CURRENT TRENDS IN MANAGEMENT: BUSINESS AND PUBLIC ADMINISTRATION
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Preface

The contemporary world economy is constantly in a state of flux, which determines both its developmental direction and its operation. This demands the formation of many new solutions, which on the one hand is an attempt to adapt to the changing environment, and on the other – a proposal for further, better functioning in this altering environment. These changes and the attempt to adapt to them take place not only in the private sector among companies and their employees, but also concern the public administration sector, which now more than ever needs guidance for its development and transformation. These phenomena are determinant of new, short – or long-term trends in many areas of economic life.

Contemporary management trends seek to gain competitive advantage through a quicker response to emerging opportunities and existing problems. Technological innovation, flexibility of labour resources and organizational structures, the emergence of new management concepts and modern methods of education in the science of management all point to solutions that will enable the improved future functioning of these entities. The direction of changes proposed in public administration also aims to introduce the element of competition and increase the rationality and efficiency of managing public funds.

Only rapidly adapting to change, making use of and implementing new ideas as well as distinguishing momentary fads from actual trends can effectively enhance management processes in business entities and be the guarantor of their success.

These issues allow for an interdisciplinary look at contemporary emerging trends in management and present a range of considerations offered in the book. The aim of the book is to present selected methods and directions for modern management of enterprises as well as entities of the public administration sector. Current Trends in Management: Business and Public Administration is a book which contains selected methods, models and solutions that specify emerging trends in managing the private or public sector organization. The book is divided into five parts and the issues presented in it are theoretical and practical.

The first part of 'Management in Science and Business Practice' represents theoretical issues related to the science of management as well as management methods put to practical use from which the modern manager can learn. One of the chapters in this first section presents an innovative method for teaching management, which forms the basis for effectively shaping the managing team.

The second part of the book 'Modern Trends in Management' is dedicated to management methods that are essential to the development of the company. In this part, issues relating to the "Inbound Marketing" strategy, trust management and CSR among other things are addressed. These strategies when used can
contribute in many areas of the enterprise to its competitiveness, effectiveness, and can thereby strengthen its market position.

The third part of this book, ‘Challenges for Business – Research Results’, considers scientific analysis and its results. Presented studies concern the micro and macro level and they are devoted to quality management, integrated organizational management, current challenges facing the insurance business, as well as the development of energy technologies at state level.

The final two remaining parts of the book concern the issues of new trends in public administration management. ‘The Public Finance System at the European, National and Regional Level’ presents the financial context of management in public administration. It is devoted to methods of budget planning and tasks reporting, but it also presents tax policy options.

The last part of the book, ‘Regional Development Challenges and their Solutions’, concentrates on methods used in the management of public institutions. Although the business sector has adjusted to new conditions very quickly, public institutions have difficulties in this sector. Thus, this part of the book shows new methods for management in public organization and pinpoints the importance of an organizational culture of city offices, as well as enumerates the challenges for regional development.

Analysis of the above mentioned issues does not exhaust all methods and solutions for better management in a current, changeable environment, however. New trends in organizational management may be enriched by other examples. I believe that this book is a good beginning for further consideration of the issues presented.

I am honoured to express particular words of acknowledgement and am profoundly grateful to all co-authors and those that reviewed the book for their effort and contribution towards this international publication.

Anna Świrska
MANAGEMENT IN BUSINESS

PART 1
MANAGEMENT IN SCIENCE AND BUSINESS PRACTICE
1. In Search of the Metaparadigm of Management Sciences

Introduction

Firstly, the sciences are to a large extent shaped by civilization and cultural factors, and remain significantly influenced by local authorities.

Secondly, in the opinion of T.S. Kuhn, the development of science is a cyclic process, including certain phases. As a consequence, the author of The structure of scientific revolutions wonders whether any of the disciplines of social sciences have reached a paradigm\(^2\). At the same time, he emphasizes that "the power of a discipline increases along with the decrease of symbolic generalizations, which members of the community have"\(^3\). Furthermore, C. Suszyński stresses the notion that "the management sciences, going far beyond the frames created by the classics of scientific organization and management, require a new approach enabling the development of a full scientific identity. Therefore, the future (...) means a new cognitive and practical quality, and the process of its establishment seems to be the key challenge for the next years. (...) The management sciences are at a stage that is precedent to the development of new paradigms\(^4\).

