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EDUCATION OF CORPORATE SOCIAL RESPONSIBILITY IN THE UNIVERSITY: A COMPARATIVE STUDY BETWEEN URUGUAY AND SPAIN

Abstract

Purpose – This paper presents some results from a research study aimed to analyze the perceptions of two student samples from Uruguay and Spain regarding the inclusion of corporate social responsibility (CSR) contents within formal university academic programs. In doing that, a stakeholder perspective is assumed.

Design/methodology/approach – A survey study was carried out in a public university in each country. The students recruited were asked to report their perceived and desired education regarding 17 indicators of firms’ responsibilities towards their stakeholders. Descriptive analyses and two multivariate analyses of variance were conducted with the data collected.

Findings – Findings support the general idea that, independently of the country of residence, university students detect important shortages in the CSR education received, especially regarding the internal dimension of responsibility towards the employees and the external involvement in local, environmental and social problems.

Research limitations/implications – Further research is needed in order to replicate these findings in different cultural and educational contexts, in order to refine the measures and prove their generalizing value.

Practical implications – The results obtained point to the convenience of incorporating further transversal education on CSR, in order to provide students with a more complete vision of both internal and external dimensions of firms’ social responsibilities according to their future work demands.

Originality/Value – The paper suggests the influence of higher education on the prevalent concept of CSR hold by university students in Uruguay and Spain, and identify some tips to make public universities more aware of the real necessity of updating academic programs according to society’s requirements at any moment.

Keywords: corporate social responsibility (CSR), higher education, university students, Uruguay, Spain

Research type: research paper

JEL classification:
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I23 - Higher Education and Research Institutions

Introduction

Education of organizational responsibility within formal academic programs represents nowadays, both in Latin-American and European countries, a priority oriented to the training of professionals qualified to respond efficiently to the new social and environmental needs of...
modern economies (Vázquez et al. 2011a, 2011b). When analyzing the causes of this situation, at least three reasons are worth mentioning. Firstly, the consolidation of a concept of Corporate Social Responsibility (CSR) in the business world has increased the demand for professionals qualified in competences for responsible management. Secondly, beyond the area of private firms, interest in CSR has become known also for governments, supranational organisms, social organizations, and other institutional actors. In this sense, the idea that sustainable development (at the three economic, social and environmental levels) largely depends on the responsible behaviour of both organizations and citizens is more and more consolidated. And thirdly, all of this have led universities to ask themselves about their own responsibility (what had derived in a concept of University Social Responsibility) thus gaining awareness of their role in the education and training of professionals provided with the competences (knowledge, abilities and attitudes) and values needed for sustainable development.

Within this framework, most previous empirical studies on CSR education have described experiences of inclusion of responsibility contents within business syllabuses (Mahoney 1990; McKenna 1995; Christensen et al. 2007; Fernández and Bajo-Sanjuán 2010; Wu et al. 2010; Setó-Pamies 2011), evaluated the success of specific initiatives (McDonald 2004; Tyler and Tyler 2006; Balotsky and Steingard 2006; Caldwell 2009; Hartman and Werhane 2009), and analyzed the impact of education on the responsibility awareness of students (Sobczak et al. 2006; Kolodinsky 2010; Moon and Orlitzky 2011).

In line with this previous research, this paper is aimed to compare the concept of CSR hold by a sample of university students in Uruguay and Spain, just as their current experience and demand for education on the matter as part of their academic training. As a previous step to this analysis, next section reviews the stakeholder perspective as theoretical starting point to identify specific responsibility contents and areas able to be included within the university academic curricula. Given the complexity of the concept of CSR and the diversity of theoretical approaches and models developed to explain it, we considered that the stakeholder perspective offers a simple model to easily identify dimensions of CSR education and their perceived importance for students according to the objectives of the research presented here.

The stakeholder perspective in the analysis of CSR dimensions

Many authors have pointed the existence of an important gap between the theoretical thinking and development of academic CSR models and the incorporation of the concept in the business real practice. Waddock (2004) analyzes this problem in his article Parallel universes: companies, academics and the progress of corporate citizenship, in which the author argues that CSR has evolved in a different way in both universes, and attributes such lag to the conceptual and terminological confusion generated by the academia. Similarly, Basu and Palazzo (2005) point that academic thinking on CSR has tended to prioritize conceptual discussion and not just empirical research, thus concluding that for the most part, academics haven’t gone beyond the philosophical discussion on the definition of the concept.

In fact, most important contributors to the specialized literature on CSR have focused their efforts in the conceptual discussion of the construct more than in the development of empirical studies in the area of business responsibility. For instance, Carroll (1979), Schwartz and Carroll (2003), and Epstein (2006) focus on the definition and justification of the concept; Sethi (1975) and Carroll (1991) try to establish its action field; Jones (1980) studies its recipients; Murray and Montanari (1986) analyze CSR returns in terms of corporative reputation; Litz (1996) focus on knowledge management; and Porter and Kramer (2006) analyze the consequences of the construct for strategy strengthening. In short, with few
exceptions (e.g., Waddock 2004), formal literature doesn’t provide managers with practical models of responsible management, and formal developments of the concept (e.g., Carroll 1999; Garriga and Melé 2004) are divorced from practical models orienting CSR strategies in the business world.

Further, lack of agreement among academics conflicts with the consensus reached by the conjoint of institutions devoted to promote sustainability around the world, including international, national and regional organizations. In the context of these institutions, revision of documents and declarations of principles reveals considerable agreement on the CSR concept, the dimensions and business behaviour linked to it, and the specific tools for responsibility management in all kind of organizations.

A reference of this agreement is the international norm ISO 26000, which provides worldwide convergence in two key points. First, CSR is defined as a philosophy, strategy or management model which involves the entire organization and: i) is based on values; ii) takes into consideration the expectations of all the firm’s stakeholders; iii) controls the impacts of the operation; and iv) is committed to sustainable development (Licandro and Sabath 2010). Second, the norm allows identification of seven dimensions of CSR, as included in most manuals and implantation guides (UNIT 2011). These dimensions are corporate ethics and governance, labour practices, community involvement and development, fair operating practices, consumer issues, the environment, and human rights.

In the context of such general considerations, many models consider the construct of CSR in terms of the way in which the firm conceives and builds relationships with its stakeholders. In fact, the concept of stakeholder is present in all the typologies of CSR theories identified by Garriga and Melé (2004) and after applied by Cancino and Morales (2008). Simply put, the authors hypothesized that “the most relevant CSR theories and related approaches are focused on one of the following aspects of social reality: economics, politics, social integration and ethics” (Garriga and Melé 2004, 52). According to this postulate, each CSR theory was analyzed from the perspective of interaction between business and society, and later classified into four categories, namely:

- Instrumental theories, in which the corporation is seen as only an instrument for wealth creation, and its social activities are only a means to achieve economic results;
- Political theories, which concern themselves with the power of corporations in society and a responsible use of this power in the political arena;
- Integrative theories, in which the corporation is focused on the satisfaction of social demands; and
- Ethical theories, based on ethical responsibilities of corporations to society.

In the same line, the stakeholder approach is referred, explicitly or implicitly, in many of the most influential definitions of CSR. Particularly, Dahlsrud (2006) analyzed 37 definitions proposed by 27 authors, including both academics and institutions. By using a technique of content analysis, the author identified five underlying dimensions or thematic areas, namely the environmental, the social, the economic, the voluntariness, and the stakeholder. Once quantified the presence of each dimension in the definitions included in the analysis, it is pointed that the optimal performance is dependent on the stakeholders of the business. From this view, the author concludes that “the challenge for business is not so much to define CSR, as it is to understand how CSR is socially constructed in a specific context and how to take this into account when business strategies are developed” (Dahlsrud 2006, 6).

Consistently with the previous, some experts claim that, in terms of CSR application to business management, the analysis of the construct may well be simplified to the consideration of responsible practices towards each of the firm’s stakeholders. According to Carroll (1999), over the 1990s the term of CSR operated as platform for the development of
new constructs, what complemented it and constituted an important part of the theoretical agenda of the period. Among them, we should stress those of “stakeholder theory”, “business ethics theory”, and “corporate citizenship”. Similarly, in an article from 1991 Carroll proposed a transit from the concept of CSR to the stakeholder management, as conceptual framework adequate to “assist the manager in integrating the four CSR components with organizational stakeholders” (Carroll 1991, 43).

Carroll’s model come to fruition in the “stakeholder/responsibility” matrix, which organizes the various types of responsibilities identified in his pyramid (i.e., economic, legal, ethical and philanthropic) according to the various groups of stakeholders (i.e., owners, consumers, employees, community, competitors, suppliers, social activist groups, public and large). From this view, analysis of CSR requires answer to five questions: i) who are the stakeholders of the firm?; ii) what are their needs and demands?; iii) what opportunities and challenges do they set?; iv) what responsibilities should the firm assume towards them?; v) what strategies, actions or decisions should be made to manage these responsibilities?

In the same line, in his article on the evolution of the CSR concept, Carroll (1999) pose three arguments to back up the convenience of the stakeholder term:

- The word “social” is vague and has no specific direction, while the concept of stakeholder allows identification of the objective publics with which companies should behave in a responsible way.
- For most executives and managers, the word stakeholder is intended to more appropriately describe those groups of persons who have an interest in the operations and decisions of the firm.
- The stakeholder/responsibility approach is more consistent with the pluralistic environment faced by current business.

In turn, Freeman (1983) points that business responsibility should include the vision (demands, needs and viewpoints) of all the stakeholders able to affect the decisions of the firm. Further, the author suggests conceptualizing the firm as a net of relations in which each actor provides value for the others. From this view, Freeman and Liedka (1991) criticize the prevalent concept of CSR and consider that it has failed to help in creating the good society. Therefore, they call for new more practical and useful language of CSR, including consideration of the stakeholder terminology.

Finally, another argument in favour of using the stakeholder approach to identify CSR operative dimensions relies on some of the guides, manuals and evaluation tools most frequently employed to manage CSR in organizations. These documents usually organize the business activities according to the relationship of the firm with its stakeholders, including shareholders, employees, suppliers, distributors, consumers and the community.

Particularly, the European Commission (2001) defines CSR as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis” (European Commission 2001, 6). The document identifies two distinct dimensions, internal and external, of CSR. From this view, within the company, socially responsible practices primarily involve employees and relate to issues such as investing in human capital, health and safety, and managing change, while environmentally responsible practices relate mainly to the management of natural resources used in the production. On the other hand, CSR extends beyond the doors of the company into the local community and involves a wide range of stakeholders, including business partners and suppliers, customers, public authorities, and NGOs representing local communities, as well as the environment.

Similarly, the more recent ISO 26000 defines CSR as the responsibility of an organization in view of the impacts that its decisions and activities (products, services and process) cause
for the society and the environment, by means of an ethical and transparent behaviour which takes in consideration the expectations of all the interested parts (UNIT 2011).

From this literature review, this research is intended to develop a list of indicators defining CSR dimensions according to the stakeholder approach and use them to analyze CSR education conceptions of a sample of Uruguayan and Spanish university students. Particularly, it is sought to analyze students’ perceptions of current and desired education of relevant CSR contents at the university, just as the existing gaps between such experiences.

**Sampling and procedure**

According to the purposes of the research, we carried out a survey study in two public universities: The Catholic University of Uruguay and the University of León (Spain). Data was collected from a sample of 100 business undergraduate students in each university.

In the Catholic University of Uruguay, the sample comprised 49 males and 51 females, aged 19 to 45 years old \((M = 23.92; DT = 4.39)\). In the University of León, the sample was composed of 31 males and 69 females, aged 19 to 27 years old \((M = 21.84; DT = 1.52)\).

According to the stakeholders’ perspective assumed in the research, participants were presented a list of 17 activities defining relations between companies and six groups of stakeholders, namely: employees, shareholders, value-chain stakeholders, competitors, community/society and the environment.

Table 1 summarizes the indicators included in the survey by each group of stakeholders. For each item, two measures were requested.

**Table 1. List of indicators used in the research**

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Indicator</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
<td>Risk prevention and health and safety at work</td>
</tr>
<tr>
<td></td>
<td>Professional development and lifelong learning</td>
</tr>
<tr>
<td></td>
<td>Equal opportunities for employees</td>
</tr>
<tr>
<td></td>
<td>Work and life balance</td>
</tr>
<tr>
<td></td>
<td>Promotion of fair work relations</td>
</tr>
<tr>
<td></td>
<td>Volunteering activities for employees</td>
</tr>
<tr>
<td></td>
<td>Participative management</td>
</tr>
<tr>
<td>Shareholders</td>
<td>Profit maximization for partners and shareholders</td>
</tr>
<tr>
<td>Value-chain stakeholders</td>
<td>Offer of quality products adapted to consumers’ needs</td>
</tr>
<tr>
<td></td>
<td>Truthful information about products</td>
</tr>
<tr>
<td></td>
<td>Ethical commitment to suppliers and distributors</td>
</tr>
<tr>
<td>Competitors</td>
<td>Responsible relationships with competitors</td>
</tr>
<tr>
<td>The environment</td>
<td>Respect for the environment</td>
</tr>
<tr>
<td>Community/Society</td>
<td>Contribution to regional development</td>
</tr>
<tr>
<td></td>
<td>Involvement in community interests</td>
</tr>
<tr>
<td></td>
<td>Collaboration with Public Administrations and NGOs</td>
</tr>
<tr>
<td></td>
<td>Social dialogue with government and enterprises</td>
</tr>
</tbody>
</table>

First, we took an index of perceived education by asking participants to range their perceptions on the importance awarded to each content in their respective university academic programs, on a five-point Likert-type scale ranging from 1 (*not important at all*) to 5 (*very important*).
Second, as a measure of desired education, students had to report their wish for further education on each CSR content. Again, responses ranged from 1 (not important at all) to 5 (very important).

Data was analyzed statistically with the SPSS 16.0 program. First, descriptive analysis was used to assess the indexes of perceived and desired education of CSR in each university. A second group of multivariate analysis of variance (MANOVA) was used to identify statistically significant differences between the opinions of students in both universities.

### Results

Table 2 displays the mean scores obtained for each sample in the indicators of perceived and desired education of the CSR practices analyzed, just as the mean of the differences between the individual scores in both measures, as global index of discrepancy for each indicator.

#### Table 2. Perceived and desired education in both universities

<table>
<thead>
<tr>
<th></th>
<th>Cath. University of Uruguay</th>
<th>University of León</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>PE</td>
<td>DE</td>
</tr>
<tr>
<td>Risk prevention and health and safety at work</td>
<td>3.12</td>
<td>4.18</td>
</tr>
<tr>
<td>Professional development and lifelong learning</td>
<td>3.58</td>
<td>4.43</td>
</tr>
<tr>
<td>Equal opportunities for employees</td>
<td>3.23</td>
<td>4.22</td>
</tr>
<tr>
<td>Work and life balance</td>
<td>2.77</td>
<td>4.01</td>
</tr>
<tr>
<td>Promotion of fair work relations</td>
<td>3.37</td>
<td>4.41</td>
</tr>
<tr>
<td>Volunteering activities for employees</td>
<td>2.59</td>
<td>3.40</td>
</tr>
<tr>
<td>Participative management</td>
<td>3.39</td>
<td>4.05</td>
</tr>
<tr>
<td>Profit maximization for partners and shareholders</td>
<td>4.01</td>
<td>4.41</td>
</tr>
<tr>
<td>Offer of quality products adapted to consumers’ needs</td>
<td>3.87</td>
<td>4.49</td>
</tr>
<tr>
<td>Truthful information about products</td>
<td>3.77</td>
<td>4.39</td>
</tr>
<tr>
<td>Ethical commitment to suppliers and distributors</td>
<td>3.65</td>
<td>4.35</td>
</tr>
<tr>
<td>Responsible relationships with competitors</td>
<td>3.61</td>
<td>4.26</td>
</tr>
<tr>
<td>Respect for the environment</td>
<td>3.17</td>
<td>4.18</td>
</tr>
<tr>
<td>Contribution to regional development</td>
<td>3.07</td>
<td>3.94</td>
</tr>
<tr>
<td>Involvement in community interests</td>
<td>2.78</td>
<td>3.55</td>
</tr>
<tr>
<td>Collaboration with Public Administrations and NGOs</td>
<td>2.75</td>
<td>3.64</td>
</tr>
<tr>
<td>Social dialogue with government and enterprises</td>
<td>3.04</td>
<td>3.60</td>
</tr>
</tbody>
</table>

Note. PE: perceived education; DE: desired education

Concerning the results obtained for the sample of students of the Catholic University of Uruguay, mean scores in the perceived education scale were moderated, between 2.50 and 4.00 in the five-point scale. Contents considered more included within formal programs referred to profit maximization for shareholders (M = 4.01), responsibility towards customers by means of quality products (M = 3.87) and truthful information (M = 3.77), and ethical commitment to suppliers and distributors (M = 3.65), and competitors (M = 3.61). Opposite, the lowest mean scores corresponded to involvement in community interests (M = 2.78), collaboration with institutions in social campaigns (M = 2.75), work and life balance (M = 2.77), and volunteering for employees (M = 2.59).

On the other hand, Uruguayan undergraduate students reported interests in receiving more education on CSR contents, with higher mean scores in the desired education scales.
Particularly the highest punctuations corresponded again to responsibility towards clients ($M = 4.49$) and shareholders ($M = 4.41$), together with other internal aspects such as promotion of fair work relations ($M = 4.41$) and professional development of employees ($M = 4.43$).

Opposite, demands of CSR education were lower for contents of involvement in community interests ($M = 3.55$) and volunteering for employees ($M = 3.40$). Complementary, main gaps between the indexes of perceived and desired education focused on the internal dimension of business responsibility, in terms of work and life balance ($M = 1.25$), risk prevention and promotion of health at work ($M = 1.08$), and promotion of fair work relations ($M = 1.04$).

As for the sample of students of the University of León in Spain, contents perceived as more treated within academic programs corresponded again to responsibility towards shareholders ($M = 3.46$), competitors ($M = 3.41$) and customers ($M = 3.40$), whereas the lowest mean scores in the perceived education scale corresponded to collaboration in social campaigns ($M = 2.92$), involvement in community interests ($M = 2.80$), work and life balance ($M = 2.66$), and volunteering for employees ($M = 2.39$).

Likewise, as obtained for the Uruguayan sample, Spanish students demanded a greater education on professional development and lifelong learning ($M = 4.40$) and responsibility in the satisfaction of customers' needs ($M = 4.31$). Beyond that, Spanish students also considered important the contents of promotion of health at work ($M = 4.41$) and respect for the environment ($M = 4.31$).

On the other hand, the lowest punctuations in desired education corresponded again to volunteering for employees ($M = 2.91$), involvement in community interests ($M = 3.45$) and contribution to social problems ($M = 3.68$). According to this pattern, main gaps between perceived and desired CSR education were obtained for work and life balance ($M = 1.42$), promotion of fair work relations ($M = 1.26$), and risk prevention (1.25), together with the external responsibility towards the environment ($M = 1.09$).

Beyond the previous parallelisms found between the two universities, differences between perceived and desired CSR education in Uruguay and Spain were analyzed with two multivariate analyses of variance (MANOVA). The first of them was used to investigate the effect of the country of residence (independent variable) on the indicators of perceived education of the 17 contents analyzed (dependent variables). According to results in Table 3, we obtained a significant effect on the combined dependent variables $F(17, 162) = 2.53, p < .001; \lambda_{de\, Wilks} = .790; \eta^2 = .210$.

### Table 3. Differences in perceived education of CSR contents

<table>
<thead>
<tr>
<th>Statement</th>
<th>$\lambda_{de, Wilks}$</th>
<th>$F$</th>
<th>$\eta^2$</th>
<th>$F$</th>
<th>$\eta^2$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit maximization for partners and shareholders</td>
<td>.790</td>
<td>2.53***</td>
<td>.210</td>
<td>18.47***</td>
<td>.094</td>
</tr>
<tr>
<td>Offer of quality products adapted to consumers' needs</td>
<td>9.61**</td>
<td></td>
<td></td>
<td>9.61**</td>
<td>.051</td>
</tr>
<tr>
<td>Truthful information about products</td>
<td>9.81**</td>
<td></td>
<td></td>
<td>9.81**</td>
<td>.052</td>
</tr>
<tr>
<td>Ethical commitment to suppliers and distributors</td>
<td>14.56***</td>
<td></td>
<td></td>
<td>14.56***</td>
<td>.076</td>
</tr>
</tbody>
</table>

Note. * $p < .05$; ** $p < .005$; *** $p < .001$. 
When results were considered separately for each dimension, only four items reached statistical significance according to a Bonferroni adjusted alpha level of $p < .003$. In these terms, perceptions of education were higher for the Uruguayan sample in the areas of responsibility towards shareholders and chain-value stakeholders. These differences are displayed in Figure 1.

In a second MANOVA, we tested differences between countries (independent variable) in the assessments of desired education reported by students for the 17 CSR practices analyzed (dependent variables). As it is shown in Table 4, again the combined effect reached statistical significance: $F (17, 158) = 3.06$, $p < .001$; $\lambda$ de Wilks = .753; $\eta^2 = .247$.

Table 4. Differences in desired education of CSR contents

<table>
<thead>
<tr>
<th></th>
<th>$\lambda$ de Wilks</th>
<th>F</th>
<th>$\eta^2$</th>
<th>F</th>
<th>$\eta^2$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit maximization for partners and shareholders</td>
<td>.753</td>
<td>3.06**</td>
<td>.247</td>
<td>9.82**</td>
<td>.053</td>
</tr>
<tr>
<td>Ethical commitment to suppliers and distributors</td>
<td></td>
<td></td>
<td></td>
<td>9.89**</td>
<td>.054</td>
</tr>
</tbody>
</table>

Note. * $p < .05$; ** $p < .005$; *** $p < .001$.

When results were considered separately for each dimension, only two items were statistically significant according to a Bonferroni adjusted alpha level of $p < .003$. Again, Uruguayan students reported higher mean scores than the Spanish in the areas of profit maximization for shareholders ($M = 4.41 > M = 4.08$) and ethical commitment to suppliers and distributors ($M = 4.35 > M = 4.00$). These differences are summarized in Figure 2.
Conclusions

The survey study described in previous sections has been aimed to analyze the perceptions of two student samples from Uruguay and Spain regarding the inclusion of CSR contents within formal university academic programs. Particularly, our focus has been to analyze the existing gaps between perceived and desired CSR education in both countries. In this regard, four conclusions of the study are worth mentioning.

First, findings support the general idea that, independently of the country of residence, university students detect important shortages in the CSR education received, especially regarding the internal dimension of responsibility towards the employees and the external involvement in local, environmental and social problems. Opposite, students are more aware on the education currently received regarding the ethical management of relationships with direct stakeholders, including customers, suppliers, distributors, and competitors.

Second, undergraduates in both countries report a high interest in receiving a greater curricular education of contents related to business responsibility. In this sense, the most demanded topics correspond again to the internal dimension of responsible human resources management, in line with the shortages detected previously. On the other hand, students report less wishes to receive a greater education on social or environmental responsibility towards the external business context.

Third, there are important gaps between the levels of perceived and desired CSR education reported by Uruguayan and Spanish students. Further, in both cases, the most significant discrepancies focus on the internal responsibility dimensions of work and life balance, development of fair work relations, and promotion of health and safety at work.

Fourth, some statistically significant differences characterize the pattern of findings described when the effect of the country is considered. Particularly, higher levels of both perceived and desired CSR education can be attributed to Uruguayan students with regards to the management of responsible relationships towards shareholders and chain-value stakeholders in comparison to the Spanish sample.

In sum, this pattern of results suggest the influence of higher education on the prevalent concept of CSR hold by students, thus pointing the need of incorporating further transversal training on the mater, in order to provide students with a more complete vision of both internal and external dimensions of enterprises’ social responsibilities according to their future work demands. In short, modern public universities should be aware of the real necessity of updating any educational program according to society’s requirements at any moment and, considering CSR as source of sustainable socioeconomic welfare, it has a great potential to contribute to marketing of university academic curricula.

References


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RESEARCH OF ONLINE MARKETING TECHNIQUES IN ORDER TO PROMOTE LOCAL BAR / CLUB BUSINESSES

Abstract

Purpose – the purpose of this research is to identify the impact of the social media marketing techniques on the development of bars and clubs.

Design/methodology/approach – In order to implement the aims of the research, quantitative research methodology was applied and cluster development approach was taken. The study was run between the active social network users in Lithuania. Impact of most popular communication channels (Facebook, Google Plus, YouTube) was studied and compared to other “traditional” channels: phone calls, e-mails, face-to-face conversations.

Findings – During this research a negative impact of advertising using YouTube was found: students were less likely to go to a bar which was recording their presence at night and uploading the content to YouTube. Also it was identified that one of the key factors for the bar to be preferred is to be located next to other bars. Price sensitive customers were likely to pay extra for a joined ticket to attend several clubs per night.

Research limitations/implications – Research was conducted using questioner in Lithuanian language, therefore only those who spoke Lithuanian, could participate in the survey. The research was conducted online, therefore those who have no Internet access, could not participate in the survey.

Practical implications – The research represents the position of young generation, which is active in online social networks, on bars and clubs. As this segment is generally the main target group for bars and clubs worldwide, insights of this research can be applied by any marketers around the world.

Originality/Value – The research is a fusion between trending topics like social marketing, hashtags and social media, and qualitative approach on problem analysis. At this point most of the research is focused on the potential that social networks. In this paper a merged and joined approached on the impact of social networking as a set of marketing channels was taken and applied in the field of development of the bars and clubs.

Keywords: online marketing, social media marketing, search engine marketing, bars and clubs, marketing techniques

Research type: research paper

JEL classification:
M31 – Marketing,
M37 - Advertising

Introduction

More and more users tend to rely on the opinion of their friends than on the brands that advertise their products. They ask colleagues for advices and tips. This approach greatly developed in recent years due to massive usage of social networks among the Internet users. More and more users tend to share online experience on the goods that they purchased before and their private interactions with the goods or services even after the purchased has been made. This form of communication is usually called “Word of Mouth” and usually refers to a personal communication between information sender and receiver, during which the receiver acquires non-commercial information about the brand, product or service (Ardt,
1967). The key factor is the subjectivity. The receiver is willing to find out user’s personal opinion on the product – this is what makes social media interesting. Research shows that 97 percent of respondents in Lithuania are active Facebook users. Nielsen report shows that if we compared the use of free social media tools between advertisers and agencies, we would notice a significant different between level of involvement between the two. Advertisers are far more active (89 percent) with the usage of social media and there are none of them who do nothing related to social media (in comparison to 6 percent of advertising agencies who tend to ignore the channel).

**Research purpose**

Due to the increase user awareness of social media and the fact that more and more agencies and advertisers start using this channel, more than 60% on social media users feel daily pressure because of too much advertisement and more than half say that they will not purchase the product that is being advertised over aggressively. (The New Consumer, the Craving for Comfort and Connection, Yankelovich Partners, 2004.).

![Figure 1. How advertisers and agencies use social media](image)


Research, presented by Google Inc. Shows that the product purchase has changed dramatically in recent years: conventional approach would state, that the user gets a signal to make a purchase and goes to a shop, where he buys the good – Google calls this the first moment of truth. After the purchase user engages with the product and with some experience he gets to the point of second moment of truth when he makes the decision whether the product satisfied his expectations. Due to increased use of digital devices and social media, today the user tends to seek info about the product in social networks prior to the purchase using his tablet, smartphone or while conducting personal chats with the friends. Only 35 percent of customers in Germany trust traditional form of advertising (Trust in Advertising- a Global Nielsen Consumer Report, 2007). 59 percent less customers state that they have bought the product because of the commercial impact and 49 percent less state that commercials are interesting. (Trusov, Bucklin & Pauvels, 2009). Dietmar Dahmen, one of the key speakers in iLive 2013 conference presented data, that 95 percent of users trust other users. This is because they believe that other users are just as much amateurs as they are and because of that they trust their experience. Because of this personal opinion of friends and relatives are more and more influential on user’s decisions.
In order to identify the success factors of Islandia / Vilnius street bars, the use of social media tools the research was conducted with the following tasks:

1. Identify, which electronic Word of Mouth tools are used by the research subjects
2. Identify, which viral marketing tools could be considered a best practice
3. Identify the success factors of Islandia / Vilnius street bars and clubs.

**Research problem**

While doing literature review, it was noticed that majority of users make their decisions during the Zero Moment of Truth. Question is how the business companies react to this knowledge.

The research was conducted using quantitative and qualitative methods. Quantitative methods were used to identify the user reaction to potential ads running through different channels and their behavior based on which channel was used in order to get the information on the service. Qualitative research was made in order to estimate the success factors that companies presume being the crucial ones for their success. The research data was acquired using Google Forms. The link for the form was distributed among the university students and graduates, who mainly belong to the target group for bars and clubs.

In 2011 approximately 83 percent of Fortune 500 companies used social media tools in order to communicate with the users. Research shows that consumers are more and more willing to trust social media tool in order to get the information on the unknown brands, and the supportive users (even if they just “Liked” your page) has impact on the stage when user evaluates the brand and makes the decision for the purchase. “The Customer Journey to Online Purchase” tool which was recently released by Google show that in case of local businesses most channels work as assist / supportive channels and using those channels to communicate your added value is essential for businesses in order to be considered as a part of the decision making process.

![Figure 2. The Customer Journey to Online Purchase](source: Pollak (2011). Ways to Win Shoppers at the Zero Moment of Truth Handbook, Google)
networks – they are interested in exceptional growth of the users in these channels, their impact on various social groups and marketing campaigns that are adapted for these target groups.

Various users get attacked by 5000 ads on the daily basis. It was researched that 76% of users in USA don’t trust ads like that and tend to avoid advertisements. (Silverman, 2007). According to Nielsen research, out of 26.486 people in 47 different countries 78% of users trust the opinion of other users (Nielsen Company, 2007). According to Dietmar Dahmen (iLive 2013 Digital Marketing Conference) this number has increased by far to 95%. White House consumer relations department research shows that 90% of unsatisfied customers will not by same brand for the second time. Every unsatisfied customer shares his unpleasant experience with at least 9 other people and 13% of these customers share it with 20 other people. On the opposite case, the satisfied customer share their positive experience with 5 other people. (Misner, 1994). 74% of people who got negative review on the product from other users tend to prefer different brands and (Millward Brown, 2005) 76% of their decision criteria are based on recommendations.

Channel preferences while communicating negative and positive experiences

In order to identify which channels are used among consumers while sharing positive and negative experience about bars, a quantitative research was conducted with 253 respondents. The participants of the survey had to evaluate the channels which they preferred in order to share positive or negative experiences in the bars or clubs. The evaluation was placed using Likert scale (1 – completely disagree, 7 – completely agree). Among the possible channels of communication the most widespread social networks (Facebook and Google Plus), e-mail, and call on the phone, blog posts and personal face to face communication were included. In case of Facebook or Google Plus channels, a separate option to share the message with just friends or leaving the comment on the bars / clubs page was added. While analyzing research data, it was observed that while shearing negative experience about bars and clubs, individual discussion is a priority channel for most of the respondents (average score – 5,68).

Women prioritize this channel more than men (average score for women is 5,76 and for men – 5,48). Second prioritized channel is a Facebook social network (average score – 3,25). Gender based, the situation is similar to the previous case where females prefer this channel more than men. Comments on homepages or blogs are preferred even less (1,76 and 1,56). The least used channels are e-mail and Google Plus social network (1,54 and 1,32).

