. They comprise creative work undertaken systematically with a view to increasing the stock of knowledge, including knowledge of man, culture and society, and the use of this stock of knowledge to devise new applications. The basic statistical variables are R&D expenditure and R&D personnel, which are measured at both national and regional levels. The European goal in R&D, as set by the Lisbon and Barcelona European Councils, is the achievement by 2010 of an R&D intensity of at least 3% of GDP in the EU (taking into account the different starting points of Member States), with two thirds of R&D expenditure being financed by the business enterprise sector.

The role of innovation in relation with Romanian SMEs competitiveness

Education, scientific and technological progress and innovation have always been crucial ingredients of economic activity and an important source of competitiveness. The transition to the knowl-

⁴ Eurostat Statistical Books, Science, Technology and Innovation in Europe, 2008 Edition, ISSN 1830-754X

edge-based economy is enhancing the level of competitiveness of our economies. Within the knowledge-based economy, innovation is seen to play a central role, but until recently the complex processes of innovation have been insufficiently understood. Better understanding, however, has emerged from many studies in recent years. At the macro-level, there is a substantial body of evidence that innovation is the dominant factor in national economic growth and international patterns of trade. At the micro-level – within firms – R&D is seen as enhancing a firm's capacity to absorb and make use of new knowledge of all kinds, not just technological knowledge⁵.

Entrepreneurship and small and medium-sized enterprises (SMEs) are increasingly recognized as the main drivers of the EU's economic performance since they are engines of structural change, innovation and employment growth. Encouraging the growth potential of SMEs is one of the primary objectives of the Small Business Act (SBA) which is a key element in the EU's Growth and Jobs Strategy⁶.

The National Agency for Small and Medium Enterprises and Cooperatives (ANIMMC)⁷, acting as a governmental body, is responsible for implementing the Governmental Strategy for enhancing the development of SMEs that seeks to fundament decisions and policy proposals to support SMEs based on analysis, including qualitative, regarding the stage of development, the needs and priorities of SMEs.

The main *influencing factors* that were considered when analyzing the *SMEs degree of competitiveness* were the following:

1. The ability to invest;

⁵ OECD, Proposed guidelines for collecting and interpreting technological innovation data (OSLO Manual)

⁶ Communication from the Commission on the European Competitiveness Report 2008, Brussels, 28.11.2008, http://ec.europa.eu/enterprise/enterprise_policy/competitiveness/doc/compet_rep_2008/com_2008_0774.pdf

⁷ http://www.mimmc.ro/situatie_necesitati/competitivitatea_factori_influenta

2. The ability to generate and introduce new products on the market, that addresses any ulterior improvement within the renewal process of the product;
3. The ability to compete both on the internal market (with an emphasis on the participation at public acquisition) as well as international markets.

The financial market crisis that began in early 2007 is almost unprecedented in its impact, having resulted not only in losses in markets and for financial institutions, but also in an erosion of public confidence in the financial sector and among the institutions themselves across the industrialized world⁸.

Innovation is particularly important for economies as they approach the frontiers of knowledge and the possibility of integrating and adapting exogenous technologies tends to disappear. Although less-advanced countries can still improve their productivity by adopting existing technologies or making incremental improvements in other areas, for countries that have reached the innovation stage of development, this is no longer sufficient to increase productivity. Firms in these countries must design and develop cutting-edge products and processes to maintain a competitive edge. This requires an environment that is conducive to innovative activity, supported by both the public and the private sectors. In particular, this means sufficient investment in research and development (R&D) especially by the private sector, the presence of high-quality scientific research institutions, extensive collaboration in research between universities and industry, and the protection of intellectual property.

The transformation towards a knowledge-based society has resulted in a fast-growing demand for highly skilled scientific labour,

⁸ World Economic Forum, *The Global Competitiveness Report 2008-2009*, Geneva, 2008

accompanied by major changes in the skills most valued by the employment market. Success in the worldwide competition for truly outstanding talent, however, has become an even more decisive factor in the transition to more knowledge-intensive economies. Researchers not only create new knowledge⁹; they also play a vital part in knowledge transfer and constructing networks that often serve as platforms for technological development and commercialisation.

Due to the European integration (Purcarea, 2008: 66), the competition has increased both on the international and national markets and the quality and the services offered to the customers are considered to be major factors of competitiveness for SMEs.

According to a study regarding the competitiveness of the SMEs sector in 2006, conducted by ANIMMC¹⁰, over 50% of SMEs interviewed declared that they showed some concerns regarding introducing innovative elements either concerning the structure of the product/service, machinery or the management of the organization. There is however little concern (under 1%) for developing an organizational IT system, scientific research or putting certain results (which were never applied) into practice. This reticence is a general characteristic of the Romanian business environment, which avoids large expenses, opting for successive accumulations, in the same time giving priority to growth, followed by performance.

An Eurostat study that was made public on the 22nd of February 2007 shows that over 40% of European enterprises are actively involved in the innovation process, especially in collaboration with clients and suppliers, rather than with universities and public research institutes. The same study reveals that of the 27 member States, the highest percentage of firms that engaged in activities of

⁹ European Commission, *Frontier research: The European Challenge* (High-Level Group Report), 2005

¹⁰ http://www.mimmc.ro/files//comunicate/CONCLUZII.ultima_var.doc

innovation are found in Germany, 65% of companies, followed by Austria, 53%, Denmark, Ireland and Luxemburg, with 52%, Belgium and Sweden with approximately 50%. Romania was included in the Eurostat study within the category „companies that invest the least in innovation”. In our companies, at that time, only 20% of the companies involved in innovation activities.

The National Strategy in the the field of Research and Development was elaborated for the first time in Romania with the help of practicioners in the field, as well as those interested in the innovation profit¹¹. The Strategy refers to the period 2007-2013 and constitutes the first national strategic document, integrated for research-development and innovation.

The innovation process in Romanian SMEs

In the second half of 2008, a financial crisis and "collapse" of the financial system took place. This situation is followed by an economic slow-down or even recession in some Member States. In some studies on access to finance for SMEs, the impact of economic and credit cycles on the supply of SME finance are considered. In several countries there are signals that SMEs and especially the smaller enterprises are facing large problems getting access to bank credit. Several national small business associations are asking for additional policy measures to support SMEs. In November 2008 the European Commission published a Communication "Temporary framework for state aid measures to support access to finance in the current financial and economic crisis". In the Communication special attention is paid to SMEs:

"Such difficulties could affect not only weak companies without solvency buffers, but also healthy companies which will find themselves facing a sudden shortage or even unavailability of credit. This

¹¹ <http://www.immromania.ro/noutati/noutate.php?id=676>.

will be particularly true for SMEs, which in any event face greater difficulties with access to finance than larger companies. This situation could not only seriously affect the economic situation of many healthy companies and their employees in the short and medium term but also have longer-lasting negative effects since all EU investments in the future - in particular, towards sustainable growth and other objectives of the Lisbon Strategy - could be delayed or even abandoned. (...) SMEs are particularly important for the whole economy in Europe and improving their financial situation will also have positive effects for large companies, thereby supporting overall economic growth and modernisation in the longer term".

Small firms (employing less than 49 employees) account for 90% of SMEs sector. According to the National Institute of Statistics, the proportion of small firms that innovate is approximately 18%. This proportion grows up to 25% for middle-sized enterprises and 44% for large enterprises.

Compared to large enterprises, product innovation (alone or along with process innovation) in Romanian SMEs is less frequent than in large enterprises. This aspect may be explained by the fact that introducing new products is, in general, found to be more expensive than introducing innovation related to the organizational level or marketing-related innovation.

Regarding the type of innovative process introduced within firms, it is important to mention that in most cases, it concerns organization-related innovations (between 25% and 40% of innovative firms), rather than the marketing-related innovations (less than 5%). This may be regarded as a barrier to enterprise development in an economy which is largely open to exports, striving to become the most competitive on the EU market. Directors and personnel's lack of marketing abilities and a lack of consultants in the country impedes the innovation process in Romanian SMEs.

In 2006, 560 SMEs declared as main activity Research-Development, the majority being microenterprises.

A study regarding the degree of innovation shows that Romania in general and the West Region in particular, allocate a very small percent from the budget for research activities¹². Also, we are witnessing a considerable decrease in the number of researchers. From the 170 000 researchers existing before 1989, at the present there are only 18 000 people still working in research institutes in Romania, and only 7 000 of them are researchers. Also, the innovation activity is insufficient spread among SMEs and the causes are the following:

- existence for many years of Lohn system production that eliminate the innovation need in activity of enterprises;
- the foreign firms brings their own technology and are not interested much in innovation;
- there are not enough stimulus to promote innovation among SMEs and the governmental financing are insufficient for research in SME.

In September 2008¹³, based on the collaboration partnership with the General Directorate for SMEs (DGIMM), the State Office for Inventions and Trademarks elaborated a new Action Plan for supporting the SMEs with regard to IP field. The purpose of this plan is that of rendering the SMEs in Romania aware of the importance of industrial property protection and the importance of including the IP management as element in the development strategy of the company.

¹² Tamasila, M.; Mocan, M.L. & Taucean, I.M., Study regarding innovation and entrepreneurship in Romanian SMEs, http://innomet.ttu.ee/daaam/Online/Engineering%20Management/Tamasila_1.pdf

¹³ Country Report – Romania, http://www.wipo.int/edocs/mdocs/sme/en/wipo_ppo_kipo_ip_waw_09/wipo_ppo_kipo_ip_waw_09_wp07.pdf

The actions provided in this plan are:

1. Creating a microsite dedicated to SMEs within RPO web site.
2. Creating external information dissemination points in order to support the enterprises.
3. Integrating the electronic filing of the trademark applications into the SME network.
4. Consolidating the collaboration with other institutions whose activity is connected to the SMEs activity.
5. Promoting, by the available means, the financing programs for supporting the SMEs.
6. Elaborating and distributing specific leaflets and brochures destined to SMEs.
7. Participation of the RPO specialists in SMEs for a.
8. Periodical workshops.
9. Dissemination of information in collaboration with the Regional Centres and other intermediates for the dissemination of IP information into the training programs, seminars, their publications, links from their sites.
10. Programs of visits in enterprises (PreDiagnosis).

On the initiative of DGIMM, in January 2009 there started the collaboration with a view to defining a National program for increasing SMEs competitiveness by innovation of products and services launched on the market. This program is meant to support innovation in SMEs in Romania by granting a financial support for the registration of patents, utility models, trademarks or of other industrial property products, as well as of the necessary consultancy packet.

Conclusions

In an era of globalising markets, when large firms tend to substitute offshore employment for domestic employment, SMEs become even more important for avoiding increases in unemployment and

maintaining and even increasing levels of employment. In this environment, competitiveness at the company level depends crucially on the speed with which new products can be brought to the market place and new cost-saving improvements made. Product innovation (alone or along with process innovation) in Romanian SMEs is less frequent than in large enterprises. Regarding the type of innovative process introduced within firms, most SMEs are concerned with organization-related innovations (between 25% and 40% of innovative firms), rather than the marketing-related innovations (less than 5%) which may appear as a barrier to enterprise development in an economy which is largely open to exports, striving to become the most competitive on the EU market. In the same time, another important aspect is directors and personnel's lack of marketing abilities and a lack of consultants in the country which impedes the innovation process in Romanian SMEs.

In order to improve Romanian SMEs engagement in innovative practices, the initiatives should address enhancing innovation regarding the marketing area, along with personnel training in marketing skills.