The need to revise the characteristic set of popular beliefs concerning the management sciences at the threshold of the 21st century was emphasized by P. Drucker. He claimed that basic, fundamental assumptions are impossible to apply. He denied the following postulates:\(^5\):

- There is a unique, proper method of controlling the company, including both a set of principles of management, and a universal model of organization;
- Management principles are applied only in companies;
- Here is – or at least, there should be – only one way of managing people;
- Management is based on available technologies and markets of the final recipients of its effects. Each branch of industry has different technologies of manufacturing and their target markets are disjunctive;

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\(^1\) Ph.D., Cracow University of Economics, Poland.
\(^3\) Ibidem, p. 413.
Part 1. MANAGEMENT IN SCIENCE AND BUSINESS PRACTICE

- The scope of management is legally specified. It applies only to assets and employees of an organization;
- Management is focused on the internal part of a given organization;
- The scope of management is defined politically. Economics, in a narrow perspective, is the "ecology" of company and management.

While thoroughly arguing the irrelevance of the previous guidelines specific for management sciences, P. Drucker does not propose any equivalents that would be suitable for the knowledge-based economy. At the same time, he presents postulates based on observations conducted at the end of the 20th century.

Therefore, the challenge to undertake a broader discourse aimed at the identification and development of past paradigmatic proposals constitutes only a preliminary discussion. The essence of this chapter is thus a presentation of any patterns of the science emerging in contemporary literature and an attempt to decide whether the emergence of the metaparadigm of management sciences is possible at all.

Paradigm as Defined by the Management Sciences

The author of the term paradigm in the area of social sciences, T.S. Kuhn, defines it as a set of questions directed at objective reality and a number of ways to answer these questions.

In the perspective of management sciences, a paradigm should be interpreted as a pattern of science accepted by the academic community of a given time, which is commonly adopted and characteristic for a particular period, along with the philosophical assumptions constituting its basis. Thus, it includes areas of analyses important for scientific research, which provide patterns – models, namely rights, theories, applications or even equipment, acceptable at a given stage of sciences. Their use is the basis of a unique and homogenous tradition of scientific research leading to specific scientific achievements. As a consequence, the paradigms in the first place constitute the basic premise for the research effort of the community of scientists, being the key criterion identifying the areas of sciences.

In the new horizon, designated by the conditions of the knowledge-based economy, the classical cognitive triad, namely reductionism, determinism and causality, is not applicable and becomes rejected for the benefit of holism and probability theory. These philosophical concepts and methodological approaches constituted a basis of development and provided interpretation for e.g. the

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6 T. Kuhn, The structure of Scientific Revolutions, Chicago 1962, p. 120.
assumptions of quantum mechanics, the chaos and games theories. Such perspective also suggests looking for and setting the paradigms of contemporary management. The area of identifying new paradigms is thus extremely expanded and constantly growing.

**The Crystallisation of the Patterns of Modern Management Sciences**

The proposals of a new paradigm of managing the knowledge-based economy have been discussed by M. Ferguson and P. Płoszajski. They conducted a comparative analysis of old and new methodological desiderata and proposed a new comprehensive paradigm, taking account of the turbulence of the environment, never-ending changes and hypercompetition (tab. 1.1).

S. Sudoł points out, that it is possible to identify basic management canons that could aspire to the positions of paradigms of modern management sciences, namely:

- Activities of the organization can’t be considered without taking into account its relationship with the environment, because they largely determine its success or failure.
- The basic condition for survival of the organization in turbulent conditions of the environment is its flexible adaptation to it, while maintaining its characteristics.
- The older the organization, the stronger it tends to formalize its structures and procedures, which means it decreases its flexibility.
- In any organization the principle of management’s optimal span and range should be respected.
- The organization should be maintained at a necessary level of all kinds of reserve.
- The organization can’t function properly without an efficient communication system with the environment and between its sections.
- Leadership competencies of organization’s managers, especially top management, seriously affect the success or failure of the organization.
- The factor having an influence on the effectiveness of the organization is its culture, and in the era of globalization, it is essential that the principles of intercultural management are applied.
- Major cultural differences between continents and countries impede the flow of management methods.