While interpreting the data, the conclusions were made that despite the potential reach of social networks, largest part of bar and club visitors prefer sharing negative experiences while having a face-to-face discussion. While using different channels to inform one’s friends about the disliked bars and clubs, there exist statistically significant average strong correlations between sharing negative experience via e-mail and Facebook (R=0,386) and e-mail with Google Plus channel. Though the second one is stronger (R=0,401). Correlation doesn’t point out which activity (e-mail or a message on a social network) happens first, but even 82% respondents pointed out that they would never share negative experience in bars or clubs via e-mail. 75% wouldn't share positive experience as well. This data shows that e-mail as a communication channel to share experience in clubs and bars is basically an unused activity. On the other hand, social networks, especially Google Plus are also quite rarely used for sharing negative experiences. This can be related to the concept of personal image and the idea that messages on the social networks are public. There exists a strong statistically significant correlation (R=0,496) between point whether users will leave a negative comment on the Google Plus Page of the bar, and whether they will leave a negative comment on their
own blog. It can be concluded, that users engage more often with several channels in order to share information with other people. Correlation between whether the person will leave a negative comment on the Facebook site and whether he will write a comment on his blog is also statistically significant but less stronger (R=0.341). Average usage of Google Plus in Lithuania is far lower than the usage of Facebook, but the users that have Google Plus accounts tend to use more communication channels than Facebook users.

![Figure 3. Average channel preferences while communicating negative experience in bars and clubs](image)

![Figure 4. Average channel preference while communicating positive experience in bars and clubs](image)

While choosing channels that the users tend to use in order to share information about the preferred bars and clubs, the priority is given to personal communication (average – 5.66). Females prefer this channel more than men (average Likert scale score is 5.68 for females and 5.59 for men). Second most preferred channel, which is used to share information about the preferred bars – Facebook social network (average score 3.67). According to the research data females prefer this channel more than men (average score – 3.96). For men second priority is a call on the phone (average score 3.37). Females who have participated in the research are less likely to share information about preferred bars or clubs over the phone.
on their websites. The least used channels are e-mail (average score – 1.56) and Google Plus social network (average score is 1.44). These channels are least popular both among men and women. When sharing positive experience there exists a statistically significant average strong positive relation (R=0.388) between whether would share positive information about bars and clubs with their friends and whether they would share negative information about bars.

Application of cluster approach on developments of bars and clubs

One of the new theoretic approaches that haven’t been so far very often used in scientific research is the combination of cluster economy and marketing. According to A. Kamarulzaman and N. Mariati (2008), economics researchers Scott (1998), Amin and Thrift (1994), Harrison (1992), Harrison, Kelley, and Grant (1996), Markusen (1998), and Asheim (2000), while discussing cluster phenomena they haven’t clearly defined them as clusters, but rather as “local industry specializations”, “spatial economics agglomerations” and similar. It is also important to note that the units form in industrial neighborhoods and the ideas was to focus more on the new industrial locations, theoretic approaches of production, networking and lifetime learning regions. But the approval of the earlier proposed definitions was slow and at this point the best known and most widely used definition of cluster is proposed by Harvard professor M. Porter (1998) – “geographically concentrated group of companies that are interrelated and performing in a clearly defined field of activities”. Networking is also greatly important, and as noted by A. Stalgienė (2010), organizational synergy is essential for clusters.

In order to identify the relation between the clustering elements in Islandia / Vilnius streets, the survey respondents had to pint out the priorities that matter when making a decision where to party on the weekend. 253 respondents participated in the survey and the survey mostly contained Likert scale questions which had an aim to identify the main factors that help making a decision where to go out. Among the possible answers was the location of the bar, entrance fee, location of the bars in neighborhood, active attendance of peers and foreigners, variety of drinks and option of purchasing a group ticket for more than one bar at a time. While analyzing research data, it was noticed that there is a strong positive statistically significant correlation (R=0.657) between whether the bar is selected based on how often the news are updated online and whether the bar has a Facebook page. In general, it is very important for users that bars and clubs actively post updates – more of half respondents mentioned that this information channel is important while selecting places to go out. In order to estimate how the user preferences will shift towards the active information updaters online based on the increase of Facebook pages among bars and clubs, linear regression function was conducted: Y=bx+a: Y=0.637x+2.102.

There is an average strong positive correlation (R=0.365) between whether the bar is located in the old town and whether the decision is made based on how close other bars are. 60% of respondents pointed out, that while choosing a bar, a decision is made based whether it is in the old town. Research results also showed that with the increased amount of the bars in the old town there is a chance that more of them will prefer the bars which have other bars in the close neighbourhood. This explains the popularity of the Islandia / Vilnius streets which is increasing with every additional bar that opens in the neighbourhood. In order to estimate how the user priorities might shift based on the neighbouring bars and whether the bars should be in the old town, the linear regression function was conducted Y=bx+a: Y=0.350x+2.049.
Correlation between whether the bar is chosen based on the location in the old town and whether there are people queued up next to the bar is statistically significant but weak. Similar correlation is observed between whether the bar is selected based on its location in the old town and whether the person has attended the bar before. This means that there exist a positive correlation between these variables but it is weak. Therefore the tactics used by bars and clubs to limit the entrance to the bars so that it would seem that there are many people queued up outside might work in the short run, but in the long run it has no significant positive impact when customers consider where they should spend the night out.

There is an average strong correlation between whether the bar is chosen based on the entrance fee criteria and based on whether there are other bars in the neighbourhood (R=0.439). A presumption can be made that persons who care about the entrance fee are more likely to spend an evening where they can find more bars or clubs in the neighbourhood. This is an important note for bars and clubs if their target group is consisting of price-sensitive persons – these bars should offer their clients an option to select among several bars after arrival to the neighbourhood. It is quite rare in Lithuania to enter more than one club with a joined-price ticket, but this variable is quite important for the respondents – even 30% respondents would agree to pay additional fee for the possibility to enter more than one club with the same ticket.

Clustering processes of Islandia / Vilnius streets has a positive impact of the positive comments of the prior visitors. While analyzing the research data it was noticed that while choosing the bars to attend, the priority is given to those bars, which were recommended by friends. Other, less significant variables are whether the person has been before in the bar or whether he can choose from large variety of drinks from the menu. Attendance of peers, free entrance and active advertising online are even less significant factors when taking decisions whether one should attend the bar or not. The least important factors that have impact on the attendance are personalized offerings received via e-mail, SMS and whether the bar has uploaded videos to YouTube.

Conventional management states that one of the key success factors for any organization is its ability to exploit own information technology and innovation potential. Use of information technologies in the entertainment business usually stands for use of social network channels or search engine optimization. The main social networks worldwide at this point are considered to be Facebook, Twitter and YouTube. Out of all bars and clubs in Islandia / Vilnius streets none of them has Twitter accounts. Piano Man and Gringo pub bars have their Facebook pages. None of the earlier mentioned bars has its own YouTube channel. Conventional marketing approach would suggest that Gringo and Piano Man should have their Twitter accounts, YouTube channel where users could subscribe, but as daily users anyway get confronted by 5000 commercials on daily basis, (Silverman, 2007), fact that Gringo and Piano Man doesn’t have YouTube channels only pushed the users to create the content online by themselves. Instead of being consumers they turned into so-called “prosumers” who dictate what the image of the brand other users will see. This is risky, especially taken into account that the most widely used online marketing solutions usually are free anyway. During the research it was tried to estimate what is the impact of the social networks and Posts/statements of other prosumers on the social networks.

**Impact of social media channels on the choice of bars and clubs**

There is no correlation between whether the club or the bar was selected based on if it has previously uploaded a YouTube video and whether the bar was chosen based on the friends recommendations. Overall, according to the research data, videos uploaded online to
YouTube have no impact on the choice made to attend the bar or the club (even 53% of the respondent state that this channel has no impact on their choice). There is a statistically significant positive weak correlation (R=0.260) between the respondents, who make the decision based on whether they can dance in the bar and respondents who would share YouTube the videos where they would find themselves. There is also a statistically significant positive weak correlation (R=0.276) between respondents who care who make the decision based on whether they can dance in the bar and respondents who would share Facebook videos where they would be tagged. In both cases of correlations the users tend to avoid sharing personal videos over YouTube of Facebook and are likely to avoid this mean of communication. There are some minor cases like with Harlem Shake when users intentionally shared personal videos online, but in most of the cases Lithuanians are quite conservative and are willing to separate personal life from public.

The correlation between the respondents who more often attend the bars that post updates online more frequently and those who would prefer the bar which has uploaded some videos to YouTube is positive and statistically significant, but weak.

In theory Internet provides an opportunity for traders to avoid geographical barriers and to trade wherever at any time. Internet market can become more effective than conventional bricks-and-mortars market (Ghose et al. 2006). On the other hand there exist a theoretical information asymmetry which is quite important in the online market: both seller and buyer side (Dimoka and Pavlou 2008; Ghose 2009). In academic literature the lack of information and trust are considered as main variables (Pavlou et al. 2007), and the variables that are related to the strengthening of salesperson reputation are often dominant (Dellarocas, 2003). Both Piano Man and Gringo bar use social networks, have their Facebook sites, where users can leave positive and negative comments about their experience. This is a great practice which is recommended to be taken over by other bars and clubs. Research shows that even if the user doesn’t discuss about the brands, their passive support on Facebook strengthens the opinion of potential customers about the brands. During an experiment with undergraduate students, they were presented with Harvard Business case on the e-shop selling wallets. Later same students were presented with the company Facebook site which had 2000 “Likes”. If the case study strengthened student’s trust in the brand, the low quantity of “Likes” significantly reduced it. It is crucially important not only to have the accounts of social networks but also to actively create content and motivate the users to return for updates.

When identifying the factors that matter while choosing a bar or club, respondents stated that the main factors that play role are free entrance, whether they can dance in the bar and whether the club was personally recommended by friends. It is also important whether the bar is active in the Internet based social networks.

All these elopements can be achieved if the bars will be actively creating the content online, publishing it and let the users share it. One of the main recommendations on what the bars should be avoiding is sending mass e-mails and undesired short messages (SMS). These marketing strategies are treated greatly negative. There is a statistically significant average strong positive correlation (R=0.607) between respondent reaction towards promotional e-mails and promotional short messages. In both cases users prefer those bars that don’t send promotional short messages or promotional e-mails.

Interesting difference between the users of Facebook and Google Plus social networks comes with statistically significant average strong and strong correlations between the overall channel use while communicating to other persons and complaining about the service quality on the bars sites in these social networks. Correlation between whether the customers will report an unpleasant interaction in the bar over Facebook and will leave a negative post on
the bar’s Facebook site is average strong ($R=0.584$) and the correlation between the people will report an unpleasant interaction in the bar over Google Plus and will leave a negative post on the bar’s Google Plus page is strong ($R=0.788$). This difference shows that the users of Google Plus are more engaged in different means to exploit the channel than just communicating with other friends – they also interact with the social profiles of other social groups. On the other hand, despite all the level of interaction of Google Plus users, this channel is used by only 16 percent respondents and Facebook is used by 97 percent of them. The difference is more than four times.

If we returned to the Zero Moment of Truth, which happens while the user seeks information about the product and is seeking for reviews, this mainly happens while using search engines. During the survey university students pointed out that despite their gender 90% of them before purchases of expensive goods have read reviews online and looked for the opinion of the online experts or the users who have purchased the item prior to them. Large part of information was acquired while using search engines. Students were looking not only for the information on the expensive items but also for the info on the places to go at night. Among the search engines the dominant one at this point is Google. Second largest engine is YouTube and Yahoo with Microsoft Bing follow their lead. There exist a strong statistically significant negative correlation ($R=-0.512$) between the intensity of search online and the types of smartphones that the respondents had. Most active with their search online are the users of Android and iOS smartphones. The least active online searchers are the feature phone owners. Windows and Blackberry OS phone owners seek information online more often than the feature phone owners but less frequently than Android or iOS phone owners.

Correlation between respondents who attend more frequently to those bars and clubs which actively promote information about their events online and those who would prefer the bar or club which would send info about special offers is positive and statistically significant but weak. There's also a statistically significant average strong correlation between respondents who more frequently attend the bars, which actively promote their events online and those who would prefer a bar if their friends would share the special event with them over Facebook. This data lets us make recommendations that bars and clubs should actively create content online, especially on Facebook, as even 97% of respondents were Facebook users. All of the respondents were using Google, Yahoo or Microsoft Bing in order to conduct searches. Zero Moment of Truth concept states that the user starts gathering information on the product far prior to visiting the physical bricks-and-mortar store and during this visit the customer quite often has made up his mind on the product. It would be recommended for the companies to use advertising tools which allow the user to the product right at that time when the search online is conducted (using Google AdWords or Microsoft Bing Ads services). According to the opinion of the research participants, the worst and most annoying online marketing tool is e-mail because due to the filtering system, most of these e-mails get into junk folder and those that don't, create a negative opinion about those who sent this kind of e-mails. Even 75% of respondents would certainly not share their experience about bars and clubs with their friends over e-mail and nearly 50% of them for sure wouldn’t chose a bar for weekend which has informed them about it via e-mail.

The most accepted the respondents are towards the information that their friends shared with them online via social networks. Even advertising messages received from the close friends are rated not as bad as informative messages received from the unknown source.
Conclusions

With research conducted it was noted that majority of Vilnius bars and clubs have their personal websites or their own Facebook page. Despite the fact that most of the studied bars don’t use neither Google AdWords nor SEO, Islandia / Vilnius Street has become one of the most attractive places for the young generation to spend their nights.

Understanding of viral marketing techniques, clustering principles and the right use of information technologies are considered to be vital. All of this has encouraged informal intergroup communication which also strengthened because of constant Islandia / Vilnius street learning from their clients. Consumers here are considered to be prosumers. Because of constant increase of bars and clubs in the neighborhood the customers have a choice to change the bar to a more preferable one at any time and the bars can’t just ignore the customer expectations.

Research showed that at this point the customers tend to choose their bars and clubs based on the following most important factors: entrance fee, variety of the drinks, location of the bar and a possibility to dance. It is also important that the users are indifferent towards whether the bars has uploaded videos online to YouTube and most of them have never recorded videos using their smartphones and afterwards uploaded those videos to Facebook. The percentage of users who conduct search using smartphones is growing and these users care about constant information updates online. Despite the social network user growth, the main channel that users tend to trust stays personal recommendations and the least tolerated mean of channels for the bar and club advertising are e-mails and short messages (SMS) – information received over these channels is usually considered as mass-spam.

Suggestions

Bars and clubs should utilize social media marketing channels but they should understand that customers cherish their privacy and are not willing to sacrifice it for the sake of bar’s promotion.

Word of mouth is still the most used mean of communication while sharing both positive and negative experiences. Bars and clubs should utilize this channel in order to promote their business using the most trusted source at this point available – actual live friends of the potential clients.

Customers are little likely to share negative experiences online. Therefore bars and clubs should ask their customers to fill in the response forms which will be accessible by everyone online.

Price sensitive customers tend to prefer bars and clubs that cluster in the neighborhood, therefore bar and club owners should open their bars closer to the ones that are already open.

Price sensitive customers prefer bars that provide joined ticket to enter more places with extra fee, therefore bars and clubs should consider cooperating with neighbors and provide this service for the customers.

E-mail and SMS messages with offers from bars and clubs are treated as spam and therefore both bars and clubs should avoid using this channel to communicate their proposals. Users accept proposals received over Facebook much more open and are likely to follow them if their friends share the bar and club Facebook events.

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THE IMPORTANCE OF ADAPTATION AND ITS IMPLEMENTATION IN ORGANISATIONS OPERATING IN SLOVAKIA

Abstract

Purpose – Objective of the article is to characterize the level of focus of organisations operating in Slovakia on adaptation process.

Design/methodology/approach – Questionnaire research was conducted. In its processing, we applied a systemic approach and collected information was processed through the methods of analysis, synthesis and generalization.

Findings Conducted research showed that only 16% of organisations out of whole interviewed group of 340 organisations deal with comprehensive adaptation of newly hired employees at all three levels.

Research limitations/implications – Detailed analysis showed that this time equals to the time when adaptation intensity should be greatest to help reduce stress in the biggest possible extent and reduce worries of joining employees, and to secure as smoothest incorporation of "newcomer" in the team as possible, either from social or working point of view.

Practical implications – Justification of this research in practice is seen predominantly in revealing unreliable behavior of organizations in adapting new employees and also during termination of employees. Based on our results, organization managements have a possibility to compare own, present states of employee allocation to state which interviewed organizations declared, and subsequently, on this basis, to consider possibilities of their improvement. We also consider as necessary to continue with this research to enable modification, quality improvement and development of individual policies to improve and facilitate joining of new employees and managing of fire of employees on the basis of new information obtained from interviewed organizations.

Originality/Value – Set of respondents comprised 340 organisations operating in Slovakia, while the main condition posed on the organisation was the size of at least 50 employees.

Keywords: Human resources management, interviewed organisations, present state analysis, adaptation process.

Research type: research paper.

JEL classification:
E24 – Employment; Unemployment; Wages; Intergenerational Income Distribution; Aggregate Human Capital
J24 – Human Capital; Skills; Occupational Choice; Labor Productivity
O15 – Human Resources; Human Development; Income Distribution; Migration

Introduction

Human resources management represents a strategic and well-considered logical approach towards managing personnel who participates in effective fulfilment of organisational objectives individually and in teams. Key objective of human resources management is to achieve success and competitive advantage through strategic positioning of skilful and devoted employees on the basis of integrated set of cultural and personal...
procedures. Help to employees in achieving of their personal objectives is also expected, particularly if these objectives have an impact on their performance and satisfaction. Two basic tasks of human resources management result from the aforementioned (Kachaňáková et al. 2011):

Securing necessary number of employees in required professional and qualification structure and in dynamic accordance with strategic goals of the organisation – it means that human resources management has to flexibly take into account not only the number of job requirements but also their prospective changeability.

Coordination of employee behaviour with strategic goals of the organisation – it means effective working of employees, presupposing their systematic education and development as well as effective usage of their working abilities by means of adequate stimulating tools.

Ensuring of personnel means carrying out of corporate managers’ activities related to (Čambál, 2009):

- anticipation, respectively planning of necessary numbers of employees for individual positions,
- selection of employees,
- positioning and adaptation of employees.

Effective fulfilment of these tasks requires a broad range of various activities identified as human resources management functions. Objective of systematic management of these functions is to secure optimal usage of human potential and investment potential invested in them to achieve objectives of the organisation, and at the same time to create a basis for satisfaction of employees with work carried out and their motivation (Kocianová, 2010).

To gain such employees and subsequently, after they join the organisation, to keep them, the organisation has to focus on employees adaptation.

Professional literature uses terms adaptation and orientation, closely related to the adaptation process at workplace. However, not all authors, whether Slovak or foreign, hold a common approach to their content definition. Terms adaptation and orientation can be fully identified but can also be presented as two different definitions describing these terms as separate, although closely related processes.

Many authors like M. Armstrong and A. Kachaňáková, who identify terms adaptation and orientation state that term adaptation is only a term familiarised in our conditions, while term adaptation is more often denoted as orientation process in foreign literature. This author defines adaptation (orientation) as follows: “Adaptation process is a purposefully regulated process of placing a new employee at work, their familiarisation with company, workplace, working conditions and co-workers, aiming at gaining of a fully-qualified and stabilised employee.” (Kachanakova, 2010)

However, other authors define term orientation as an adaptation and educational activity. These authors include e.g. J. Koubek, M. Blašková, J. Stýblo. Koubek defines orientation as: “Orientation of employees is a thoroughly planned programme of adaptation and educational activities, specific for each kind of a position, each workplace and organisation, which are supposed to facilitate and accelerate the process of familiarisation of new employees (or employees transferring at a different workplace or position within an organisation) with their new working tasks, conditions and working and social environment, as well as necessary knowledge and skills so that their performance reached a required level as soon as possible. Its role is to shorten the period when this employee does not perform optimally, and orientates insufficiently in a new working and social environment.” (Koubek, 2006)

The author of the contribution identifies with term adaptation and characteristics presented by A. Kachaňáková in this relation.
Authors Milkovich and Boudreau specify the objective of adaptation process by the following partial objectives (Milkovich and Boudreau, 1993):

- familiarisation with work (achievement of required performance in the shortest possible time),
- establishment of relationships with co-workers (including subordinates and superiors) and understanding of the style of work in organisation,
- formation of the feeling of fellowship between employee and organisation by showing them how their work is incorporated in the framework of whole organisation.

The aforementioned implies that new employees need a creation of conditions in order for them to learn to carry out their work at a new workplace well, become familiar with the existing system of interpersonal relationships and accept values and traditions of the organisation.

Adaptation process thus concerns a two-way process of adaptation of a newly hired employee to conditions of working environment and working process organisation as well as adaptation of working conditions, working environment, working activities to needs, working interests, possibilities, ideas and aspirations of employees. (Kachaňáková et al. 2011)

The basis of adaptation is levels of flexibility and adaptability – how a person can bring about changes and how they can actively adapt to such changes. It is a continual process initiated at entering a job, and developing in various forms during whole professional carrier. It results in a certain level of coping of a person with work and its conditions, which can be expressed as adequate or inadequate working adaptability. Achieved adaptation level is obviously reflected in performance of employees and their satisfaction with work.

It is influenced by various subjective factors, e.g. motivation of employees, ability to perceive and learn, professional readiness to do the work, accustomed behaviour or habits from previous job as well as attitude to work itself. Objective factors having impact on a new employee can include working conditions, work organisation, work relationships, organisation of newly hired employee adaptation but also other extra-work impacts (Gyurák-Babeľová, 2011). These are reasons why adaptation process is difficult to formalize in a strict manner. However, it is essential to focus the adaptation process on all three levels, which require adaptation. Within the level of adaptation to work, it is necessary to ensure initial training and education of employees as part of their skills overall formation in accordance with organisational needs; and to state particular positioning of a new employee at “the right” working position. Within the level of social adaptation, it is necessary to incorporate an employee into the existing system of interpersonal relationships at work place and in organisation. Within the third level, i.e. employee adaptation to organisational culture, it is necessary to help new employees orientate in the existing social and performance standards and conform to them (Kachaňáková, et al. 2008). Effective adaptation requires understanding of processes in company, knowledge of one’s competencies and responsibilities and knowledge of competencies and responsibilities of one’s colleagues and subordinates (Urbancová, 2012).

The depth to which it is necessary to deal with individual levels should be determined on individual basis with regard to abilities of employee undergoing the adaptation process by direct senior employee, respectively mentor. Whether object of adaptation is a newly hired employee, employee rehired after a longer time, employee changing their position within the company, or it is a team of employees formed due to innovation changes implementation also has a significant impact on the depth (Tóth, 2010).

Apart from three given adaptation levels, a significant predisposition of employee stability is understanding and keeping of so called psychological contract (Vaňová, 2010). A psychological contract is a set of unwritten expectations that exist between individual
employees and their employers. As Guest noted, it is concerned with: ‘The perceptions of both parties of the employment relationship, organization and individual, of reciprocal promises and obligations implied in that relationship.’ A psychological contract is a system of beliefs that encompasses the actions employees believe are expected from them and what response they expect in return from their employer and, reciprocally, the actions employers believe are expected from them and what response they expect in return from their employees (Guest, 2007). Balanced psychological contract is inevitable for permanent, harmonic relationships between employees and organisations (Branham, 2009).

The need to focus on adaptation of employees results also from the fact that starting a new job is among the most stressful life events. Unfortunately, adaptation is the often underestimated field of human resources management, although its course has a direct and significant impact on result and success of the processes of employee recruitment and selection, which usually draw much greater attention (Stýblo, et al. 2009). However, if an employee leaves the organisation due to unmanaged adaptation it always means considerable costs for it.

Significance of these costs was confirmed also by Armstrong in his Handbook of human resource management practice: „These costs can be considerable. The cost for a professional employee could be 75 per cent of annual salary. For a support worker the cost could easily reach 50 per cent of pay. If 15 out of 100 staff paid an average of £20,000 a year leave during a year, the total cost could amount to £150,000 – 7.5 per cent of the pay roll for those staff. It is worth making an effort to reduce that cost; giving more attention to induction payoffs (Armstrong, 2009).

Need to ensure fast adaptation to all aspects of new working position thus occurs in businesses. Company can thus contribute to stability and satisfaction of employees from their first working day, decreasing fluctuation rate which often occurs within a short time after joining the company and represents unreasonable financial costs for the company (Čambal, et al. 2010).

With regard to declared importance and need to focus on employees adaptation in organisation, in literary sources as well as in practice, we conducted a research at Department of Management of School of Economics and Management in Public Administration in Bratislava aimed at finding out whether organisations operating in Slovakia realise the importance of adaptation, and whether they focus on adaptation process in practice.

**Material and methods**

Objective of the article is to present results of the research conducted in the period from February 2011 to May 2011, aimed predominantly at finding out whether and how human resources management is currently implemented in organisations operating in Slovakia. Regarding extent of the given issue, research was divided into ten partial objectives, while one of them was to identify whether organisations realise the importance of adaptation and whether they focus on adaptation process in practice. This article is going to deal with results of this partial objective.

Set of respondents comprised 340 organisations operating in Slovakia, while the main condition posed on the organisation was the size of at least 50 employees. Overall size structure of interviewed organisations is given in Table 1., implying that organisations with the number of employees between 50 and 300 were most represented in the research.
Within research aimed at finding out the level of organisations’ focus on employees adaptation we were particularly interested in whether organisations had established a system of adapting new employees, also finding out whether they realise the importance of adaptation. In positively answering organisations we were subsequently interested in whether they deal with adaptation in its whole depth, i.e. that they focus not only on working adaptation but also on social adaptation as well as adaptation to organisational culture. With regard to the fact that social adaptation is focused predominantly on interpersonal relationships establishment, where communication is inevitable, we aimed the research at finding out what methods are normally adopted in communication of management towards employees and vice versa, and how comments are normally submitted in organisation. Regarding adaptation to organisational culture, we were interested in whether organisation had elaborated an organisational culture strategy based on which employee in adaptation process can better orientate in set values, norms and concepts preferred in their company.

Systemic approach was applied for research processing, and obtained information was processed through methods of induction, deduction, analysis, synthesis and generalisation. Analysing present state when organisations operating in Slovakia realise the importance of adaptation and its implementation in practice, questionnaire research was applied, and statistic methods were used for its processing. Majority of obtained values was expressed in per cents upon the results summarisation. Comparative method was also used in evaluating the present state, when organisations realising the need to deal with employees adaptation are compared to organisations which do not deal with employees adaptation at all.

**Results and Discussion**

Within the research, we were primarily interested in whether organisations had established a system of new employees adaptation. However, results showed that up to 33 % of them had no adaptation system (Figure 1.). The given implied that these organisations did not realise the importance of adaptation.
While answers to the first question sounded quite negative, answers to question: “Please, mark what is included in adaptation process of new employees in your organisation” sounded even more negative, as you can see in Figure 2. Research showed that organisations declaring their concern with adaptation actually deal with it only at the level of working adaptation.

![Figure 2. What is adaptation process in interviewed organisations focused on?](image)

To find out how many organisations out of those declaring their concern with adaptation deal with it at all three levels, we used cross reference Table 2., finding out which organisations deal with social adaptation as well as adaptation to organisational culture, since all organisations declared that they dealt with working adaptation. Results showed that only 24 % of organisations implementing adaptation deal with adaptation at all three levels. This subsequently implies that out of all 340 respondents, only 16 % of organisations deal with comprehensive adaptation of newly hired employees.

**Table 2. Cross reference comparison of organisations dealing with social adaptation and adaptation to organisational culture**

<table>
<thead>
<tr>
<th>Adaptation process involves:</th>
<th>Adaptation to organisational culture</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>no</td>
</tr>
<tr>
<td>Social adaptation</td>
<td></td>
</tr>
<tr>
<td>no</td>
<td>52</td>
</tr>
<tr>
<td>yes</td>
<td>10</td>
</tr>
</tbody>
</table>

With regard to insufficient focus of organisations on social adaptation, representing less than 25 % in the analysis of all interviewed organisations, we were interested in whether there are significant insufficiencies in social sphere in interviewed organisations. That is why we were finding out how communication is carried out in organisations, since it is crucial in interpersonal relationships establishment. We gradually analysed which methods are normally used in communication of management towards employees and vice versa, how comments are normally submitted in organisations. The analysis showed (Table 3.) that communication of key information from management to employees is carried out quite intensively, while two facts sound very positive: communication methods using verbal communication represent more than 70 %, while at least one of them was marked by almost all organisations.
Table 3. Methods used to communicate key information to employees

<table>
<thead>
<tr>
<th>Methods used to communicate key information to employees</th>
<th>% of method usage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Team meetings, meetings</td>
<td>73</td>
</tr>
<tr>
<td>Verbally, directly to employees</td>
<td>71</td>
</tr>
<tr>
<td>Electronic communication</td>
<td>54</td>
</tr>
<tr>
<td>In writing, directly to employees</td>
<td>42</td>
</tr>
<tr>
<td>Through employee representative or a union authority</td>
<td>27</td>
</tr>
</tbody>
</table>

In analysing communication from employees to management we found out that in almost 70 % of organisations employees normally communicate with their direct superior (Table 4.), this communication was most often marked in combination with direct communication to management and communication through survey. More than a fourth of organisations uses communication through a mediator. The given implies that communication from employees to management is carried out actively, however not in such an extent as communication from management to employees.

Table 4. Methods used to communicate information from employees to management

<table>
<thead>
<tr>
<th>Methods used to communicate information from employees to management</th>
<th>% method usage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Through direct superior</td>
<td>69</td>
</tr>
<tr>
<td>Directly to management</td>
<td>45</td>
</tr>
<tr>
<td>Through a personnel employee</td>
<td>33</td>
</tr>
<tr>
<td>Through an employee representative</td>
<td>25</td>
</tr>
<tr>
<td>Through survey</td>
<td>20</td>
</tr>
<tr>
<td>Through an anonym</td>
<td>13</td>
</tr>
</tbody>
</table>

Table 5. Most often way of comments submission in interviewed organisations

<table>
<thead>
<tr>
<th>Comments are most often submitted:</th>
<th>% of organisations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outright communication with superiors</td>
<td>35</td>
</tr>
<tr>
<td>There is room for comments at departmental meetings</td>
<td>31</td>
</tr>
<tr>
<td>There is room for comments at management meetings</td>
<td>17</td>
</tr>
<tr>
<td>Comments are submitted anonymously</td>
<td>10</td>
</tr>
<tr>
<td>Comments are not submitted, employees discuss them only among themselves</td>
<td>7</td>
</tr>
</tbody>
</table>
With regard to the fact that organisations focus very little on organisational culture in new employees adaptation, representing 26% in analysing all interviewed organisations, we were interested in whether organisations had elaborated an organisational culture strategy based on which employees in adaptation process can better orientate in set values, norms and concepts preferred in the organisation. Analysis showed that almost 58% of interviewed organisations have elaborated organisational culture strategy in writing. We therefore consider organisations which have elaborated a strategy but do not implement it in employees’ adaptation to be unreliable. Organisations acting in this manner represent more than 30% in our research, which can be evaluated as a very high number of organisations acting unreliably; and although they have materials, they do not implement them in such an important function of human resources management as employees’ adaptation.

The aforementioned results also confirmed results of the research conducted at the turn of 2005 and 2006 at Polish and Slovak universities, reporting that adaptation in practice was not at all carried out appropriately. (The research was focused on getting information on positive and negative tendencies in the key management processes of highly qualified human potential. 950 respondents – 498 women and 452 men actively participated in the research. The set of respondents included 782 employees and 168 university managers.) Evaluation of the respective question implied that only 36.57% of interviewed highly qualified employees consider adaptation processes to be appropriately carried out. These respondents reported that manager tries to help a new employee, give them advice and encourage their trust. Table 6 shows facts suggesting that opinions of employees and managers regarding actual course of adaptation significantly differ. Contrary to 36.56% of employees, up to 62.5% of managers report that they provide absolutely full attention and help to their new employees in adaptation.