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***TOUR OPERATORS' KNOWLEDGE AND ROLE
ON ECOTOURISM MANAGEMENT:
CASE OF KENYA AND RWANDA***

Introduction

The present study was conducted with the purpose of determining the perceptions and role of tour operators in Kenya and Rwanda in Ecotourism management. The tour operators were selected on the basis of their tours to the Mara and Amboseli Parks in Kenya and the A'Kagera and Nyungwe Parks in the case of Rwanda. The research employed a questionnaire survey method as the research instrument in both cases that featured both structured and unstructured methods in order to capture the various components of the perception and role construct. The study did not however identify significant differences between the perceptions of tour operators in both countries, thereby indicating that the latter project inadequate or even negative images of the country. The three main discrepancies appeared to be the evaluation of the current safety situation, opinions about the range of activities offered, and views concerning the value of visitors' encounters with the local people at the destination. The results offered valuable policy implications for future marketing strategies in Kenya and Rwanda.

Armstrong and Weiler (2002) observed that tour operators licensed to operate in protected areas are a potentially important vehicle for delivering messages to visitors about minimal impact behaviour, heritage values, conservation and protected area management. According to Staniewski (2006; 2008), knowledge management, although it has accompanied our activities for many

years is still regarded as the most up-to-date management conceptions. We may speak about a certain trend of the adopting knowledge management practice at the enterprises. The practical interest in this problem is transferred into the scientific environment, which more and more often attempts to investigate this conception of management. The underlying premise is that the messages delivered by a guide/ operator may influence how visitors think, feel and behave in the short-term and possibly in the long-term once they have returned home. This paper addresses the role of tour operators in Kenya and Rwanda.

According to Sindiga (1999), just like the growth in the numbers of tourists in the country, tour operators and vehicle hire enterprises grew from 82 in 1970 to 288 in 1980, 1240 in 1990 and 2238 in 1994. As noted, tour and travel operations facilitate tourism through making arrangements for air travel, hotel bookings, organising tour packages, and providing transport and guides. But in these activities foreign companies play a dominant role. Whatever balance is left is taken up by Asian businessmen. There is little participation by Africans in ownership or management of tour operations. Africans tend to have small companies, which obtain sub-contracts from the big tour operators for a small fee. As such, developmental effects of visitors on local people are doubtful. From the results revealed in Table 1, there were no significant differences discernable between tour operators in Kenya and Rwanda in terms of administration, marketing and operations. Tour operators occupy a critical role in the tourism industry, given their role as intermediaries that design, organise, package, market and operate vacation and other tours. The purpose here is to discuss the role and status of tour operators within the ecotourism sector.

Hartanto (2001) concedes to the fact that tour operators are frequently passive observers of the process of the establishment of tourism development policies. Hence, tour operators need to be

critically aware of the obligations that will be enforced on them whenever a policy is implemented. This can be seen for example, in Pakistan where tour operator associations play no role in formulating rules or having control on intervention in ecotourism operations and all is done by the Ministry of Tourism in the government of Pakistan. There is no cooperation of stakeholders existing in Pakistan and the NGO sector has totally failed to contribute significantly to community development in the field of tourism as their only interest is following the project instruction of donor agencies and donors are mainly interested in research studies and environmental issues (Ecotourism Society of Pakistan, 2004).

Ecotour Companies

Higgins (2001), Holloway (1981) and Thomlinson and Getz (1996) discovered that tour operators are key players in ecotourism as they directly influence the types of tourists brought to an area as well as the visitors' expectations and activities. Tour operators also typically interact with residents, for supplies, services, labour or approvals, and so can have economic and cultural roles to play, as well as environmental ones. In many cases tour operators can influence local policy and encourage resident support for ecotourism, and can be catalysts for conservation. If well organised, tour operators might also seek to influence senior levels of government. On the negative side, ecotour companies can potentially cause or contribute to the destruction of natural and cultural resources in the destination through individual neglect or collective overuse.

The actions of some operators can harm the reputation of others or negatively alter the destination's 'green' image leading to a community, governmental or tourist backlash. Some attention has been given in the literature to ecotour operators. Higgins (2001) argues that even though the experience offered by ecotour operators is

clearly a crucial aspect of ecotourism, the production of ecotours has received much less attention within the literature than other topics such as protected areas, environmental impacts, biodiversity or economic valuation.

An examination of ecotourism-related economic studies indicates the development of a substantial literature, as demonstrated in the excellent review by Lindberg (1998). Despite the lack of empirical research, all the ecotour business publications stress the importance of ecotour product development and offer suggestions for itinerary planning, themes and pricing. Hawkins (1994) referenced a McKinsey and Company study which in 1991 identified 275 guided nature operators in the USA. Similarly, Ingram and Durst (1989) studied USA-based nature tour operators from the perspective of factors limiting growth (that is, image, marketing, politics and stability, transport, health and safety, food services and currency fluctuations). That research identified the positions most frequently held by local residents, with guides and interpreters being the highest. In the same vein, this current study also attempts to identify the role of tour operators in ecotourism initiatives in Kenya and Rwanda. The variables considered in this study are ethics, responsibility, information and actions as suggested by McLaren (1996).

Bottrill and Pearce (1995) reported on a 1992 survey of nature-based tourism operators in two regions of the Canadian province of British Columbia. They covered a wide range of activities, from whale watching to guest ranches, but only eight of the 22 operated within a protected area. Most were small and individually operated, and not surprisingly, all operators felt that their ventures were managed in an environmentally sensitive manner. The research attempted to determine which of the operators were engaged in ecotourism, and also which raised a number of issues regarding classification such as: Do ecotours only operate within protected areas? Must ecotours engage visitors in demanding physical activ-

ity? What about operators who do not conserve energy or who rely on non-renewable sources? The authors concluded that more work is needed to permit measurement of ecotourism, and that it is not adequate to merely identify the key elements of ecotourism – we must be able to measure them in the field. If all these demanding definitional criteria of ecotourism are to be met in full, then it is unlikely that many tour operations would qualify as ecotourism operators. In reality, there is more likely to be a continuum of nature-based tourism, from those at one extreme that meet none of the criteria or just do the minimum required, to those at the other extreme that voluntarily meet *all* the criteria.

Despite its various potential negative impacts, ecotourism has been identified as one of the few viable economic opportunities in large parts of the least developed world. Among the major impediments for increased tourist activity in such regions is the limited destination knowledge of visitors and the perceived negative image provoked by political instability, poverty and recent tragic events and humanitarian conditions.

Political economy and tourism

Tourism in natural and protected areas is economically important to many countries, both developing and developed (Staiff *et al.*, 2002). Recognition of the economic benefits of tourism led the newly independent Kenyan government to create a Ministry of Tourism, Forests and Wildlife. This emphasised the environmental and especially the wildlife basis of the country's tourism industry. A World Bank economic development mission at the dawn of independence in 1962 set the tone of Kenya's future tourism policy. Tourism would be nurtured because it was an important foreign exchange earner, would stimulate domestic income, and generate employment in other areas related to tourism (Sindiga, 1999).

These objectives which were further elaborated and articulated by the subsequent national development plans (Kenya, 1966; 1970; 1974; 1979; 1984; 1989; 1994a; 1997) may be summarised as follows:

1. To increase the contribution of tourism to the growth of the country's gross domestic product (GDP);
2. To increase foreign exchange earnings from the sector and maximise the retention of foreign exchange in the economy;
3. To create and expand employment opportunities;
4. To improve the quality of service offered by tourism enterprises; and
5. To conserve wildlife and protect the environment.

These objectives show the Kenya's government continued enthusiasm in tapping tourism's economic outcomes and preserving biodiversity. The Kenya national economic statistics published in various government policy documents do not show tourism as a separate category in the national accounts (Kenya, 1994d; Kenya, 1997; Kenya, 1998a). Tourism statistics tend to be subsumed under services. Over the period 1982 to 1993, the absolute size of the tourism sector using 1982 constant prices grew from K£ 306.7 million to K£ 479.6 million representing an annual growth rate of 4.18% (JICA, 1995; Kenya, 1995). Although economic progress in Rwanda since 1994 has been significant with a growth rate of 10% in 2002, Rwanda is one of the poorest countries in the world with a 2002 per capita GDP of 210 US\$ (UNCTAD, 2004). The country suffers from environmental problems and an "abject poverty from which there is no obvious means of escape" (Waller, 1987, p. 3), at least for the 59% of the population of 8.1 million who live below the poverty line. With only few natural resources to exploit, the Rwandan economy is almost entirely based on agricultural production of small, semi-subsistence and increasingly fragmented farms. Agriculture

contributes 91% of employment, 41% of GDP and 72% of exports. Additional export products consist of coffee and tea, and a slowly increasing variety of fruits, potatoes and cut flowers (The Government of Rwanda, 2001). Before the genocide, tourism has been the third largest earner of foreign exchange, making a substantial contribution to GDP, providing significant employment and generating funds for conservation programmes (Shackley, 1995). Although tourist arrivals have dropped considerably from 40,000 in 1990 to only about 8000 in 2002, tourism planners appear to be very optimistic for the future.

Study areas: Kenya and Rwanda

After an evaluation of Rwanda's tourism potential, tourism consultants concluded that an investment of about \$100 million during the next 8 years could increase the arrival figures to almost 80,000 by 2010. They particularly emphasise targeting a market of ecotourists, explorers and individual business travellers (Katarebe, 2002; Stratte- Mc Clure, 2003). This optimism results from Rwanda's increasingly diversified attractions. Its natural environment is highly varied with grassy up-lands and literally a thousand hills, five volcanoes, more than 20 lakes including the large inland sea Lake Kivu, and plains and swamps in the eastern border region. About 10% of Rwanda's area is protected within three very distinct National Parks.

The undisputed highlight to most travellers is a visit to the largely untouched bamboo forests of Volcanoes National Park, where an estimated 350 of the last remaining 650 mountain gorillas continue a threatened existence. Nyungwe National Park, a giant virgin rainforest, and Akagera National Park, a more or less typical East African savannah park, complement a great ecotourist's experience (Kanyamibwa, 1998; Lyambabaje, 2002). Apart from ecotourism,

the Rwandan Office of Tourism and National Parks (ORTPN) recently introduced a culture tour featuring a chronological journey across the country and 500 years of its history. Furthermore, small community-based projects, particularly near Volcanoes National Park, have started to attract growing numbers of individual travelers and explorers interested in an authentic Central African experience (Grosspietsch, 2004, 2006).

Methodology

The study used a questionnaire survey with ten different tour operators who operate in the Mara and Amboseli in Kenya and A’Kagera and Nyungwe National Parks in Rwanda. It is the assumption of the study that the same operator was likely to operate in both areas, therefore the tour operators were purposively selected. The differences was necessary to avoid repetition of information and hence to get an individual tour operator perspective. The survey was mainly self-administered throughout the study.

Results and Discussions

The results in Table 1 show the differences in terms of administration, marketing and operations among the tour operators interviewed.