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R. Krupski, under a complex discussion of basic issues of organization and management science, indicates the following paradigm (fig. 1.1).
(1) The organization’s reaction to the constant growth in environment turbulence should be a higher degree of its formalized order (organization) or
(2) An organization’s reaction to the constant growth in environment turbulence should be a lower degree of its formalized order (the reaction to chaos should be chaos).\(^{13}\)

Tab. 1.1. Towards the new paradigm of management sciences

<table>
<thead>
<tr>
<th>Old paradigm</th>
<th>New paradigm</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FROM:</strong></td>
<td><strong>TO:</strong></td>
</tr>
<tr>
<td>Reductionism</td>
<td>Morphogenesis</td>
</tr>
<tr>
<td>Mechanistic approach</td>
<td>Holographic analogies</td>
</tr>
<tr>
<td>Universalism</td>
<td>Relativism</td>
</tr>
<tr>
<td>Rationalism</td>
<td>Rationalism and intuitionism</td>
</tr>
<tr>
<td>Static approach (balance)</td>
<td>Dynamic approach (imbalance)</td>
</tr>
<tr>
<td>Search for balance</td>
<td>Deterministic chaos (ordering by fluctuations)</td>
</tr>
<tr>
<td>Testing the impact of elements on system features</td>
<td>Testing the impact of structure on the system features</td>
</tr>
<tr>
<td>Concept of the growth in entropy</td>
<td>Concept of the growth in complexity</td>
</tr>
<tr>
<td>Relatively open system</td>
<td>Loosely connected system</td>
</tr>
<tr>
<td>Strategy of competition and fight for survival</td>
<td>Strategy of co-existence and cooperation</td>
</tr>
<tr>
<td>Information system consisting of located units</td>
<td>Information system as a structure of arranging sets of information</td>
</tr>
<tr>
<td>Social evolution by natural selection of the best structures and methods produced by accidental mutations</td>
<td>Conscious diversity</td>
</tr>
<tr>
<td>Social processes described with continuous functions</td>
<td>Social processes described with discontinuous functions</td>
</tr>
<tr>
<td>Analysis of quantitative changes</td>
<td>Analysis of qualitative changes</td>
</tr>
<tr>
<td>Hierarchy and centralism</td>
<td>Heterarchy and pluralism</td>
</tr>
<tr>
<td>Authority research</td>
<td>Legal validity research</td>
</tr>
<tr>
<td>Search for identity (of units, systems)</td>
<td>Search for harmony (community, individual features, systems)</td>
</tr>
<tr>
<td>Individual approach</td>
<td>Transaction approach</td>
</tr>
<tr>
<td>&quot;Presenting&quot; analyses (descriptions)</td>
<td>Analyses looking for the essence of phenomena (abstract)</td>
</tr>
<tr>
<td>Analytical explanation</td>
<td>Metaphorical explanation</td>
</tr>
<tr>
<td>The object of research as the subject matter</td>
<td>Strengthening the relation of researcher-object (action research)</td>
</tr>
<tr>
<td>Researcher – observer</td>
<td>Researcher - participant</td>
</tr>
<tr>
<td>Knowledge for understanding</td>
<td>Knowledge for changing</td>
</tr>
</tbody>
</table>

Promotion of consumption at any price  ➢ Proper, respective level of consumption
Only economic motives  ➢ Spiritual values exceeding material goals
Selection of employees for the positions  ➢ Selection of positions for the employees
Imposing goals and vertical decision-making  ➢ Autonomy and participation of employees
Fragmentarisation in work and performed roles  ➢ Knowledge exchange between broad-minded specialists
Identification with the work  ➢ Identity going beyond the workplace
Separation of work and play  ➢ Integration of work and play
Manipulation and dominance  ➢ Interdependence with nature
Bipolarity  ➢ Multidimensionality
Concentration on short-term solutions  ➢ Long-term perspectives taking account of harmonious co-existence with the environment
Unrestrained technological race  ➢ Technology adequate to needs
Allopathic approach to identifying the symptoms  ➢ Diagnoses of complex and specific conditions of disharmony


The proposal can be perceived comprehensively as a paradigm – metaparadigm under the conditions of the knowledge-based economy – the principle of turbulence. On the other hand, the reaction of the organization should be treated as partial paradigms – as models, templates. Then, the dynamic approach, the imbalance, is connected with the chaos theory, and the other, supplementing, partial paradigm gets closer to the concept of sustainability. Additionally, the proponents of both partial paradigms rely on the metaparadigm of turbulence, they assume high flexibility and adaptability of organization. However, they perceive the target state of organization and its environment differently. The representatives of the chaos theory see the final form of any dependencies in imbalance, and the supporters of the tendency of sustainability see it in balance - the pursuit of stability.