### Table 6 Difference of opinions of employees and managers regarding actually adopted way of adaptation of new highly qualified employees

<table>
<thead>
<tr>
<th>Actually adopted way of adaptation</th>
<th>Statements of employees in %</th>
<th>Statements of managers in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full engagement of superior manager and provision of help to a new employee</td>
<td>36.57</td>
<td>62.50</td>
</tr>
<tr>
<td>Engagement of manager only in case of request for help by a new employee</td>
<td>49.49</td>
<td>31.55</td>
</tr>
<tr>
<td>Total non-engagement of managers, new employee has to deal with problems on their own</td>
<td>13.94</td>
<td>5.95</td>
</tr>
</tbody>
</table>

The aforementioned results suggest that practical implementation of adaptation of new professionals shows significant insufficiencies. These insufficiencies have a negative impact on motivation of not only new but also based employees (Blašková, 2011; Stasiak – Betlejewska, Piaceski, 2011). It is therefore really necessary that adaptation processes were enhanced and new employees were not left on their own and without adequate support and help at the beginning of their working lives (Bíštáková 2009).

Also the given results point out that managements of organisations operating in Slovakia have not sufficiently realised the importance of adaptation of new employees so far in spite of the fact that the importance and justification of adaptation is beyond doubt. Armstrong also emphasised the importance of adaptation, researching the extent of employees staying in organisation during the first five years. His research showed that 50% of hired employees leave the organisation within this time, while this number is the highest in the first year, representing 34% out of all left employees. Detailed analysis showed that the absolutely
highest number of left employees occurs during first three months after joining the organisation. This time equals to the time when adaptation intensity should be greatest to help reduce stress in the biggest possible extent and reduce worries of joining employees, and to secure as smoothest incorporation of “newcomer” in the team as possible, either from social or working point of view.

Conclusions

On the basis of research conducted in organisations operating in Slovakia, focused on finding out whether organisations realise the importance of adaptation and whether they focus on the adaptation process in practice, we found out that only 67 % of organisations had established a system of adapting new employees. While focusing on working adaptation was found out in all of these organisations, results were much worse regarding focusing on social adaptation and adaptation to organisational culture. Only 34 % of organisations declaring interest in adaptation deal with social adaptation, and only 38 % deal with adaptation to organisational culture. Conducted research subsequently showed that only 16 % of organisations out of whole interviewed group of 340 organisations deal with comprehensive adaptation of newly hired employees at all three levels.

However, when we subsequently focused on communication in organisations as a key feature of creating social, respectively interpersonal relationships, we reached a conclusion that organisations do not state any critical problems within information flow from management to employees. We therefore assume that if organisations do not focus on interpersonal relationships within adaptation, it results from inconsistency, respectively a mistake in elaboration, or from the fact that manual of individual adaptation steps was not elaborated in interviewed organisations.

Justification of this research in practice is seen predominantly in revealing unreliable behaviour of organisations in adapting new employees. Based on our results, organisation managements have a possibility to compare own, present states of employee adaptation to state which interviewed organisations declared, and subsequently, on this basis, to consider possibilities of their improvement. We also consider as necessary to continue with this research to enable modification, quality improvement and development of individual policies to improve and facilitate joining of new employees on the basis of new information obtained from interviewed organisations.

Suggestions

Analysing, respectively searching for reasons why organisations deal with adaptation to organisational culture in such a small extent were focused on finding out whether organisation had elaborated an organisational culture strategy. Analysis showed that almost 58 % of organisations have elaborated such a strategy, however more than 30 % do not implement it in adaptation. It is necessary for organisations to improve also this sphere and include adaptation to organisational culture in current manuals, respectively elaborate new manuals for adaptation of newly hired employees, taking into account all three adaptation levels.

Comprehensive and reasonable preparation of adaptation process and its thorough implementation is mainly substantiated for the following reasons (Čambál 2009):

- effectiveness increase in the process of personnel recruitment for carrying out of business prospects in a company (faster incorporation),
• decrease in losses due to fluctuation of newly hired employees (during 1 to 6 months), which can represent SKK 10,000 - 100,000 at 2 – 4 % fluctuation
• enhancement and acceleration of the adaptation process of new employees at new positions.

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Ing. Katarína Stachová, PhD. Education - Slovak University of Technology Bratislava. She is currently working for School of Economics and Management in Public Administration in Bratislava, the Department of Management, where she focuses on human resource management, organizational culture and management. Co-author of scientific monograph Human Resources Management in Organizations Operating in Slovakia and textbook Organizational Culture Practice and author of Personnel Management Practice.
THE COMPETITIVENESS OF HUNGARIAN AGRI-FOOD PRODUCTS ON THE MARKET OF THE EUROPEAN UNION

Abstract

Purpose – The aim of the research paper is to evaluate the competitiveness of the Hungarian agri-food product groups on the market of European Union.

Methodology – I evaluate the competitiveness of Hungarian agri-food products by Constant Market Share method and by quality competitiveness. The data come from the European Commission database (in COMEXT system). Trade flows are aggregated according to the product (main groups of SITC classification) and according to the partner (geo-economic areas). In my survey „the agri-food” refers to food and live animals; beverages and tobacco (SITC 0 and 1).

Findings – The value of the Hungarian food export in the EU market increased by €1.930 million by the second period of the examined period (2009-2011) compared to the base period (2004-2006). On the basis of the Constant Market Share the surplus can be divided into its component in respect of product groups as follows. The market size effect was €666 million, which represents 34.5%. Similarly to the pre-accession period – albeit to a lesser extent – the market size effect was significant. On the other hand, the structural effect amounted to only €73 million which contributed to the export growth only 3.8%. Therefore we can state that the Hungarian food export concentrated on products for which EU demand grew at an average rate. The competitiveness effect was significant and presented 61.7% of the total profit with a value of €1190 million. On the market of European Union the share of groups of fish, crustaceans, molluscs preparation and that of the coffee, tea, cocoa, spices slightly decreased from the base period to 2009-2011. Meanwhile the average export price increased. In case of all other product groups the Hungarian market share grew on the market of European Union. The share of a part of these product groups rose meanwhile the average export price dropped. These product groups are: live animals; meat, and meat preparation; dairy products, eggs; feeding stuff for animals and the beverages. However, in case of some product groups the market share grew despite the increasing export price. These are the groups of cereals and cereal preparation; vegetables and fruits; sugar, sugar preparation and honey; miscellaneous edible products and preparations; the tobacco and tobacco manufactures.

Research limitations/implications – In this paper I analyse the development of the Hungarian agri-food export on the market of EU since the EU accession. I outline the structure of the Hungarian agri-food export trade by products. Then I evaluate the components of Hungarian agri-food export growth on the basis of Constant Market Share (CMS) model. Finally, I detect the market positions of Hungarian agri-food product groups on the market of EU.

Practical implications The results may help the policy-makers to take the proper measures to improve the competitiveness of Hungarian agri-food products.

Originality/Value – The theoretical concept developed in this study, and the conclusions drawn from empirical research. The basic question is how Hungary could improve the external competitiveness of agri-food products.

Keywords: agri-food export, market share, CMS modell, quality competitiveness, European Union

Research type: research paper

Jel classification:
F14 - Empirical Studies of Trade
F15 - Economic Integration
O17 - Formal and Informal Sectors; Shadow Economy; Institutional Arrangements
O18 - Urban, Rural, Regional, and Transportation Analysis; Housing; Infrastructure
Introduction

Due to its favourable natural endowments Hungary is capable of producing food products with excellent quality valuable for the market and competitive in foreign markets. Food industry is also a significant economic sector of Hungary with great traditions. (Magda 2008, 34) The sector also has a key role in employment. The food industry has a share of about 2% in the GDP. Other activities (artificial fertilizer and pesticide production, agricultural machinery and component production and distribution, as well as agricultural trade, transportation, education, research, etc.) represent another 10% in the GDP thus agribusiness has a share of about 12% in the GDP. (Kapronczai 2011) (Kerek and Marselek 2009)

Table 1. The state of the agri-food sector in the Hungarian economy

<table>
<thead>
<tr>
<th>Year</th>
<th>The ratio of agriculture</th>
<th>The ratio of the food industry</th>
<th>Food, beverage, tobacco products</th>
<th>Consumer price index</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>In employment b %.</td>
<td>In the production of GDP</td>
<td>In investment</td>
<td>In employment b %.</td>
</tr>
<tr>
<td></td>
<td>current price, %</td>
<td></td>
<td></td>
<td>%</td>
</tr>
<tr>
<td>2004</td>
<td>5,3</td>
<td>4,1</td>
<td>4,3</td>
<td>3,6</td>
</tr>
<tr>
<td>2005</td>
<td>5,0</td>
<td>3,6</td>
<td>4,5</td>
<td>3,6</td>
</tr>
<tr>
<td>2006</td>
<td>4,9</td>
<td>3,5</td>
<td>4,1</td>
<td>3,6</td>
</tr>
<tr>
<td>2007</td>
<td>4,7</td>
<td>3,6</td>
<td>3,7</td>
<td>3,4</td>
</tr>
<tr>
<td>2008</td>
<td>4,5</td>
<td>3,7</td>
<td>4,6</td>
<td>3,3</td>
</tr>
<tr>
<td>2009</td>
<td>4,6</td>
<td>2,5</td>
<td>5,6</td>
<td>3,5</td>
</tr>
<tr>
<td>2010</td>
<td>4,5</td>
<td>2,9</td>
<td>4,8</td>
<td>3,5</td>
</tr>
<tr>
<td>2011</td>
<td>4,9</td>
<td>4,6</td>
<td>5,6</td>
<td>3,3</td>
</tr>
</tbody>
</table>

Source: Hungarian Statistical Office 2012

The term competitiveness is commonly used in the economic research and also in public debate. Competitiveness can be defined as the ability to face competition and to be successful. Competitiveness would then be the ability to sell products that meet demand requirements (price, quality, quantity) and, ensure profits over time that enable the firm to thrive. Competitiveness is a relative measure. It is, however, a broad concept and there is no agreement on how to define it, nor how to measure it precisely. (Latruffe 2010). The competitiveness of estimation results show that the connection between quality and agri-food export performance clearly depends on the product category and country (but not on the period) and differs, but not in all cases, according to the export destination. (Fischer 2007) Van Duren and Brown Edison (1995) defined the competitiveness the combination of profitability and the increase or maintenance of market share is an appropriate indicator of competitiveness, at any level of aggregation: the nation’s economy as a whole, a sector or an individual firm. However, the increase of market does not necessarily follow the improvement of competitiveness. Chen and Duan (1999) stated that Canada was able to increase their agri-
food exports to Asia. The increase was mainly attributed to the rapid growth of the Asian agri-food imports during the period (1980-1997).

The European Union is a common market. After the accession to the EU the trade has become simpler and cheaper because of eliminating the trade barriers. The trade cost even now modify the competitiveness of agri-food products. Anderson and van Wincoop (2004) stated that the trade costs are large, even aside from trade-policy barriers and even between apparently highly integrated economies. Trade costs have economically sensible magnitudes and patterns across countries and regions and across goods.

The trust also has an important role in the international trade of agri-food products. The trust between trading partners lowers transaction costs and may therefore enhance trade. The empirical analysis of den Butter, and Mosch (2005) shows that more trust leads to more trade so that part of the “mystery of missing trade” can be attributed to the lack of trust between trading partners, e.g. because of cultural differences and habits, or because of insufficient information on product quality and reliability.

In my article I applied the CMS technique and quality competitiveness for evaluating the Hungarian agri-food products. Constant market shares (CMS) analysis is a technique for analysing the patterns of trade and trends for the purpose of policy formulation. The CMS technique is intended to shed light on the factors underlying a country’s comparative export performance. Based on an identity, the method is first and foremost a descriptive tool indicating whether or not a country’s comparative export performance reflects changing market shares or total market growth. (Ahmadi Esfahani 2006)

Tyszinski (1951) was the first author who did separate the impact of composition exports and competitiveness on export performance, but precise relationship between the composition of exports and competitiveness remained unclear. Later theoretical foundation is synthesised by Fagerberg and Sollie (1987).

Chen and Duan (2000) defined two levels of CMS-model decomposition. First-level decomposition contains the structural effect, the residual effect and the second-order effect. The second-level decomposition is detailed distribution of the first-level distribution. The second-level decomposition includes: the growth effect, market effect, commodity effect, interaction effect, pure residual effect, static structural residual effect, pure second-order effect and dynamic structural residual effect.

The most important problems are that the CMS modell estimates are very sensitive to choice of base year, level of commodity aggregation and definition of reference market. (Jepma 1986)

**Methodology**

The data come from the European Commission database (in COMEXT system). Trade flows are aggregated according to the product (main groups of SITC classification) and according to the partner (geo-economic areas). The Standard international trade classification, abbreviated as SITC, is a product classification of the United Nations used for external trade statistics (export and import values and volumes of goods), allowing for international comparisons of commodities and manufactured goods. In my survey “the agri-food” refers to food and live animals; beverages and tobacco (SITC 0 and 1).

**The Constant market shares (CMS) analysis**

The basic presumption underlying the Constant Market Share (CMS) model is that the share of a country in a market should remain constant given the same level of
competitiveness. Any difference between the actual change in the exports of the focus country and the sum of the market competitors should be caused by a change in export composition or competitiveness. The CMS analysis is a technique for analysing trading patterns and trends for the purpose of policy formulation. (Fertő 2004, 75-76)

The formal decomposition of export change

The three components of the market share are calculated with the expression:

$$\Delta X_i = \sum_{j} \Delta x_{ij} = \sum_{j} x_{ij} (\Delta M_j / M_j) + \sum_{j} x_{ij} [(\Delta M_j / M_j) - (\Delta M / M)] + \sum_{j} x_{ij} [(\Delta x_{ij} / x_{ij}) - (\Delta M_j / M_j)]$$

where: x represents the export, i is a country, j is a commodity, M is the demand of external market (the import), Xij is the export of country’s commodity, Mj is the total import of commodity.

The first part of equation shows the market size effect: $\sum_{ij} x_{ij} (\Delta M / M)$

The second part is the structural effect: $\sum_{j} x_{ij} [(\Delta M_j / M_j) - (\Delta M / M)]$

The third part is the competitiveness effect (residual part):

$\sum_{j} x_{ij} [(\Delta x_{ij} / x_{ij}) - (\Delta M_j / M_j)]$

in the CMS model. (Oblath and Pénzes 2004, 33-62)

Quality competitiveness

In the literature of economics the so-called quality marketability is defined as the combination of the relative price change and the relative market share changes. The essence of the method is shown in table 2.

Table 2. Marketability matrix

<table>
<thead>
<tr>
<th>Relative export price change</th>
<th>Market share change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unmarketable export (Decreasing market share)</td>
<td>Marketable export (Increasing market share)</td>
</tr>
<tr>
<td>Increasing relative export price</td>
<td>Price unmarketable</td>
</tr>
<tr>
<td>Decreasing relative export price</td>
<td>Quality unmarketable</td>
</tr>
</tbody>
</table>

Source: Oblath – Pénzes 2004

The table puts the products and the groups of products into the coordinates of market share and export change. Obviously the so-called quality marketable products are in the upper right quadrant, which could increase the export in spite of increasing export price. The marketable products are in the bottom right quadrant, they could increase their export by relatively decreasing export price

Scientific work

Analysing the foreign market distribution of the Hungarian food export we can establish an important fact beside the tendency of growth. Since the EU accession the export did not only grow – disregarding the setback in 2009 – but also it has increased its presence in
European Union markets (EU intra) compared to non-EU markets (EU extra). On the other hand the value of the EU27-extra did not decrease, rather it grew somewhat. (Figure 1)

![Figure 1. The development of the Hungarian food export (2004-2011)]

Hungary is one of the few countries that have been able to produce a positive food trade balance during the whole period. Similarly to Slovakia food export followed a similar trend like food import (Rajcanoiva 2012, 25-43). For two years after the accession the Hungarian foreign trade of food declined somewhat but since 2007 – disregarding 2009 – the situation has been improving continuously.

Thus the positive balance of the foreign trade of the food industry still have an important role in the stabilisation of the balance of the foreign trade of the national economy. The food industry in Hungary is traditionally a net foreign exchange importer because the value of the export of food industry products is higher than the value of the raw materials and manufactured goods that are necessary for production. The food industry has been ensuring for the national economy the contribution of foreign exchange obtained from export towards buying means of production and consumer goods for decades. It is a remarkable fact, however, that the share of the food industry of the national export is now a “mere” 7-8% compared to 20% (in the 1980s).

The structure of the Hungarian food trade on the market of the European Union since the accession

The value of the Hungarian food export doubled from the examined first period (2004-2006) to the second one (2009-2011) on the market of the European Union. It increased from 2,1 billion euro to 4,1 billion euro. The export share of meat and meat preparations declined from 23% (2004-2006) down to 17,5% (2009-2011) in the Hungarian food export. The value of meat and meat preparations increased from 502 million euro to 720 million euro. However, the share of cereals and cereal preparations grew from 18% up to 26%. The importance of fruits and vegetables remained considerable, but it slightly diminished (from 17,5% to 14%). Besides, the notable product groups are feeding stuff for animals (9%), sugar, sugar preparations, honey (7%), other edible products and preparations (7%), and coffee, tea, cocoa, species (5%). (Table 3)
### Table 3. Structure of the Hungarian food export trade by products (2004-2011)

<table>
<thead>
<tr>
<th>Product groups</th>
<th>Food export (thousand euro) 2004-2006) mean</th>
<th>Share of Hungarian export from total import of EU</th>
<th>Share from Hungarian export</th>
<th>Food export (thousand euro) 2009-2011) mean</th>
<th>Share of Hungarian export from total import of EU</th>
<th>Share from Hungarian export</th>
</tr>
</thead>
<tbody>
<tr>
<td>Live animals</td>
<td>98 945</td>
<td>0,0186</td>
<td>4,59%</td>
<td>144 668</td>
<td>0,0226</td>
<td>3,54%</td>
</tr>
<tr>
<td>Meat, and meat preparation</td>
<td>502 247</td>
<td>0,0173</td>
<td>23,31%</td>
<td>720 755</td>
<td>0,0190</td>
<td>17,64%</td>
</tr>
<tr>
<td>Dairy products eggs</td>
<td>65 238</td>
<td>0,0030</td>
<td>3,03%</td>
<td>219 392</td>
<td>0,0078</td>
<td>5,37%</td>
</tr>
<tr>
<td>Fish, crustaceans molluscs reparation</td>
<td>7 343</td>
<td>0,0003</td>
<td>0,34%</td>
<td>5 354</td>
<td>0,0002</td>
<td>0,13%</td>
</tr>
<tr>
<td>Cereals and cereal preparation</td>
<td>389 849</td>
<td>0,0193</td>
<td>18,09%</td>
<td>1 063 312</td>
<td>0,0363</td>
<td>26,03%</td>
</tr>
<tr>
<td>Vegetables and fruits</td>
<td>376 519</td>
<td>0,0070</td>
<td>17,47%</td>
<td>568 500</td>
<td>0,0087</td>
<td>13,92%</td>
</tr>
<tr>
<td>Sugar, sugar preparation and honey</td>
<td>142 952</td>
<td>0,0175</td>
<td>6,63%</td>
<td>280 201</td>
<td>0,0278</td>
<td>6,86%</td>
</tr>
<tr>
<td>Coffee, tea, cocoa, spices</td>
<td>114 355</td>
<td>0,0063</td>
<td>5,31%</td>
<td>176 485</td>
<td>0,0059</td>
<td>4,32%</td>
</tr>
<tr>
<td>Feeding stuff for animals</td>
<td>213 030</td>
<td>0,0155</td>
<td>9,89%</td>
<td>341 134</td>
<td>0,0172</td>
<td>8,35%</td>
</tr>
<tr>
<td>Miscellaneous edible products and preparation</td>
<td>139 397</td>
<td>0,0084</td>
<td>6,47%</td>
<td>351 820</td>
<td>0,0145</td>
<td>8,61%</td>
</tr>
<tr>
<td>Beverages</td>
<td>83 239</td>
<td>0,0038</td>
<td>3,86%</td>
<td>144 649</td>
<td>0,0055</td>
<td>3,54%</td>
</tr>
<tr>
<td>Tobacco and tobacco manufactures</td>
<td>17 551</td>
<td>0,0016</td>
<td>0,81%</td>
<td>26 534</td>
<td>0,0021</td>
<td>0,65%</td>
</tr>
<tr>
<td>Adjustments</td>
<td>4 093</td>
<td>0,0078</td>
<td>0,19%</td>
<td>42 010</td>
<td>0,0410</td>
<td>1,03%</td>
</tr>
<tr>
<td>Total</td>
<td>2 154 758</td>
<td>0,0087</td>
<td>100 %</td>
<td>4 084 814</td>
<td>0,0126</td>
<td>100 %</td>
</tr>
</tbody>
</table>

Source: own calculation based on COMEXT data base

The evaluation of the Hungarian food export on the basis of Constant Market Share analysis

The value of the Hungarian food export in the EU market increased by €1.930 million by the second period of the examined period (2009-2011) compared to the base period (2004-2006). On the basis of the Constant Market Share the surplus can be divided into its
component in respect of product groups as follows. The market size effect was €666 million, which represents 34.5%. Similarly to the pre-accession period – albeit to a lesser extent – the market size effect was significant. On the other hand, the structural effect amounted to only €73 million which contributed to the export growth only 3.8%. Therefore we can state that the Hungarian food export concentrated on products for which EU demand grew at an average rate. The competitiveness effect was significant and presented 61.7% of the total profit with a value of €1190 million. (Table 4)

Table 4. The composition of the growth of the Hungarian agri-food export by means of CMS model

<table>
<thead>
<tr>
<th>Components of CMS model</th>
<th>Value (euro)</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market size effect</td>
<td>665 973 115</td>
<td>34,51</td>
</tr>
<tr>
<td>Structural effect</td>
<td>73 408 922</td>
<td>3,80</td>
</tr>
<tr>
<td>Competitiveness effect</td>
<td>1 190 675 324</td>
<td>61,69</td>
</tr>
<tr>
<td>Total gain</td>
<td>1 930 057 362</td>
<td>100,00</td>
</tr>
</tbody>
</table>

Source: own calculation on COMEXT database

Table 5 presents the composition of the growth of the Hungarian agri-food export by product groups. The market size effect was positive in all cases. The value of the competitiveness effect was negative only in the case of the product groups of Fish, crustaceans molluscs preparation; Coffee, tea, cocoa, and spices.

Table 5. Results of CMS model for the agri-food export of Hungary (euro)

<table>
<thead>
<tr>
<th>Product group</th>
<th>Market size effect</th>
<th>Structural effect</th>
<th>Competitiveness effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Live animals</td>
<td>9 474 054</td>
<td>63 252 573</td>
<td>25 526 966</td>
</tr>
<tr>
<td>Meat, and meat preparation</td>
<td>77 793 536</td>
<td>324 012 493</td>
<td>64 783 305</td>
</tr>
<tr>
<td>Dairy products eggs</td>
<td>53 013 982</td>
<td>-161 249 710</td>
<td>136 096 782</td>
</tr>
<tr>
<td>Fish, crustaceans molluscs preparation</td>
<td>48 522 532</td>
<td>-267 306 587</td>
<td>-3 553 136</td>
</tr>
<tr>
<td>Cereals and cereal preparation</td>
<td>79 884 869</td>
<td>310 501 908</td>
<td>496 720 025</td>
</tr>
<tr>
<td>Vegetables and fruits</td>
<td>101 099 905</td>
<td>-114 200 522</td>
<td>111 079 835</td>
</tr>
<tr>
<td>Sugar, sugar preparation and honey</td>
<td>16 514 882</td>
<td>87 839 243</td>
<td>104 267 201</td>
</tr>
<tr>
<td>Coffee, tea, cocoa, spices</td>
<td>103 874 838</td>
<td>-74 258 560</td>
<td>-12 435 903</td>
</tr>
<tr>
<td>Feeding stuff for animals</td>
<td>53 564 390</td>
<td>134 997 429</td>
<td>32 818 271</td>
</tr>
<tr>
<td>Miscellaneous edible products and preparation</td>
<td>65 976 894</td>
<td>-8 942 258</td>
<td>149 235 065</td>
</tr>
<tr>
<td>Beverages</td>
<td>34 997 593</td>
<td>-129 569 054</td>
<td>46 309 618</td>
</tr>
</tbody>
</table>

Table continuation on the next page
Investigating the export of the Hungarian agricultural and food products (HS-24) by CMS model for the period 2001-2003 and 2008-2010 Juhász and Hartmut (2012, 18-19) stated that the value of export change was €1579 million and the market size effect, the structural effect and the competitiveness effect were all positive.

Market positions of Hungarian food product groups on the market of EU

On the market of European Union the share of groups of fish, crustaceans, molluscs preparation and that of the coffee, tea, cocoa, spices slightly decreased from the base period to 2009-2011. Meanwhile the average export price increased. In case of all other product groups the Hungarian market share grew on the of European Union. The share of a part of these product groups rose meanwhile the average export price dropped. These product groups are: live animals; meat, and meat preparation; dairy products, eggs; feeding stuff for animals and the beverages. However, in case of some product groups the market share grew despite the increasing export price. These are the groups of cereals and cereal preparation; vegetables and fruits; sugar, sugar preparation and honey; miscellaneous edible products and preparations; the tobacco and tobacco manufactures. (Figure 2)

Figure 2. Market positions of Hungarian food product groups on the market of EU

A Live animals, B Meat, and meat preparation, C Dairy products, eggs, D Fish, crustaceans, molluscs preparation, E Cereals and cereal preparation, F Vegetables and fruits, G Sugar, sugar preparation and honey, H Coffee, tea, cocoa, spices, I Feeding stuff for animals, J Miscellaneous edible products and preparations, K Beverages, L Tobacco and tobacco manufactures
Conclusions

1. The positive balance of the foreign trade of the food industry still have an important role in the stabilisation of the balance of the foreign trade of the Hungarian economy. The value of the Hungarian food export doubled from the examined first period (2004-2006) to the second one (2009-2011) on the market of the European Union. It increased from 2,1 billion euro to 4,1 billion euro.

2. The great part of the food product groups improved the share on the market of European Union. Some of them were under increasing and some of them under decreasing export price change.

3. Despite the positive fact that some product groups are competitive on the market of EU, however most of them were low-added value products (e.g. live animals, cereals).

4. In Hungary the importance of the crop production sector, which produces lower added value, has increased at the expense of animal husbandry. Thus most of the added value is created in the production sector and not in the processing industry, which characterises most Western European countries.

Suggestions

Despite the increasing food export there is a lot to do to improve the competitiveness of Hungarian foods.

- The trade balance may be improved by producing own-brand food products.
- Common marketing must be further developed, whereas exporting to various countries not yet preferred could improve Hungarian trade balance. That would require targeted programs to further establishment of trade relations with these countries.
- Hungary should continue to facilitate the investments of foreign companies and still has to improve its performance in respect of infrastructure developments.
- The governmental policies should promote also the small and medium-sized Hungarian businesses.
- Governmental interventions (e.g. in improving the labour market situation of the sector) have a key role in the enhancement of competitiveness.
- Besides, cooperation among professional organisations must also be created as this is the only way to adequately react to political challenges (CAP-reform, trade liberalisation, agricultural budget, etc.).

References

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COLLECTIVE DECISIONS’ FEATURES IN FACE-TO-FACE AND NETWORKED DECISION MAKING PROCESS

Abstract

Purpose – to reveal face-to-face and networked collective decision process’ features; their advantages and disadvantages and to compare their relation with sex, age and economical status of respondents.

Design/methodology/approach – qualitative inquiry data analysis.

Findings – main spheres of collective decision features are set; face-to-face and networked collective decision making processes’ features are revealed, one hypothesis confirmed, two hypothesis negated, advantages and disadvantages of face-to-face and networked collective decision making processes are evaluated.

Research limitations/implications – analysis was carried out on Lithuanian basis. Pilot review showed there is significance in carrying out analogue research in international scale.

Practical implications – research helps understand problems that occur / might occur in the process of distant communication using social technologies. Understanding face-to-face and networked decision making processes allows choosing appropriate for the situation decision making mean. Understanding decision process features in relation with sex, gives possibility to manage it in wishful direction depending on the diversity of sexes in team.

Originality/Value – research analyses and compares collective decisions’ features in face-to-face and networked cases. Feature dependence on sex is analyzed.

Keywords: collective decisions, networked decisions, decision making process features, social technologies.

Research type: research paper.

JEL classification: D7 - Analysis of Collective Decision-Making

Introduction

Modern society lives surrounded by an immeasurable amount of information – very little is unreachable with little ‘surfing’ on the Internet. Everyday life is hardly imaginable without e-mail, online news reports or text editing software. As various software programs go deeper and deeper in to our lives and has gone to a situation where none of managerial or administrative work is possible without them – social technologies emerge. They are becoming the preferred method of communication of new generations and communication styles are evolving into a more collaborative approach (Skaržauskienė, 2011). So it raises various questions such as: what influence can networking trough social technologies (hereinafter – ST) do to legitimacy (validity) of collective decisions, is networking via ST more efficient, or just more effective way of

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decision making; is there a real difference between face-to-face and networked decision making?

Collective decisions are based on self involvement of team (or group) members. As self involvement is crucial in the process of personal interaction with other team (or group) members, traditionally interpersonal relationships between those members become one of the most important factors in successful decision making. Many collective decision problems have in common that there is some agreement between the individuals who are supposed to take decisions as well as some disagreement (Grüner and Kiel, 2004). With networked decisions it is rather opposite, they may be organized as free of influence of interpersonal relationships. Research of collective decisions’ making process features presents its distinctive characteristics in face-to-face and networked environment.

In this research theoretical background sets the terms for collective decision areas. Features lists are set after qualitative analysis. Data provided during quantitative research is analyzed in the context of feature areas set during theoretical background. Analyses of face-to-face and networked collective decision process’ features; their advantages and disadvantages are presented. A pilot review for possible future research directions is set in the last chapter.

**Theoretical background**

In general, group decision-making problem can be defined as a decision problem with several alternatives and decision makers that try to obtain the best solution(s) taking into account their opinions or preferences (Pang and Liang, 2012). Trying to incorporate various alternatives and various preferences of single individuals into a value to whole group, synergy is created. The use of synergy created by the group’s members joined unique knowledge with one another is discussed in various works related to group management (Bonner and Sillito, 2011), information communication technology management (Mažeika et al, 2010; Tanriverdi, 2006), knowledge management (Skaržauskienė, 2011; Tanriverdi and Venkatraman, 2005) and other spheres. Group has acknowledged superiority over a single individual in presenting a wider range of knowledge and opinion and producing a more acceptable decision outcome, yet the process is slow, with fuzzy responsibilities and unstable values, it can cause group members’ polarization or group thinking (Robbins, 2003). Group thinking is one of the most unwelcome outcomes of participation of individuals as it does not add value to the decision; it just makes the majority stronger. High majorities’ influence is caused by low degree of collectivism, low self involvement and homogeneous culture (Zahn et al, 2007). Range of information in a group is an outcome of group diversity, diverse groups make better decisions because members collectively have more knowledge and information and possess complementary skills (Georg and Chattopadhyay, 2008), which means the more diverse group, the more various information it can provide in order to reach satisfying and maybe effective decision.

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2 Networked decisions here are taken as a process possible in both traditional and networked organization. Networked organization - is a flexible organization with a network based structure in which workers without structural, time or space hindrances communicate through ICT while executing their duties (Tamošiūnaitė, 2011).
When group members are aware of performance feedback: (a) they gradually form a perception about their colleague’s expertise, (b) the emergence of expert recognition at the group level shifts the balance of individual influence on the group decision in favor of the expert, and (c) the group decision scheme thus changes as the perception of expertise emerges in the group (Tajeddin et al, 2012). Group members during decision making are going through four phases: information processing, negotiation, discussion, evaluation (Brodbbeck et al, 2007). In impersonal decision making process those all four phases evolve without interpersonal relationship, evolves pure information, not information attached to a perception of the source of information, consequently lowering personalities’ or majorities’ influence and forming a collective decision. Impersonality is possible via decision support systems i.e. TeamWave or Synnet. Computer-mediated communication (hereinafter – CMC) can reduce majority influence (Zhang et al, 2007) and to creat a dynamic network among group members. Networking (via various its forms) in group decisions is not a new category in academic literature (van Bortel, 2006; Tatcher and de la Cour, 2003), yet features of networked decisions are still not set.