Table 1. Tour Operators’ Profile

| KENYA (N=10) | RWANDA (N=10) |
|---|---|
| ADMINISTRATION | ADMINISTRATION |
| Companies established between 1940-2003 | Companies established between 2001-2007 |
| Licensed tour companies; 10% >5 owners | Licensed to operate > 2 owners |
| No permits required to operate | No permits required to operate |
| 80% male tour guides; 20% | |

| KENYA (N=10) | RWANDA (N=10) |
|---|--|
| ADMINISTRATION | ADMINISTRATION |
| female guides | |
| Education between secondary to university | Education college and university |
| MARKETING | MARKETING |
| Business promotion done through word-of-mouth, brochures, posters, websites, magazines and newspapers | Promotion is by brochures, magazines and websites |
| Clients are between 13 – 65 years, mixed gender, retired, travel mostly foreigners with family, professionals of at least middle income and interested in photography, beach and wildlife tours | Clients are in the range of 30 – 60 years of age; mixed gender, travel mostly by foreigners, professionals and are interested in sightseeing, bird watching, mountain climbing, gorilla tracking |
| Nature of tours are described as providing social, economical, environmental as well as cultural aspects which are all inclusive | Nature of tours are described as providing social and cultural aspects and are all inclusive |
| OPERATIONS | OPERATIONS |
| Tours run from June through to September; February – May | Tours run from June to November peak level |
| 60% have operated for more than 15 years | All companies have operated less than 10 years |
| Nature, wildlife safaris, conservation, camping are the areas of interest and expertise | Eco and nature tourism, bird watching and cultural tourism are the areas of interest |
| Tour operators avoid the generation of waste through burning the rubbish, provision of waste disposal bags inside the operator vehicles, burying trash, | Tour operators use garbage bins and provide collection bags inside the vehicles, educate both staff and visitors not to litter while on game drive |

| KENYA (N=10) | RWANDA (N=10) |
|--|--------------------------|
| ADMINISTRATION | ADMINISTRATION |
| educating both staff and visitors not to litter while on game drive | |

The companies are licensed tour companies with more male tour guides than females. More opportunities should be given to women guides to provide a more balanced industry and especially to the local community. The education levels for all the tour operators were between secondary school and university levels. In terms of marketing, the tour operators promoted their business through the use of brochures, posters, websites, word-of-mouth, magazines as well as newspapers. Clients were between the ages of thirteen to sixty five years in Kenya and between 30 and 60 years in the case of Rwanda. Visitors were mostly foreigners of mixed gender and had varied interests such as conferences, photography, historical monuments, camping, beaches, as well as nature and wildlife tours in both countries.

It is important to note that 6 operators in Kenya have been in business for more than 15 years compared to tour operators in Rwanda who have been in business for less than 10 years. This, however, does not mean that the length of operations is the sole contributor to the negative impacts of ecotourism in both Kenya and Rwanda since the tour operators' clients have other interests as well. The tour operators, however, took measures in environmental care by avoiding generation of waste through burning of waste, providing garbage bins and waste disposable bags in the vehicle, burying trash, educating both staff and visitors on proper waste disposal while on game drive, encouraging the use of re-usable/recyclable packaging and bio-degradable materials as well as giving the visitors a copy of conservation notes.

Tourism promotion brochures, safari briefs and lectures through travel agents, hoteliers and conservation organisations could play an important role in the education of visitors before they enter the Parks. The information given to visitors should emphasise the available, but currently under-utilised, attractions and the natural history of mammals, birds, invertebrates and flora. In this study, three tour operators did not offer any opportunity to study nature in their brochures. However, nine operators have taken efforts to minimise impacts at the two destinations through learning opportunities and sensitivity to the environment and local people. This being the case, tour operators to sensitive destinations should then enhance more learning opportunities on visitor behaviour to such pristine environments.

Capacity was determined by the owner's perception of the desired level of comfort of the guests, with seven per van being the optimum. This small number of guests also allowed the operator to maintain greater control over activities and impacts on the environment. Nine operators in this study have stated code of ethics and conduct that responds to a call by Henry et al. (1992) who suggested that a code of ethics and conduct must be developed for use by tourist companies and drivers. Tour companies and their employees must recognise that it is in their interest, as well as the interest of the Parks and wildlife, to establish a code of ethics and conduct which is consistent with the conservation of the resources upon which their business depends.

In terms of finances, an average tour to the Kenya costs between \$150 and \$1000 for a two-night safari while in Rwanda, a tour costs between \$500 and \$1500 for a two-night safari with six tour operators in both the study areas earmarking some percentage of profits for the support of local environmental organisations. More visitor awareness would therefore diversify interest and reduce the cur-

rent selective activities, which are exerting pressure on a few animal species. Also, tour operators have a pivotal role in shaping the development of tourism destinations and the nature of ecotourism demand. This, according to Bramwell et al. (1998), explains why so much attention has been focused on tour operators' debates concerning sustainable tourism.

They are in essence custodians of the impacts that might be seen in destinations. Unlike the air transport sector, where the main concern is on the impact of airline operations on the physical environment, the concept of sustainable tourism and the role of tour operators involve a much broader range of issues which include the socio-cultural impacts of mass market tourism on the host community. Other issues are the effects of visitors on the physical environment, both at the destination itself and due to the means of transport used to take tourists to and from the destination as well as the economic impacts of mass market tourism such as economic dependence and the export of profits by non-indigenous tour operators.

Community participation

Tour operators in the Kenya and Rwanda encourage the visitors to learn about environmental, social and economic realities faced by the locals through engaging in conservation projects, poverty eradication, visiting local homesteads, learning of negative social effects and culture of the locals as well as economic empowerment of the people. This is done through opportunities where both the visitors and locals meet for cultural talks and dances, and participation in community activities. However, sometimes this may not be possible for some tour operators because some clients may not be interested or there may be time limitation and availability of those involved. Gakahu (1992b) notes that awareness of value and of the alternative options for resource-use is central to effective community participation.

Because of their simple lifestyles, local communities often do not know all the resources in their environment or the available use-options of those that they do know, some of which are more valuable than their traditional uses. It is this gap that often creates a niche for more informed outsiders. Consequently, eradication of illiteracy and ignorance together with democratisation are essential to effective participation by local people, and the realisation of ecotourism's goals. We must therefore address the fundamental question of how to restore the trust and get the support of local communities. We have to find mechanisms that involve the communities in open dialogue, and in the development, planning and execution of projects.

Local people have the greatest knowledge of their ecosystems which, when blended with modern techniques, gives the best results. In addition, local people have unalienable rights to their ancestral lands and the resources that they have conserved and used for generations. Community involvement is an important aspect of this study because, as highlighted in the definitions, it can provide a means of controlling the impacts that ecotourism can have on local communities. Thus, community-managed ecotourism projects allow communities to decide what type of growth the community needs and, hence, help to manage impacts. This of course has to be done in collaboration with the other stakeholders and in full support of sustainable measures and biodiversity conservation.

The relationship between the tour operators and the local communities hence plays a pivotal role in ensuring that such projects are in the long run viable and operational by all members of the communities. In this manner the resources in natural places could be preserved for a long time and there will be no need for endless conflicts on land issues.

Support of community development

Tour operators in Kenya and Rwanda supported community development through developmental projects such as building of schools, clinic, bursaries, providing employment and enhancing economic development, government coordinated functions, eco-friendly properties managed by the locals and enhancing cultural tours. The tour operators also paid locals to perform cultural dances and entertain visitors, the visitors are also encouraged to pay tips, establish organisations that will look into the welfare of the community, support communities through visit to their homes, purchase of artefacts, souvenirs, learning local languages, donating books to locals and contribution to ongoing projects in the community. Some visitors also contribute money and material things which are given to the elders to distribute equally among the locals for developmental projects, whereby repeat visitors inspect the use of the money and materials donated when they next visit.

We can therefore deduce that economically, ecotourism can affect the sustainability of natural resource use at ecotourism sites in several ways. One, ecotourism may generate higher economic returns than other resource activities and two, ecotourism may benefit local economies, providing an incentive to ensure nearby biodiversity is used sustainably. Also, direct financial inputs are critical to the success of local ecotourism efforts along with other indirect inputs such as entry fees and local expenditures on food, accommodation, transport, and souvenirs. However, local expenditures can be seasonal, inflationary, transitory, or sensitive to political or economic situations (Hvenegaard and Dearden, 1998). If managed carefully, ecotourism can contribute towards conservation efforts in both Kenya and Rwanda and if successful, the management could be applied to other attractions in the country and can act as a positive indicator for other natural areas in the world at large.

Ecotourism impacts

When asked their overall response to the number of visitors to the Parks, 7 tour operators in Kenya said they were many while 6 in Rwanda said they were few. The operators did not however limit the overall number of visitors to the Parks. Hence, stringent measures should then be taken to curb unnecessary environmental impacts if the study areas are to be truly sustainable. The large number of visitors to a pristine area could obviously affect and damage the environment in a negative way if proper rules of use are not laid out, both to the visitors as well as tour operators. The question of how much public use can be accommodated in a park, reserve or related tourist attraction is often framed in terms of carrying capacity. The underlying concept of carrying capacity has a rich history in the natural resource professions. In particular, it has been applied in wildlife and range management where it refers to the number of animals that can be maintained in a given habitat.

Carrying capacity, therefore, has obvious parallel and intuitive appeal in the field of park and tourism management (Manning *et al.*, 2002). Currently, visitors spend more time driving than viewing, in addition to the longer viewing times spent on the few rare species. Establishing one or more education-interpretation centres would alter this temporal use pattern by introducing some time lag, which would ultimately reduce crowding at certain attractions. These centres should have permanent qualified personnel with all-round knowledge of the Parks, backed up by communication and public relation skills. Ranger guides with adequate natural history knowledge would increase visitor enjoyment while at the same time patrolling and enforcing regulations. Hvenegaard (1994) suggests that tour operators be evaluated on the basis of two components: their degree of control over various impacts and their level of commitment to the education of tourists.

Table 2. Scale of Operations

| OPERATIONS | KENYA (N=10) | RWANDA (N=10) |
|--|-------------------------|--------------------------|
| Operators that sell nature | 7 | 4 |
| Sensitive tour operators aware of impacts and support conservation | 6 | 7 |
| Operators who donate a proportion of trip costs to conservation | 4 | 3 |
| Those who initiate conservation projects or research | 3 | 2 |

Note: The above table is in multiple responses therefore the totals do not add up to 100%

Wight (1993) suggests that ecotourism involves a spectrum of experiences and can be a mix of adventure, traditional, nature and cultural tourism but it is the ethical overlay of the actor and operator that translates these activities into sustainable ecotourism. Thus, Valentine (1992) puts more emphasis on the need for a clear management regime to enable ecotourism to meet the sustainable criteria. Most tour operators in Kenya and Rwanda are in the first two spectrums identified by Ziffer (1989) presented in Table 2. This however, does not mean that they are not involved in the last two spectrums. According to the spectrum, tour operators that sell nature are those who are unaware or uncaring about its impact as well as operators that are aware of impacts, do the minimum to abide by any management rules, and who do not seek to educate or change tourists' attitudes, but may provide information. Sensitive tour operators actively seek to educate tourists by providing information, influence tourists' attitudes and behaviour and practise minimum impact tourism over and above management requirements.

Role in education and ecotourism management

According to Stein *et al.* (2003), it is difficult to underestimate the role of education in ecotourism. Some authors insist that education must occur if nature-based tourism businesses can be described as ecotourism (Fennell, 1999; Honey, 1999; Wallace and Pierce, 1996). Although education might or might not be directly stated as a component of ecotourism, education has an important role in helping to provide a sustainable supply of quality nature-based recreation experience as well as ecotourism opportunities.

This can be supported by the current study which shows that over the last ten years, only 4 of the tour operators in Kenya and 2 in Rwanda did not play any role towards education and ecotourism management. However, those who did, alluded to the following ways in which they contribute to education and ecotourism management: tour drivers, guides and customer service staff are trained and equipped with knowledge of ecotourism; participation in activities organised by the Ministry of Tourism; supported ecotourism initiatives; created awareness; and reduced vegetation damage by making fewer trips to the Parks. These results suggest that most drivers as a result of their training are good at their jobs, especially in terms of driving, courteous behaviour and basic wildlife identification. Observational data suggest that most drivers are generally responsive to clients' questions but do not volunteer much information or interpretation.