The chaos theory is associated with the phenomena taking place in nature and society. It assumes that there are systems in which simple causes lead to considerable behaviour irregularities which appear to be accidental. These systems are characterized by great sensitivity to initial conditions and rapid strengthening of first deviations. Insightful analyses of such systems lead to detecting specific rules and regularities in them – thus, chaos is not accidental, it is a hidden order14.

R. Krupski is an enthusiast of the chaos theory. He observes its application qualities in management and examines them in the context of the creativity of people in an organization, which is an important factor determining organizational

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flexibility. He stresses the idea that the optimization of processes and procedures is preceded by non-directed activities. Vagueness and chaos have a significant function: they enable alternative routes in the chains of processes and their optimization through selection — they provide vitality for management systems, which is necessary for maintaining their existence\textsuperscript{15}.

<table>
<thead>
<tr>
<th>COMPLEXITY OF ORGANIZATION</th>
<th>COMPLEXITY AND TURBULENCE OF THE ENVIRONMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>high</td>
<td>Overinterpreting the importance and role of organization, unnecessary complicating of simple things (in theory — excess of theory, in practice — bureaucracy, scheduling)</td>
</tr>
<tr>
<td>low</td>
<td>The classical organization and management theory</td>
</tr>
</tbody>
</table>

![Fig. 1.1. Potential and actual paradigms of the theories of organization and management and the complexity of organization and its environment](image)


The chaos theory is associated with the phenomena taking place in nature and society. It assumes that there are systems in which simple causes lead to considerable behaviour irregularities which appear to be accidental. These systems are characterized by great sensitivity to initial conditions and rapid strengthening of first deviations. Insightful analyses of such systems lead to detecting specific rules and regularities in them — thus, chaos is not accidental, it is a hidden order\textsuperscript{16}.

\textsuperscript{15} Ibidem, pp. 228-229.

R. Krupski is an enthusiast of the chaos theory. He observes its application qualities in management and examines them in the context of the creativity of people in an organization, which is an important factor determining organizational flexibility. He stresses the idea that the optimization of processes and procedures is preceded by non-directed activities. Vagueness and chaos have a significant function: they enable alternative routes in the chains of processes and their optimization through selection – they provide vitality for management systems, which is necessary for maintaining their existence\(^\text{17}\).

Furthermore, as a pattern convergent with the imbalance paradigm, a model of an organization in motion is proposed, constituting the effect of compiling the concept of an organization managed without strategic goals (based on occasions)\(^\text{18}\) along with the concept of extreme flexibility of resources and processes. A company in motion\(^\text{19}\) is such an organization, which vibrates in the amplitudes of its environment, and the specific interference reinforces its potential. In addition, such a company causes the environment to vibrate in the amplitudes of the company and is reflected both in the preparatory and real spheres. The specific "movement" applies, first of all, to the simulation of decision-making processes, the effects of decisions and the creation of ideas for the innovation of values\(^\text{20}\).

The researchers who take account of a specific paradigm of the contemporary era, sustainability, are W.M. Grudzewski, I.K. Hejduk, A. Sankowska and M. Wańtuchowicz\(^\text{21}\). They perceive the postulate from two perspectives. Under the first perspective, it is defined as a belief about the organization’s ability to continue business even in a hyper-dynamic environment. It is also interpreted from the point of view of a permanent regeneration ability and using the conditions created by the environment, as well as their discontinuities. It contains extensive interpretations related to maintaining the life of the organization and making it more flexible. Having assumed the large dynamics of changes and flexibility of the company, in which the strategic discontinuity is constant and the previous continuity of functioning is interrupted, it also includes the organization’s ability to constant learning, adaptation and development, revitalisation, reconstruction and reorientation in order to maintain permanent and distinguished position on the market.