Networking is part of CMC, which does not ensure high (or low) self involvement of the participants in the matter (Zhang et al, 2007), on this matter other managerial measures are necessary. Feedback increases persons accuracy on his/hers following decision making (Bonner and Sillito, 2011), but it is not exceptional for CMC (from face-to-face communication). Suh et al (2011) conducted a deep analysis on computer mediated communication on group work. Their research revealed that CMC for dispersed team’s members gives intra-group closeness, geographical distance from each other creates negative effects to some extend and that CMC has a negative effect when the team is temporally dispersed. It should be noted, that Suh et al (2011) research focused mostly on interpersonal, online communication.

Groups have been shown to provide synergy (i.e. a group participant being creatively stimulated by other group participants), the efficient exchange of information, offering different views on problems, providing (objective) evaluation feedback, having a greater range of alternatives, and learning effects (i.e. novices learning from experts within the same group), on the other hand, according to research team Tatcher and de la Cour (2003) there are negative aspects such as dominance, fear of evaluation, lack of self involvement, depreciation. Although Tatcher and de la Cour (2003) research deeply looked into face-to-face and computer mediated decision making process and personalities involvement (such personal characteristics as leadership, initiative, judgment and interpersonal sensitivity), most of their insights where made through the angle of personality. The research being presented at this paper expands understanding of factors having influence on face-to-face and computer mediated decision making process. Table 1 summarizes positive and negative collective decision process' features in literature. As it is seen, not all features are pure. Some of them depend not on the number of persons reaching for decision, but on motivational and technical measures.
Table 1. Most common collective decision process’ features in literature and their effect analysis

<table>
<thead>
<tr>
<th>Collective decision process’ features</th>
<th>Positive features</th>
<th>Negative features</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fear of evaluation</td>
<td>+</td>
<td></td>
</tr>
<tr>
<td>Group thinking</td>
<td>+</td>
<td></td>
</tr>
<tr>
<td>Interpersonal relationships</td>
<td>+</td>
<td></td>
</tr>
<tr>
<td>Hierarchy</td>
<td>+</td>
<td></td>
</tr>
<tr>
<td>Feedback</td>
<td>Dependable</td>
<td>Dependable</td>
</tr>
<tr>
<td>Many alternatives</td>
<td>+</td>
<td></td>
</tr>
<tr>
<td>Various opinions</td>
<td>+</td>
<td></td>
</tr>
<tr>
<td>Fast</td>
<td>Dependable</td>
<td>Dependable</td>
</tr>
<tr>
<td>Clear liability</td>
<td>Dependable</td>
<td>Dependable</td>
</tr>
<tr>
<td>Polarizations</td>
<td>+</td>
<td></td>
</tr>
<tr>
<td>Self involvement</td>
<td>Dependable</td>
<td>Dependable</td>
</tr>
<tr>
<td>Group composition</td>
<td>Dependable</td>
<td>Dependable</td>
</tr>
<tr>
<td>Depreciation</td>
<td>Dependable</td>
<td>Dependable</td>
</tr>
<tr>
<td>Technology mediation</td>
<td>+</td>
<td></td>
</tr>
<tr>
<td>Learning</td>
<td>+</td>
<td></td>
</tr>
</tbody>
</table>

Feature list (given in Table 1) is used for empirical research to set distinction (or sameness) between collective decisions in traditional and networked environment. Main spheres of analyses are as follows: (1) interpersonal relationship expression in the process; (2) social technology use in the process; (3) organizational structure; (4) personal satisfaction; (5) personal involvement.

Methodology for qualitative analyses: method, participants, procedure

As positivity and negativity are qualitative categories, to analyze advantages and disadvantages of collective decisions in traditional and networked environment a qualitative analyses was chosen. Open question forms were prepared. Distribution of forms was executed in person and via online form distribution system. Sample was set using satiation method. In total 217 filled forms were analyzed. As 32 out of them were insufficiently filled, data analyzed was only the one that was orderly filled in all the forms. Respondents were asked to give 9 or more features for face-to-face decision making process, to networked decision making process, and 9 or more advantages or disadvantages for each process. Respondents were 18 to 65 years old (economically active: employers/employees or students); 47 per cent male, and 53 per cent female. Data was collected during January-May, 2013.

With the empirical research three hypotheses are checked: (a) Sex has no impact on collective decision process perception; (b) Age has impact on collective decision process perception; (c) Economic activity status has an impact on collective decision process perception.
Results and observations

Analyses’ results to check hypotheses are presented in Table 2 (analysis of face-to-face collective decision process), Table 3 (analysis of networked collective decision process), and Table 4 (analysis of advantages and disadvantages of face-to-face and networked collective decision process).

Table 2. Face-to-Face collective decision process’ features (lists in hierarchical order)

<table>
<thead>
<tr>
<th>Male list</th>
<th>General list</th>
<th>Female list</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personality effect</td>
<td>Group composition impact</td>
<td>Visible emotions</td>
</tr>
<tr>
<td>Spontaneity</td>
<td>Spontaneity</td>
<td>Spontaneity</td>
</tr>
<tr>
<td>Body language effect</td>
<td>Body language effect</td>
<td>Body language effect</td>
</tr>
<tr>
<td>Group composition impact</td>
<td>Visible emotions</td>
<td>Group composition impact</td>
</tr>
<tr>
<td>Visible emotions</td>
<td>Personality effect</td>
<td>Encourages openness in discussion</td>
</tr>
<tr>
<td>Immediate feedback</td>
<td>High level of responsibility</td>
<td>Immediate feedback</td>
</tr>
<tr>
<td>High level of responsibility</td>
<td>Immediate feedback</td>
<td>Personality effect</td>
</tr>
<tr>
<td>High level of trust</td>
<td>Group thinking danger</td>
<td>High level of responsibility</td>
</tr>
<tr>
<td>Group thinking danger</td>
<td>Interpersonal relationship effect</td>
<td>Group thinking danger</td>
</tr>
<tr>
<td>Interpersonal relationship effect</td>
<td>Hierarchy</td>
<td>Interpersonal relationship effect</td>
</tr>
<tr>
<td>Hierarchy</td>
<td>Encourages openness in discussion</td>
<td>Hierarchy</td>
</tr>
</tbody>
</table>

Face-to-Face collective decision process’ features analysis presented different perception among male and female respondents. As lists were synthesised based on quantitative results, a hierarchy and content in all three parts (male, female, and general list) differ. Only two features in both lists were assigned the same level of importance: spontaneity and body language effect. Notable, that in the first rank of the list is group composition impact, which was first nor in male, nor in female list. Even though 10 out of 11 features are common in both lists, except for spontaneity and body language effect, are given different importance in male and female lists. The diverse features in face-to-face collective decision process’ features lists are encourages openness in discussion in female list and high level of trust in male list.

Correlation of main spheres of analyses which were extracted from theoretical background analysis with face-to-face collective decision process’ features in general list:

(1) interpersonal relationship expression in the process: group composition impact, body language effect, visible emotions, group thinking danger, interpersonal relationship effect;
(2) social technology use in the process: none;
(3) organizational structure: hierarchy;
(4) personal satisfaction: personality effect, immediate feedback;
(5) personal involvement: spontaneity, high level of responsibility, encourages openness in discussion.

Hypothesis evaluation in face-to-face collective decision process’ features analysis:

a) In the analysis of face-to-face collective decision process’ features there was no significant relationship noted between features mentioned by respondents and the sex of the respondent.

b) In the analysis of face-to-face collective decision process’ features there was no significant relationship noted between features mentioned by respondents and the age of the respondent.

c) In the analysis of face-to-face collective decision process’ features there was no significant relationship noted between features mentioned by respondents and the economic activity status of the respondent.

Following analysis was on networked collective decision process’ features. Results are represented in table 3.

**Table 3. Networked collective decision process’ features**

*(lists in hierarchical order)*

<table>
<thead>
<tr>
<th>Male list</th>
<th>General list</th>
<th>Female list</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time saving (process organization aspect)</td>
<td>Possibility to scrutinize before giving an opinion</td>
<td>Speed (solution choosing aspect)</td>
</tr>
<tr>
<td>Independence from location</td>
<td>Speed (solution choosing aspect)</td>
<td>Dependence on technology</td>
</tr>
<tr>
<td>Possibility to scrutinize before giving an opinion</td>
<td>Time saving (process organization aspect)</td>
<td>Possibility to scrutinize before giving an opinion</td>
</tr>
<tr>
<td>Speed (solution choosing aspect)</td>
<td>Independence from location</td>
<td>Independence from location</td>
</tr>
<tr>
<td>Possibility to gain extra consultation</td>
<td>Weakening social connection</td>
<td>Low psychological pressure</td>
</tr>
<tr>
<td>Weakening social connection</td>
<td>Dependence on technology</td>
<td>Time saving (process organization aspect)</td>
</tr>
<tr>
<td>Dependence on technology</td>
<td>Possibility to gain extra consultation</td>
<td>Weakening social connection</td>
</tr>
<tr>
<td>Distrust</td>
<td>Distrust</td>
<td>Possibility to gain extra consultation</td>
</tr>
<tr>
<td>Surplus information</td>
<td>Surplus information</td>
<td>Possibility of too slow reaction</td>
</tr>
<tr>
<td>Special identification</td>
<td>Special identification</td>
<td>Distrust</td>
</tr>
<tr>
<td>Information leak</td>
<td>Information leak</td>
<td>Surplus information</td>
</tr>
</tbody>
</table>

Networked collective decision process’ features analysis presented different perception among male and female respondents. For this analysis male, female and general lists where synthesized. In this case lists coincide in 9 features out of 11; neither is in the same level on importance for both men and women. Notable, that the two left features in the common list is from the male list: *special identification* and *information leak*. Female gave rather strong position to features *low psychological pressure* and *possibility of too slow reaction*, though in general list to include them it was not enough.
Correlation of main spheres of analyses which were extracted from theoretical background analysis with networked collective decision process’ features in general list:

(1) interpersonal relationship expression in the process: distrust;
(2) social technology use in the process: independence from location, weakening social connection, dependence on technology, surplus information, special identification, information leak;
(3) organizational structure: speed (solution choosing aspect);
(4) personal satisfaction: time saving (process organization aspect), possibility to gain extra consultation;
(5) personal involvement: possibility to scrutinize before giving an opinion.

Hypothesis evaluation in networked collective decision process’ features analysis:

a) In the analysis of networked collective decision process’ features there was no significant relationship noted between features mentioned by respondents and the sex of the respondent.

b) In the analysis of networked collective decision process’ features there was no significant relationship noted between features mentioned by respondents and the age of the respondent.

c) In the analysis of networked collective decision process’ features there was no significant relationship noted between features mentioned by respondents and the economic activity status of the respondent.

Following analysis was on advantages and disadvantages of face-to-face and networked collective decision process. Results are represented in table 4.

### Table 4. Advantages and disadvantages of Face-to-Face and Networked collective decision process (not hierarchical order)

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Face-to-face</strong></td>
<td></td>
</tr>
<tr>
<td>Human contact increases responsibility</td>
<td>Fear to speak “wrong?”</td>
</tr>
<tr>
<td>Keeps hierarchical authority strength</td>
<td>Exhausting discussions</td>
</tr>
<tr>
<td>Efficient</td>
<td>Time consuming</td>
</tr>
<tr>
<td>Fast response</td>
<td>Too little information</td>
</tr>
<tr>
<td>Increases possibility of task execution</td>
<td>Superficial suggestions</td>
</tr>
<tr>
<td>Clear hierarchy</td>
<td>Difficulty to hide emotions</td>
</tr>
<tr>
<td><strong>Networked</strong></td>
<td></td>
</tr>
<tr>
<td>Effective</td>
<td>Danger of slow response</td>
</tr>
<tr>
<td>Flexible speed</td>
<td>Weakening of hierarchical authority</td>
</tr>
<tr>
<td>Possibility to choose time for taking part in decision making process</td>
<td>Lack of responsibility</td>
</tr>
<tr>
<td>Convenient</td>
<td>Data leak</td>
</tr>
<tr>
<td>Innovative, allowing to learn</td>
<td>Unclear problem/orders/technology</td>
</tr>
<tr>
<td>May ensure (if necessary)</td>
<td>Confidentiality</td>
</tr>
<tr>
<td></td>
<td>Dependence on technology</td>
</tr>
</tbody>
</table>

Respondents were asked to give 9 or more advantages or disadvantages for each process. Not all respondents fulfilled this requirement and this action caused significant quantitative differences in lists of advantages and disadvantages made by male and female respondents. Due to this, advantages and disadvantages of face-to-face and networked collective decision process are not analyzed with the aspect of sex influence.

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3 To speak opposite rather than authority
Advantages and disadvantages in face-to-face collective decision process presents perception of the process taking into consideration individual and group level of personalities'. Advantages of face-to-face collective decision process are oriented towards the effect of personal relationship among decision process participants. Disadvantages of face-to-face collective decision process are oriented towards the effects related to personality tendencies and on spot possibilities.

Advantages and disadvantages in networked collective decision process presents perception of the process taking into consideration individual level of personality and security of the process. Advantages of networked collective decision process are oriented towards the effects related to personality tendencies. Disadvantages of networked collective decision process are oriented towards the security aspects of networking enabling mediator.

In the networked collective decision process (the newer method) group composition and effects related to interpersonal situation decreases to the minimum and the major benefit is seen a personal development possibilities. Whereas personality effect in the face-to-face process was considered more of disadvantage. In the networked process disadvantages are related only to information / technology security aspects.

**Discussion and Limitation**

Personal and cultural background might have an effect on behavior pattern. The study presented was carried out in Lithuanian background. A pilot review for an international research was carried out also. 1 to 3 respondents from Spain, Greece, Cyprus (in analysis together with Greece), Israel, and Australia were inquired and the results were compared with Lithuanian top features of general lists for face-to-face collective decision process’ (table 5) and networked collective decision process’ (table 6) features.

**Table 5. Face-to-Face collective decision process’ features comparison of international respondents**

<table>
<thead>
<tr>
<th>Spain</th>
<th>Greece + Cyprus</th>
<th>Israel</th>
<th>Australia</th>
<th>Lithuania</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highly correlating with social skills</td>
<td>Immediate feedback</td>
<td>Group composition impact</td>
<td>Body language effect</td>
<td>Group composition impact</td>
</tr>
<tr>
<td>Group composition impact</td>
<td>Strengthening social connection</td>
<td>Trust affirming</td>
<td>High psychological pressure</td>
<td>Spontaneity</td>
</tr>
<tr>
<td>Immediate feedback</td>
<td>Superficiency due to short time span</td>
<td>Personality effect</td>
<td>Immediate feedback</td>
<td>Body language effect</td>
</tr>
<tr>
<td>Body language effect</td>
<td>Spontaneity</td>
<td>Immediate feedback</td>
<td>High level of responsibility</td>
<td>Visible emotions</td>
</tr>
<tr>
<td>Superficiency due to short time span</td>
<td>Group composition impact</td>
<td>Group composition impact</td>
<td>Superficiency due to short time span</td>
<td>Personality effect</td>
</tr>
</tbody>
</table>
Table 6. Networked collective decision process' features comparison of international respondents

<table>
<thead>
<tr>
<th>Spain</th>
<th>Greece + Cyprus</th>
<th>Israel</th>
<th>Australia</th>
<th>Lithuania</th>
</tr>
</thead>
<tbody>
<tr>
<td>Possibility to scrutinize before giving an opinion</td>
<td>Possibility to understand others without body language</td>
<td>Impersonal</td>
<td>Possibility to control time usage</td>
<td>Possibility to scrutinize before giving an opinion</td>
</tr>
<tr>
<td>Personality effect</td>
<td>Possibility to scrutinize before giving an opinion</td>
<td>Wide range information availability</td>
<td>Low psychological pressure</td>
<td>Speed (solution choosing aspect)</td>
</tr>
<tr>
<td>Dependence on technology</td>
<td>Miscommunication</td>
<td>Possibility to scrutinize before giving an opinion</td>
<td>Weakening social connection</td>
<td>Time saving (process organization aspect)</td>
</tr>
<tr>
<td>Miscommunication</td>
<td>Possibility to engage introverts</td>
<td>Independence from location</td>
<td>Weakens loyalty</td>
<td>Independence from location</td>
</tr>
<tr>
<td>Possibility to control emotional reactions</td>
<td>Independence from location</td>
<td>Fast process</td>
<td>Liberates creativity</td>
<td>Weakening social connection</td>
</tr>
</tbody>
</table>

Pilot review showed that there might be significant differences in perception of face-to-face collective decision process and networked collective decision process in international scale.

Conclusions

Main spheres of collective decision features are as follows: (1) interpersonal relationship expression in the process; (2) social technology use in the process; (3) organizational structure; (4) personal satisfaction; (5) personal involvement.

Face-to-face collective decision making process features are as follows: group composition impact, spontaneity, body language effect, visible emotions, personality effect, high level of responsibility, immediate feedback, group thinking danger, interpersonal relationship effect, hierarchy, encourages openness in discussion.

Networked collective decision making process features are as follows: possibility to scrutinize before giving an opinion, speed (solution choosing aspect), time saving (process organization aspect), independence from location, weakening social connection, dependence on technology, possibility to gain extra consultation, distrust, surplus information, special identification, information leak.

Hypothesis (a) *Sex has no impact on collective decision process perception* was confirmed in the research.

Hypothesis (b) *Age has impact on collective decision process perception* was negated in the research.

Hypothesis (c) *Economic activity status has an impact on collective decision process perception* was negated in the research.

Face-to-face collective decision making process encompasses group effects (seen as advantages) and personality effects (seen as disadvantages), whereas group effects
lose its impact and takes what is the best from personality effects (seen as advantages) with concerns about information / technology security issues (seen as disadvantages).

Further studies are in order to reveal differences and similarities of face-to-face collective decision process and networked collective decision process in international scale.

References


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scientific conferences. She is a member of Mykolas Romeris University’s Doctoral Candidates’ Association. Her interest fields are social technologies, decision making process, and science communication.
METHODS AND TOOLS OF MEASUREMENT OF ECONOMIC SECURITY AT THE LEVEL OF TERRITORIAL UNITS IN SLOVAKIA

Abstract

Purpose – A main purpose of this article is to deal with a problem of security of citizens, it is trying to search among various existing methods, to find that one, which could be useful for measurement of economic security. Its main objective is to analyse a possibility of application of personal security index methods in measurement of economic security in Slovak Republic. As a sub-objective the article has an effort to characterize the level of economic security in territorial units of Slovakia.

Design/methodology/approach – Tools from Personal Security Index methodology (2003) were used as a basis. Then methods of analysis, synthesis and comparison were applied. Data were used mainly from national statistical bureau.

Findings – The article shows partial outcomes of the project "Possibilities of Public Security measuring". Results of the research describe that Slovak Republic is despite a great influence of economic crises in a relative secure environment however there exist huge disparities among territorial units. These disparities are very close related and mutually influenced with business development in regions; on the other hand there exist a possibility to measure them at least according to the objective indicators such as: Income indicators; Security of employment or Access to social security.

Research limitations/implications – The findings are limited to the conditions of Slovak Republic in described years. However the research results could be used according to possible implications in connection to the whole security environment, where there is a need to identify and analyze perceived indicators of citizens’ security. Practical implications – The results described in the article, primarily identified and analyzed objective security data indicators, could be applied in connection to the possibilities of improvement of security factors. Only things, factors which are possible to be identified, they can be improved.

Originality/Value – This article is the first to describe the economic data indicators of citizens’ security in the environment of Slovak Republic according to the Personal Security Index Methodology.

Keywords: security: economic security: regional development: business entity: economic growth

Research type: case study

JEL classification:
D13 - Household Production and Intrahousehold Allocation
D31 - Personal Income, Wealth, and Their Distributions
D63 - Equity, Justice, Inequality, and Other Normative Criteria and Measurement
R13 - General Equilibrium and Welfare Economic Analysis of Regional Economies
I32 - Measurement and Analysis of Poverty

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Introduction

Slovak Republic is an independent legitimise country built on democratic principles. It is nowadays not only a member state of EU, but also of other global or regional security organizations and this gives to country the status of collective security. The security of its citizens is empowered due to its membership in these organizations. However we see some negative impacts of globalisation, whether we think about enwinding the difference gap (stratification), or transmission of decision-making process, evidently in the field of security the outcomes of international cooperation are positive. Confirmation of this we can see either on an example of external security (common foreign and security policy of EU) as well as in physical security (police cooperation). Economic security used to be described by a lot of indicators; these could be e.g. GDP per capita, number of foreign direct investments or the unemployment rate. There exist a lot of methods how to measure the security in state, territorial unit or city, in this article there is an effort to find a method which could be close to a reference object – citizen. We can identify a need of searching and finding effective methods and tools for measuring this internal security, security directly related to the citizens. Purpose of doing it is that we believe that this way is very appropriate as a first step for improvement of security of citizens. Very appropriate in this relation is an assertion of Lord Kelvin: "If you cannot measure it, you cannot improve it". One of the security sectors according to Buzan (2005, 45) is also the economic sector, which can influence all other sectors. All other sectors, it means security sectors in its wide range – military, political, economic, social, environmental. In our opinion, the economic security has a special position, because security of citizens is not only about data statistics, but also about their own perceiving, and we often perceive the effects of economic security as more obvious than any other indicators of security sectors.

Theoretical background

Term security refers to such state, which enables system function as well as its development. When we talk about internal state security, then such status will consider to every individual citizen, society, political units, subjects of public and private sector.

Security can be defined as a “sum of measurement used for ensuring internal security and order in state to arrange environment for basic human needs and liberties, resistant towards different types of threats”. (Horák 2005, 80)

Another view on security understanding presents Buzan et al. in publication Security: New framework for Analyses: „A special kind of politics, which is needed to be implicated for wide spectrum of questions and problems“ (Buzan 2005, 35). Security really used to be applied in a wide range of areas, often related with a concept of well-being or human development, as well in gaining with such problems as criminality, extraordinary events, crises, etc.

When we take look on security from the wide spectrum, there could be identified relatively separate problems divided according to object and level of protection:

- Security of individual;
- Security of family, social group, community;
- Security of state or group of states;
- Security of humankind. (Míka 2011, 5)
Stanislav Filip in his book Security system of Slovak Republic identifies as one of the areas of internal security also: Protection of economics, business and finance (Filip 2006, 86)

Simultaneously Štefan Volner in his publication “Security in the 21. Century” specializes security system of a society according to separate areas of social life, which are overlapped together. These are following subsystems: economic, social, energetic, military, scientific and technologic; ecologic. (Volner, 2009, s. 27)

Despite the fact that these sub-systems, together describe citizens’ security, it does not mean that they cannot describe it also separately. However we cannot make judgement to general security by monitoring only one indicator.

We do incline to the view of Káčer, who express believe that „The biggest challenge for security system is conflict between public feeling of security and complexity and unpredictability of risks“ (Káčer, 2011) It is in public interest to find differences between understanding of given services by public administration bodies and feeling of citizens according to these services. Security is surely one of the public goods, which are ensured by state and it is not possible to exclude any group of citizens in this relation.

For investigation of some territorial unit according to security of its citizens, it is necessary to have sufficient and relevant information. Similarly like authors Mesároš M., Reitšpis J., Križovský S. describe in book „Security management“ – Without important and relevant security information, there is no possibility to manage processes and achieve goals of organisation. (Mesároš 2010, 76) To avoid possible future negative phenomenon, it is necessary to focus on the evaluation of past events, and to obtain sufficient amount of relevant information.

The information in the context of economics and accounting can be done in two forms: both in numerical form as data or verbal forms such reports. (Štangová and Víghová and Hajduchová 2012, 13)

Approaches for measurement a security of citizens

Measuring of security at the level of human rights

„Human Security Report Project“ (HSRP) is focused mainly on area of human rights and freedoms in accordance to a state government mostly non-democratic or according to conflict regions. Main threats in these relations are failing states, hunger, torture, and spread of diseases. “Human Security Report Project” is made by Human Security Centre (HSC), which was created in 2002 at Liu Institute for Global Issues. From 2005 every year is published „Human Security Report“, which is focused mainly on violence and protection against it. Part of the data used in this publication has its source in „Uppsala Conflict Data Programme“, which is a database of political conflicts made by Uppsala University.

Most of these conflicts refer to non-European countries. In democratic countries with stability in political power and government units, there is a need to focus more attention to other security sectors.

Human Security Index

In relation to sustainable development, there have been developed a different efforts to define of this sustainability. These have been stabilized on an intersection of these sets: economic, environmental, and societal. According to this schema and
internal parts of every its aspect, the pillars of sustainable development are: economic growth, protection of environment and societal development. (Jackson 2000)

Human development index as a part of Human development report was focused on three supposed aspects of human development: health represented by estimated survival of man at the birth; knowledge, represented by adult literacy and economic standard of living, represented by the gross domestic product per capita (GDP) in purchasing power parity (PPP). (UNDP 1994)

The first comprehensive publication dedicated to the safety index of mankind was released in 2009 as a result of the first attempt to measure it. It was presented at the conference "Towards a Sustainable and Creative Humanosphere". "Human Security Index" (HSI) is mainly associated with the development of a country, region, or society, is defined as "The achievement of physical, mental and spiritual peace / security of persons and communities at home and around the world - in balanced local / global context" (Hastings 2011).

An Enhanced Framework "Human Security Index" began to form in 2008 originally as Version 1 designed especially for detection of stability and comparability of set of indicators. (Hastings 2011) Human Security Index (HSI) in its narrow sense consists of three basic components, namely economic, environmental and social structured index. Gradually, as the index developed, were added sub-indicators within the social sub-index. Those are now: indicator strengthening education and informatization; indicator of diversity; indicator of peace; food security; health; and public administration.

In this relation there start to occur views, that “GDP” cannot be the only one indicator of development. About this view we can see more details not only in the "Human Security Index” document by author D. A. Hastings, but also in the document “Report by the Commission on the measurement of economic Performance and Human Progress” made by group lead by prof. Stiglitz J. E. on the initiative of French president. (Stiglitz 2008) Inter alia, it contents conclusions on the need of dealing with either objective data as well as documenting subjective opinions and feelings of the citizens themselves. Another important conclusion is defining the need for a certain statistical data on the quality of life in general within the state and individual administrative units.

**Personal Security Index**

Method which perhaps closest approach to dimension of security is the concept of “Personal security index”, which is unique by its common use of objective, as well as subjective point of view (PSI). From 30 to 31 October 1998, in Ottawa (Ontario, Canada), there was held a conference on the state of living, under the auspices of Canadian Council for Social Development. The conference summarized the economic and social changes in the 90s and followed up on issues arising there from in relation to civil security of Canadian citizens. The issue of economic security should be shown in a growing trend especially in conjunction with rising unemployment and increased incidence of less safe forms of labour. Growing concerns about declining economic security were accompanied by the perception that Canadian society itself is becoming less safe - streets, homes, health. (Mackenzie and Tsoukalas, 2003)

Canadian Council on Social Development, namely the Centre for International Statistics, in cooperation with the Insurance Bureau of Canada conducted a survey that measured the level of civil safety of Canadians each year with so-called Personal Security Index. Later in 2003, the PSI methodology was updated.
Gozora V. notes that “economic and social differentiation of districts and autonomous regions eliminates economic and social life of municipalities” As one of the determinants of such disparities, the author considers also a failure of regulatory systems (Gozora 2011, 167)

Such regional disparities significantly affect the level of ensuring the security of citizens in various security sectors. One of the ways of measuring and comparing the level of safety in civil territorial units of the Slovak Republic is the index of civil security. Index generally represents a synthetic social indicator, which can serve the population and the competent public authorities to improve security levels in respective units.

Case study methodology

This article discusses the partial outcomes of the second phase of the research task project supported by Grant Agency of the School of Economics and Management in Public Administration, IGP 1/10-GA “Possibilities of personal security measurement”. Its main aim is to identify tools and methods how to measure personal security, with primary focus on territorial units of Slovak Republic.

However such process is complicated and time-consuming. Therefore we have decided to divide this process into several steps. The first step was to identify and analyse the theoretical backgrounds and historical correlations related with the security of citizens. Synopsis of some findings is concentrated in the first and second chapter of this article.

Second step is focused on exploring possibilities for application and adaptation of existing methods for measuring personal security. Because such an approach is very composite, thus for we divide personal security into economic and physical sub-indexes. And in this article we are trying to solve this economic sub-part.

Third step will be focused on development of appropriate methods and tools for measurement of personal security on the level of territorial units of Slovak Republic.

This article is focused on economic security. Its main aim is to verify the applicability of Personal security index methodology for data sub-index in Slovak republic and the territorial units.

Sequence to achieve the objective:

Firstly we identified the indicators of economic security according to the Personal Security Index. Then there was a need to find out if not same, then comparable data in Slovak Republic and if possible also on the level of regions of country. After this we start to work with these data to develop indicators mentioned in the PSI methodology. We expect further research in these relations, to develop methodology how to measure security of citizens not only on the economic level, but also in other sectors of security.

Results

Economic security concerns secured and stable standard of living that provides individuals and families the level of resources and benefits necessary for dignified participation in economic, political, social, cultural activities within the community. (Mackenzie and Tsoukalas, 2003)

Sub-components of this economic security are: The level and adequacy of income, security of employment, access to social security, financial vulnerability. Some of them consist of more than one data, together economic security contents of 6 indicators.
From the further analysis, it is evident that in Slovakia, we are monitoring majority of the identified indicators, however not all of them are available on regional level. Another problem is that these are not to be found on one place. Several institutions such as Statistic Office, Central office of labour, social affairs and family, Social Insurance Agency or Slovak National Bank. Every institution has its own methodology for data analysis and there is missing a common source.

**The Level and Adequacy of Income**

This indicator consists of data evaluating if citizens have sufficient income to afford the basic necessities of life - food, shelter, clothing, education, and healthcare.

The level and adequacy of income we can monitor by several data: average equivalent disposable income of household, poverty gap and total poverty gap. Disposable income is income from employment, government transfers, or from investment income after income taxes. The SR it is comparable indicator of total equalized disposable household income, which is observed also at the level of individual regions.

Another indicator, "poverty gap" says about the distance the poor country's population below the poverty line, while the "total poverty gap" represents the amount of funds that would be necessary to increase the income earned by any poor citizen above the level of poverty risk and is available within the database of regional statistics.

About total poverty gap, this is problem, because there exist data about disposable income and it is possible to count the 60 % of it as a border of poverty and number of citizens with income under this level (despite this is only a sample survey). To count the total poverty gap we would need information about average income of these citizens in poverty, and for this aim there was not enough data. However we will continue in our effort by communicating our findings with the related institutions.

When comparing the values of the average equivalent disposable income of households in different regions of Slovakia with calculated data on the number of persons with an equalized disposable income levels below 60 % of the national median equivalent income, we can see a clear dependence. Most people at risk of poverty live in Prešov, which is also the lowest average equivalent disposable income. In contrast, in the Bratislava region the situation is reversed. Beyond this dependence is just Trenčín region.