Training programmes for drivers and interpretive information could therefore become a significant tool in visitor management in the Parks. Better education could be used to increase the visitor capacity of the two study areas. Nowadays, the important role of environmental education as the key to promote sustainable development has been widely accepted. The UNEP/ UNESCO defines environmental education as a process aimed to develop the awareness

of, and the concern about the environment and its problems, by providing knowledge, values, attitudes, motivation, commitment and skills to individuals in order to make them work individually and collectively to cope with current problems and to prevent future problems (Bras, 1997; Bras, 2001; Mukaryanti, 2001).

Education and interpretation are central to ecotourism and provide a means through which tourists can actively learn about the environment and the cultures they visit. McNeely and Thorsell (1989) claim that interpretation explains concepts, meanings and the inter-relationships of natural phenomena. Interpretation serves to awaken the public awareness of park purposes and policies and strives to develop a concern for protection. Interpretation should also educate visitors to appreciate what the protected area means to the region and the nation (Wearing and Larsen, 1996). In this way, education is an important consideration for this study because it can assist managers in controlling socio-cultural impacts that visitors to ecotourism reserves and parks can have on host communities.

In a study on sustained use of wildlife resources for tourism in Kenya, Munyori (1992b) observes that Kenya Association of Tour Operators (KATO) had started a campaign on environmental conservation through members educating their field personnel (driver guides and couriers). Members are advised to send their guides to college for refresher courses. This training is expected to percolate down to tourists through couriers and the tour drivers. It has been suggested at various fora that tour drivers should be licensed on the basis of their knowledge and professional performance.

Trends observed by Black et al. (2001) indicate that ecotourism in less developed countries is increasing and that the guide has a pivotal role to play in the ecotourism experience, requiring skills in group management, communication/ presentation, interpretation, the provision of minimal impact messages and practices as well as

associated underpinning knowledge/ expertise. This is because ecotour guides are expected to act as role models for environmentally and culturally sensitive behaviour, assist in natural resource management, provide education and interpretation and act as a cultural mediator between clients and local community.

Thus, the guide has an important role to play in providing quality service, ensuring customer satisfaction and in orchestrating and delivering the visitors' experience (Black et al., 2001). In comparison to visitors' response to the question on environmental behaviour (Table 3), tour operators' behaviour is high with regards to saving bottles, cans and newspapers for recycling in both Kenya and Rwanda. Tour operators also conserved water and engaged in minimal impact practices in natural areas. In this regard, the environmental performance, management and operational practices of the tour operators therefore are very important strategies for ecotourism management and sustainable development in the two areas.

Table 3. Tour Operators Environmental Behaviour (in %)

| ACTIVITY | KENYA (N=10) | | | RWANDA (N=10) | | |
|---|-----------------|--------|------|------------------|--------|------|
| | LOW | MEDIUM | HIGH | LOW | MEDIUM | HIGH |
| Save bottles, cans and newspapers for recycling | 1 | 3 | 6 | 4 | 1 | 5 |
| Buy environmentally – friendly or recycled products | 4 | 3 | 3 | 2 | 4 | 4 |
| Make donations to envi- | 4 | 2 | 4 | 3 | 4 | 3 |

| ACTIVITY | KENYA (N=10) | | | RWANDA (N=10) | | |
|---|-----------------|--------|------|------------------|--------|------|
| | LOW | MEDIUM | HIGH | LOW | MEDIUM | HIGH |
| Environmental organizations | | | | | | |
| Conserve water | 3 | - | 7 | 4 | - | 6 |
| Engage in minimal impact practices in natural areas | 2 | 2 | 6 | 1 | 1 | 8 |
| Participate in a local environmental group | 4 | 1 | 5 | 4 | 1 | 5 |
| Attend meetings regarding environmental issues | 3 | 1 | 6 | 2 | 4 | 4 |

Note: The above table is in multiple responses therefore the totals do not add up to 100%

According to Leslie (2002), the need for such change has been recognised for some time. The 1990s witnessed a substantial increase in attention to the environmental performance of tourism enterprises and the promotion of environmentally friendly practices by the government and related agencies. In effect, this means addressing environmental performance and adoption of what is perceived as environmentally friendly management and operational practices. This greening of the ecotourism sector may be seen as a matter of sound economic and environmental good sense.

Problems encountered in tour operations business

The tour operators were asked if there were any problems encountered in their business and the aspects covered included lack of support from the government when it comes to the security of their visitors, advertising costs are too high, poor road conditions, poor infrastructure, negative destination publicity, competitions from unregulated tour operators, high entrance fees, local administration not committed to conservation efforts, high taxes, banditry as well as competition with other destinations. As a result of the above problems mentioned, the tour operators had to change some aspects of their business. The aspects changed in business included, encouragement of more flying than driving, diversification of products offered, changing to more suitable 4 wheel drive vehicles, installation of radios and opening 24 hours service offices, aggressive international marketing and introduction of other tourist destinations. These changes were prompted by the popularity of both areas because of increased competition, decline of visitors over the years, effective service, avoidance of breakdown of the vehicles due to road conditions, profit margin is higher, there is great potential in tour business and, of course, targeting domestic markets.

Development and management practices

From this study, tour operators (8 in Kenya and 7 in Rwanda) reported some development in the Parks over the last five to ten years. They cited reasons such as improvement of infrastructure, off road driving rules thus no vegetation damage, introduction of smart card, tree planting and the rehabilitation of the ecosystem, campsites improved, water sources increased, participation of local community in conservation and management of the Parks, schools, health centres, economic empowerment, more lodges and campsites

coming up, fairly centralised Reserve/ Park management and good working rangers and drivers.

They, however, would like to see some of the following improvements: regular lodge inspections for quality consistency, slight improvement and maintenance of roads and other infrastructure, boundaries to be set for local community to avoid grazing their cattle inside the Parks. Employment of more rangers and wardens to serve as security, less people and buildings on the way to the Parks in Kenya. These results concur with those of the visitors who suggested that more stringent measures to avoid off-road driving should take place. This could only mean that either the rules are still not stiff enough or some tour operators really don't care for the rules. Many of the visitors felt that the conditions of the roads were extremely poor thereby conflicting with what the tour operators are willing to reveal though the operators suggested that an improvement is necessary.

This suggests that continued use of the Parks without really taking into consideration the improvement and maintenance of infrastructure, will threaten sustainable ecotourism. Proper physical layout of the necessary infrastructure in national parks and reserves is one major approach to controlling overcrowding in these places. While roads and tracks in the national parks and reserves should be all weather and comfortable, the design and construction should take the above factors into account. According to Nianyong and Zhuge (2001), ecotourism in nature reserves will depend on and also promote open and sustainable management of the reserves. The biosphere reserve concept proposed by UNESCO encourages protected areas to make contributions to local economic development by providing demonstrations of sustainable resource use while ensuring conservation. This concept can be used as a guideline for developing the Parks' management policies and systems and provides favourable conditions that could be used for de-

veloping ecotourism effectively in the study areas. Visitor planning and management according to Western (1992b), has been an anathema to wildlife authorities for far too long. With a tradition of managing animals rather than people, that is not altogether surprising. But when the welfare of animals and the industry alike are threatened by harassment and congestion, the time is overdue for visitor management. Two examples, the first economic, the second strategic, make the point.

Conclusions

The challenge for all ecotourism operators is to participate in the benefits that can be derived from ecotourism growth, without contributing to the degradation of the very resources upon which the ecotourism success is based. Policy-makers seeking to develop a sustainable agenda need to work more closely with major business partners and developers and to take into account the wider interests of the vast majority of the population. Many problems are still to be faced since the creation of a more sustainable ecotourism industry is an uphill task. This study has shown that ecotourism impacts and their management in both Kenyan and Rwanda Parks can be managed and be sustainable if the views of stakeholders are taken into consideration. Drastic changes must therefore take place if ecotourism initiatives are to satisfy everyone involved.

It is evident that the respondents in the study are willing to make certain behavioural changes in view of the social, economic and environmental impacts that may accrue in the future. Further research in this regard would offer useful insight into the general content and structure of ecotourism experiences. An examination of natural environment experiences differentiated by context and also personal experiences would offer important insights regarding the classification of ecotourism experiences in Kenya and Rwanda. Fur-

ther, more detailed research should be conducted to identify the extent to which ecotourism can offer opportunities for peak experiences and how such experience products can best be managed. This provides additional avenues of research. Not only must experiences be viewed as processes incorporating events and outcomes, but also dimensions that impact upon the processes need to be identified to fully understand latent aspects of the experience. Researchers working in the area should consider the usefulness of including two other dimensions namely mood and comfort of the visitors in their research, whether qualitative or quantitative in nature. Certainly, further research to assess the importance of these concepts as potential experience moderators would provide a useful addition to knowledge.

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Krystyna Leszczewska
STRATEGIES OF THE SME SECTOR

Introduction

The paper discusses functioning and development of SME sector and presents the development strategies typical of small and medium-sized business entities. It also outlines specific conditions for small organizations operating in competitive environment. Moreover, the paper contains the results of the survey carried out in the companies of Podlaskie province. Its results show that the owners of SMEs display resourcefulness, which enables the existence of their companies in competitive environment.

Micro- and small business entities are the most numerous category of enterprises in Polish economy. The share of microenterprises in the total number of business entities registered in the Region statistical system at the end of 2007 was 95.2% , small enterprises – 4%, and medium-sized enterprises – 0.7% (Żołnierski, Zadura-Lichota, 2008: 17). The smallest business entities participate actively in generating GDP and creating jobs. In 2006, the SMEs' share in generating GDP was 47.7% (including microenterprises at 31%, small enterprises at 7.4% and medium-sized enterprises at 9.3%), and the number of employees in SMEs in 2006 amounted to 70% of workforce. The SME sector plays an especially significant role in the regions of poor economic development. Emerging enterprises, by creating new jobs, change their regions' economic structure as they initiate creation and development of new production sectors and new types of services. They enable absorption of local resources and stimulate resourcefulness. The main aim of this paper is to define the factors responsible for develop-

ment of small business entities and to list development strategies to be used by small enterprises. Theoretical analyses are confronted with empirical research conducted among the owners of small companies operating in Łomża county.

Characteristics of the SME sector

Quantitatively, the category of micro-, small- and medium-sized enterprises is precisely defined. In Poland, a microenterprise is an enterprise with fewer than 10 employees, whose annual turnover or total assets do not exceed 2 million euros. A small enterprise is the one with an average yearly workforce of no more than 50 people, an annual net turnover from sales of goods and services not exceeding the equivalent of 10 million euros or total assets of the balance not exceeding the equivalent of 10 million euros. A medium-sized business is a company employing 50-249 people, with an annual net turnover from sales of goods and services not exceeding the equivalent of 50 million euros or whose total assets of the balance do not exceed the equivalent of 43 million euros¹. As for qualitative categories, such enterprises vary greatly with reference to the reasons for starting a business, development and functional strategies, technology used, and diversification of activities.

The smallest business entities are characterized by: quick decision-making process, the ability to adapt to the existing demand and changeable conditions (Zienkowski, 1997: 137, Sobczyk, 2004: 11). They have the advantage over large enterprises, for example, in their ability to capitalize on market opportunities, and in a quick flow of information inside the company. Their limited ability to observe market trends due to a narrow extent of activities increases the uncertainty connected with environment in which the company operates. In hard times, these companies have little access to exter-

¹ Act of 2 July 2004 On freedom of business activity, Journal of Laws No 173, item 1807, article 104.

nal sources of financing. However, small enterprises are usually flexible in their activities and open to changes. They create efficient mechanisms of adaptation to the existing market conditions and of searching for chances for further development.