\(^{17}\) Ibidem, pp. 228-229.
\(^{18}\) Basics of the concept of generating the strategy of using opportunities with two varieties of the new paradigm in the strategy of the organization in the language of the opportunity are presented by R. Krupski in the study: R. Krupski, Orientacja zasobowa w badaniach empirycznych. Identyfikacja horyzontu planowania rynkowych i zasobowych wielkości strategicznych, WWSZiP, Wałbrzych 2011, pp. 26-34.
\(^{19}\) The model of the company in motion is presented in the monograph by E. Masłyk, Organizacja w ruchu, Oficyna Ekonomiczna, Cracow 2003.
\(^{20}\) Ibidem, pp. 234-239.
The direct representation of the discussed paradigm is the holistic model of sustainable enterprise.\(^{22}\)

### Tab. 1.2. Research programmes including management sciences and using the methodology of neoevolutonism

<table>
<thead>
<tr>
<th>Area of management</th>
<th>Examples of research questions</th>
<th>Hypotheses</th>
<th>Methodology of research</th>
</tr>
</thead>
</table>
| Organization       | 1. To what extent is an organization genetically determined?  
                     2. What is the impact of evolutionary variables on the process of an organization?  
                     3. Is there, and if so, how does the genetic-environmental coupling in the process of an organization work? | 1. Organization is a natural feature of people's community.  
2. Organization is based on cooperation and competition for resources.  
3. Organization is a primary human need.  
4. Organization is the coupling of conscious and subconscious activities. | 1. Ethnological and comparative studies on indigenous communities.  
2. Literature and anthropological data about indigenous communities.  
3. Social experiments with the use of brain tests.  
4. Paleoanthropological excavations of indigenous people, hominids and anthropoids.  
5. Comparative primatological studies (chimpanzees).  
6. Quantitative, comparative intercultural studies searching for cultural universals (survey method on large representative samples).  
7. Qualitative intercultural studies exploring cultural diversity (methodology of in-depth interviews, ethnomethodology).  
8. Qualitative comparative studies – case studies of organizational activities. |
| Authority          | 1. What are the sources of power in a social group?  
                     2. Is power genetically determined?  
                     3. What is the degree of flexibility in the hierarchy of human communities? | 1. Power is a result of animal "pecking order".  
2. People have a diverse level of needs for exercising power.  
3. Women usually have a lower level of power needs. | |
| Leadership         | 1. To what extent does leadership derive from inborn and acquired features?  
                     2. What is the basis of informal leadership in a small group? | 1. Leadership skills are the derivative of inborn and acquired features of the leader as well as social relations of the group.  
2. In a small group, individuals which have "Machiavellian intelligence" become the leaders. | |

\(^{22}\) Ibidem, pp. 322-324.
**Organizational culture**

1. Does culture emerge spontaneously in an informal group?
2. How can leaders shape the culture of a group?

1. The culture of a small community is naturally xenophobic.
2. Organizational culture is not subject to management.

**Planning and strategy**

1. Is it true that from among all living beings only man tries to foresee the future?
2. Is the ability to plan related to brain characteristics (neuronal level)?

1. Planning occurs only with man and with a group of people.
2. A strategy is an advanced ability of planning.

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The application of the neoevolution theory to management studies in the form of the paradigm is proposed by Ł. Sułkowski\(^\text{23}\). At the same time, the author stresses the fact that it is based on neopositivist patterns: scientific realism, objectivity and reductionism, the new paradigmatic principle of management in a knowledge-based economy, may provide a basis for integration of management studies with other social and natural sciences at a higher epistemological level and bring researchers and practitioners a number of benefits in the area of proposals of a consistent paradigm of human behaviour, providing detailed behavioural theories related to an organization, suggesting an innovative methodology of research as well as pragmatic categories of management techniques.

As a consequence, the evolutionism may constitute a base for the discussion of people's collective behaviours, being the basis for the processes of organization and management. Potential applications of this paradigm cover the following areas of social problems typical of organizational life (tab. 1.2)\(^\text{24}\):

- Biological roots of organizing;
- Natural sources of the structure of power;
- Competition between individuals, conflict and fight for domination;
- Leadership in organization;
- Learning;
- Group and organizational bonds;
- Taking risks;
- Social communication;
- Sexual behaviour (relations between the sexes);
- Evolutionary conditions of society's culture and organization.