**Table 1. Income level and adequacy in Slovakia**

<table>
<thead>
<tr>
<th>Ref. number</th>
<th>Territorial unit</th>
<th>Average disposable equivalent household income (Eur/month)</th>
<th>Number of persons below poverty line (on 1000 citizens)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Prešov region</td>
<td>517,58</td>
<td>202</td>
</tr>
<tr>
<td>2</td>
<td>Košice region</td>
<td>543,08</td>
<td>135</td>
</tr>
<tr>
<td>3</td>
<td>Nitra region</td>
<td>550,21</td>
<td>148</td>
</tr>
<tr>
<td>4</td>
<td>Banská Bystrica region</td>
<td>558,36</td>
<td>153</td>
</tr>
<tr>
<td>5</td>
<td>Trenčín region</td>
<td>593,94</td>
<td>92</td>
</tr>
<tr>
<td>6</td>
<td>Žilina region</td>
<td>606,37</td>
<td>110</td>
</tr>
<tr>
<td>7</td>
<td>Trnava region</td>
<td>610,04</td>
<td>95</td>
</tr>
<tr>
<td>8</td>
<td>Bratislava region</td>
<td>713,95</td>
<td>71</td>
</tr>
</tbody>
</table>
Security of employment

The ability of citizens to obtain work and earning: Long-term unemployment rate - the proportion of all unemployed people who have been unemployed for more than 12 months.

There is a need to count together all job seekers who have been in evidence more than 12 months and give it into connection with total number of economically active citizens (Source Statistics of Central office of labour, social affairs and family). This indicator cannot be regarded as decisive without comparison to the same unit within the total number of economically active citizens of the county. The indicator is expressed as a percentage.

In the table and figure, the red line refers about Number of Long-term unemployment citizens in a ratio with All Unemployed citizens. The blue line refers about Number of long-term unemployed citizens in a ratio with Economic Active...
citizens. We can see again a great dependency ratio with the allocation of territorial unit. Generally the greater the distance from western border is more long-term unemployed citizens in the region are. However the greatest unemployment rate is in Banská Bystrica region. This could be caused by special characteristics of this region especially in relation to regional gross domestic product per capita, which is in this region the second lowest in the whole country.

Access to social security

Employment insurance system (EI) is an indicator which shows a percentage of unemployed citizens of the country who receive unemployment benefits. This is calculated as a number of recipients of benefits in a ratio to overall number of unemployed citizens, in percentage. Unfortunately in this indicator, the Social Insurance Agency in Slovakia monitors only data on the national level and only for each month, not for the whole year. Problem of such data is that there is missing information about number of people who were receiving amount of unemployment aid for the whole year. Simple summation of number of these people in every month could be misleading.

Average amount of this aid in year 2011 was 289 €, that is 49,26 % from the average disposable equivalent income and 82,10 % of the 60 % of the average disposable equivalent income as a poverty line.

For citizens ineligible for unemployment benefits, social assistance is provided, which provides them with some economic security. It is an indicator that tells about what percentage level of these unemployment benefits in ratio to the amount of low income before taxes.

For convenience, the PSI compares benefits for families with one parent and one child residing in a big city. In Slovak republic, the amount of such a benefit is same in all regions, and is count according to the Act. No 543/2010 Call. For a family with one parent and up to 4 children the basic amount is 115,10 € (benefit in material need) + € 89,20 € (housing allowance) + 2 € (healthcare) + 17,20 € (per schoolchild); together 223,50 €. Because from these amounts there are no taxes, we have decided to compare it with amount of average disposable equivalent household income.

For all the territorial units, the ratio between benefit in material need and Average Disposable equivalent income describes line a) and the ratio between benefit in material need and the Amount of border poverty line describes line b).

![Figure 3. Benefit in material need – Ratio](image-url)
In this relation we can see an opposite situation in comparison for example with the unemployment rate or any other indicators. In those regions which are more poverty, the per cent portion of this benefit in material need is better than in regions like Trnava or Bratislava. Explanation of this situation we need to search in the unchanging amount of benefit in material need. This is not dependent on region and thus for, in better-off regions, this amount is lower.

The financial vulnerability
There are two main data, first is the capacity and adequacy of savings for retirement of citizens for a “rainy days”, second the debt of citizens.

The rising level of household debt makes people worried about their economic security. To measure their financial vulnerability, PSI monitors the ratio of the total number of individual mortgages and debt to total disposable income. This variable "Debt to Income" is calculated by dividing total mortgage debt and consumer data on total disposable income.

In Slovakia, the most appropriate comparable data seems to be Disposable incomes of resident households, which characterise all main transactions in the household sector in particular region. Problem of this indicator from the short-time point of view is the fact that these data are for year 2011 still in a statistical process. After their publishing, we can continue in development of the most appropriate indicators of economic security sub-index from the financial vulnerability point of view.

Research summary
The above case study shows that the economic security of Slovakia and the regions, on the basis of objective indicators can be measured using and adapting the methodology by PSI. Although each indicator often has a different name, and it is considerably difficult to obtain these data from the initial survey, they are tracked by different institutions and there is no common statistical register, as the biggest problem seems to be the unavailability of certain indicators at the regional level.

In this context, we would like to explain the reason for overriding interest of measuring and comparing security on the level of territorial units. Extensive study - "Regional disparities in small and medium enterprises" (Gozora 2011) analyze and evaluate factors having an impact on regional development and generating disparities across regions. One important factor is the level of the environment, whether we are talking about pure business environment, or the environment in terms of overall security environment. One important factor that may have a significant impact on population migration, unattainable differences between regions and hence constantly growing social and economic stratification is also the economic security of the region. According to the results of this case study there are obvious some dependencies: The first is the orientation dependence of the region where the Bratislava region has a privileged position, and there is a really big difference in comparison to other regions. Then there is the position of Banská Bystrica region, which although its position (middle of Slovakia and not too far away from western border has a very poor record in terms of employment security and income adequacy. As mentioned earlier, regional development is closely connected with the business environment and business activity in the region retroactively affect the social conditions of citizens. Looking at the ratio of regional gross domestic product, this is the lowest in the region and even more than
three times lower than in the region where is located the capital city. A very important factor in this respect is also the number of small and medium-sized enterprises, which tends to be engine forces of the regional development. Companies up to to 50 and 50-250, which employ the largest number of people, number of these, are the region at least. That is also true with businesses over 250 employees. The initial idea that economic security of citizens in the region is related to regional development has been confirmed. In this context, we would like to draw attention to the need to create a better space for both national as well as foreign investors. Without economic growth, economic security of citizens cannot improve.

Conclusions

Existence of economic security index measuring the level of security would allow citizens to better understand the factors of their well-being, which is a way for the adoption of measures for its increase, improvement of protection against threats and reduce the likelihood of their consequences. Knowledge about such environment and express of themselves through so-called economic security index would then allow comparison either between villages, districts, or self-governing regions. Furthermore, such an objective index would inspire action at national, regional and local level to increase interest in economic security.

Concrete system in accordance to which it is possible to identify security is also territorial unit, region of country with different level of governance power. Despite a significant administration differences, there exists a relation between European level and local level, evidence of which is the existence of Committee of the regions. This committee formulated a resolution already in year 2006 called: “Political aims of Committee of the Regions for 2006-2008”. In this document the committee clearly defined its effort to reinforce security in Europe. In these relations very significant is an effort to create European centre for monitoring of municipal security. At this time regional government units does not have any strategic document on the level of security strategies. Another big problem is that e.g. Number of foreign direct investments has no direct financial effect on the budget of territorial unit.

The idea of marking territorial unit in an area with a low index of personal security may be at first glance negative. On the other hand, the possibility of real change and improvement through knowledge of the influence factors and specific values, are significantly positive.

Suggestions

We do believe that the further procedure in dealing with the characterized problematic should be focused for consultation of identified and analyzed data indicators with public sector institutions, with which the indicators concern in different ways. In particular, the most recent data from the initial source could allow the creation of relevant methodology for further investigation. Especially data that are not monitored at different territorial units of the country will need to be consulted with the appropriate institutions, or calculated so that all the indicators will be applicable and comparable.
According to the given assessment there is a big potential of regional disparities reduction, though cooperation and mutual support of public and private sector is needed.

In further process of gaining the objectives of finding methods and tools for measuring personal security on the level of territorial units, we suggest to continue with identification and analysis of physical sub-index of personal security. Third step should be focused on development of appropriate methods and tools for measurement of personal security on the level of territorial units of Slovak republic.

References

problematic of Security and Crisis Management in public administration as well as in enterprise environment. He is also interested in project activities focused on national and international activities of university students and staff such as summer school, young science conference, exchange study and placement mobility, where he work at position of project manager.
ORGANIZATION OF PUBLIC SERVICE DELIVERY IN LITHUANIAN MUNICIPALITIES: ANALYSIS OF POTENTIAL INNOVATIONS

Abstract

Purpose – to overview the latest trends, forms and methods in the provision of public services as a basis for further researches on planning public service delivery in Lithuanian local municipalities.


Findings – public service delivery should not be an unvaried and strictly standardized process in all municipalities of Lithuania. Involvement of non-governmental organizations, joint contracting, partial privatization, various forms of cooperation between local governments and co-production are considered as the most important trends of modern public service delivery. Appropriateness and practical applicability of these methods in Lithuanian municipalities require further, more detailed researches.

Research limitations/implications – political, cultural, economic, and social factors that are important for the innovations of public service delivery are not estimated in the article. However, this article overlooks global, evolutionary trends in the provision of public services and forms of public service delivery that are yet fragmentary applied in Lithuania.

Practical implications – low, but the conclusions of the article is the starting position for further researches and recommendations on public service delivery in Lithuanian local municipalities.

Originality/Value – processes of public service delivery at the local self-governance level receive little consideration among Lithuanian researchers and all the works with greater practical significance are focused on the analysis of the privatization and contracting of public services.

Keywords: local self-government, public service delivery, contracting, inter-municipal cooperation, co-production.

Research type: literature review.

JEL classification:
H44 - Publicly Provided Goods: Mixed Markets.

Introduction

The citizens' ability to influence the decisions and to control authorities is prerequisite to democratic governance. The limited capacity of the central government on dealing with ordinary problems of people consolidates the role of decentralization as a real guarantor of democratic governance. The delivery of public services that guarantees the most important needs of citizens is one of the core functions of the state government. Local municipalities have legally assigned the responsibility to citizens and business for a significant part of public services. The importance of effective and high-quality delivery of these services to citizens' daily life and to general economic competitiveness of the state determines the need of continuous innovation in organization of service delivery.

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Specific features and status of public services is a frequent subject of discussion in works of scholars dealing with management issues as well as a task of economic researchers. Adlung (2006) argues that there are two possible approaches describing public services. The institutional one focuses on the conditions and methods of state provision (e.g. status of service providers). The functional one is based on the public policy objectives such as the quality of services and universal access. Comprehensive analysis of locally delivered public services must be based on both approaches.

In the context of changes in public administration concepts, the choice of public service delivery form is no longer focused solely on reducing the number of state providers and privatization of public services in order to reduce costs. Innovative methods of public service delivery at present are increasingly based on the ideas of network management as well as orientation towards citizens and their participation. Rates of the 3E conception, while being important, does not reflect the quality of public services in the dimension of citizens expectations, and the abilities of only competitive conditions of service provision to reconcile different dimensions of public service efficiency automatically are also questioned (Andrews and Entvistle 2012).

Lithuanian local self-government does not have such deep traditions as most Western and Northern European countries. Scientific researches dealing with the topic of local self-government in Lithuania allow to specify a number of local self-government system performance problems, notwithstanding the fact that territorial administrative reforms have been carried out continuously, and public sector modernization has been based on the gradual increase of the role of local government after the restoration of independence. These problems are caused not only by the existing legal regime which does not give local authorities sufficient autonomy but also by the inefficiency of own municipal institutions and last but not least, the lack of participation of community members in local affairs. Limited financial resources of local authorities in Lithuania are, of course, the biggest obstacle to provide high-quality and accessible public services, which would correspond to people’ expectations. Problems of small budget revenues and lack of state subsidies are especially topical in smaller municipalities of Lithuania. The solution of financial problems affects service users negatively because such decisions are usually oriented on reducing costs of public services and on limiting the number of professionals who provide these services. The care of services with public goods characteristics is often superficial and declarative, while services characterized by natural monopoly characteristics become more expensive. Therefore local authorities should adopt innovative solutions. Some researchers (Lamothe et al. 2008; Kinder 2012) note the element of inertia in the processes of public service delivery form selection. It is not appropriate to deny that results of previous decisions lead to future decisions and new forms of public service delivery are the sequence of the former ones. The practice of Lithuanian local self-government and a variety of monitoring and control mechanisms of service delivery in our country are however very low compared with the global changes in public management. Therefore Lithuanian local agencies should not follow such sequence of public service delivery forms which occurred in municipalities of foreign countries. It would be more appropriate to seek innovative solutions consistent with the realities of the era immediately.

The aim of this paper is to overview the latest trends, forms and methods in the provision of public services as a basis for further researches on planning public service delivery in Lithuanian local municipalities.
“Make or buy?” Searching for the optimal size of public sector

The traditional approach of social sciences distinguishes three sectors of society - state, market (private sector) and community, whose proportion with the first two expresses the number of non-governmental organizations and their real activity. All three sectors are characterized by unique characteristics, different purposes and a strictly delimited sphere of activity. But in the current context of public administration such a separation is inadequate. “Instead, one faces service systems and institutions that are shaped simultaneously by all three possible sectors, their values and their steering mechanisms” (Evers 2005, 738). Managerial concept based reforms, the transition from government to governance and institutionalization of civil society have led to the emergence of hybrid organizations and the increase of their number. Such organizations mix the characteristics of state, market, and civil society (Brandsen and Karre 2011). Third sector organizations can perform functions similar to those of government, commercial companies can engage in the production of public goods and services and public authorities can look for not only tax revenues. “The present shifts in welfare mixes and hybridization processes are not the outcome of strategic choices but, rather, of coping strategies of actors and organizations under conditions of uncertainty” (Evers 2005, 745). Carrillo and Gromb (2006, 743) show “that old and culturally uniform organizations are prone to cultural inertia, that is, they are reluctant to adopt a different culture in response to a change in the environment”. The essential question in organizing delivery of public services in the municipalities is the choice of organization which will provide services, i.e. to entrust service delivery to the agencies of local government or to transfer this task to other legal persons, ensuring the provision of service delivery. Amount of the last one choice seems to be inevitable as public sector contends with contemporary changes and challenges like increased competition, financial uncertainty and corporate identity.

The ideas of contracting out and privatization are the result of a major NPM principle of economization which reduces the state’s role in public service provision with the assistance of market mechanisms. In the concept of New Public Management contracting out is considered as the most important vehicle of public service delivery. Contracting out essentially involves the practice of private organizations on providing public services to public authorities or on behalf of the state directly to citizens. In the case of public service delivery by private organizations, the most important functions of state institutions are to monitor the activity based on contract and, of course, to schedule the adequate circumstances and financial conditions of service delivery in an agreement.

Many theorists who deal with the „make or buy“ issue consider efficiency, quality of services, business promotion and innovativeness in rigid, hierarchical public administration to be the main causes of private sector involvement in public service delivery. Though the achievement of these objectives is often justified by researches, some authors are sceptical about the intervention of private sector in public service delivery. In their works these sceptics emphasize the fact that the results of such reforms are often even opposite to those which were expected. It is worth to mention the most important arguments of critics, without advocating one or the other position.

One of the critical current does not detract the role of private sector in the provision of public services and does not doubt the possibility of contracting out in helping to achieve positive results and the previously listed objectives but it emphasizes that pursuing the fashion of reforms public-private partnership for the provision of
public services is often implemented superficially, in excessive amount, without ensuring the adequate control mechanisms. Part of the criticism is presented in parallel with the ideas about the development of the participation of the private sector in public service delivery. For example, one of the most frequently mentioned problems that during contracting out authorities lose their competence to provide public services and to manage and control the delivery of public services properly is convincingly proposed to deal with by Brown and Potoski (2006). These researchers recognize this problem; however, by quoting data from their own studies, they offer to use outsourcing processes for public service delivery control assurance itself, i.e. to transfer the monitoring of service delivery to the private sector on contractual basis.

Another, more radical critical current is associated with the contraposition of managerial, economic and democratic values and also with the threat in ensuring public interest. Firstly, the delivery of public services on a commercial basis depends on the consumer ability to pay for services. It increases social inequality and distorts the traditional concept of public service under which certain goods are quintessential for members of society and should be provided constantly and universally, irrespective on the consumers’ solvency. There are also arguments that a market orientation in the public sector is flawed because of different public and private sector objectives, values and impacts on human welfare. Walker et al. (2011) observe that as public agencies become embroiled in internal and external market processes, they must develop strategies and behaviours that allow them to succeed in a market. Basically, it is not the function of public sector.

Despite the criticism, various forms of participation of private sector in the provision of services, particularly public-private partnership, are still important and can be successfully implemented in Lithuania. Mixed public service market ideas are modified and new forms of partnership emerge taking into account the failures of contracting out. Comprehensive analysis on the failures of managerial methods in public sector and original ideas on modernizing public service delivery are presented by Radnor and Osborne (2012). According to these authors, attempts to reduce the proportion of public services directly provided by public institutions were hitherto based on inappropriate reform logic. The orientation towards better results with minimal costs shows too little respect for the theory of service management. A product-dominant business logic is inappropriate in the sector of public services because of features of own services as an intangible commodity. Public sector reforms based on NPM and 3E conception have been administered with the sense of services as a real product, not as a process. Radnor and Osborne (2012, 18-19) says that the reduction of directly delivered public services could potentially be an effective tool but only if its implementation would be based on service-dominant logic which is opposite to product-dominant business logic. Without the orientation to processes saving reforms are doomed to fail as theoretical considerations and as practical toolkit, as well.

The alternative forms of partnership are used increasingly on the practical level of reforms. For example, the cooperation with a non-profit sector becomes more and more important in expecting to expand the range of services and to ensure the provision of primal goods for the society groups having limited abilities to pay for services. It is important to note that in some countries, especially in those that have a corporate welfare state model, the third sector has been an integral part of the welfare system and has provided part of the social public services since 1960s, and has contributed significantly to the development of the so-called welfare services. In other countries, the
third sector has gained a real role in public service delivery with the ideas of NPM reforms, which among other things drew attention to the importance of NGOs in the development of civil society. Paradoxically, the third sector has lost some of its traditional features on the influence of contracting, privatization and performance management. “In concrete terms, it means that the third-sector organizations have taken on more characteristics of state organizations (e.g. in terms of formalization) and of market organizations (e.g. maximizing their income, but without maximizing their profit). Although no organization can be regarded as ‘pure’, many organizations now reach the point where the ideal types of state, market or third sector no longer help us truly to understand them.” (Brandsen and Pestoff 2006, 494). Some researchers have an extremely pessimistic view on these changes as well as on the contracting out in welfare service delivery. They collate public and third sector organizations in accordance to their multiple objectives, also questioning the adequacy of market principles on programming the delivery of public services in public and non-governmental organizations. The agenda of public sector organizations and non-governmental organizations are similar for they both cover social issues. Public services themselves exist because of public policy objectives. They express the responsibility assumed by government agencies; therefore the organization of public service delivery is, in a sense, an activity of redistributive character. “While some have argued that social service outsourcing will improve the delivery of welfare benefits and services, others maintain that government or nonprofit agencies, not leveraged or fettered by profit motives, will better serve needy populations” (Riccucci and Meyers 2008, 1451). The aforementioned authors are particularly enthusiastic about supporting the initiative of the cooperation of the public sector and the third sector. They emphasize the opportunity of such partnership to avoid failures of contracting and the risk of non-carrying out essential objectives of public service delivery.

A public and non-profit partnership is in common sense more suitable for providing services with transcendental implementation tasks and hardly measurable results because of NGOs activity orientation, organizational structure and weak internal control. Bennett and Iossa (2010, 799) show that “service provision by an non-for-profit organization may be associated with overinvestment in quality improvement, but that under conditions that restrain this overinvestment, the non-for-profit organization may yield greater welfare than obtains with for-profit provision”. However, the data of Lamothe and Lamothe (2012, 1) analysis show that “contrary to expectations, nonprofits are not generally considered more trustworthy than for-profits and are not managed more ‘loosely’ than their for-profit peers”. Moreover, the absence of opportunistic relationship in seeking profit in NGO activities poses a high degree of confidence in the third sector.

The enthusiasm about the provision of public services in partnership with the third sector is rising among researchers and public policy makers, as well. However, it is necessary to realize that it is risky to consider NGOs empowerment as a panacea for all public sector failures, just like the managerialism which was so much valued a couple of decades ago. The admiration is often at odds with the evidence-based approach, and the abilities of the third sector to undertake commitments are not always properly assessed. For example, Chapman et al. (2008) conducted a detailed study on non-governmental organizations’ readiness to provide public services in the United Kingdom where the third sector involvement was promoted as one of the major modes of public service delivery because of the government’s decision, believing that non-governmental organizations would be able to provide public services on contractual
basis in both, local and national, levels. However, the findings showed that assessing the third sector as a whole it is not ready to move from more traditional methods of financing, such as a grant-in-aid, to the financing environment in which priority is given to public service delivery contracting. It should be noted that a vast majority of third sector involvement related studies are quantitative, while the analyses based on qualitative methods, that are necessary to accumulate full knowledge which could help to pass appropriate solutions, are performed much less. “If the government wants to keep the voluntary sector (and other sectors) engaged in the delivery of public services, they need to understand what keeps the VS involved. In other words, they need to understand the net benefits that the voluntary sector gain from their engagement with government programmes. Qualitative tools can make a substantial contribution towards understanding this: uncovering important findings that can help towards the development of more sustained partnership work.” (Soteri-Proctor 2010, 422).

Calculations, researches and analysis supporting the bargain of public service delivery away to private and non-governmental organizations may not prove out. Joint contracting can become a protector which helps to avoid such situations for local authorities. After consolidation of this organizational model of public service delivery the same kind of public services are delivered parallel by municipal institutions and for-profit or non-governmental organizations. Warner and Hefetz (2008, 157-158) notice that such “organizational redundancies are a means to avoid monopoly outcomes and ensure fail-safe delivery in the event of contract failure”. Moreover, joint contracting stimulates service providers to pay more attention to keeping up service quality standards. However, these scholars state that joint contracting is more appropriate for services with hardly measurable results. Evaluating this approach in the general context of public service types and features of organizations which could provide these services, it is easy to realize that joint contracting can be most successfully implemented in relations with the third sector. In the sectors of easily measurable services, such as waste collection and water distribution, another reform method called a partial privatization becomes more popular. In this mode the ownership of companies that deliver public services is divided between the government and the private sector, and their activities are organized in private business legal environment. In these companies “the private partner has more control over all decisions regarding the service, and the local government benefits from easier access to information about the service and the firm. This allows reduced monitoring costs, thus reducing overall transaction costs.” (Bel and Fageda 2010, 135). Thus, although solutions for increasing or reducing the impact of private equity in the provision of public services often have an ideological shade, there also exists a less politicized middle path of reforms which precludes a strict dichotomy of a public sector and a private business in the provision of public services. Various combinations of organizational methods of public service delivery are possible in the era of hybrid organizations. Different combinations can unify state and market orientations, allow achieving lower costs than in a case of solely state provision, and enable to prevent a profit maximization of service providers in clause of reducing the responsibility of the state for its citizens.

The "make or buy" discussion seems endless in the literature of public administration. Arguments of scholars who support the participation of private sector in the delivery of public services and those who criticize it seem both to be convincing and often based on empirical data. Efficiency, quality and flexibility of public services, delivered by contracting, validated in some studies are denied by other ones. The
opinion of some authors that state authorities should "drive rather than row" is attempted to be denied by contrasting the arguments of other theorists on possible corruption and accountability problems in the processes of contracting out. Brandsen and Karre (2011) argue that concerns over hybrid organizations hazards to the system of public finances, public service ethos and effective political control are overstated. Such concerns are easily refuted both in theory and in practice. These authors consider that economic and legal categories cannot be equated with social categories in risk assessment. Furthermore, active regulators and high degree of professionalism have been identified as potentially important safeguards. While these statements may be opposed by some other authors arguments but taking into account the current trends in the provision of public services, it can be said that the essential decisions on shaping organizational model of public service delivery in the municipalities of any country are determined by the question of which sector and in what amount should provide different types of public services. The analysis of local governance contracting decisions is usually focused on transaction costs calculations, service characteristics and on the features of contracts maintenance but, as the Hefetz and Warner (2011) propose, it is no less important to assess market characteristics (e.g. the degree of competition), the interests of citizens in service delivery processes and also local characteristics, such as the size of the municipality.

**Inter-municipal relations. Competition or cooperation?**

The reforms of privatization and cooperation with the private sector in public service delivery focus on the potential benefits of a competitive market. However, it is difficult to ensure competitive conditions for the provision of public services in local self-governance. There is not always a sufficient number of private companies interested in public service delivery and municipal public services often have monopolistic characteristics. "Producing public services by engaging for-profit firms requires clearly delineated, enforceable contracts, sufficient numbers of qualified contractors to allow competitive bidding, and managerial capacity to supervise contractor performance" (Mohr et al. 2010, 894). The very concept of a competitive market is difficult to understand and there is no consensus on the adequate number of applicants for service provision in the process of awarding contracts. Girth et al. (2012, 888) points out that "assumptions underlying the concept of a fully functioning market typically include 'many' producers and suppliers that can easily enter and exit the market". As a rule, in contracting out for public service delivery three or more bidders is indicative of a minimal level of competition. Thus, concerning to continuous changes in the economic environment, competitive market may soon become uncompetitive and monopolistic, for example in a case of withdraw of one of the potential public service providers. These processes are particularly common in small, regional municipalities which, among other things, are not able to negotiate for attractive prices of services. Involvement of non-governmental organizations is not a salvation not only because of their suitability to provide only "soft" type of services but also because of the trend, observed Hefetz and Warner (2011), that citizens interest in public service delivery processes and ambition to participate in these processes are also lower in small municipalities. For these reasons, public services provided by local governments are increasingly analyzed through the prism of the ideas of cooperation economics.
“Local governments are increasingly confronted by policy problems that span the boundaries of their individual political jurisdictions. Jurisdictional fragmentation complicates the management of boundary-spanning public infrastructure, environmental pollution, crime, regional economies, and other problems that spill over the borders of one city into the next. The complexity of these public problems increasingly requires multijurisdictional solutions.” (LeRoux et al. 2010, 268). Local politicians clearly understand the benefits of cooperation, so the inter-municipal cooperation is a natural and second-hand phenomenon. However, scholars show a renewed interest in inter-municipal relations and try to draw the theoretical guidelines of constructive inter-municipal cooperation and regionalism. Inter-municipal cooperation in providing public services is currently becoming very popular and in some countries, such as the U.S., is applied with not a lesser extent than contracting out with the private sector. There are various forms of cooperation between municipalities. According to Warner (2011, 423), inter-municipal cooperation could be understood as a “continuum from informal to formal” cooperation. An example of informal cooperation can be “mutual aid in times of weather related stress. There is no formal contract underlying this cooperation but rather a broader commitment to mutual aid. <...> At the most formal end of the scale lays governmental consolidation in multi-functional goals.” (Warner 2011, 424). A place between these two extreme forms of cooperation processes is taken by many more goal-oriented ways of cooperation, such as informal meetings of local political leaders and inter-municipal contracting.

Under favourable conditions the cooperation between municipalities can be an excellent alternative to privatization and private equity empowerment in public service delivery. The sharing of services between municipalities creates a public service market which allows avoiding the potential negative consequences of a competitive market but at the same time keeps its main advantages - economy of scale and efficiency. Furthermore, the cooperation provides a better control of community to delivered public services and seamless service coordination in a relatively large region. This feature, in turn, contributes with the ability to warrant a qualitative uniformity of different services in differently developed municipalities.

Municipal autonomy does not allow a higher state authority to regulate internecine relations of local bodies. The character of inter-municipal agreements and the amount of inter-municipal cooperation mainly depend on decisions of local politicians and senior civil servants. Therefore, researchers are particularly interested in the facts that encourage local authorities to develop their cooperation or to avoid wider inter-municipal relations. In accordance with the institutional approach, an ability to achieve a better quality in public service delivery should be a sufficient basis for the development of inter-municipal cooperation. However, a question arises whether or not the goal of ‘common good’ is always a motivating factor to take the relevant decisions. On the basis of his experience, the former adviser of the British Prime Minister Professor J. Le Grand divides public servants into two opposing groups - knaves and knights - according to the factors that motivate them. The knaves are selfish and guided by purely private interests, whereas the knights are influenced by the spirit of altruism and the desire to provide good public services. The successful implementation of any model of public service delivery depends on the motivation of those people working in the field of public service delivery. This scholar notes that the debates on the models of public service delivery are often ideological in nature. The authors with different political views try to justify public service delivery methods
which are closer to one's ideology. Nevertheless, “the decision as to which is the best model - or the least worst one - will depend not so much on ideological position, but on two, essentially empirical, questions. What is the motivational structure of public service professionals? And how is that structure affected by the context in which those professionals find themselves, including the models themselves?” (Le Grand 2010, 68). Of course, civil servants and politicians are influenced by a variety of motives, so it would be unfair to assign them for purely selfish or purely altruistic qualities, but such a distinction is a perfect starting point for examining incentives of inter-municipal cooperation. LeRoux and Pandey analyze the inter-municipal cooperation initiatives and also rely on two theoretical positions. “One argument, drawn from theories of bureaucratic entrepreneurship and ambition theory, suggests that cities with managers who are motivated to advance their careers will parlay more interlocal service delivery as means of capturing economic efficiencies. Such strategies serve to build their personal resumes of career achievements. An alternative argument suggests more altruistic motives, including a desire for increased social equity and valuing the common good of the region, compel city managers to pursue interlocal service arrangements.” (LeRoux and Pandey 2011, 627). The results of the study of these authors show that altruistic motives may have more impact on the growth of the volume of inter-municipal cooperation, but in practice decision makers in local municipalities are more motivated by their personal interests. In addition, in terms of service-sharing agreements between municipalities municipal officials are more attractive as their municipality plays the role of the seller of services, as opposed to being the buyer. LeRoux et al. (2010) also note that different forms of cooperation make different impact on the organization of service delivery. The most useful forms of inter-municipal cooperation are those ensuring more face-to-face communication of officials, enabling them to get to know each other to understand the partner's values and goals. So, in order to make better use of inter-municipal cooperation in the provision of public services, more forms of formal cooperation should be infixed.

Analyzing inter-municipal cooperation in the context of organizational forms of public service delivery, it is important to realize that cooperation is not only limited by the promotion of joint ventures which provide public services. Municipalities do not completely reject contracting out with private or third sector and privatization. On the contrary, at the same time, by working together they cooperate with other state and non-state actors. “Recall that 'cooperation or individual' relates to the question on who provides the services, whereas 'public or private' relates to the question on who produces the service” (Bel et al. 2012, 6). As already mentioned, the cooperation is considered as a practical choice for small municipalities. Cooperation can bring the benefits for municipal officials on sharing information about potential non-state public services providers, in interesting sufficient number of such providers and in supervision of contractual conditions.

There have been no detailed studies of cooperation between municipalities in Lithuania but it is clear that even informal forms of cooperation are not widely prevalent. Representatives elected by community and senior officials look to each other rather like to contenders in attracting investment, accessing grants, and preparing projects for support. While escalation of the ideas about the dipoles of Vilnius and Kaunas or Panevėžys and Šiauliai include municipalities which are already regional centres and, in comparison to the overall national level, have competitive mixed markets of public service delivery.
Citizens’ participation in public service delivery

During the transformation from the market oriented approach to the public administration based on networking processes, citizens in many ways are more and more incorporated not only into decision making but also into other public governance processes, as well. There is no exception in the organization of public service delivery, the quality of which in a principled point of view is described by justification of citizens’ expectations for quality of services.