A special status of micro-and small companies is observable in a close relation between the enterprise and the entrepreneur, who usually performs the vital functions in the company. Owners of small enterprises are usually characterized by: resourcefulness, self-dependence, ability to take economic risks and to assess outlay and effects, the pursuit of wealth, ability to manage a team of people on a microscale, and to overcome administrative barriers (Brojakowska, 2006: 99). By concentrating power and pursuing their own aims, company owners take strategic decisions and are actively involved in the day-to-day activities of the company. Entrepreneur is the initiator of activities (Gudkova, 2008: 13, Dominiak, 2005: 21). The company development and survival mostly depend on his/her ability to judge the situation and to spot chances and threats in environment. Managing directors of small companies rely mostly on their own intuition, as well as personal relations, which form a network of personal connections. However, competitive and versatile business environment requires that all organizations, including the small ones, apply professional management methods, and develop towards the knowledge management. Modern business entities tend to use knowledge management techniques to support activities connected with recruitment and keeping the staff within the organization (Staniewski, 2008: 3).

Another common quality of small entities is the lack of diversification of their activities, and in extreme cases, dependence on one key contractor or supplier. The loss of the contractor or a slump in the sector limit the scope of activity. This may pose a serious threat to the existence of the company. When talking about specific features

of small companies, we cannot overlook the role of a family in running a company. Plenty of small organizations claim to be family businesses. This may mean non-commercial engagement of family members in running the company, which significantly decreases running costs. This, in turn, gives such companies a competitive edge. On the other hand, in such enterprises, there is a great risk of transferring private conflicts to business life and vice versa (Zocchi, 2008: 292).

The strategies of small companies

The directions and scope of company's development are defined by its strategy. Business strategy encompasses, first and foremost, deciding if the company will concentrate on one line of business (specialization), or two or more – diversification (Stalińska, Staniowski, 2001: 2). Most frequently, seven strategies are distinguished:

- concentration on one business;
- the strategy of vertical integration;
- the strategy of related diversification;
- the strategy of conglomerate (non-related) diversification;
- the strategy of reduction;
- the strategy of quitting and closing down;
- mixed strategy.

While deciding on one of the above strategies, the company chooses if it wishes to preserve its status quo or whether it will aim at active growth and development; or quite to the contrary, it will quit the business. Also, combined strategies are possible, composed of elements of various macrostrategies applied to specific markets or lines of business.

In contrast to large companies, the resources and possibilities of small companies, different environment conditions (economic pol-

icy towards the SMEs sector, competition) as well as the specific role of small business entities in the economy are the reasons why, according to the strategic management theory, development strategies of small entities are different from those of other groups of entities. In small companies one invests his/her own work and capital, which, in turn, generates their ability to grow (Kaleta, Moszkowicz, Woźniak, 2004: 341-343). The features of SME make it able to use only some management techniques and limit its possibilities of strategic choice. In modern organization management, strategic attitudes play a special role, understood as future-oriented process of solving current problems and learning new skills, which can be used in more complex and uncertain future. This is the process of predicting and preparing for changes in environment which will increasingly influence the company's aims and the conditions for their achievement (Pierścioneek, 2006: 111). The strategic management theory says that the strategy should answer all company's fundamental questions: how to develop the company, how to meet clients' needs, how to fight off competition, how to manage specific functions of the company.

In historic perspective, there have been two ways leading to company's growth: expansion and diversification. This division introduced by A.D. Chandler Jr (Chandler, 1962: 14-16) has been sustained by other authors: H.I. Ansoff, H.K. Christensen, M.E. Porter (Porter, 2001: 144-146). The starting point for defining company's goals connected with expansion and diversification is the analysis of the gap between the line of goals and the line of the results achieved. The gap should be filled with proper expansion or diversification activities. Expansion, meaning expanding company's sales scope, improving present products and technologies, increasing market share, is a more often chosen action due to the fact that it enables to meet the targets at little cost. Diversification, which

means entering new lines of business, is far more risky (Janiuk, 2004: 124).

In most SMEs, strategies are not formalized and are created by the managing director for a short time, usually as a reaction to the changes in environment (Gerber, 2007: 119). In case of small and micro companies, a strategy reflects the way in which they use their resources in order to face changes in environment while concurrently pursuing their own goals. Strategic attitude to creating a competitive edge in relation to the smallest business entities should be based on advantages characteristic of such companies. Such companies, with a small scope of activities and resources, must concentrate on competitors' weak points. This includes a precise choice of the market, quick and innovative activities or launching an original product. Small companies' development strategies can be divided into (Pierścioneck, 2006: 31):

- resource-oriented, i.e. overcoming their weaknesses and basing on their resources – this includes seeking market sectors on which their advantages can be visible,
- industry-oriented, i.e. looking for market niches and conditions created by industry policy,
- strategic fit – fitting company's strengths to opportunities emerging in environment, avoiding weaknesses or dangers.

Observation of contemporary small businesses reveals their wide diversity, which prevents advocating one model of growth for such entities (Kirk, 2008: 320). Small companies' growth strategies are different for different groups of enterprises:

- strategies of companies focused on survival and strategies of developing companies,
- strategies of companies operating in niches and outside,
- strategies of specialized and diversified companies,

- strategies of companies connected with the market and large companies' suppliers.

The logic of growth seems to suggest that small companies should aim to join the 'medium-sized' category, and then the 'large' category, which would eliminate weaknesses rooted in a small scale of business. However, growth is not always the target of small companies. Considering their aims, one can make a distinction between income-substitution firms, which are the owner and his family's source of income, and development-oriented companies. Statistics show that in the USA approximately 80-90% of small entities are not development-oriented. B. Piasecki presents a more precise classification of small companies considering their aims (Piasecki, 1996: 82):

- small enterprises established as a source of employment (set-up by the unemployed or those endangered by unemployment),
- businesses created in order to gain independence and related satisfaction (often with no expectations of higher income),
- highly profitable companies succeeding by filling a niche or thanks to barriers to entry,
- fast-growing companies based on fast-growing markets.

Benchmarking of SME strategic management reveals considerable differences inside this sector. Strategic development of a small entity is much more dependent on the owner than in a medium-sized company.

Table 1. Strategic management in small-and-medium-sized companies

| Characteristics of strategic management | Enterprise | |
|--|--|--|
| | Small | Medium-sized |
| The mode of formulating a strategy | Intuition | procedure-based |
| The form of strategy | informal and imprecise | more often a strategic plan |
| Application of strategic techniques | none, experience-based strategy | typical qualitative techniques, rarely quantitative techniques |
| Timing | short (0.5-1 year) | prolonged (1-3 years) |
| The cost of strategy formulation | Low | Higher |
| Strategy implementation | possibly quick, little resistance to changes | in a longer period, more resistance to changes |

Source: the author's own work on the basis of I. Janiuk, Strategiczne dostosowanie polskich małych i średnich przedsiębiorstw do konkurencji europejskiej [Strategic Adoption of Polish Small and Medium-Sized Enterprises to European Competition], Difin, Warsaw 2004, p. 85.

Small business entities operation and development in Podlaskie province – survey results

Empiric survey was conducted in the 4th quarter of 2008 and concerned 106 SMEs operating in Podlaskie province. The research sample was selected by random method. Concerning the line of

business, the companies can be grouped in the following way: 44% were service companies, 36% – trade companies, and 20% – production companies. The questioned entities have been on the market relatively long: as much as 60.4% of the respondents have been operating for over 10 years; 21.0% of the companies – from 6 to 10 years; 11.6% – from 1 to 5 years, and merely 7.0% – for shorter than a year. The organizational and legal form of the companies reflects the prevalence of natural-person companies (63.0%). 10.5% of the companies were civil partnerships, 7% – ordinary partnerships, and 16% – limited liability companies. 8.1% of the businesses were one-person companies, 55.8% – microcompanies with a workforce of up to 9, 23.3% – small enterprises with up to 50 employees, and 12.8% – medium-sized companies employing up to 249 people. 50% of the respondents regarded their company as a family-owned business. The businessmen in the survey described their activity area in the following way: 31.6% – on the local market, 14.7% – regional market, 43.2% – domestic market, and 10.5% – companies operating on foreign markets. The most numerous is the group of owners with technical and economic education (53.8% and 30.8% respectively). Some of the respondents described their education as connected with administration, law, arts, or medicine.

The analysis of the reasons for taking up business activity by the company owners indicates that the most frequent cause of opening a business was a pursuit of independence (66.3% of the answers)² and the hope to earn a higher income (45.4%). A relatively numerous group of respondents says that the reason for starting a company was the market niche that they noticed (23.3%), and business traditions in the family (16.3%). It needs to be emphasized that 'business traditions in the family' option was indicated more often

² The respondents were allowed to indicate more than one motive of starting business activity, which is why their answers do not add up to 100.

by those who named their company a family business than by the owners of other companies (25.6% of the answers). The smallest number of the respondents (58%) pointed to the lack of the possibility to find a job as a reason for starting a business. This result coincides with the statistical data and other scientific research – resourcefulness is usually determined by other motives than the lack of the possibility to find employment (Balcerowicz, 2002: 101, Łuczka, 2005: 28).

The analysis of the tendencies to change the number of employees shows that in the last year, in 47.5% of the companies employment has remained steady. In 45.2% of the companies, there has been an increase in employment, while 7.1% of the companies have decreased employment. The most commonly indicated reason for a fall in workforce was a high burden of social insurance on labor costs as well as the fall in demand. In some cases, reduction in employment was caused by outsourcing, a change in the line of business, or introduction of new technologies. The forecasts for changes in workforce in the companies in the survey for the next year are as follows: 30.2% of the businessmen want to increase employment, 23.3% have no plans of raising the number of employees, while 46.5% do not know what decision they will take. In view of the global crisis, these forecasts should be considered optimistic. The respondents indicated the following barriers to running a company: high burden on businessmen (81.4%)³, excessive bureaucracy (46.5%), unstable legislation (36.1%) and competition from large companies (25.6%).

A crucial issue for businessmen is estimation of their companies. The question to identify the most important elements of their businesses (according to their personal feelings), allowed to observe how the owners perceive the value of their own enterprises. The

³ The respondents were allowed to indicate more than one barrier.

greatest asset is human resources (54.6%)⁴, followed by: material assets (3.0%), good reputation (39.5%), financial assets (26.7%), and a network of personal relations (24.4%). It is very positive that the greatest value of a company is placed in its people. In modern management concepts, human resources are regarded as the main source of a competitive edge. Research conducted in Poland reveals the general tendency to invest in the quality of human resources, which results in the fact that the best employees remain in the company and their abilities can be used in the process of creating value for clients and shareholders. While taking care of the value of their employees, a lot of companies implement the system of competence-based management and draw up competence development plans connected with succession plans (Staniewski, 2008: 21). What needs to be stressed is the fact that the businessmen discern the significance of their nets of personal relations. For small business entities, such relations enable building groups of target clients, suppliers and partners.

A vast majority (91.8%) of the companies in the survey is going to continue activity in the next five years. 62.8% intend to increase its scope, 14.0% have no such intentions, and 23.2% cannot precisely define their intentions. The willingness to continue activity, however, is not specifically related to the plans of development, expansion, or mergers with a stronger entity. 81.4% of the companies in the survey do not plan organizational or legal changes. Only 4.65% plan to merge with another small business. 4.49% of the respondents intend to join another big company operating in the same sector, and 2.33% want to join the cluster in which producers from the same line of business are gathered.