Overlooking works of different authors, Giedraitytė and Raipa (2012) say that the key handicaps on innovating in public administration arise in the levels of politics, management of social-economic processes and organizational behaviour. Osborne and Brown (2011) describe three wrong approaches to innovation in the public sector that undermine its impact as a public policy tool:

1. **The adoption of an inappropriate model of innovation from the manufacturing, rather the services sector.** New Public Management and its close approaches ignore the differences of the manufacturing and service sectors;

2. **The subsequent re-conceptualization of innovations as continuous improvement.** Not assessing the intricacy of innovative and continuous processes of service improvement;

3. **The positioning of innovation as a normative “good” in policy making and the resultant prescriptive policy-making.** It is often assumed that any particular innovation must, a priori, be a “good” thing because the overall process of innovation is a “good thing”. Not all innovation processes bring benefits in practice.

The risk of innovation in public sector is determined by its dependence on a number of public administration, politics and other social processes. “The political will or the criteria of the so-called political support for the performance becomes a very important factor in eliminating the disturbance of practical applications of the innovative ideology” (Giedraitytė and Raipa 2012, 194). These authors note the importance of policy makers’ skills in risk and change management for the implementation of innovation, and emphasize the potentiality of the social character of strategic management in dealing with organizational, economic, social disturbances of the development of innovative ideas. While most researchers state that financial risk is one of the most important barriers for public sector innovations, in our opinion, costs of innovative projects should not be the most important decision-making factor for the innovations speaking specifically about the provision of public services. Any planned changes of public service delivery system are geared towards direct or indirect economic benefit i.e. any strategically well planned innovation will be cost-effective in a long run, in case it will be implemented as it was figured. Thus, the main barriers of the implementation of such innovations are related to the human elements - lack of will and motivation among civil servants and politicians, asymmetry of information and bounded rationality, and last but not least, approval or disapproval expressed by the community (as the electorate).

In the opinion of Walker et al. (2011), innovations related with the provision of public services are as one of three main components of the total innovation in public sector. Process innovations and ancillary innovations are the other two parts. All three parts are associated to each other in close synergy ties. “Service innovations are defined as new services offered by public organizations to meet an external user or market need.
Process innovations affect management within organizations and are typified by many of the changes introduced into public service organizations over the last two decades. Examples include total quality management, decentralization and pay for performance. Ancillary innovations reflect the shift to partnership in the delivery of modern public services.” (Walker et al. 2011, 100-101). These innovations are concerned with working across boundaries with other service providers, users or other public agencies. By agreeing with this approach to a total public sector innovation, one thought of Osborne and Brown (2011, 1342-1343) looks very sedately. It is the idea that public policymakers should focus on an open system orientation, because “it is not possible to promote and sustain innovation simply by focusing on the organization alone. Individual agency by itself is a necessary but not a sufficient condition for innovation in public services.” The dialogue in an open system sets the targeted social values, generates innovative solutions and the citizens themselves can become a source of innovation. Hambleton and Howard (2013) believe that innovations in municipalities are determined by local leaders who have to initiate, maintain and implement such innovations. These authors distinguish three, overlapping realms of leadership in any given locality: the political leadership, the managerial-professional leadership and the community and business leadership. They convincingly argue that at least two of these types of leadership must occur in a particular municipality for the successful implementation of innovations. By agreeing to this approach, the role of local communities becomes very important. Business may be poorly developed in small municipalities; public servants may not have necessary competence and may be not attracted to the ideas of common good, while the community is an essential part of the municipality and the condition of the existence of local self-government.

Problems associated with the evaluation of public services are particularly relevant. As Bovaird and Loeffler (2010) argue, legally imposed evaluation processes, performance criteria, and even qualitative indicators do not reflect expectations of citizens. “For citizens, however, the more important issues are how well local agencies contribute to improving quality of life and how well they conform to ‘good governance’ principles such as transparency, consultation and fairness” (Bovaird and Loeffler 2010, 299). For assessing the quality of public services Sanchez-Perez et al. (2007) use the empirical model which the main dimensions of service quality are tangibility, reliability, reactivity, guarantee and empathy. Empathy is understood as the attention to the person. While citizens’ evaluation on delivered public services reflect their views on the quality of life but the gratification of community members expectations is extremely difficult not only because of the lack of material resources but also because of variations of theirs opinion on the conditions and results of accepted services. Different interests of citizens are one of the most important challenges for the organization of service delivery. It should be noted that, in accordance to some studies (Jilke and Van de Walle 2012), citizens requirements to local authorities for the provision of public services differ even dependently with citizens age and educational entities. Though the discussion of the full consensus of citizens opinion in points of service delivery would be futile, the promotion of active citizen participation in service delivery processes, which is defined by the term of co-production, enables public sector organizations to respond to the serious problems faced by members of the community and allows to increase the ability to adopt innovative decisions that eliminate these problems.

Various authors interpret the content of co-production concept differently because the concept involves much more than the empowerment of citizens. As Murphy (2010,
emphasis this participation requires far more than merely regular consultation between planners and community members. The core of the concept of co-production is the idea that citizens are partners of state agencies in the provision of public services. But from the point of government positions public services are more focused on the social changes rather than on individual alterations. Therefore, a seemingly simple and clear idea of citizen’s participation in public services covers many problematic aspects and questions which are difficult to study. Brandsen and Pestoff (2006) divide the traditional concept of co-production into three levels of possible manifestation: co-production (micro level), co-management (meso level), and co-governance (macro level). This splitting allows distinguishing a narrow approach and a broad approach to co-production. The narrow approach involves consultation with service users. The wide one allows not only the planning, but also the provision of public services to be attributed to the content of co-production, holding organized groups of citizens as main partners for government agencies. So, previously discussed empowerment of non-governmental organizations in wide approach is also component of co-production. On the other hand, even if we understand the co-production as a mere consultation, viewpoints of formal or informal community groups may be more promising. Firstly, individuals may have not enough information to be able to provide reasoned proposals and a lack of competence to interpret available information correctly. Secondly, service users assign to themselves different roles which determine their attitudes and behavior. Powell et al. (2010) discuss different classifications of service users can be found in scientific literature. Without going far, it is worth noting that some service users may be characterized as ‘rational actors’ in the processes of service delivery but some of them behave like dupes, victims or rebels.

In the local self-governments of Lithuania great attention is paid to the implementation of e-government initiatives. Meanwhile, the co-production is not limited with ability of service users to provide suggestions and to express dissatisfaction in the cyberspace. The co-production is focused on the immediate cooperation and interfacing of service users and providers not only in organization but also during the delivery of public services. Alves (2012) emphasizes that co-production contributes on creating social values and thus eliminates the manifestations of citizens discontentment, which can be a serious obstacle to innovation. For example, service recipients understand the importance of charges for the quality of public services. At first glance, it may seem that the only purposes of coproduction are to improve service quality and to respond to user needs more flexibly. Nevertheless, in the context of the ideas of modern public management, citizens’ responsibility in taking decisions ought to be considered as no less important goal of citizens participation in public service delivery. While Raipa and Petukienė (2009) notes that co-production gives the biggest benefit in the delivery of such services that are designed to change a person’s status or behaviour (e.g. education and healthcare) but it is also necessary to understand the importance of co-production to the overall functioning of public service market. Constant citizens pressure is an essential incentive for politicians and civil servants who seeks to maintain citizens’ trust, and thus citizens’ participation is the substantial condition of keeping service quality standards and public accountability. Farneti and Young (2008) consider that co-production is the most important form of controlling public sector activity in the model of network management.

The limited autonomy and inflexibility of civil servants, dependence on the political processes and other specific features of the public sector make the
implementation of innovations extremely difficult in public service delivery. However, citizens’ participation can become, if not a source of innovative ideas, then, at least, one of the major force in removing obstacles for the innovations, not mentioning the importance of citizens’ participation for the overall development of democracy. The main legally assigned tenets of Lithuanian local self-government are based on the concepts of adjustment of the interests of community members, participation in the conducting of public affairs and responding to people’s view. However, a number of local level decisions, such as reduction of the competence of neighbourhoods (structural units that are closest to the members of the community) in Vilnius, calls into question the real concern for self-governance implementation and allows to distinguish the practice of simulating empathy to the needs of citizens.

Conclusions

In the era of hybrid organizations and economic disasters, the creation of mixed public services market is inevitable. It is essential that organizations of such market would be selected and the model of public service delivery would be formed by focusing not only on results but also on processes, in assessing the dimensions of service quality, which are not identical to the content of efficiency in service provision.

Organization of public service delivery in modern countries is currently based not only on the private sector empowerment and privatization but also on searching alternative methods. Broader NGO involvement, joint contracting, partial privatization and various forms of inter-municipal cooperation are considered as most important of such alternatives.

Citizen participation and the concept of co-production are necessary for successful implementation of innovations in the provision of public services. The co-production is the main condition of reducing resistance to innovation in political, social and organizational level and a key for the continuity of qualitative reforms. Therefore, the public service delivery system should be open to discussions with individuals and organized groups of society, based on collaboration and learning, rather than embarrassment. A higher degree of NGOs involvement seems to be as a primary tool in this contextual frame. Being the core of civil society, NGOs could play the role of the mediator dealing with issues related to public service delivery. And encouraging the cooperation they could help to consolidate the combination of service delivery modes which could fit the citizens’ needs and correspond with the abilities of local authorities.

In order to construct good public service delivery mechanisms it is necessary to evaluate the specific service characteristics, market situation, features of citizens and local characteristics. Therefore, the organization of public service delivery should not be the same and strictly standardized process in all municipalities of Lithuania. The discussed methods of public service delivery could serve as a guideline on modernizing public service delivery in Lithuanian municipalities but their relevance and practical applicability calls for further, more detailed studies.

References


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RURAL WOMEN INNOVATION AND ENTREPRENEURSHIP IN TRANSITION COUNTRIES

Abstract

**Purpose** – This research purpose was to identify the critical factors that determine the development of rural entrepreneurship in transition countries.

**Design/methodology/approach** – The research derived from secondary data in an effort to show how the processes associated with entrepreneurship may transition disadvantaged countries into market economies. The research is especially focused on women in rural areas because female farmers are the most at risk of climate change.

**Findings** – The women are more dependent on agriculture and water resource changes than men because of their low socio-economic, legal status, and lack of knowledge on how to approach environmental disasters, use appropriate research methods and instruments to collect data, and find available financial resources. Hence, the female human capital is less involved in social and economic strategies than men to approach climate change. The authors believe the new approach may establish productive green and market economies, as well as form new bilateral relations.

**Research limitations/implications** – Based on this research, successful adaptation depends on first, understanding the holistic nature of the problem, and then creating and implementing a vision that aims to meet business and environmental challenges.

**Practical implications** – This paper can encourage women farmers to take leadership roles within rural entrepreneurship development in transition countries.

**Originality/value** – Our proposals have a special value because they offer a variety of measures that can be taken with an aim to support development of rural entrepreneurship and support women in rural areas.

**Keywords:** women, rural entrepreneurship, agriculture, climate change, transition countries.

**JEL classification:**
L26 - Entrepreneurship
Q01 - Sustainable Development
Q54 - Climate; Natural Disasters; Global Warming

Introduction

The interest in rural entrepreneurship research has increased in the past few years in the European Union (EU) countries as a result of numerous programmes for entrepreneurship in remote rural areas. Namely, the countries that have only recently joined the EU expressed their need for a deeper comprehension of rural entrepreneurship processes in the economies in transition (Radović-Marković, 2009).
Important as the process is, rural entrepreneurship has, nonetheless, only recently been clearly defined. In this domain, however, no universal definition has been adopted, nor a universal concept of the study of rural entrepreneurship.

Despite an increased interest among the new member states of the EU, the current literature in this field generally focuses on the developed countries. Research shows that small and medium-sized enterprises (SMEs) in rural regions make up 28% to 30% of the total number of all businesses in the developed countries, such as Canada and the United States (SME Financing Data Initiative, 2004).

Thus, to formulate a definition of rural entrepreneurship that would be all-comprehensive, both in its essence and in the aspects it covers, the purpose for various programs are integrated in the definition to approach low profitability of agriculture in developing countries and in many transition countries, including Serbia (Radović-Marković, 2009a). A majority of these countries are characterized by obsolete technology, poor training of the labor force in rural regions, and so forth. Hence, rural entrepreneurship emerges in economically and socially backward regions, those with inadequate infrastructure, low level of education, unskilled work force and low incomes, where the level of local culture does not support entrepreneurship (Kulavczuk, 1998).

Radović-Marković (2009) defined rural entrepreneurship as the creation of entrepreneurial associations, which aims to ensure the improvement of crucial economic, social, and other changes in rural regions through individuals creating innovations and governmental systems devising a rural development policy based on investing in rural entrepreneurship. Based on the theory of dependency, positive dependency involves the development of the underdevelopment through bilateral relations to promote growth (Friedmann and Wayne, 1977). Thus, Nelson-Porter (personal communication, November 2, 2012) ads to the definition, entrepreneurship does not entail being self-contained, the concept entails being independent in relations to having the ability to share personal ideas and implement recommendations and innovations in a bilateral relation in an effect to apply knowledge and experiences to stimulate a dissociated society.

Communities Warranting Economic Transitioning

Women now represent 40% of the global labor force and 43% of the world's agricultural labor force (World Bank 2012). About 1.5 billion individuals, which is nearly 60% of the developing countries workforce, are engaged in agriculture and agricultural productivity (Radović-Marković 2010b). Despite women's position having gradually improved in developing countries, the women remain far behind women in developed nations. Many women in developing nations continue to lack higher education and higher paying salaries, role models and mentorship in entrepreneurship, suitable public and private financing, relevant networks, safe working conditions, women's mobility, and so forth, which may be a result of formal, customary, or region laws (Månsson and Färnsveden 2012; Rural Development Institute 2009).

Representatives of the United Nations (UN) Food and Agriculture Organization (FAO) reported women in Africa are most affected by climate changes because of their dependency on agriculture and water resource and their low socio-economic and legal status (Radović-Marković 2010b). Climate change affects agricultural productivity in underdeveloped nations through floods, pests, and catastrophic events, as well as through temperature changes (Radović-Marković 2010b; UN Development Program
Climate change is defined as a human induced act whereby an increase in the concentration of greenhouse gases are released in the atmosphere that reduces agricultural and natural resources (UNDP 2007).

Climate change impacts the production of women farmers in transition countries as the women most often work in agriculture and food production and, much less, in non-agricultural activities. For example, African women farmers produce up to 90% of the continent’s food, although women only own about 1% of the land (Radović-Marković 2010b). Women in Serbia continue to be a very important resource of the rural economy. Research based on 50 villages across Serbia indicated 2 out of 3 female farmers work 7 days a week and for more hours than the average work day of 7 or 8 hours (Peric Zimonjic 2008). Moreover, the women in Serbia have a problem finding employment in the non-agricultural sectors as 93% do not invest in pension insurance funds (Peric Zimonjic 2008).

A staff member of Tanjug (2012) reported, during the past 2 decades, the prolonged droughts, torrential rains, floods, storms, and occurrences of hail and night frost, taking place in Serbia were a result of climate change. The estimated damages in Serbia to the agricultural sector is up to $2 billion (USD), and the crop production is estimated to be reduced by 50% in 2012 (Tanjug 2012). The effects of climate change have resulted in some Africans and Serbians migrating to neighbouring communities that also have limited resources (UNDP 2007; World Bank 2010).

In her 2008 article, Africa’s Population and Resources: A Comparative Analysis, Nelson-Porter suggested instead of migrating due to food insecurity, an internal system whereby knowledge-seeking women are empowered to network internationally to gain insight on how to approach food insecurity may be established to increase food production. Empowering women to bringing women into the mainstream of development, however, has been difficult. Their share of informal sector employment has remained high in Africa (60-80%), diminishing their capabilities to participate in decision-making (Radović-Marković 2010a). Women in rural areas continue to lack knowledge about environmental disasters, information and instruments to collect data, financial resources to approach climate change, and sufficient involvement in social strategies on climate change risks (UN Women Watch 2009). Thus, the lack of gender equality in Africa, which may be associated with experiences of women in other poorer nations, has limited the contribution of women to the management of hazards in their adaptation to climate change. In addition, a limited about of programs exist to steer these women in entrepreneurial activities (Peric Zimonjic 2008). Consequently, rural entrepreneurship is under-utilized for strengthening the position of women in Serbia and other disadvantaged nations (Peric Zimonjic 2008).

Rural Entrepreneurship Emergence

The earliest and the most important concept, which prevailed in the 1950s and 1960s, involved entrepreneurial activities in the agricultural sector were identified as “production” based on price (Petrin, 1994). This constrained concept noted the importance of producing enough food to sustain the health of members of the community.

The core idea of a newer concept emerged aimed to transition countries from a socialist society to a capitalist society, which involved promoting privatization (Bezemer, 2006). The aim was to develop small markets and new products and services
to solve problems. Regardless of the high share held by SMEs, a large number of rural entrepreneurs encounter serious issues, such as remoteness of markets, high shipping and related costs, problems in recruiting qualified labour force, and low profit rates compared to firms in urban regions (Radovic Markovic, 2010 b). Ownership of property (land) is essential in many cases for women to freely engage in the growth of rural areas; however, various formal, customary, or religious laws have been a hindrance (Rural Development Institute, 2009).

In Pakistan, women are not permitted to title land if the woman is widowed or divorced and have to will their land to their son or a close relative (Dale 2013). Furthermore, because of formal, customary, or religious laws, women also in Asia, Afghanistan, and India are negatively influenced regarding the rights to own property (Rural Development Institute 2009). As indicated, the socioeconomic status of women in Serbia is also unfavourable (Vladisavljevic 2011). From one side, their unfavourable position is determined by particularly the status of women in villages. On the other side, the unfavourable position of women in Serbia is conditioned by general development opportunities in the given environment (Vladisavljevic 2011).

In the urban areas of Canada, the numbers of women business owners are smaller than in rural areas. This suggests that Canadians residing in rural areas were more likely to be entrepreneurs than those living in urban centres. This is corroborated by the fact that 6% of rural-based Canadians owned an SME compared with 4% of urban residents (Canada’s Small Business Hotbeds, 2005). The number of rural entrepreneurs who join the businesses of their close relatives continues to be considerably higher than the number of such entrepreneurs in urban areas (Canada’s Small Business Hotbeds, 2005).

In agriculture, gender differences in productivity almost always disappear when access to land and productive inputs are taken into account. Similarly, productivity differences between female-owned and male-owned businesses are often explained by differences in access to and use of productive resources, where these differences are primarily a function of the business size and sector of operation rather than a gender-specific factor (Sabarwal et al. 2009). If female farmers were to have the same access to fertilizers and other inputs as men, maize yields would increase by almost one-sixth in Malawie and Ghana (World Bank 2012). Representatives of the World Bank (2012) stated eliminating barriers that discriminate against women working in certain sectors or occupations would increase labour productivity by as much as 25% in some countries.

Despite gender differences, what is common for all transitional countries refers to inadequate rural infrastructure and levels of services and knowledge about these subject matters. This makes an impact on reducing the competitiveness of rural producers outside local markets and restricting their access to current market information.

**Innovation and Rural Livelihoods**

Researching the positive impact that innovation can have on women’s lives (Grozdanic et al, 2010; Gill et al, 2010) many good examples could be find which include foot-pedal water pumps, cellular phones, solar-powered food dryers. In many cases technology and innovative practices (Carr and Hartl, 2010) have literally 'lightened the load' for women – reducing the need to spend so much time and energy
fetching wood and water or carrying goods to market by hand. As innovations increased the profitability of some enterprises (such as drying/selling fish or grating cassava mechanically rather than by hand), men either started taking over their businesses or setting up competing enterprises.

Another studies (GSMA and the Cherie Blair Foundation) highlighted numerous ways that mobile phone technology in particular has improved the lives of rural women – from personal safety and greater independence to opening up business opportunities. However, that a tremendous gap in access to mobile phone technology still exists in much of the developing world, not only for the entire population but pointing out that women are far less likely than men in many countries to have access to mobile telephony. The access to ICT alone does not improve a lot the lives of rural women (Kwake et al. 2006). Many difficulties with access and knowledge still remain. A lack of technology and the knowledge of how to use it are both significant impediments for women business owners in rural areas (Singh and Belwal 2005). When technology and innovative practices are coupled with educational assistance and training, however, adoption improves and benefits are greater (see Figure 1). Women-focused training not only improved self-confidence among women in rural Balkan countries, but the introduction of specific skills, such as use of technology and opportunity identification, improved business success and innovative behaviour (Petridou and Glaveli 2008).

![Figure 1: Technology enabling environment for rural women innovation](image)

According to UNDP activity reports, other rural education projects that have received some focus with respect to disseminating innovative products and processes
are agricultural extension services and industry-specific community cooperatives. Cooperatives have proven to not only be efficient vehicles for disseminating education and finance in rural areas, but excellent mechanisms through which women can gain self-confidence and a sense of “sisterhood.” Further, these organizations not only exist in rural areas but in industry-specific atelier environments in small towns as well. The agricultural extension services have been one way in which innovative practices are disseminated in rural areas, but that there are often problems with sustainability and variability in local adoption (Walker, 1990).

The World Bank’s Gender in Agriculture Sourcebook notes that support for rural livelihoods and agricultural support has evolved from extension services with travelling experts and classes to “agricultural innovation systems” that expand beyond farmer-based education to involving other local actors and to including farmers not as beneficiaries but as engaged participants. This, of course, is not always done in a gender-aware manner.

Aside from how innovation has helped the lives of women, perhaps the most prevalent topic that arises when “innovation” and “gender” are used together is in the discussion of how microfinance tools – such as peer group lending, village banks, and the delivery mechanisms offered by microfinance institutions – have increased the economic empowerment of women around the world. the International Fund for Agricultural Development (IFAD), evident ‘virtuous spirals’ that can be set into motion by providing women access to small amounts of capital: a growth in personal self-esteem, improved household well-being, social and community political empowerment – and economic empowerment, including enterprise creation. There can be no doubt that the spread of microfinance models – including lending pools, village banking, cell phone banking, and microfinance institution networks – have helped lift many women (and the clients of these services ARE mostly women) out of poverty. Popularized and brought to large-scale use by the Grameen Bank and the Bangladesh Rural Advancement Committee (BRAC), microfinance institutions (MFIs) have been pointed to as an innovative practice, and a tool for women’s empowerment and have received a tremendous amount of visibility in the wake of the granting of the Nobel Peace Prize in 2006 to Muhammad Yunus and the Grameen Bank. Yet, microfinance tools have their limitations, most particularly a lack of ongoing education and technical assistance as an enterprise grows, and a pervasive access to capital chasm between where microfinance leaves off and formal sources of capital pick up.

**Recommendations for Entrepreneurial Development**

Because rural development policy has to observe local, regional, and national aspects and potentials, formulating the most appropriate model of rural entrepreneurship development that would have a universal meaning and implementation may prove difficult. An efficient concept of rural entrepreneurship has to focus on the transformation of the local business culture to be adopted by the local rural population as their own career choice.

The development of rural entrepreneurship in this manner as offered by Radovic-Markovic (2012b) would bring major benefits, not only to the local community but to the entire society in several of its domains, such as:

1. A larger number of entrepreneurs—an increased number of new businesses;
2. More competent entrepreneurs-entrepreneurs who have the knowledge and skills needed in their businesses

3. Growth and expansion of businesses-businesses boost production and sales, as well as create new jobs that absorb the local labour force;

4. Economic benefits for the local community—by way of tax payments.

In many developing countries, enterprise development centres have been successful at assisting the development of start-up enterprises. Such efforts should help women obtain necessary training and support to start businesses for food production, conservation, and marketing as well as establish themselves a village leaders who are, engaged in the community’s development and in the design and implementation of activities to improve their livelihoods (Radović-Marković 2010a).

Based on the report by representatives of the Rural Development Institute (2009), governing international leaders may consider leasing land at no cost to disadvantaged women in poorer nations who desire to cultivate the lands to start businesses. Business ventures, which will promote professional development while enhancing skill-sets, may involve emerging female entrepreneurs collaboratively working with volunteer natural resources, soil, micro propagation, and biotechnology practitioners or scientists (Lowry 2010). Until formal, customary, and religious laws consider equality ownership rights, leasing land to emerging female entrepreneurs in poorer nations may be more feasible and may not violate any laws.

Young women may consider enrolling in entrepreneur courses and participate in internships in agriculture and food technology to gain an understanding of every day practices that are warranted to rebuild and sustain rural communities, which include the water supply (Charles 2010). Science courses share insight about the climate and how climate change leads to destruction of community property and negatively impacts farming (Charles 2010; UNDP 2007). Engineering courses tend to enhance knowledge related to constructing the development of the infrastructure (Charles 2010; UNDP 2007). Financial or economic courses may help with understanding how investments aimed to reduce poverty are configured (Nelson-Porter 2008; UN Conference 2012). Researching history help individuals understand the plight of the poor and the path women have travelled to gain independence (Dale 2013; Nelson-Porter 2008). Thus, the development of continuous international educational initiatives is pertinent to the survival of rural communities.

Training programs might be available not only to women with low income and who are impacted by climate hazards, but also to their instructors and teachers. Educators who lack the necessary holistic view about the subject matter cannot properly prepare individuals for foreseen and unforeseen challenges (OECD 2010). Educators who complete the training are better opt to share experiences, encourage others, and generate ideas and solutions. In relations to visionary mentorship, a concept coined in 2008 by Nelson-Porter (personal communication November 2, 2012), educators can participate in networking and netweaving events and use research and interviewing techniques and coaching or mentoring methods to enhance self-knowledge. Through knowledge transfer aimed to help individuals secure any opportunity to enhance their knowledge-level, visionary mentors should share the outcome of their learning experiences and encourage individuals to obtain certifications that centre on entrepreneurship and corporate research.
Conclusion

In this paper is synthesized the existing international research and experience in this area. In line with this, a rural development is linked to entrepreneurship by virtue of the understanding the plight faced by disadvantaged populations and the lack of skills and knowledge warranted to assist those populations.

A focus on gender issues aimed to encourage women farmers to take leadership roles within rural entrepreneurship development. In this context, there is a need to strengthening knowledge and skills of female farmers through effective training. Women-focused training not only improved self-confidence among women in rural Balkan countries, but the introduction of specific skills, such as use of technology and opportunity identification, improved business success and innovative behaviour. At the same time, women-focused training helps to increase women’s access to credit services. The spread of credit services and microfinance models have helped lift many women out of poverty.

It is further recommended that improving female headed households’ participation in rural entrepreneurship development programmes require the efforts of all relevant stakeholders working in the area. Female entrepreneurs who gain insight on the purpose of state and national policies with programmes aimed to aid in the development of entrepreneurship become enlightened on the processes geared toward transitioning underdeveloped nations into green and market economies.

Suggestions

Our suggestions are dedicated to measures to be taken with an aim to support development of rural entrepreneurship, as follows:

1. Fostering the setting up of businesses, but also motivating entrepreneurs to continually improve products or services;
2. Networking of entrepreneurs to define the areas that can bring highest profits, which should help the planning and orientation of business activities;
3. Entrepreneurs should make decisions in favour of both their own business and their environment;
4. Entrepreneurs should pay attention to environmental protection when creating entrepreneur activities;
5. Provision of a better future for rural families and reducing the migration of young people into cities;
6. Leaders of state institutions must appreciate the value of rural entrepreneurship and incorporate it into the economic strategy of the country's development, and support its development. Leaders who help individual entrepreneurs formalize their activities help entrepreneurs contribute to their local communities as tax payers. Special programmes should be devised to help and support women, young workers, elders, and the self-employed to ensure their social inclusion.

References


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THE COMPETITIVENESS OF HUNGARIAN AGRI-FOOD PRODUCTS ON THE MARKET OF THE EUROPEAN UNION

Abstract

Purpose - This article aims to introduce the Hungarian food production, food industry before and after the crisis, as well as potential opportunities for agriculture.

Research methodology - The research was implemented on the analyses of scientific literature, and I analysed and compared statistical data.

Findings The Hungarian agriculture and food industry have serious operating and competitiveness problems. These problems are extremely complex and often amplify each other. The inadequate competitiveness can be traced back to the following underlying problems: the deficiency of funds in the sector, excessive indebtedness, the expensive credits and loans compared to the profitability of the sector, and the very low level of expenditure on research and development. Besides, capital is scared away by the continuously changing and unforeseeable economic and legal environment. The most important question about the future of the food industry is whether it will remain as a primarily basic material producing industry or will it be able to evolve into a sector that is capable of producing goods with higher added value.

Research limitations/implications - In this paper I analyse the development of the Hungarian agriculture since the EU accession, the development of the most important animal population, the number and division of Hungarian farms according to size, the agricultural labour utilisation. Then I evaluate the development of the Hungarian food industry, then, the state of the food industry within agribusiness. Finally, I analyse the challenges of the agriculture and food industry.

Practical implications - One of the key factors of showing the way out of the crisis is to draft the future prospects and strategies that are based on the results of sciences. However, we can attain results only if - with the presence of human capital - we use innovations that provide living in the long run.

Originality/Value - The theoretical concept developed in this study, and the conclusions drawn from empirical research provide extended understanding of the crucial question: how can we solve the food problem in the future?

Keywords: agricultural structure, labor force, sustainability, ecoenergy, future prospects.

Research type: research paper

JEL classification:
F14 - Empirical Studies of Trade
F15 - Economic Integration
Q17 - Agriculture in International Trade
Q18 - Agricultural Policy; Food Policy

Introduction

The severe economic slump worldwide represents an extraordinary world downturn-the worst downturn since the great depression. All these issues have diverted the attention from the food crisis. The crisis led many people to write off the food and more broadly the commodity price crisis of 2008 as a widespread belief that the event was a speculative bubble-too many people traded commodities, driving

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commodity prices to unsustainable levels-and that concerns about ultimate supplies of food were misplaced (Krugman, 2009). The main reason for diminishing food supplies are population growth and accelerated urbanization, changes in life styles, falling water tables, and diversion of irrigated water to cities (The Earth Institute, 2005). Achieving a 10 per cent bio fuels share in transport fuel globally by 2020 could put an extra 140 million people at risk of hunger, with the poor urban population, subsistence farmers and the landless in developing countries particularly at risk. (International Institute for Applied Systems Analysis (IIASA), 2009) To cover Europe's needs alone, this target would require converting up to 69,000 km2 of natural ecosystems into cropland, an area larger than Belgium and the Netherlands combined. In the process, up to 56 million tonnes of CO2 would be released in the atmosphere every year – the equivalent of putting as many as 26 million additional cars on Europe’s roads by 2020. (Action Aid et al. 2010) The EU’s Renewable Energy Directive (RED) adopted in 2009 sets a 10 per cent target for renewable energy in transport by 2020. (Directive 2009/28/EC of the European Parliament and of the Council of 23 April 2009) This target, which according to the plans submitted by EU Member States will be met almost exclusively through bio fuels produced from food crops, is already fuelling a wave of evictions and land grabs in developing countries. (Action Aid, 2011)

Natural factors and more specifically soil conditions in Hungary make it possible to perform agricultural production on a higher level than the European average. There is agricultural production on a bit more than 7.7 million hectares of cultivable land, six tenths of which falls into the category of arable land. Out of the European countries, the proportion of agricultural land is the highest in Hungary. Regarding land supply, Hungary is amongst the well-supplied countries: there is a 58 hectare sized agricultural land for every one hundred inhabitant, compared to the European average of 45 hectares per one hundred inhabitants. It also indicates the capability of Hungary to provide a significant agricultural export base exceeding the supply of its own inhabitants.

In relation to foreigners buying agricultural land in Hungary it was possible to lengthen the transitional period with a further three years on condition that the land prices in Hungary did not reach a level that would allow the opening of the Hungarian agricultural land market without any disturbances after the seven-year-long derogation period. Hungary did exploit this opportunity and in December 2010 it requested the lengthening of the temporary prohibition with another three years. The European Commission approved of the request in December 2010 thus the moratorium on farm land purchases may remain in effect for another three years by 30 April, 2014. The first Central- and Easter European countries to join the EU had been invited one year prior to their accession to participate – with an observer status - in the work of the institutions involved in decision making procedures. (Naturally they had no right to vote.) Consequently the representatives of the Hungarian Parliament and that of the government took part in the work of the EU institutions and they could form their opinion. Although the EU was not obliged to consider these opinions and observations it can be stated that Hungary has been actively participating in the development of the internal markets of the community since 2003.
Results

Analysing the background the first fact that must be mentioned is the changes of the agricultural land utilisation. After 1990 the Hungarian agricultural production decreased step by step and nowadays the ratio from the GDP is less than 3 % which was near 10 at the beginning of 1990-es. If we want to find the reasons of the decreasing we will have to see the changes of the agricultural land area. (Table 1)

Table 1. Land area of Hungary by land use categories

<table>
<thead>
<tr>
<th>Year</th>
<th>Arable land</th>
<th>Garden</th>
<th>Orchard</th>
<th>Vineyard</th>
<th>Grassland</th>
<th>Agricultural area</th>
</tr>
</thead>
<tbody>
<tr>
<td>1986</td>
<td>4,704.8</td>
<td>338.6</td>
<td>99.0</td>
<td>147.4</td>
<td>1,233.7</td>
<td>6,523.6</td>
</tr>
<tr>
<td>2000</td>
<td>4,499.8</td>
<td>101.6</td>
<td>95.4</td>
<td>105.9</td>
<td>1,051.2</td>
<td>5,853.9</td>
</tr>
<tr>
<td>2010</td>
<td>4,501.6</td>
<td>96.1</td>
<td>93.7</td>
<td>82.8</td>
<td>762.6</td>
<td>5,536.8</td>
</tr>
<tr>
<td>1986/2010</td>
<td>95.7</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>28.4% 94.6% 56.2% 61.8% 84.9%</td>
</tr>
</tbody>
</table>

Source: own construction by http://portal.ksh.hu/pls/ksh/docs/eng/agrar/html/tabl1_3_1.html

On the basis of the table we can see the highest reduction in gardens, but the quantity was not so high than it was in the grassland. In my opinion this reduction is connected with the decreasing number of the animals. Summarising the table nowadays we use nearly 1 million hectare less agricultural land than we did in the past. It means we have got free capacities which we will have to use in the future.

The state of the Hungarian agriculture

About half the size of Hungary’s territory is used for field crop production. As for its ratio, crop production has a 2/3 ratio while animal husbandry has a 1/3 ratio (2008). If we consider that this ratio was 50-50% in 1990 then it becomes obvious that there is a negative tendency in this respect. The importance of the crop production sector, which produces lower added value, has increased at the expense of animal husbandry.

The most important crops in Hungary are wheat and maize whose sawing area reached an average of about 1,1-1,1 million ha respectively even after the accession. The sawing area of sunflower and the industrial crops is also significant and the ratio of rape has been increasing dynamically. (Table 2.)

Table 2. The sawing area of the main crops (1000 ha)

<table>
<thead>
<tr>
<th>Plant</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat</td>
<td>1 111</td>
<td>1 130</td>
<td>1 146</td>
<td>1 011</td>
<td>980</td>
<td>1063</td>
</tr>
<tr>
<td>Barley</td>
<td>321</td>
<td>329</td>
<td>320</td>
<td>287</td>
<td>260</td>
<td>276</td>
</tr>
<tr>
<td>Grain maize</td>
<td>1 078</td>
<td>1 191</td>
<td>1 177</td>
<td>1 117</td>
<td>1 256</td>
<td>1 190</td>
</tr>
<tr>
<td>Rape - turnip rape</td>
<td>225</td>
<td>246</td>
<td>260</td>
<td>258</td>
<td>233</td>
<td>167</td>
</tr>
<tr>
<td>Sunflower seed</td>
<td>512</td>
<td>549</td>
<td>535</td>
<td>501</td>
<td>574</td>
<td>607</td>
</tr>
</tbody>
</table>


Taking the limits of animal husbandry into consideration first and foremost the optimal utilisation structure of agricultural land should be developed. It is probable that the animal stock of 2008 will not change positively for at least another five years since
its development is highly capital intensive, furthermore the – often excessive –
environmental regulations do not facilitate competition, they rather hinder it. Because
of the two latter facts the development of livestock breeding is not attractive even for
foreign investors abounding in capital. The aim of the production structure cannot be
anything else but to ensure the whole volume of domestic food requirements and to
capitalise on foreign opportunities. Taking the structural shift into consideration at
present 1.6 million ha arable land and 0.6 million ha meadow-pasture would be
required to feed the livestock that could maximally be produced – in case of real market
demand. Therefore it must be determined how many hectares of agricultural land
should be used for food and animal feed production. (Magda 2010)

There has been a decrease in all of the more important species of animals in
Hungary since 2004. The cattle-population dropped from 723 thousand at the time of
the accession to 694 thousand. The pig population reached 4 million in 2004 but by
2011 it was only 3 million. The sheep population has also decreased dramatically: from
1,397 million in 2004 it decreased to 1,081 million by 2011. The number of lying hens
has also decreased in a similar way. (Table 3.)

Table 3. The development of number of the most important animal population
(1000)

<table>
<thead>
<tr>
<th>Species</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total of cattle population</td>
<td>705,0</td>
<td>701,0</td>
<td>700,0</td>
<td>686,0</td>
<td>694,0</td>
<td>753,0</td>
</tr>
<tr>
<td>Cows</td>
<td>322,0</td>
<td>324,0</td>
<td>312,0</td>
<td>309,0</td>
<td>327,0</td>
<td>336,0</td>
</tr>
<tr>
<td>Total of the pig population</td>
<td>3,871</td>
<td>3,383</td>
<td>3,247</td>
<td>3,169</td>
<td>3,025</td>
<td>2,956</td>
</tr>
<tr>
<td>Sheep total</td>
<td>1,232</td>
<td>1,236</td>
<td>1,223</td>
<td>1,181</td>
<td>1,081</td>
<td>1,147</td>
</tr>
</tbody>
</table>


In Hungary the crop producing sectors dominate the agricultural production
output and it usually significantly surpassed the output value of livestock breeding
sectors. During the examined period the output of crop production showed a rather
hectic tendency (between €3.3 and 4.8 million) while that of livestock breeding was
more even at the value of around €2.3 million. (Table 4.)

Table 4. Hungary’s agricultural accounts (at current price million Euros)

<table>
<thead>
<tr>
<th>Title</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crop production</td>
<td>3,896</td>
<td>4,655</td>
<td>3,216</td>
<td>3,470</td>
<td>4,791</td>
</tr>
<tr>
<td>Livestock breeding</td>
<td>2,260</td>
<td>2,563</td>
<td>2,136</td>
<td>2,177</td>
<td>2,500</td>
</tr>
<tr>
<td>Agricultural produce</td>
<td>6,156</td>
<td>7,219</td>
<td>5,352</td>
<td>5,647</td>
<td>7,291</td>
</tr>
<tr>
<td>Agricultural services</td>
<td>343</td>
<td>438</td>
<td>356</td>
<td>339</td>
<td>341</td>
</tr>
<tr>
<td>Agricultural output</td>
<td>6,500</td>
<td>7,657</td>
<td>5,709</td>
<td>5,987</td>
<td>7,633</td>
</tr>
<tr>
<td>Non-separable secondary activities</td>
<td>187</td>
<td>185</td>
<td>144</td>
<td>127</td>
<td>131</td>
</tr>
<tr>
<td>The output of agro-business</td>
<td>6,687</td>
<td>7,843</td>
<td>853</td>
<td>6,115</td>
<td>7,764</td>
</tr>
<tr>
<td>Intermediate consumption</td>
<td>4,414</td>
<td>5,156</td>
<td>4,160</td>
<td>4,116</td>
<td>4,630</td>
</tr>
<tr>
<td>Gross added value at basic price</td>
<td>2,273</td>
<td>2,687</td>
<td>1,693</td>
<td>1,998</td>
<td>3,133</td>
</tr>
<tr>
<td>Depreciation</td>
<td>884</td>
<td>941</td>
<td>873</td>
<td>912</td>
<td>913</td>
</tr>
<tr>
<td>Net added value at basic price</td>
<td>1,388</td>
<td>1,745</td>
<td>819</td>
<td>1,085</td>
<td>2,220</td>
</tr>
</tbody>
</table>

Source: Eurostat 2012
Hungary’s agricultural area is rather fragmented from the point of view of farming. The 116 thousand farms comprise 84% of the total number of agricultural farms, but the area cultivated by them is only 600 thousand hectares. On the other hand the 6500 large farms (over 50 ha) cultivate 73% (3985 ha) of the agricultural land.

30% of farms are not involved in livestock breeding, at the same time farmers with a 0 to 5 large-animal unit livestock comprise almost 70% of all the farms. Nevertheless almost ¾ of the total livestock is kept by farms with more than 50 large animal units. Farms smaller than 20 ha have a very important role in the pig sector where more than one third of the total number of pigs can be found and also in the poultry sector where 70% of the total poultry stock is kept. (Törőné 2012) (Table 5.)

Table 5. The number and division of Hungarian farms according to size

<table>
<thead>
<tr>
<th>Title</th>
<th>Agricultural area (ha)</th>
<th>Number of animals (NE)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5 below</td>
<td>5-20</td>
</tr>
<tr>
<td>Farm 1000</td>
<td>116</td>
<td>12,3</td>
</tr>
<tr>
<td>Division of farms %</td>
<td>83,7</td>
<td>8,7</td>
</tr>
<tr>
<td>Total area of farms 1000 ha</td>
<td>602</td>
<td>416</td>
</tr>
<tr>
<td>Average size of farms (ha)</td>
<td>4,5</td>
<td>30,8</td>
</tr>
<tr>
<td>Distribution of livestock (%)</td>
<td>45,5</td>
<td>8,2</td>
</tr>
</tbody>
</table>

Source: Törőné Dunai 2012

Labour use in Hungary decreased from 554 thousand labour units in 2004 to 437 thousand in 2010. The decrease in the non-paid labour use was 22% while in the paid one it was 18%. It is a distinguishing feature of Hungary that the ratio of part time and seasonal workers is highly significant. This is shown in table 6.

Table 6. Agricultural labour use in Hungary (Annual thousand labour units)

<table>
<thead>
<tr>
<th>Title</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>459,3</td>
<td>430,1</td>
<td>442,3</td>
<td>439,9</td>
<td>431,7</td>
</tr>
<tr>
<td>Non-paid</td>
<td>348,0</td>
<td>325,4</td>
<td>336,5</td>
<td>335,0</td>
<td>328,9</td>
</tr>
<tr>
<td>Paid</td>
<td>111,2</td>
<td>104,8</td>
<td>105,8</td>
<td>104,9</td>
<td>102,8</td>
</tr>
</tbody>
</table>


In 2010 171,8 thousand people were employed in agriculture, forestry, and fishing, which amounted to 4.5% of the total labour force of the national economy. Altogether the weight of agriculture in employment has decreased. (Popp – Székely 2011)

The importance of the Hungarian agriculture decreased further after the EU accession. It can be clearly seen from both the agricultural and the food industry
indicators. The share of agriculture in output decreased from 4.8% in 2004 to 3.8% by 2011 and there is a similar trend in added value. The output of the food industry has also decreased by 1 percentage point compared to 5.4% in 2004. (Table 7.)

Table 7. The share of the Hungarian agriculture from the output and the added value (%)

<table>
<thead>
<tr>
<th>Title</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>The share of agriculture from output</td>
<td>4.0</td>
<td>3.9</td>
<td>3.8</td>
<td>3.8</td>
</tr>
<tr>
<td>The share of agriculture from gross added value</td>
<td>4.0</td>
<td>3.8</td>
<td>3.2</td>
<td>3.6</td>
</tr>
<tr>
<td>The share of food industry from output</td>
<td>4.4</td>
<td>4.5</td>
<td>4.7</td>
<td>4.4</td>
</tr>
<tr>
<td>The share of food industry from gross added value</td>
<td>2.4</td>
<td>2.2</td>
<td>2.6</td>
<td>2.3</td>
</tr>
</tbody>
</table>

Source: Eurostat 2012

The state of the Hungarian food industry during the crisis

The Hungarian food industry shows a diverse and contradictory picture. The negative trends continued: production and employment are on the decrease (despite the fact that profitability has improved)! As a result of the crisis domestic sale has decreased dramatically. The 8.3% decrease in domestic sale in 2008 was followed by a further drop of 4.6% in 2009. It is favourable however, that while the output of the domestic industry decreased by 17.8% the output of the food industry decreased “only” by 2%. On this basis – especially with the addition of the influence of the global economy crisis – the decline in the output of the food industry can be considered minor. If we also consider that export grew by 4.8%, then the whole picture is more favourable. Another positive fact is that the income-decline trend ceased in 2009 in the food industry sectors.

While the pre-tax profit reached HUF97 billion in 2002, in 2008 the sector suffered a HUF 7 billion loss. The underlying reasons are manifold. Beside the expansion and aggressive business policy of multinational companies, the preference of lower quality imported goods, and the repression of the Hungarian small and medium sized food producers, the output of the food industry was also negatively influenced by the shrinking market and the increased expenses caused by high raw materials prices, which was not realised in the price of finished goods. Together with this the price-depressive effect of retail trade also played a role in achieving weak profits in the sector.

In 2009 there was a surprising recovery and a profit of HUF53 billion was realised. It is true that this result hides several underlying problems in the sector. Among other problems the decrease of available local food products and the difficulties in providing the financial support of market penetration and establishing the necessary cooperation must be mentioned. The decrease in material-type costs and especially the fall in agricultural basic material costs played a crucial role in achieving profit in 2009. The stabilisation of export sales and the growth of its ratio in total sales also contributed to the improved results.

In the first (full) year of the crisis, in 2009, the output of the Hungarian food industry declined. Table 8 clearly presents that the volume of most sectors decreased and in average they amounted to 98% of the 2008 level.
Table 8. Main data on the food industry in 2009

<table>
<thead>
<tr>
<th>Name (according to TEÁOR) '08</th>
<th>The volume-index of 2009/2008 %</th>
<th>Number of employees</th>
<th>Monthly gross average earnings HUF/capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacture of food, beverage, and tobacco products</td>
<td>98,0</td>
<td>94 336</td>
<td>158 977</td>
</tr>
<tr>
<td>Within which:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacture of food products</td>
<td>99,2</td>
<td>82 550</td>
<td>146 802</td>
</tr>
<tr>
<td>Of which:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Processing and preserving of meat</td>
<td>111,8</td>
<td>9 582</td>
<td>123 519</td>
</tr>
<tr>
<td>Processing and preserving of poultry meat</td>
<td>95,0</td>
<td>7 937</td>
<td>118 989</td>
</tr>
<tr>
<td>Manufacture of meat and poultry meat products</td>
<td>86,6</td>
<td>8 457</td>
<td>145 026</td>
</tr>
<tr>
<td>Processing and preserving of fruit and vegetables</td>
<td>89,5</td>
<td>7 124</td>
<td>149 858</td>
</tr>
<tr>
<td>Manufacture of vegetable and animal oils and fats</td>
<td>102,8</td>
<td>691</td>
<td>369 533</td>
</tr>
<tr>
<td>Milk processing</td>
<td>95,1</td>
<td>7 136</td>
<td>179 202</td>
</tr>
<tr>
<td>Manufacture of grain mill products, and starch</td>
<td>108,4</td>
<td>2 721</td>
<td>190 988</td>
</tr>
<tr>
<td>Manufacture of bakery goods and pastries</td>
<td>98,5</td>
<td>26 289</td>
<td>114 752</td>
</tr>
<tr>
<td>Bread; manufacture of fresh bakery goods</td>
<td>101,2</td>
<td>21492</td>
<td>105 652</td>
</tr>
<tr>
<td>Manufacture of preserved farinaceous products</td>
<td>92,0</td>
<td>3 536</td>
<td>167 124</td>
</tr>
<tr>
<td>Manufacture of pastries</td>
<td>106,6</td>
<td>1261</td>
<td>107 940</td>
</tr>
<tr>
<td>Manufacture of sugar</td>
<td>113,7</td>
<td>217</td>
<td>321 659</td>
</tr>
<tr>
<td>Manufacture of confectionaries</td>
<td>99,9</td>
<td>2 504</td>
<td>146 487</td>
</tr>
<tr>
<td>Manufacture of prepared animal feeds</td>
<td>120,1</td>
<td>4 054</td>
<td>207 432</td>
</tr>
<tr>
<td>Manufacture of grape wine</td>
<td>124,4</td>
<td>3 389</td>
<td>144 587</td>
</tr>
<tr>
<td>Beer production</td>
<td>78,5</td>
<td>1 812</td>
<td>310 454</td>
</tr>
<tr>
<td>Manufacture of soft drinks and mineral water</td>
<td>101,4</td>
<td>4 304</td>
<td>263 284</td>
</tr>
<tr>
<td>Manufacture of tobacco products</td>
<td>40,0</td>
<td>1 004</td>
<td>354 564</td>
</tr>
</tbody>
</table>

Source: Report of Ministry of Rural Development 2010

Food production and distribution

The decline in the national sales of the food industry continued in 2010 although its rate was somewhat smaller than in the previous years. Domestic sales were continuously declining in the previous period. Compared to 2005 the decrease was 14% in 2008, 18% in 2009, and 19% in 2010.

In 2010 the gross output of the “Food, beverage, tobacco” sector at current prices was HUF2037 billion, which is HUF34 billion below the 2009 level. Of this the output value of tobacco products was HUF20 billion. Table 9 presents the development of the gross output value of the sectors and subsectors in 2010.
Figure 1. The volume indexes of domestic sale in the industry and food industry (2005=100)

Table 9. The value of gross output of the main food industry sectors and subsectors, their ratio and changes in the volume indices of output (2010)

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Value of output, billion</th>
<th>gross HUF</th>
<th>Ratio</th>
<th>Volume indices of output (2009=100)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Milk processing</td>
<td>212,4</td>
<td>10,4</td>
<td>102,0</td>
<td></td>
</tr>
<tr>
<td>2. Processing and preserving of meat</td>
<td>187,8</td>
<td>9,2</td>
<td>100,2</td>
<td></td>
</tr>
<tr>
<td>3. Manufacture of bakery goods and pastries</td>
<td>178,4</td>
<td>8,8</td>
<td>101,6</td>
<td></td>
</tr>
<tr>
<td>4. Manufacture of meat and poultry meat products</td>
<td>169,8</td>
<td>8,3</td>
<td>96,3</td>
<td></td>
</tr>
<tr>
<td>5. Processing and preserving of poultry meat</td>
<td>161,0</td>
<td>7,9</td>
<td>99,1</td>
<td></td>
</tr>
<tr>
<td>6. Processing fruit and vegetables</td>
<td>147,6</td>
<td>7,2</td>
<td>88,5</td>
<td></td>
</tr>
<tr>
<td>7. Manufacture of soft drinks and mineral water</td>
<td>142,0</td>
<td>7,0</td>
<td>95,4</td>
<td></td>
</tr>
<tr>
<td>8. Manufacture of prepared animal feeds/ domestic animal feeds (without pets)</td>
<td>121,7</td>
<td>6,0</td>
<td>105,5</td>
<td></td>
</tr>
<tr>
<td>9. Manufacture of vegetable and animal oils and fats</td>
<td>114,0</td>
<td>5,6</td>
<td>116,2</td>
<td></td>
</tr>
<tr>
<td>10. Beer production</td>
<td>81,2</td>
<td>4,0</td>
<td>113,8</td>
<td></td>
</tr>
<tr>
<td>11. Manufacture of starches and starch products</td>
<td>79,1</td>
<td>3,9</td>
<td>114,2</td>
<td></td>
</tr>
<tr>
<td>12. Processing of tea, coffee</td>
<td>78,3</td>
<td>3,8</td>
<td>97,4</td>
<td></td>
</tr>
<tr>
<td>13. Manufacture of grain mill products</td>
<td>69,7</td>
<td>3,4</td>
<td>98,0</td>
<td></td>
</tr>
<tr>
<td>14. Manufacture of grape wine</td>
<td>55,9</td>
<td>2,7</td>
<td>97,5</td>
<td></td>
</tr>
<tr>
<td>15. Manufacture of confectionaries</td>
<td>36,5</td>
<td>1,8</td>
<td>102,0</td>
<td></td>
</tr>
<tr>
<td>1.-15. Total</td>
<td>1835,4</td>
<td>90,5</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total manufacture of food, beverage, tobacco</strong></td>
<td><strong>2 036,0</strong></td>
<td><strong>100,0</strong></td>
<td><strong>99,6</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: Ministry of Rural Development 2011
Employment

In 2010 the food industry had the largest number of employees (97.4 thousand people) among the sectors of the processing industry, which is 1% more than in 2009. The average gross monthly salary per capita was HUF 162 thousand in 2010, which is 2.1% higher than in 2009. There were 2676 companies (with more than 4 employees) operating in the food industry in 2010, which represent no change from the previous years. Most of them (80%), however, are micro enterprises with less than 10 employees. 96% of all the companies in the food industry are enterprises with less than 50 employees. The ratio of foreign capital in the sector was 49% in 2010.

Foreign trade in food

Compared to the previous year the balance of foreign trade of the food industry had improved by 2010. The growth of the foreign trade surplus was generated by cereals, meat products, and oily seeds whose importance is growing among the raw materials. The export and import structure of the products of the food industry did not change significantly in 2010. The export of the more important commodity groups grew as a whole. Decreasing export sales can be observed only in the case of “Bakery goods, pastries” and the “Grain mill products”. Compared to the previous year (2009) the export level of these groups was 93.4% and 77.5% respectively.

Conclusion

The Hungarian agriculture and food industry have serious operating and competitiveness problems. These problems are extremely complex and often amplify each other. The inadequate competitiveness can be traced back to the following underlying problems: the deficiency of funds in the sector, excessive indebtedness, the expensive credits and loans compared to the profitability of the sector, and the very low level of expenditure on research and development. Besides, capital is scared away by the continuously changing and unforeseeable economic and legal environment. The most important question about the future of the food industry is whether it will remain as a primarily basic material producing industry or will it be able to evolve into a sector that is capable of producing goods with higher added value. A negative tendency observed in the Hungarian market is the abundant appearance of the often low quality products which are cheaper than the domestic ones. In the previous period the output continuously decreased and domestic markets were lost. Therefore these domestic markets must be regained! In order to achieve these Hungarian consumers must be made aware that if they choose domestic products they help safe domestic workplaces.

Suggestions

As the National Rural Strategy claims Hungary’s agricultural production is profit and export oriented. Besides, it must be able to supply the local markets with healthy products, and be sustainable and efficient in a way that it could meet sustainability requirements. (Marselek – Takácsné 2011)

Horizontal cooperation and efficiently operating vertical production paths are absolutely indispensable for the food industry to be able to respond to the challenges of globalisation and the continuously changing economic environment. The latter is one of
the determining factors of weak competitiveness. Integration would decrease risks (or it would be shared more evenly) and the advantages of the economies of scale could be better realised.

Governmental interventions (e.g. in improving the labour market situation of the sector) have a key role in the enhancement of competitiveness. Besides, cooperation among professional organisations must also be created as this is the only way to adequately react to political challenges (CAP-reform, trade liberalisation, agricultural budget, etc.).

The future improvement of the productivity and efficiency of agricultural production can be expected among others from strengthening and development of family farms. Family-based farming which has combined with the domestic sphere may offer an alternative solution in backward regions and there is the conceptual possibility that other potentials and capabilities arising from the rural characteristics (rural-, eco-, health tourism, landscape preservation, and conservation tasks) may assert themselves.

(Vasa 2010)

References

TOWARDS SUSTAINABLE ECONOMIC DEVELOPMENT:
ESTIMATION OF INSTITUTIONS’ ROLE IN FDI ATTRACTION

Abstract

Purpose – In recent years Foreign Direct Investment (FDI) has attained significant importance as instrument for accelerating growth and development of countries. The role played by FDI in economic growth of various economies drew the attention of researchers and policy makers to explore the FDI led growth linkage and identify the push and pull factors of FDI destinations. Scientists try to find out which of factor plays a key role in attracting FDI. In presented paper authors raise and verify hypothesis about the importance of the institutions as the factor attracting FDI.

Design/methodology/approach – For analyses eleven countries from different Europe regions, but similar in sizes or historical past has been chosen: Austria, Belgium, Bulgaria, Estonia, Hungary, Latvia, Lithuania, Netherlands, Romania, Slovakia and Slovenia. These countries reflect three different regions of the Europe according to the proportionately similar investment figures. These regions are West Europe countries, Baltic countries and Central Eastern Europe countries. Due to availability of data period between 1995 and 2010 has been chosen. The empirical analysis is based on a regression model.

Findings – Hypothesis - The better the institutional arrangement in a host country, the higher inward-FDI – was verified for Estonia, Romania and Slovakia, while Austria, Belgium, Bulgaria, Hungary, Latvia, Lithuania, Slovenia got insignificant coefficients of regression and for Netherlands relationship is significant, but negative.

Research limitations/implications – For further research a wider range of countries should be included in the analyses and different type of institutional indicators might be used. It needs to be indicated, that institutional factors represent only one group of factors impacting FDI flow. Other factors, which are not considered in the presented research, may impact FDI flows as well. Hence, that complex impact of various factors cannot be untangled, hence serves as research limitation.

Practical implications – In order to generate effective policies in the field of FDI attraction, it is important to identify the push and pull factors of FDI destinations, to find out the main factors which play a key role in attracting FDI. Efficient economic policies are seen as practical implication of the research.

Originality/Value – This article contributes to the growing research in the field of identifying the main factors, which play the major role in FDI attracting. The findings indicate that relationships between of institutional quality and FDI inflow can be rather different in different countries, so claim about crucial role of institutions is not verified for all cases, and hence, has to be considered as context sensitive.

Keywords: Foreign Direct Investment, economic growth, institutions.

Research type – research paper.

JEL Classifications:
O1 - Economic Development
O19 - International Linkages to Development
F63 - Economic Development

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Introduction

Researchers pay their particular attention to Foreign Direct Investments, their contribution to the developed, developing and underdeveloped countries’ economic growth and their impacts on various sectors of the country (Tvaronavičienė, Lankauskienė 2011; Adewumi 2006, Tvaronavičienė, Grybaitė 2007; Kumar 1994). Scientists raise hypotheses about driving forces, which attract these FDI to a specific country. Some statements are based on estimates, while others remain unproven. Researchers have a different opinion which of the factors plays a key role in attracting FDI. Generally, scientists highlight that tax policy, the business climate, market size, labour force and institutions are the key factors in attracting FDI. Bellak et al. (2009, 2010) emphasized tax policy as the key factor. Bellak et al. (2009, 2010) analysis shows that South Eastern European Countries (SEECs) which aim to increase FDI inflows should first reduce legal barriers toward FDI. Second, SEECs should keep corporate income taxes low at least in the short- and the medium-run. Third, SEECs need to free financial means to improve their infrastructure endowment in the medium- to long-run. Fourth, once the institutional environment and the infrastructure endowment have improved, SEECs might even consider to increase corporate income taxes again as “infrastructure rents” will accrue, which can be taxed without losing FDI. Another factor that plays a key role in attracting FDI is the business climate. Fung et al. (2005) show that better business climate, which they call “soft” infrastructure is more important in attracting FDI than hard infrastructure (roads). On the other hand, the degree of the impact differs according to the countries that are studied: the impact is more important in the case of flows coming from United States and Japan and it has a smaller magnitude for flows coming from Hong Kong and Taiwan. Using firm-level data across 77 developing countries, Kinda (2010) shows that constraints related to business climate obstruct FDI. Dollar et al. (2006) conclude that a better investment climate encourages FDI. Fabry and Zeghni (2002) showed, in the special case of Russia, that a bad investment climate explains why this country is less attractive for FDI. It is, however, might be the case that high communication, information and transportation costs, pervasive corruption and poor infrastructural facilities can increase the transaction costs and risks to the foreign investors and thus can affect FDI inflow negatively. Domestic market size and market potentials are other major determinants in attracting such type of foreign investors. Nunnenkamp and Spatz (2002) showed that dominant factors shaping the distribution of FDI are market-related determinants. Vijayakumar et al. 2010 had made the empirical analysis to identify which of chosen eight factors attract higher FDI inflows of BRICS countries and found that market size, labor cost, infrastructure, currency value and gross capital formation are the significant determinants of attracting FDI to BRICS countries. Authors find that trade openness is insignificant determinant. Asiedu (2002) examined which determinants of FDI flows to Africa are important and found that economic growth, inflation, openness of the economy, international reserves, and natural resource availability are important determinants and in contrary political rights and infrastructures are unimportant for FDI flows. One more interesting and often mentioned relationship is between FDI and Institutions. Authors that have studied the relationship between institutions and growth stressed that good institutions stimulate growth and development rather than the contrary. Kaufmann and Kraay (2003) noticed that the quality of institutions has an impact on growth but the reverse influence depends on the democratization process.
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and on the public governance. Acemoglu et al. (2001, 2002, 2005) show that the quality of institutions has a more important effect on the long-term growth than on the short-term one. Authors like Edison (2003) or Rodrik and Subramanian (2003) pointed out that a successful transfer of market institutions depends on path dependence and local abilities to make them effective within a local institutional arrangement. Busse et al. (2007) accept the definition of institution quality proposed by Kaufmann et al. (2008). Kaufmann et al. (2008) define the institutions as “the traditions and institutions by which authority in a country is exercised. This includes the process by which governments are selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them.” There are few studies which find labor force determining FDI flows positively (Sahoo 2006; Parcon 2008). Sahoo (2006) found that one of the major determinants of FDI in South Asia is labor force growth. Besides this major factor authors emphasized the importance of market size, infrastructure index and trade openness. Parcon (2008) empirical study shows that FDI inflows increase in countries with higher labor market standards, but decrease in countries with higher labor market regulations. Miyamoto (2003) maintain that enhanced human capital development increases incoming FDI by making the investment climate attractive for foreign investors. Some authors have the opinion, that the degree of a country’s openness can affect FDI in multiple ways. Lower import barriers discourage tariff-jumping FDI but may stimulate vertical FDI by facilitating the imports of inputs and machinery. Lower export barriers tend to stimulate vertical FDI by facilitating the re-export of processed goods, and other horizontal FDI by expanding the effective market size and leading to an improved business climate (Jaumotte 2004). Grossman and Helpman (1991), Barro and Sala-I-Martin (1995) mention that a country with a higher degree of openness has a greater ability to absorb technological developments generated in the leading nations, and this absorption capability leads them to grow more rapidly than a country with a lower degree of openness. However, counter arguments of the positive link between trade openness and economic growth can also be found in empirical literature. For instance, Rodrik (1992) reports that economic openness may bring macroeconomic instability by increasing inflation, depreciating exchange rates and inviting balance of payment crisis. Similarly, Levine and Renelt (1992), and Andriamananjara and Nash (1997) report that a high degree of trade openness may increase inflation and lower the real exchange rates which may create negative impact on domestic investment. FDI flowing into any country depends upon the rate of return on investment and the certainties and uncertainties surrounding those returns. Therefore, private investors compare the potential return and risks of their investment in the context of different investment destinations.

The literature on the determinants of FDI is very rich. The expectations of private investors in a host country are guided by a host of economic, institutional, and regulatory and infrastructure related factors. Before making an investment, investors look at certain major economic policy issues particularly relating to trade, labor, governance and the regulatory framework, and the availability of physical and social infrastructure. Some of the fundamental determinants of FDI, such as geographical location, resource endowment and size of the market, are largely outside the control of the national policy (UNCTAD 2003). However, national economic policies to create a
conductive investment environment, and particularly the investment framework, can help to make FDI inflows consistent with economic potential.

Literature is rich in a variety of different authors’ opinions and results of investigations about factors influencing Foreign Direct Investment. Some of scientist found that market size and labor force are most significant, while others got results that these determinants are absolutely insignificant and unimportant. The reason is that every researcher uses different statistical data, period and type of analyses. Moreover analyses are based on different regions.