A decisive issue in the survey was the answer to the question about directions and strategies of growth of small business entities

⁴ The respondents were allowed to indicate two elements of the value of their companies.

in Podlaskie province. The answer to the question if the company has a strategy of operation was answered in 30.2% positively, i.e. the company has strategic plans in the form of documents, and 69.8% said that they had no formalized strategy and act according to the intuitional intentions of their owners. The pattern of these answers confirms the results of other research and works, i.e. as a rule, small enterprises act in the short-term perspective, with a huge role of the owner's intuition and observation of environment. There is a strong correlation between the company size and the attitude to strategic planning. Among the microcompanies in the survey, only 15% make strategic plans, while the others follow the owner's on-the-spot decisions. When asked about the reason for the lack of a strategic plan, the businessmen usually said that strategic plans do not prevent the risk (31.4%)⁵, a small company does not need a strategic plan (26.7%), or they have no time to draw up such a plan (26.7%).

The companies which prepare formal documents concerning their strategy justify the need for them claiming that the strategy allows to use their resources more effectively (26.4%), to concentrate on the most important issues in the company's development (22.6%), to better understand clients' needs and improve relations with them (22.6%), to improve the decisions (15.1%), and increase the probability of fighting off competition (13.2%).

Another crucial element of characterizing business entities is defining directions of activities that the companies which are interested in their development want to pursue. The most frequently indicated option is the planned increase in sales on the present markets (52.3%)⁶ and looking for new markets (50.0%). Fewer companies claim that they will diversify their activities (22.3%),

⁵ The respondents were allowed to indicate more than one reason.

⁶ The respondents were allowed to indicate more than one answer.

improve their products and technologies (29.1%), or concentrate on one selected market sector (16.3%). When asked about the factors favorable for the company's development, the businessmen indicated as the most important: the managing director's competence (59.3%), good relationship with suppliers and buyers (58.1%), and highly-qualified staff (54.7%). Less importance was attached to such factors as: location, infrastructure, or help from local authorities. It needs to be emphasized that most of the respondents feel the lack of support from the business environment institutions.

Conclusions

The results of the survey presented above show the condition of business activities of the SMEs in Podlaskie province and their development directions and strategies in the near future. The forecasts for the future should be regarded as positive: an increase in employment, expanding the range of activities, and entering new markets. While noticing barriers and limitations, the businessmen wish to continue their activities and increase their scope. Usually, they do not relate their development to changes in organizational patterns, or a merger with a stronger partner. Strategies for future are usually informal as the companies follow their owners' intuitional intentions.

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Michał Szostak

HUMAN RESOURCES AND ITS PRACTICE

Introduction

In this day and age personal function has been particularly emphasized in business activity of business entities. It is people, their skills, possessed knowledge and personal engagement that guarantee success and a leading position on the market.

Proper approach and use of human potential enables achievement of main objectives and realization of organizational schedules. Interdisciplinary management of human resources includes issues related to management, social psychology and industrial sociology as well as organization's behavior. Presented issues have an impact on strategy, culture and organization of the business entity. Activities in this regard are purposed to make effective use of other resources and at the same time contribute to meeting needs and aspirations of employees. Human resources as an asset for the executives staff makes for a complex issue, but it seems to be more important than introduction of new technologies or fund raising. Management calls for managing skills and competent executives possessing professional qualifications, extensive experience and showing predisposition in this profession, as well as interpersonal skills.

Development and consideration of employee individual needs are very important aspects of human resources management. Although human resources management contemporary conceptions in a significant way relate to employees, still due to obvious reasons they focus on interest of the employer. Yet the whole personnel management process shall in fact go in line with the strategy adopted by the firm. That is way there is such an impact in theory and in prac-

tice on management aspects related to human resources that in fact have the biggest impact on realization of the objective.

Instruments of Human Resources Management

Development of industry as well as studies and research related to human in the organization resulted in change of the structure and scope of personal functions. At present there is no consensus in respect of which particular functions or elements make for industrial resources management.

The addressed issues characterize with different terminology, as well as types and number of elements (functions), and hierarchy of elements. It is evident that there are administering functions (e.g. planning, motivation), as well as operating functions (e.g. staff education, selection, work assessment).

Human resources management element and their classification make for definition of resources management as a continuous process consisting of the following phases:

- Planning (in respect of strategy, tactics and operation),
- Recruitment and selection (staffing, contacts with labour market and its organizations)
- Assessment (employee's performance assessment, assessment of employees potentials for development),
- Remuneration (employees motivation),
- Development (development of employees responsible for social image of organization)

Employees' recruitment and selection

Similarly to other terms from social studies, selection of employees– although used so universally applied– has not been explicitly defined.

Employment aim is to assure the optimal level and structure of enterprise stuff in respect to the company's objectives (Staniewski, 2006: 6).

Employees' selection includes:

- Determination of demand for employees for short and longer term,
- Determination of needs in terms of quality (e.g. description of tasks and characteristics of workstations),
- Employees' recruitment,
- Employees' selection,
- Adaptation of employees to workstations

Concept of recruitment is also defined as a process of seeking and selection of applicants for a given position that is to be established, or the current one that will be maintained or reorganized.

Recruitment concept is always secondary in relation to the opinion on default of time or adequate competitions (knowledge, skills, experience, and attitudes) for execution of works recognized as essential for the organization. Recruitment sources have been classified as: internal and external. During recruitment focused on internal labour market, human resources departments provide employees with information on vacancies and make necessary efforts to make them interested in promotion or reshuffle. External labour market consists of applicants within the vicinity of the organization. Recruitment action focused on the external market includes providing potential interested groups of applicants with information on the enterprise, any vacancy and work conditions. Both external and internal recruitment have advantages and disadvantages. Speaking of advantages of internal recruitment it is the fact that both parties that is the enterprise and the applicant possess real knowledge on each other: performance assessment feedback, opinions of coworkers etc. allow for precise determination of strengths and weak-

nesses of the applicant; and the applicant himself has got time and opportunity to familiarize with rules and methods of the enterprise functioning. Still the external selection has got very essential advantages. For example employees from outside the enterprise comprise a rich source of new visions, strengths, innovations, initiatives and enthusiasm for work

In my opinion it is the following motto of A. Einstein that fully determines advantages of the external selection: *Everybody knows that it is beyond his reach and then suddenly appear the one who does not know about that and actually he accomplishes it* (Jamka, 1997: 35). Many enterprises maintain contact with potential recruitment sources as e.g. schools, universities, professional and scientific organizations in terms of recruitment. Selection of personnel may be an effective instrument for employees' qualification potentials effective management on condition of application of adequate techniques in terms of selection. In theory the contemporary enterprise has at its disposal a wide range of solutions. Yet in practice application by the enterprises of any technique for the purpose of selection may follow on condition that the enterprise possesses information on given technique, its popularity and costs.

A. Sajkiewicz listed three alternative procedures for selection: a compensating one, *a hurdle race* and a hybrid (Sajkiewicz, 1997: 93). In case of the compensating procedure a decision on acceptance or rejection of the applicant is taken at the very end of the process. *The hurdle race* reduces costs related to selection, but is most interesting from the point of view of the applicant, as each phase makes for another challenge. The hybrid procedure provides opportunity for broad assessment of the applicant and reduces costs of the selection.

In terms of the above mentioned selection procedures the enterprise applies different techniques (CV, an initial interview, an application form /a form for personal particulars /a real interview, tests

/of knowledge, skills /verification of references and personal data, check-up), where procedures are applied according to the particular vacancy.

Workstation assessment

To update social policy of the organization it is necessary to diagnose and improve sources of information. For this purpose a periodical verification is essential in respect of knowledge related to employment and people holding their positions.

M. Kostera defined employees' assessment system as a process purposed for organization participant's comprehensive performance assessment in respect of achieved goals (Kostera, 1996: 70). From the point of view of the employee this assessment is based on performance, competence and potentials. According to the author assessment of employees fulfils two functions: one related to evaluation and one related to development.

Assessment of employees may follow on more or less formalized way. There are many methods of assessment, which differ in respect of adopted criteria, feedback and costs.

In practice enterprises most often apply the following employees' assessment methods:

- Point- based grading scale is most often used assessment method and enables identification of intensification of some employees features on the basis of point-based grading scale (Andrycz, 1994: 34).
- Commented report is similar to survey including open questions. The objective of the assessor is to give in-depth answers. The advantage of this method is persuading the assessor for reflection and persuades him to justify his assessment thoroughly (Lucewicz, 1995).
- Critical events method wins more and more followers and it is an interview and segmentation method to identify and locate criti-

cal events of assessed employees that deviate from normal behaviours.

- Behaviourally anchored rating scale makes for the most objective assessment method for assessing the performance of an employee as part of an appraisal process – in terms of specific behaviours, so connected exclusively to behaviour of an employee– employee performance is rated on a scale and classified as very good, good, average, poor and unclassified (Kostera, 1996: 76).

- Assessment center makes for the most comprehensive employees appraisal technique, which specifies the method and location where appraisal followed. An assessment center can be defined as a variety of testing techniques designed to allow applicants and candidates to demonstrate, under standardized conditions, the skills and abilities that are most essential for given position mostly managerial one.

Employee development

Employee development programs designed to help employee grow their skills and knowledge comprise most essential function of human resources management and policies. Employee development follows to significant extent due to work experience. On account of this the employer must and should take action for the purpose of improvement of employee development process based on experience.

Actions undertaken most often by employers include diversification and extension of work, special tasks and work on rotational basis. Employees may develop their potentials thanks to interpersonal contacts. Additionally organizations may undertake some actions intended to deepen knowledge and develop skills of individuals and at the same time provide an institutionalized education system of the whole organization. The example may be coaching

programs, which together with other forms and methods of training were described in the second chapter of the study.

The contemporary enterprises make use of many work potential development instruments and their combinations. For this purpose adequate employee education and training models are prepared.

Remuneration management

The main objective of remuneration system management within the organization is to attract and keep people needed for the organization to achieve set goals. Each organization must prepare its own employees remuneration system, which shall be based on analysis in respect of needs of the firm and the employees. To be an effective instrument of management the remuneration system should provide support for objectives of the organization and take into consideration external factors and at the same should go in line with culture of the organization and employee needs.

The pay is the basic form of the remuneration for performed work. The pay is determined on the basis of work appraisal. M. Kostera differentiated two main types of work: related to time and obtained results (Kostera, 1996: 97).

The most common form of the pay is the remuneration system based on time. The evident advantage of this system is a wide opportunity for the audit. On the other hand poor motivation of employees in respect of effectiveness increase makes for a disadvantage of this system.

The performance linked pay means remuneration according to results obtained by the individual unit. The performance linker remuneration system may stimulate production growth, but the management objective in this regard is to see that it did not result in poor quality. In developed market economies (USA, Great Britain) cafeteria or flexible benefit system becomes more and more popular. The cafeteria system offers a wide selection of extra benefits.

The system is a way of managing available awards and benefits paid to employee as a substitute of a basic pay according to his preferences. The employee receives a professionally prepared brochure with a menu of available benefits e.g. additional insurance, training and courses, medical and dental care, membership of social clubs, mortgage loan subsidies, purchase of discounted products and goods.

In terms of human resources management, the benefit system management is not limited to remunerations and bonuses as pays, bonuses, commission, and participation in profits. The motivation system shall include also nature of the work and objectives, challenges, achievements, recognition of accomplishments, room for career and bigger impact on decision-making process. The complete and integrated approach to remuneration and motivation issues shall in fact include both financial and other means, provided appropriate proportions are maintained.

Promotions, organizational reshuffles and employee's demotion

Employee recruitment from internal labor market takes place also through employee promotion, which means automatic changes of work and pay form and conditions, which, from the employee point of view, seem to be more profitable. Qualification promotion, which aims to improve employees qualifications to a higher level, which is a necessary condition to be fulfilled to get qualification promotion, and pay increase which provides higher salary for a bigger range of well- performed tasks on the same position, together with promotion offering a professional position transfer to a higher position, which results from organizational structure.