**Hypothesis formulation, indicators used for research and quantitative verification of hypothesis**

The empirical analysis is based on a regression model that includes as potential determinants of FDI several EU countries characteristics. The relationship between variables can be estimated by simple linear regression model equation of the form $Y = a + bX$. In literature we can find various options regarding FDI, but in this work we will do the assumption that $Y$ (independent variable) will be FDI, $X$ will be dependent variable: institutional arrangement, while $a$ and $b$ will be the values of model parameters of the regression estimators.

Authors have chosen eleven countries from different Europe regions, but similar in sizes or historical past. These countries are: Austria, Belgium, Bulgaria, Estonia, Hungary, Latvia, Lithuania, Netherlands, Romania, Slovakia and Slovenia. These countries reflect three different regions of the Europe according to the proportionately similar investment figures. These regions are West Europe countries, Baltic countries and Central Eastern Europe countries. In this work the most commonly analyzed period is the year 1995-2010, but some indicators data are quite new, so they are calculated in period 2000-2010.

Authors formulated the hypothesis: The better the institutional arrangement in a host country, the higher inward-FDI.

*Independent variable – Foreign Direct Investment*  
All governments desire to attract more foreign direct investment (FDI) as possible. It can generate many positive things to the country: create new working places, bring in new technologies and, more generally, promote growth and employment. The resulting net increase in domestic income is shared with government through taxation of wages and profits of foreign-owned companies, and possibly other taxes on business. FDI may also positively affect domestic income through spillover effects such as the introduction of new technologies and the enhancement of human capital (skills). Given these potential benefits, policy makers continually re-examine their tax rules to ensure they are attractive to inbound investment. The statistical FDI data is collected from United Nations Conference on Trade and Development Statistics. Statistics is an inherent part of UNCTAD. Being the United Nations’ focal point for the integrated treatment of trade and development and the interrelated issues in the areas of finance, technology, investment and sustainable development, UNCTAD compiles, validates and processes a wide range of data collected from national and international sources. Most of the time series cover long periods, with some dating back to 1948, for almost all economies of the world. The main data, which will be used in all analyzes, is presented in three graphs below (Figure 1, 2, 3). Information is submitted in US Dollars at current prices and
current exchange rates in millions in a period of 2000 - 2010. Countries are separated in regions due to better data visibility.

![Graph of Inward Foreign Direct Investment Stock (USD mil.) - Baltic Countries](image1)

*Source: authors’ compilation based on UNCTAD*

**Figure 1. Inward foreign direct investment stock (USD mil.) – Baltic Countries**

![Graph of Inward Foreign Direct Investment Stock (USD mil.) - WEC](image2)

*Source: authors’ compilation based on UNCTAD*

**Figure 2. Inward foreign direct investment stock (USD mil.) – WEC**

![Graph of Inward Foreign Direct Investment Stock (USD mil.) - CEEC](image3)

*Source: authors’ compilation based on UNCTAD*

**Figure 3. Inward foreign direct investment stock (USD mil.) – CEEC**
As we see from the results, the largest investments are in Netherlands and Belgium (over 190,000 million USD), while the lowest amounts are in Latvia and Lithuania (up to 15,000 million USD). So later when all analyzes will be done and hypotheses will be verified, we will be able to explain such results.

**Dependent variable - institutions**

According to North (1990), institutions are important and endogenous elements of the economic growth of a country. By extension, the idea that institutions are a strong part of the localization advantage has been developed in the recent empirical literature (Bevan et al. 2004; Pournarakis and Varsakelis 2004; Sehti et al. 2002). As noticed by Busse et al. (2007), institution quality may be approached by governance defined by Kaufmann, Kraay and Mastruzzi (2008) as “the traditions and institutions by which authority in a country is exercised. This includes the process by which governments are selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them”. Neither institution nor institutional arrangement is optimal. Nevertheless, some institutional environments are more favorable to economic development than others and the ability of institutions to adapt appears to be an advantage for a country.

The aim of this paragraph is to emphasize the role of institutions to attract FDI in 11 analyzed European Countries. To establish the institutional profile we used the *Worldwide governance index* (WGI) developed at the World Bank. As Kaufmann et al. (2008) wrote: “we define governance broadly as the traditions and institutions by which authority in a country is exercised”. Considering that governance is an approximation of formal and informal institutions of a country, the authors split the governance into six dimensions all measurable by an indicator telling a level of governance perception. These six indicators are: **Voice and accountability, Political stability and absence of violence/terrorism, Government effectiveness, Regulatory quality, Rule of Law, and Control of corruption**. Finally, they construct an aggregate indicator from these six indicators. The composite measures of governance are in units of a standard normal distribution, with mean zero, standard deviation of one, and running from approximately -2.5 to 2.5, with higher values corresponding to better governance. Good governance at each level will result in good global governance, which may be considered as a safe fundament for institutions building.

Figure 4 represents same selected eleven countries according to the quality of their global governance. The global governance is the sum of the averages of the six indicators for the period 1996 - 2010 calculated for each country. For these countries the interval is between -0,21 and 1,85. Almost all countries get positive governance indexes and may be considered as having a relatively good quality of institutions. The exception is Romania, which gets the worst negative indexes (the lowest -0,21). At the leaders positions again are Netherlands, Austria and Belgium, while the poorest quality of institutions have Bulgaria and as earlier mentioned Romania.
Source: authors’ compilation based on The World Bank (2013)

**Figure 4. The Worldwide Governance index (1996 - 2010)**

The Worldwide Governance index shows (figure 4) that the best qualities of institutions have Netherlands and Austria. Unfortunately, they do not reach the maximum results of 2,5 as well, so they still have room for improvement. On the opposite site of graph is Bulgaria and Romania, which scores are about 0.

*Quantitative verification of hypothesis*

In order to know, does the correlation between FDI and The Worldwide governance index exist, the regression analysis was made and its major results are presented in Table 1.

**Table 1. Regression analysis results between FDI and The Worldwide Governance index (year 1996-2010)**

<table>
<thead>
<tr>
<th>Observations</th>
<th>$R^2$</th>
<th>$R^2_{adj}$</th>
<th>$F$</th>
<th>$P$-value</th>
<th>$T_{Stat}$</th>
<th>$t$ table</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>0,05</td>
<td>-0,05</td>
<td>0,52</td>
<td>0,49</td>
<td>-0,72</td>
<td>2,2</td>
</tr>
<tr>
<td>Belgium</td>
<td>0,13</td>
<td>0,04</td>
<td>1,44</td>
<td>0,26</td>
<td>-1,20</td>
<td>2,2</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>0,20</td>
<td>0,12</td>
<td>2,52</td>
<td>0,14</td>
<td>1,59</td>
<td>2,2</td>
</tr>
<tr>
<td>Estonia</td>
<td>0,84</td>
<td>0,83</td>
<td>54,42</td>
<td>2,38E-05</td>
<td>7,38</td>
<td>2,2</td>
</tr>
<tr>
<td>Hungary</td>
<td>0,20</td>
<td>0,12</td>
<td>2,54</td>
<td>0,14</td>
<td>-1,59</td>
<td>2,2</td>
</tr>
<tr>
<td>Latvia</td>
<td>0,43</td>
<td>0,38</td>
<td>7,63</td>
<td>0,02</td>
<td>2,76</td>
<td>2,2</td>
</tr>
<tr>
<td>Lithuania</td>
<td>0,29</td>
<td>0,22</td>
<td>4,12</td>
<td>0,07</td>
<td>2,03</td>
<td>2,2</td>
</tr>
<tr>
<td>Netherlands</td>
<td>0,75</td>
<td>0,72</td>
<td>29,63</td>
<td>2,84E-04</td>
<td>-5,44</td>
<td>2,2</td>
</tr>
<tr>
<td>Romania</td>
<td>0,74</td>
<td>0,72</td>
<td>28,76</td>
<td>3,18E-04</td>
<td>5,36</td>
<td>2,2</td>
</tr>
<tr>
<td>Slovakia</td>
<td>0,66</td>
<td>0,63</td>
<td>19,73</td>
<td>1,25E-03</td>
<td>4,44</td>
<td>2,2</td>
</tr>
<tr>
<td>Slovenia</td>
<td>0,08</td>
<td>-0,02</td>
<td>0,82</td>
<td>0,39</td>
<td>-0,90</td>
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As we see from the results four countries have significant coefficient of determination ($R^2>0,5$). These countries are Estonia ($R^2 = 0,84$), Netherlands ($R^2 = 0,75$), Romania ($R^2 = 0,74$), and Slovenia ($R^2 = 0,08$).
0.75), Romania ($R^2 = 0.74$) and Slovakia ($R^2 = 0.66$). This means that FDI variation can be explained by The Worldwide Governance index in these countries during 1996 – 2010. This coefficient shows that this model is statistical significant and that these two variables have strong relationship. For testing the significance of the correlation coefficient, we use the T test. The properly P-values are ($p = 0.02$ and $p = 0.000$) < ($\alpha = 0.05$) highlights that we obtained a significant correlation coefficients to a threshold of 0.02 or 0.000, so are less than 5% chance of error if we say that between the two variables it is a significant correlation. Furthermore, one more proof that result is statistically significant is that absolute values of $t_{Stat} > t_{table}(2,26)$. All significant countries have positive $t_{stat}$ except Netherlands, which $t_{stat} = -5.44$ and it means that increasing index in this country leads to smaller FDI. Interesting is that Netherlands has the largest average index in analyzed period from all tested countries, so according to this result, we could make an assumption that too high Governance index sometimes is unattractive for foreign investors. So our hypothesis is approved, that countries with strong local institutional arrangement receive more FDI, for Estonia, Romania and Slovakia, while other six countries from eleven got insignificant coefficients of regression, which means that FDI in these countries is affected by other determinants.

**Conclusions**

Extensive scientific literature suggests that there are a lot of various determinants of FDI. Some of the most common factors we have chosen for broader analysis in case of the selected countries. These determinants are: total tax burden, business environment, institutional arrangement, market size, purchasing capacity, labor force and trade openness.

Scientific literature is rich in a variety of different authors' opinions and results of investigations about factors influencing Foreign Direct Investment. Some of scientist found that market size and labor force are most significant, while others got results that these determinants are absolutely insignificant and unimportant. The reason is that every researcher uses different statistical data, period and type of analyses. Moreover analyses are based on different regions.

For research of the influential factors we have chosen eleven European countries such an Austria, Belgium, Bulgaria, Estonia, Hungary, Latvia, Lithuania, Netherlands, Romania, Slovakia and Slovenia. These countries have been selected based on similar area size or his torical past.

Hypothesis, that the better the institutional arrangement in a host country, the higher inward-FDI was approved in Estonia, Romania and Slovakia. The increase of Governance index in these countries causes growing of FDI. Whereas the results in Netherlands were opposite: increasing index in this country leads to smaller FDI. Seven other countries got insignificant coefficients of regression, which means that FDI in these countries is affected by other determinants.

Collected and analyzed data suggests that FDI spillovers appear to be greater in the more developed regions as Austria, Belgium and Netherlands even despite their size. Based on findings, developing countries should try making the more business friendly environment, improve infrastructure facilities and follow more open trade policies for attracting more FDI.
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CO-CREATED SERVICE QUALITY: THEORETICAL DELIBERATIONS AND QUALITATIVE INVESTIGATION FINDINGS

Abstract

Purpose - The value co-creation concept is becoming more and more popular, with reference to industrial processes as well as services. But up to the present time the co-creation concept has not taken into consideration quality, including the means and methods of how quality is achieved in co-created service products. The elaborations and empirical investigation presented in this study are focused on quality in co-created service. The aim of the study is to identify how quality is co-created during the service process, although the viewpoint of organizational operations is in the central point of interest.

Design/methodology/approach - The literature from the fields of service marketing and quality management is critically analyzed. The fundamental concepts are discussed, and afterwards the research framework is outlined. Empirical investigation is based on the Critical Incident Technique. 84 incidents reported by representatives from both sides of the service process were gathered. The respondents’ stories were analyzed according to the rules of content analysis.

Findings - First of all the investigation allows us to demonstrate that quality in the service encounter is not always a stable target to be achieved. It very often becomes a kind of phenomenon which is determined simultaneously with a customer during each individual service process. Moreover, quality requirements, which form a basis for quality, can be uncertain to the service provider. According to content analysis of co-created quality the extras offered to customers very often matter, e.g. advisory support to customers, and kinds of small innovations in the service process. The theoretical concept developed in this study, and the conclusions drawn from empirical research provide extended understanding of the crucial question: how is quality achieved in co-created services? The study also contributes to co-creation theory by showing the undoubted role of service staff engagement in service co-creation.

Research limitations/implications - The research takes explorative approach, so that it is applying qualitative methodology. The limitation is that the conclusions cannot be generalized to entire service industry.

Practical implications - According to the study service staff engagement is the key factor of achieving quality during service co-creation. Moreover, spontaneous and creative actions by service employees facilitate customers playing a role of the service co-creator. These imply particular fields of focus for business when aiming service excellence.

Originality/Value - The theoretical concept developed in this study, and the conclusions drawn from empirical research provide extended understanding of the crucial question: how is quality achieved in co-created services? The study also contributes to co-creation theory by showing the undoubted role of service staff engagement in service co-creation.

Keywords: service, quality, co-creation, CIT.

Research type: research paper.

JEL classification:
M10 – General,
M31 – Marketing.

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Introduction

During the service production process the service system comes into contact with customers, many interactions occur during this process, and much information is exchanged in both directions. On one hand information about customer expectations concerning the service product is provided, including what exactly should be done or resolved during the service process. On the other hand, the customer gains information about the capabilities of the service provider as well as possible limitations during the service process. In service encounters, apart from the above-mentioned information exchange, there are many more types of interaction which all together influence the service output.

In the literature, a lot of space is given to the quality of service in terms of the customer’s experiences. Indeed the perceived service quality is absolutely essential, and this quality is the primary determinant of all efforts made within the service organization. However, it should be emphasized that within the organization the systemic approach to quality is a rather typical one, and this approach supports the proper carrying on of service operations. According to the systemic approach quality is meant as the degree of fulfillment of predetermined specifications. Hitherto studies on service quality have not paid attention as to how to achieve quality in situations where it is impossible to determine in advance what exactly quality requirements are. This is due to the fact that these requirements emerge during co-creation of the service process with the customer, and therefore it is possible to discover them only during each individual process, and not before. This issue is relevant to this article.

The paper carries out a critical analysis of the most important literature sources related to the co-creation of services as well as service quality. The objective of this paper is to propose a theoretical framework of service quality when the service is co-created, and this framework will form the basis for further empirical research. The empirical investigation utilizes the qualitative approach, namely the Critical Incident Technique, in order to identify how exactly co-creation influences quality achievement in real service situations. The empirical research allows the verification of theoretical deliberations with reference to co-creation consequences for service quality. The study will broaden the knowledge of co-creation in services, particularly on how quality is achieved.

Quality in services

The literature on services proposes some different conceptualizations of service quality, but all these models understand quality as experiences arising in the customers’ minds. The quality experienced by customers, called perceived quality or user’s quality, is understood as a subjective evaluation of the object (product) made in relation to the customer’s own benefits and needs, as well as the preferences of the customer (Smith 1993, 236). Today we can even name as classical the basic division proposed by Grönroos (1984, 36-44) separating perceived service quality into the technical quality component and the functional quality component, or by other authors the identification of three dimensions of service quality: the material quality, the quality of interactions, and firm quality (Lehtinen and Lehtinen 1991, 288). Also the conceptualization of quality as a kind of gap, i.e. the service quality gap (Grönroos 2007, 82), has had a major
impact on research on service quality. The quality gap is the difference between what a
customer expects with reference to service and the what is actually delivered by the
service provider.

However, perceived service quality does not exhaust the understanding of quality
within service organizations. Between other understandings of quality the transcendent
one should be spotted. The transcendent approach to quality is based on the personal
mastery of doers. It also has the feature of timelessness and even permanence, which
includes the desire to exceed the state of the art. The essence of such quality is similar to
a work of art and the category of beauty – the value people recognize by the experience
of contact with the result of a creative act (Garvin 1988, 41). The transcendent approach
to quality is, unfortunately, ephemeral and not appropriate for practical management
guidance, in particular on how to accomplish it, and how to measure it.

Another approach to quality is driven by quality management systems. Garvin
(1988, 44) specifies the so-called production meaning of quality, but this meaning
should by no means be identified only with industrial production. High quality in this
sense means a perfect fulfilment of the specifications of a product or a process, and it
should be done well first time. The production meaning of quality is defined as a
reference of characteristics of the object to a fixed objective standard; this standard is
precisely described in advance. In the same way quality is defined by the ISO 9000
standard, according to which quality is the degree of fulfilment of established quality
requirements (EN ISO 9000:2005, 3.1.1.). So the production meaning of quality can be
called systemic, because it is specific to quality management systems. According to the
literature quality meant as conformance to requirements is also widely utilized in

Co-creation according to literature output

The discussions by scholars on the issue of service co-creation with customers are
rich in the number of views, and these are dominated by the issue of value co-creation.
One of the early views on co-creation describes it by presenting an example of the
popular Starbucks coffee shop chain operator. Co-creation of value by its nature is not,
according to the approach taken by Starbucks, on the principle of ‘let’s do it for them
and they come to us’. Co-creation instead consists in the principle ‘let’s do it with them;
they are already here’ (Ramaswamy 2009, 14). The concept of value co-creation
underlines the need to shift attention in management away from the company and
towards seeking value with consumers, focusing attention on personalized interactions
between the company and customers (Prahalad and Ramaswamy 2004, 7). One cannot
talk about the value co-creation process and leave out the customer. In Starbucks value
creation is understood as both a means to achieve aims, and the aims themselves.
Co-creation is not only a platform for customer engagement in the development of a
new product or service (Nike and the Crushpad wine company do this successfully), but
is also a platform for systematically involving customer service employees and
stakeholders in a constant process of exploring and implementing opportunities of
creating new value (Ramaswamy 2009, 14).

Co-creation is one of the fundamental issues of Service Dominant Logic proposed
by Vargo and Lusch (2004). The sixth thesis of SDL states that ‘the consumer is always a
creator’ (Vargo and Lusch 2004, 10). The authors emphasize the wide presence of
creation throughout industries, including manufactured products. According to
these authors the production of a product does not end along with the end of the manufacturing process. The product received by a consumer should be handled properly, and this requires appropriate skills by a user. Moreover, whilst using a product a consumer in fact receives the service from the product. In addition, not only is learning how to use the product required, the consumer must also keep the product, maintain it and repair, as well as customize the product’s features for individual specific needs. Co-creation, as it is presented by SDL, consists primarily in the independent activities done by customers with reference to product’s entire lifecycle. The same use of the product, according to SDL’s authors, is a continuation of its marketing and value creation (Vargo and Lusch 2004, 11).

Co-creation is also understood as active involvement of the customer in product and service delivery. This involvement offers possibilities to adapt the product to individual needs and preferences (Co-creation... 2009, 19). Co-creation in this context is very often called co-production. Examples of co-production are self-checkout scanning and payment in supermarkets, or the approach employed by Ikea consisting in independent furniture assembly by customers (Co-creation... 2009, 19). Authors state co-production to be a special case of outsourcing, where some service tasks are delegated to customers who want to minimize their costs, including both the time opportunity cost to complete the service, and the explicit purchase cost (Xue and Harker 2003, 1-35).

Authors referring to the differences and similarities between co-creation and co-production conclude that these two approaches are understood as two closely related concepts rather than two separate issues (Chathoth et al. 2013, 14). These authors point out the semantic relationship between co-creation and co-production. Co-production means customer participation in creation of the core offer by engaging in innovation and product design. But co-creation is meant as likely to occur at the consumption stage of the product and at the same time considering the associated customer’s experiences (Chathoth et al. 2013, 14). During co-production the customer plays a rather passive role, whilst in co-creation the customer takes a more active role. Co-production is more company-centric, but co-creation is client-centric and focused on the customer’s experiences. Thanks to co-production, companies create only innovations, only because in the case of co-creation companies transfer even more control over the products to customers, allowing them virtually unfettered use of their imagination and creativity, even in a manner unexpected by the supplier. Co-production is more transparent with regard to communication. Conversely, co-creation is based on constant and intense dialogue with the consumer, and for this reason communication is more open and less structured. In both cases, co-production and co-creation, there is a danger of not fully complying with the customer’s needs and desires, for example because of unwillingness of the customer to fully share information (Chathoth et al. 2013, 11-20).

The above-mentioned differences shed some light on the complexity of co-creation. But in the literature there are more views on co-creation. Grönroos and Voima (2013, 141) suggest that co-creation may exist exclusively when direct interaction between the service company and the customer occurs. However, this interaction is not an automatic trigger of co-creation, but forms a kind of platform for joined creation of value. Authors underline that the company’s involvement in interaction may lead to positive values, but may also result in negative or neutral experiences (Grönroos and Voima 2013, 141). This is very similar to quality perception, which might be satisfying
and exceed expectations, but could also be poor, and lower than expected. Authors suggest focusing attention on the quality of interactions with the consumer whilst providing services (Fyrberg, R. Jüriado 2009, 420-432). According to Eichentopf et al. (2011, 650-663) service providers usually do not have a comprehensive understanding of how they contribute to value creation, and vice versa. This is an interesting issue which exactly occurs when the customer acts in the co-creation process (Eichentopf et al. 2011, 650-663). Moreover, the particular role of the service provider’s staff has still not been exhaustively explored.

Quality in co-creation: theoretical deliberations

First of all, the process nature of service products should be underlined, as well as some consequences of this fact. The process nature of services ties the customer’s experiences to the passage of time, and there are sequences of phases and stages (Helkkula 2011, 376). The process of customer experiences includes dynamic experience transformations, activities and interactions occurring simultaneously and consecutively (Heinonen et al. 2010, 544). Therefore, the consequence of the process nature of services is that what happens in the previous stages of the process has an influence on the next steps. As mentioned in the literature co-creation is synchronous and interactive (Ramirez 1999, 49-65). The consumer is dialoguing with the service provider and this dialogue takes place at different stages of the service process. Moreover, it may take a variety of forms; this is a kind of interactive mutual learning (Ballantyne 2004, 114). The consequence of the dialogic nature of the service process and service co-creation is that the service provider establishes what the requirements are, which the provider should aim at only at successive stages of the service process.

Underlying the fact that quality is often referred to as a relative phenomenon (Harvey and Green 1993, 9-35) it might be concluded that in service co-creation the quality of emerging requirements should appear. This kind of quality assumes that at the beginning of the service process the service provider does not know what the specific requirements are that form the pattern to achieve during this process; but they become known as the process proceeds to successive phases, as stated by Urban (2012a, 73).

The nature of service quality is very complex, and all there is not always enough space for all requirements to be fully communicated and agreed. Some of them might not even be easy to express. For example, Edvardsson et al. (2011, 547) stress the necessity of the service provider to anticipate customer needs during service provision. The consequence is that the service provider is sometimes obligated to operate under conditions of uncertainty. According to Hunter (2011, 35-56) the foundations of excellent service are a manifestation of the core values of respect, compassion and hospitality, which have their roots in the natural spontaneity of the service provider’s staff. These conditions very often appear when the service is co-created. So service providers are sometimes obliged to serve under conditions of requirement which are not comprehensively defined, where customer expectations are not fully expressed and are unclear (Urban 2012b, 216).

That is why it might be concluded that during co-created services the quality of elusive requirements should appear. In this kind of service quality the requirements are not fully known during the whole service process, and they are left in the shadow of conjecture.
Methodology

For empirical studies the qualitative approach was employed because the research problem needs to be explored in-depth. The main aim of empirical exploration is to verify and deepen understanding of the concept outlined above. The Critical Incident Techniques developed by Flanagan (1954, 327-58) are engaged. This method is used for in-depth research in many fields, in particular to study various aspects of services including customer interactions (Wong and Sohal 2003, 250). The CIT method is to gather descriptions of situations that respondents have participated in personally, which are the subject of interest of the researcher (Lockwood 1994, 80). In the course of interviews respondents talk about these situations, sharing their own experiences. The respondents’ stories are collected and then analysed in a manner appropriate to content analysis. In this study the two sides of the service encounter were requested to present in-depth descriptions of the situations related to the achievement of quality in a co-creation, and there were no restrictions of service industries. There was a tendency to engage the same number respondents recruited from direct contact staff and customers. The condition to participate in interviews was a positive response to the question of whether a respondent had experienced a situation where the quality requirements were determined during the service process, or where the process was carried out under conditions of uncertainty as to what requirements should be sought. Afterwards respondents were asked questions for exhaustive clarification of such situations, and the whole statement was recorded by an interviewer. A total of 84 incidents were collected. This set of transcribed descriptions was the object of categorization and in-depth analysis.

Incident categorization and analysis

The collected empirical material proves, in accordance with the theoretical assumptions that during service processes situations appear when service requirements are discovered during the accomplishment of individual processes, and situations when service requirements are not clearly specified. Each of these 84 service incidents concerned such conditions. Additionally, representatives of both sides of the service encounter, i.e. customers and staff, had met situations which fulfilled these conditions. A comprehensive analysis of the collected stories allowed the categorization of them into two systems. The first one concerns the phases of the service process when a situation occurred; the second one reflects the basic logic of quality achievement whilst co-creating a service. In the first set of categories the incidents were qualified to categories exclusively; one incident might be assigned to only one category. In the second categorization there was a possibility to assign an incident to more than one category.

Focusing attention on the service process phases in which the incidents appeared there was a possible to identify three categories (the numbers of incidents and percentage are presented in brackets):

- Initial phase - service offering (22; 26.2%),
- Main service process (60; 71.4%),
- Service recovery (2; 2.4%).
The three categories listed above are the output of the initial screening of all stories. It was symptomatic that stories describe different approaches to quality in consideration of process phases. In some stories it was a recognizable initial phase of the service process. The co-creation interrelations, including the determination of service requirements, passed more openly. Customers very often examine if what is emerging really suits them, and they still had the feeling of freedom that they could withdraw from the process because the final decision about buying the service product had not be reached. It can be stated that relatively many incidents occurred during the initial phase of service process, i.e. over a quarter. This shows that whilst co-creation of services occurs in the initial phase, before the customer is fully convinced, many service requirements are particularly important in achieving satisfactory service quality, and they are jointly settled during this stage.

The second categorization system tried to capture co-creation mechanisms crucial for service quality. Seven categories, presented below, were identified:

- Advice (26; 31.0%),
- Extras (25; 29.8%),
- Innovation (22; 26.2%),
- Information (17; 20.2%),
- Adaptation (10; 11.9%),
- Persuasion (5; 6.0%),
- Personal relationships (3; 3.6%).

The second categorization emerged after a more detailed look at all incidents, and the categories changed during a few cycles of the stories’ analysis. The largest category is ‘advice’, where 26 out of 84 stories are qualified. Co-creation, according to this category, is when the customer does not have sufficient knowledge about how the service would look, and very often he/she is not even able to specify what exactly the problem to be solved during the service process is. Only in close cooperation between the customer and the service staff is it possible to determine how the service should look. The advice is based on the personal experience of at least one side of the service encounter, as well as thorough industrial expertise. The collected incidents are dominated by scattered consumer services, and there are a lot of hairdressers and beauty services. An example of an incident is described as follows. (...) A lady wanted to change her natural blonde hair colour to dark brown. I talked with her for a long time, claiming that the colour did not match her type of beauty. I made a few darker strands and the client was delighted with the effect. It was in fact a small change but the effect looked very impressive (...) (hairdresser, service staff, female, age 30-40). It should be noted that in incidents where co-creation is based on consultancy there are also cases of undetermined service requirements – the quality of elusive requirements. One such case was described by a hairdresser’s client (customer, female, age 18-30). After getting a huge amount of staff advice, she had declined to accept her hairdresser’s experience and intuition; unfortunately, in that case the overall service quality was negative.

The ‘Extras’ category is also rich in critical incidents: 25 items. This category groups respondents’ stories where co-creation is based on additional activities, and sometimes accompanying things provided to the customer by the service staff. These activities were precious in the eyes of customers. They were not in the scope of the standard service and they required some additional effort. Moreover, they usually emerged from the service process context. One such situation was described as follows. (...) A lady asked me what documents must be submitted to obtain a parking pass. I
informed her and gave her the application that should be fill out, and at once I checked the documents which she possessed, and finally I indicated that she must go to another room, then must go to the cashier (...). I noticed that this was an old lady, so I took the application form from her. I went to the room where they write down the charge slip to take it to this lady and then I pointed out to her which way to go to the cashier (...). Afterwards I took the lady into the office where she had to submit documents (...) (public administration, service staff, female, age 18-30). The ‘extras’ category is dominated by incidents fulfilling the assumptions of the quality of elusive requirements. In these cases the superior service quality was decided situationally, without clear assignment with customers.

The ‘Innovation’ category means the occurrence, then the implementation to the service process, of creative proposals which clearly change the typical service; these are a kind of new formula of the service process which had not been known before, at least to one side of the service relationship. An example of an incident from this category is as follow. (...) I usually work as a waitress. Once, a client reported that she could not choose a drink from the menu. Despite my encouragement to choose from the many offered drinks this client suggested that I should create for her a new drink by myself. This request both surprised and delighted me, as it enabled me to test my skills as a bartender. (...) The drink created by me pleased my client (restaurant, staff, female, age 18-30). This situation shows that co-creation is a co-inspired activity, and this incident is an example of co-creation where no-one can determine the precise requirements for the service process or the service output. In this category, almost all the time, the service staff take the role of innovator, and sometimes the customer plays co-innovator because neither of them can define the service requirements in terms of the organizational standard.

Other, less numerous categories includes both kinds of quality: quality of emerging requirements and quality of elusive requirements - the desired pattern of service is determined only in the course of the service process or is not at all certain. The ‘Information’ category contains respondents’ stories underlying the informative role of the service provider. The service staff usually provides comprehensive information concerning the service and possible options. Very often this was commonly available descriptions and specifications, and on that basis, jointly with the customer, they determined how the service should look. The ‘Adaptation’ category contains incidents involving a major rebuilding of the service process based on guidance received from the customer. The next category, ‘Persuasion’, refers to situations where the service staff exerted a kind of verbal pressure in order to convince the customer to agree to a form of service process which, in opinion of the staff, was best for the customer. In the stories from this category the word ‘convince’ appeared very often. The smallest category, ‘Personal relationships’, describes situations where the personal bond between the customer and the staff was the basis for performing the service, and where service requirements were not specified at all.

Conclusions

Although perceived service quality is a crucial issue, research should consider at the same time quality viewed from the service system perspective. A systemic approach to service quality could be essential for service managers. The study shows that from the organizational perspective quality has a specific meaning when service co-creation is taken into consideration. In the systemic approach to quality the requirements form
the absolute basis on which to capture quality in any way. So in co-creation there is quality distinctive of emerging requirements during each individual service process and quality distinctive of elusive requirements. Both components of service quality occur when the service is co-created with customers. It might even be said that both constitute co-created service quality.

This research shows that co-created service quality is particularly important in the early phase of the service process, as during this relatively short phase relatively many critical incidents appear. This phase is so important because the customer has not yet taken a clear decision on whether to order a service product, and there is still room for decisions on how the service should look. The literature output underlines the crucial role of customer engagement during co-creation. This study emphasizes the key role of service staff engagement, as the vast majority of categories are based on the active involvement of the staff. Open, engaged and creative actions of service personnel allow the customer to take the role of service co-creator.

Suggestions

The conclusions which emerged from the study suggest the necessity for a specific approach to achieve quality by service providers in the initial phase of the service process, when relatively many service requirements are determined. Moreover, service theory should focus much more attention on quality in the context of co-creation. This study suggests that service quality has many faces when it is taken into consideration that services are co-created.

References


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