Organizational reshuffle, which is also called a transfer, is a horizontal transfer of the position, without changing the level in the organizational structure, which usually means a changed character

of performed duties and tasks. Transfer of employees is used for different purposes: introduces employees with different positions, in different sections and organizational units (training purposes), allows to prevent negative results of performing the same duties on the same position (motivational purposes), and through transferring employees to different organizational sections, allows to end up, manage or solve an existing conflict among employees working in the same organizational section (social purposes). In case of inappropriate recognition of employee's qualifications during the recruitment process or because of increasing employee's qualifications, position transfer can allow to use employee's qualification in a better way (adoption purposes), however, in seasonal periods or during the temporary production fall resulting from insufficient amount of material, natural resources or energy, ability to reshuffle to other positions lets reduce the level of employment reduction (preventing purposes or employment reduction relieving purposes).

Employee's demotion means, similarly to promotion, automatic changes of work and pay form and conditions, but of a different character, as they are not profitable. Position demotion means a transfer to a lower position, which usually offers reduced number of tasks and duties in comparison with the previous position, together with a lower pay. It is, except for employee dismissal, one of the most severe instruments of human resource policy, so implying demotion should be a well thought decision and employee should be provided with precise and clear information (Król, 2006: 220). However, demotions are sometimes forced by objective reasons, such as: restructuring of a company and connected changes of a production, technical and organizational character, lack of abilities or motivation to raise professional qualifications which are inadequate to task accomplishment on a required level or changed em-

ployee's attitude towards his work, low motivation and lack of any interest in performed duties.

Strategic management of human resources

Strategic management of human resources results from the principles of the management of human resources, which originated in the USA in 80's. This concept implied a different, at that time, way of perceiving employees: not only as a source of different costs but also a source of knowledge, abilities and gifts which can allow being ahead of other competitors. Nowadays this assumption seems to be obvious.

Specialists underline the growing importance of strategic issues in the structure of tasks, which are perceived as a personal function, and the management of human resources becomes more a strategic function.

The strategy of the management of human resources is a set of tasks, which cover delimiting long-term purposes, formulating principles, program schedules that are to create and use human resource of the organization, which can guarantee a constant advantage over competitors. If it is assumed that the strategy of the company means delimiting its activity in the environment, so as to reach a constant advantage over competitors, that it is connected with a long-term allocation of these resources both on the level of the whole organization and its strategic business units or its temporary functional areas, it becomes obvious that the strategic purpose, in the scope of human resources, is to prepare a suitable amount and quality of human resource so as to provide effective organization of current purposes of the company and be a source of future advantage over other competitors (Pocztowski, 2001: 14).

On the basis of the literature of the subject, the following features determine characteristic features of the concept of the strategic management of human resources:

- human resources- basic capital of the company- assets of the company, the source of competitive advantage (Staniewski, 2008),
- influence of the environment- competitors and labor market,
- activities, which aim to provide long-term results, connected with the general strategy and organizational structure of the enterprise,
- compilation of personal professional training with a company organizational culture and its principles,
- need to apply activities of a more pro-active character which can help to predict existing status quo rather than those reactive ones which are only a simple reaction to environmental changes
- attributing the main role and responsibility in accomplishing personal function to the linear management,
- change and development as the most important ideas and phenomenon,
- customer orientation, both in the relationship between employees and employee teams in the organization (personal/human resource marketing),
- effectiveness of a personal professional training, engagement in achieving aims and increasing company's value (Listwan, 2006: 38).

While organizations are forced to compete, fulfill many assumed requirements and continuous adjustment to changes it is not enough to choose a model of management but to determine aims, give orders and supervise.

Nowadays it is necessary to use a model of management that implies creating employee's new fascinating concepts through inspiring specialists, sharing information and popularize the idea of leadership.

It is worth underlining that human resource orientation instead of costs orientation, engagement instead of supervision, wider and more responsible role of the linear management, increase of quality aspects, including organizational culture, but also the effectiveness of actions, constitutes new accents of this concept.

Strategic meaning of human resource is also determined by its ability to integrate other resources, parts and spheres of performed actions. Personal influence (selection, evaluation, motivation) can help to shape the cohesion of the organization, support the direction of performed actions and obtain synergy effect (effectiveness) (Listwan, 2006: 38).

It can be assumed that strategic management of human resources is based on performing actions and decisions, which are employees orientated, responsible for long-term actions in personal sphere, which have a significant meaning for the company success.

The aim of the strategic management of human resources is to present directions and ways of practical use of human resource in achieving company assumptions.

Fundamental concept of the strategic management of human resources is based on the assumption that the strategy of human resources can have its influence on strategies of the company and simultaneously, the strategy of the company is its justification.

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Tadeusz Pokusa

SUPPLY CHAIN MANAGEMENT IN ASPECT OF SECURITY - LITERATURE REVIEW

Introduction

The achievement of market success is related to a company's assurance of its competitive advantage. It can be achieved, among others, on the basis of the development of new technologies, the efficient management of production processes, on Human resources (Staniewski, 2008: 17), or the launch of new products on the market. However, today such and similar measures do not appear to be sufficient. Forced to look for new ways leading to business success, modern corporations more and more frequently perceive the potential in logistics and marketing customer service processes in the management of supply chains, as well as in customers' satisfaction and loyalty. Thus, activities in this area are becoming one of the major objectives in many corporations applying modern management concepts. As is indicated by both the theory and practice in highly developed countries, such concepts are generally applied and bring about measurable effects. It turns out that an effective transformation of a corporation, *i.e.* its successful adaptation to new operating conditions, requires a strategic determination and attainment of objectives oriented towards processes, quality, value or time, which for some time have been conditions for not only long-term success but also the very existence of an organization on the market. Additionally, many corporations have understood that in the conditions of developing global competition the factual market success does not depend on their individual activities but on the strengths and dynamism of all partners who accompany them in delivering products to final customers. However, such thinking re-

quires a totally new approach from a group of companies cooperating in a supply chain. First of all, it becomes necessary to eliminate many barriers existing so far between market partners; such barriers hinder the common management and coordination of the flow of products, information and financial resources in a logistic chain. Through the integration of processes and optimization of value added by all links in the supply chain to a product made for the final customer, a new model of cooperation allows the achievement of a high degree of effectiveness of all activities in the chain, ensuring simultaneously a considerable external efficiency of corporations making up the chain. Hence the need for a more thorough analysis of the concept of supply chain management.

The origin and interpretation of the category of a supply chain

The concept of supply chain management has developed as an alternative to a traditional way of perceiving relations between suppliers and recipients as constant antagonisms and attempts to take advantage of one's bargaining power. The source of theoretical and methodological foundations for this management idea was the results of research into distribution channels, cooperation between companies and system integration, which started to be published as early as the 1960s. Academics dealing with supply chain management sometimes even refer to publications from the end of the 1950s, and especially to articles by J. Forrester, who, studying flows of goods and information between suppliers and recipients, identified the problems of excessive inventories in suppliers resulting from a gradual increase in the number of distortions in information on slight changes in demand parallel to a growing distance from sale markets; this phenomenon was described as the "bullwhip effect" (Forrester, 1958). Similarly, W. Anderson formulated the principles of and explained the advantages resulting from the maximum delay

in the provision of services and the allocation of supplies to particular levels in distribution channels as a means of reducing risks related to customers' changing behaviour. At the end of the 1950s, the first analytical model of the allocation and control of supplies in organizations making up production and distribution networks was developed. Examining the possibilities of optimizing the costs of supplies and increased sales income as a function of the time of delivery, the author of the model, F. Hansmann, proposed the use of solutions based on dynamic programming (Hansmann, 1959). However, it does not change the fact that the term "supply chain management" appeared for the first time in professional literature only in 1982, and originally it was associated with the reduction of inventories within a company and its partners. R. Oliver and M. Weber (Cooper, 1997) are credited with coining this term.

Nowadays the notion of a "supply chain" is one of the most important logistic and marketing terms, and professional literature presents its numerous definitions. Besides, there has appeared a certain number of terms used interchangeably with "supply chain" and identifying a supply chain with a logistic chain (Rutkowski, 2000: 12), a chain of supply, a homogeneous demand stream, virtual corporation or a broadened enterprise. In the light of the above, I believe it is necessary to carry out a clearer systematics of these notions. The term corresponding to the meaning of a supply chain is a chain of supply, which puts stress on the subjective perspective, and the difference - as I believe - results from a simple loan translation from the English language (*supply chain*). And a logistic chain, which puts stress on the objective perspective, is a warehouse and transportation chain which constitutes a technological connection between warehousing and reloading points by means of roads on which goods are moved, as well as the organizational and financial coordination of the processes of ordering and the inventory policy

in all links of the chain (Golembaska, 2001: 19). The term "broadened enterprise" puts stress on close partnership relations between entities making up such a "broadened" enterprise and the flow of logistic streams going beyond the legal limits of an individual enterprise. The term "homogeneous demand stream" has been introduced for the purpose of the reengineering of processes in a supply chain which consists in the coordination and simplification of the processes of the flow of logistic streams between entities making up a given chain. "Virtual corporation" emphasizes connections between entities included in such a corporation by means of information technologies and the fact that they share common risks and the market. The interpretations mentioned above have a complementary character: they do not diversify the gist of logistics or market orientation, but represent different methodological and instrumental approaches (Soltysik, 2000: 30), stressing in each case their integrative character. Thus, authors interpreting supply chains from the perspective of logistics are, as a general rule, aware that cooperating enterprises perform tasks going beyond logistic functions (*e.g.* marketing ones), stressing, however, their key importance.

J. Witkowski defines "supply chain" as businesses cooperating in various functional areas and their customers among whom flow streams of goods, information and financial resources (Witkowski, 2003: 17). S. Abt understands "supply chain" as activity related to the flow of material (goods) from its original source through all intermediate forms to the final form in which it is consumed by the final customer (Abt, 1998: 18). K. Rutkowski claims that the essence of a supply chain is the achievement, thanks to integration and coordination, of a high degree of effectiveness of particular enterprises and of their network as a whole, as well as the optimization of value added by all links of the chain to the product expected by the customer (Rutkowski, 2002: 59). According to M. Christopher, a supply chain is a network of mutually related organizations in-

volved in various processes and activities, whose objective is supplying the final customer with a full range of products and services (Christopher, 1992: 23). The integrative character is stressed by H. Pfohl (1998: 317), who defines it as a close cooperation among enterprises in a logistic channel: from the producer of raw materials to the final customer. D. Kisperska-Moron (1999: 187) presents a more comprehensive definition based on both the integrative and effective characters. She believes that a supply chain is a group of related companies belonging to the same logistic channel, closely coordinating their efforts oriented towards the improvement of efficiency and competitiveness of the product on which a particular logistic channel is based.

Analyzing the essence of supply chains, one may not disregard the fact that in recent years this term has been often substituted with the notion of "supply network". In its pure form, the idea of establishing economic networks consists in competition and formal or informal cooperation among many companies characterized by considerable mutual trust and the absence of the relations of subordination. The notion of "supply network" is broader than traditionally interpreted supply chains, where flows are coordinated centrally and the dominant entity initiates the vertical integration of suppliers and recipients. According to the network theory, supply chains understood in this way can be considered as particular cases of a network consisting of the central and peripheral parts. However, accepting J. Jarillo's argumentation and being aware of the still modest theoretical foundations for network organizations, many authors make the assumption that both terms can be used interchangeably. An additional argument justifying the possibility of accepting the identity of these notions is a frequently quoted definition of a supply chain by M. Christopher or R. Lummus and K. Albert, who claim that it is a network of mutually related entities carrying

out various processes, whose objective is supplying the recipient with a full range of products and services (Lumus, 1997: 19).

Selected definitions of supply chain management and their interpretation

Similarly to the interpretation of the notion of "supply chain", there is some confusion with respect to the definition of "supply chain management", because sometimes management is directly identified with logistic management. Some authors add directly that "for many people, the current meaning of SCM is slightly different from integrated logistic management, irrespective of how broadly logistics is defined" (Cooper, 1997: 4), or they write that "differences between the characteristics of logistic management and those of SMC described by authors are mostly unclear" (Copacino, 1997).

More and more frequently the literature on this subject presents the thesis that "supply chain management is the most accurate reflection of the integrated form of management" (Croxtan, 2001: 13). However, this opinion is accompanied by some doubts resulting from the fact that integration can be achieved in a supply chain, while frequently there is no understanding of a company's key processes (Helms, 2000: 392). The Global Supply Chain Forum distinguishes eight basic processes which make up the structure of supply chain management, *i.e.* managing relations with customers, managing supply processes, managing customer service, managing demand, supplementing orders, managing production flow, managing returns, developing and commercializing products. This structure clearly defines the area of research for SCM, where integrated logistic and marketing processes acquire primary importance.

In the cult article entitled "Supply chain management is more than a new name for logistics" (Chandra, 2000: 11), the title itself implies the factual scope of research, because according to its authors "there is a decisive need to join business processes in supply

chains, which goes beyond logistics". They add at the same time that the development of a new product and marketing research connected with it are probably the clearest example for this. R. Novack, L. Rinehart and M. Wells write about the necessity for "the integration of logistic functions in the whole company by combining the areas of production, warehousing, transport, physical distribution, as well as marketing and purchasing" (1992: 233). The literature on this subject presents also ideas according to which "supply chain management, which so far has been dominated by logistic thinking limited to the management of the streams of product supplies and information accompanying such streams, should be synchronized to a greater degree than ever before with the marketing concept of demand stream management" (Hoover, 2001: 13). L. Giunipero and R. Brand claim that SCM is a tool of the strategic management of business processes as a result of progress in logistics and product development in the areas of marketing and customer service. Obviously, such processes require appropriate integration (Giunipero, 2003: 29), the more so that, as M. Christopher suggests, "true competition is not businesses fighting with each other, but a supply chain fighting with another supply chain" (Christopher, 1992). Other authors (Lummus, 2001: 426) write that supply chain management is not another name for logistics but a broader perception of processes including also an integrated information system and coordinated activities related to offering of products constituting a certain value for customers. Ch. Chandra and S. Kumar add that the essence of integration within SCM is the creation of a value chain with respect to the ability to forecast demand: while J. Johnson and D.F. Wood write simply that "supply chain management is a little bit more than logistics" (Johnson, 2000).

A very interesting view on this problem was presented by J. Stock (2002: 12). In his article, he refers to the historic paper by T. Levitt

entitled "Marketing Myopia", which exerted an enormous influence on the theory and practice of business. The philosophy and point of view presented by Levitt seem to have influenced and to be influencing logistics in spite of the fact that it was written over 40 years ago. The leading idea in Stock's paper is the thesis that "in some cases researchers have adopted a myopic point of view with respect to the perception of logistics which consists in the fact that in spite of concentrating on customer service, its factual field is still too much oriented towards the product". The author proposes a so-called "long-sighted point of view on logistics as an important process within supply chain management which, among others together with marketing processes, may bring about cost savings and competitive advantage. He adds that logistics and other functional areas in a company, including marketing, should be a "strategic ally" to supply chain management. He writes also that "the relation between logistics and marketing within a supply chain may be and should be, thanks to integration processes occurring within it, much deeper and the current state of affairs creates considerable opportunities for researchers", because the majority of work is limited to the specific parts of logistics such as, for example, transport, or the elements of the marketing-mix such as, for example, distribution. The author concludes that supply chain management comprising a wide spectrum of processes, among others logistic, marketing, production, financial and accounting processes, concentrates on providing the customer with the best value and encouraging him to look at the flow of a product from its source to the final consumer from a global cost's point of view. S. Fawcett and G. Magnan (2002: 339) write that "there are two critical situations influencing the success of SCM, *i.e.* the proper design of logistic and marketing processes as well as their integration within a supply chain. Hence, contemporary researchers and practitioners have a chance to become pioneers in overcoming barriers between the modern, integrated image of lo-

gistics or marketing and the traditional, dispersed one, within the framework of SCM. It is J. Stock's approach to the essence of logistic and marketing processes of customer service in supply chain management that the author of this paper agrees with, which seems to be confirmed by the analysis so far.

At this point another interpretation of SCM should be presented. It was formulated by Dick Back, the head of the trade union of British logistic specialists, at one of a series of international conferences organized by PTL Polska in Poznan. He said that supply chain management is an activity integration process starting with the identification of the customer's preferences and finishing with the acquisition of materials that could satisfy such demand. He purposefully emphasized the importance of consumers' decisions with regard to the development of a supply chain and consciously reversed the classically interpreted order of links in a supply chain.

The interpretations of SCM presented above could be called an "integrative school" concentrating its factual attention on the integration of a supply chain's areas into a system defined as a set of processes whose objective is the creation of the possibly greatest advantages for the chain in order to multiply value (Kisperska-Moron, 2000: 107). Irrespective of the characterized differences in the definitions of supply chain management, its participants need to develop and accept the basic principles of its functioning and development. In the determination of such principles, the following criteria are of special importance:

- openness and trust, required while providing the participants of the chain with data concerning demand, sales forecast, production and order schedules, as well as other information related to the physical flow of goods and customers' behaviour;
- strategic cooperation, *i.e.* the common planning and execution of logistic and marketing processes in the chain with the de-

termination of the place and function of its particular links, the processes of production, customer service and tasks related to promotional campaigns;

- mutuality, *i.e.* agreeing upon the share of risk and possible profits resulting from undertaking joint ventures, rejecting the practices of dumping inventory maintenance costs on suppliers or recipients, monitoring and optimizing the levels of inventories along the whole chain;
- control, especially with regard to the elimination of doubled and non-coordinated decisions related to the manufacture of products, transportation and warehousing activities as well as order processing.

Approval for the above principles of supply chain management should facilitate the settlement of disputes among suppliers, recipients and service companies. Their implementation may constitute a counterbalance for the source of such conflicts as competitive goals, the imbalance of bargaining power or decisions made on the basis of contradictory information.

As M. Christopher points out, four basic elements make supply chain management different from classical flow management. Firstly, a supply chain is perceived as a distinguished whole. Secondly, it requires strategic decision making. Supply becomes here the objective of practically all links in the chain, and its strategic significance results from the influence on the total cost of supply and a market share. Thirdly, supply chain management adopts a new view of inventories which become a mechanism balancing the supply system. And finally, supply chain management requires a special approach to systems; integration, and not just making contact points meet becomes a key activity (Kempainen, 2003: 14).

Supply chain security management (SCSM)

The events of September 11, 2001 heightened the awareness of supply chain professionals to the threat of man-made disasters on the security of supply chains. According to institutional theory, the environment in which an organization operates creates pressures (normative, coercive, and mimetic) to adopt “institutionalized” norms and practices in order to be perceived as “legitimate.”

In the aftermath of the terrorist attacks of September 11, 2001 (9/11 hereafter), the way that organizations conduct business activities both within and between themselves was altered as public and private entities began creating new requirements for business operations. Specifically, the way firms share and physically distribute goods became a key area of interest to ensure the security of supply chain partners and ultimately, society in general. Furthermore, the Department of Homeland Security (DHS) announced that securing the supply chain is part of the overall strategy for national security, thus placing additional expectations on organizations. Collectively, the activities that protect supply chains from damage, terrorism, and contraband have become known as supply chain security (SCS) (Williams et al., 2009).

Many operations management principles and methods, such as project management and optimization techniques like linear programming, have their roots in military and government-related activities. Owing to lack of supply alternatives during crisis times, the inventory management principles used in military and government organizations are based on “just in case” philosophies, but supply chains today have moved far from this philosophy. Over the last three decades, the economic emphasis on speed and efficiency has caused members of supply chains to adopt concepts like “just in time,” “build to order,” and “vendor managed inventories.” As a re-

sult, supply chains today have become leaner and more profitable since the capital previously locked in inventory is instead available for other profitable activities. At the same time, supply chains have become more global, resulting in longer lead times. The onset of business trends such as reduction of suppliers, lead time, inventory, and product life cycle, as well as the increased use of outsourcing on long global supply chains, has increased the risks in supply chains, making them more vulnerable to crisis (Norrman and Jansson, 2004). Crises not only affect the flow of goods in the supply chain, but also have a huge impact on its stockholder wealth.

According to Merriam-Webster, crisis is defined as “an unstable or crucial time or state of affairs in which a decisive change is impending; especially: one with the distinct possibility of a highly undesirable outcome.” In a supply chain, crisis occurs when one or more supply chain members' activities are interrupted, resulting in a major disruption of the normal flow of goods or services. The magnitude of the effect of a crisis is based on numerous factors and varies with each occurrence. Although crisis in a supply chain is unpredictable, it may not be unexpected. The process of making proactive decisions to avoid the crisis and reactive decisions in overcoming it is called crisis management. The decisions involved in managing crises caused by natural disasters and man-made disasters are well defined by many government and non-profit organizations, such as the International Federations of Red Cross (IFRC). IFRC classifies an event as a disaster if that event is:

[...] “a sudden, calamitous event that seriously disrupts the functioning of a community or society and causes human, material, and economic or environmental losses that exceed the community's or society's ability to cope using its own resources.” (M. Natarajarathinam et al., 2009).

IFRC has five main categories of disasters: natural (e.g. droughts), hydro meteorological (e.g. floods), technical (e.g. industrial acci-

dents such as chemical explosions, nuclear explosions, and accidental release of some hazardous material), geological (e.g. earthquakes), and human related (e.g. epidemics and population movement).

As mentioned, supply chain management research is increasingly focusing on supply chains in times of crisis. Closs and McGarrell (2004: 8) define supply chain security management (SCSM) as: "The application of policies, procedures, and technology to protect supply chain assets (product, facilities, equipment, information, and personnel) from theft, damage, or terrorism, and to prevent the introduction of unauthorized contraband, people, or weapons of mass destruction into the supply chain." Recent key topics in supply chain disaster and crisis management-related supply chain strategy and logistics operations include: agility (Oloruntoba and Gray, 2006) collaboration/networks, humanitarian issues (Gibbons and Samadder, 2009; Kovács and Spens, 2007, 2009), inventory management (Beamon and Kotleba, 2006), facility location (Balcik and Beamon, 2008), and multi-level partner/non-partner integration (Perry, 2007; Rathbun, 2007). These studies have initiated a building of ideas and propositions that need to be explored for the betterment of business and mankind alike. Yet, extant research has no common string or grounding framework from which to draw in order to define the parameters of future studies (Richey Jr, 2009).

Prior to 9/11, SCS focused primarily on issues like smuggling, stowaways, and theft as opposed to preventing terrorist contraband from entering the supply chain. The change in focus has had a large impact on how organizations manage and approach logistics and supply chain operations. This has resulted in private organizations and public entities working together to prevent man-made supply chain disasters and to ensure the efficient flow of goods and the protection of citizens. In fact, in a survey of global shippers, it was

found that security related issues are responsible for applying the most pressure on global supply chains (Shawdon, 2006). As a result, research suggests that supply chain executives are worrying more about security than ever before (Spekman and Davis, 2004) and many are indicating that security is their most dire concern.

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