\(^{23}\) Ł. Sułkowski, *Ewolucjonizm w zarządzaniu. Menedżerowie Darwina*, PWE, Warsaw 2010, p. 34.

\(^{24}\) Ibidem, p. 40.
A knowledge-based economy treated as "new economics" does not raise any objections by researchers and is used by the whole academic community – thus, it can be perceived as symbolic generalizations as defined by the disciplinary matrix by T.S. Kuhn\(^\text{25}\). It has components which are relatively easy to be identified. Most often, the turbulence of the environment, never-ending changes and hypercompetition are indicated.

The proposal can be treated as a general paradigm – the metaparadigm of the knowledge-based economy. Partial paradigms – models, templates – are the dynamic approach and the concept of sustainability.

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\textbf{Fig. 1.2. Co-operation and knowledge-based work in the perspective of contemporary management paradigms}

Source: own study

If models are elements of a disciplinary matrix which provide the group with preferred analogies, the idea of knowledge-based organization may be one of them. Then, both partnership and knowledge-based work can be treated as specimens. Additionally, partnership can be perceived in the perspective of interorganisational macro-cooperation, also in the network formula as well as micro-cooperation at both individual and team level. On the contrary, knowledge-based work is an attribute of the winner in the market game of the new economy-organization type of knowledge-intensive firm (fig. 1.2).

\(^{25}\) A broad discussion on the essence of the term "paradigm" and componential elements of the disciplinary matrix by T.S. Kuhn in the form of symbolic generalizations, models and specimens, is presented in the study: A. Pietruszka-Ortyl, \textit{Rola paradygmatu w rozwoju nauk o zarządzaniu}, „Problemy Jakości”, No. 1, 2011, pp. 2-6.
2. Peer to Peer (P2P) Learning Model: Unique Way to Educate Management & Leadership Knowledge and Skills by Working on Various Real-life Projects Together with Companies

Introduction

Mission is to act and react when for example, members of the project team changes or a customer wants to make modifications to a project assignment. With these kinds of changes a project manager has to stop for a moment to think what he has to decide, what the choices are and how different choices are going to affect the progress and outcome of the project. Decision making has to be quite quickly, because unfinished tasks and the time schedule are not going to wait. In the most difficult situations the project manager should always discuss with his project team and also ask advice from older colleagues. Less experienced project managers should accept all offered help and advice, because the final responsibility for the project always belongs to the project manager.

Team work is also at the centre stage of a project. The project team is based on a group of people. The size of the project team can vary notably. Every person in a project team has their own role, tasks and responsibilities. The ability to work in a team is unquestionable in order to complete a project successfully, also every team member responds to their own tasks and ensures that those tasks are done carefully and according to the schedule.

It is also wrong to assume that projects are only used in the business world and in big government agencies. This explains that projects can be utilized anywhere. And because of that there are many different types of projects. These

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27 Business Management Student, Laurea University of Applied Sciences, Finland.
28 Senior Lecturer, Laurea University of Applied Sciences, Finland.
29 Senior Lecturer, Laurea University of Applied Sciences, Finland.
can be, for example, company internal development projects or a charity event developed by a community\textsuperscript{33}.

In general, the organization is running several projects at the same time. This means that new projects can already be defined or planned before the former project has been completed, also the same individuals can be working on different projects. For example, the same person can be a project manager in two or more projects at the same time\textsuperscript{34}.

**Project Management**

Project management starts with planning. Creating a project plan is not easy, but it needs to be done carefully. Without a project plan there is no project, because there are so many tasks and things to consider. By doing a specific project plan it is easier for the project manager to keep all parts of the project in order. The project plan answers to simple questions like what needs to be done and why, how it will be done, who will do it, by when it must be done and what resources are needed to execute the plan\textsuperscript{35}.

Joseph Heagney\textsuperscript{36} points out that before a project team can do any work it must have a consensus of the project’s meaning. This will answer the question why. The project manager needs to define the project’s mission, vision and objectives with the team, without doing this the project might fail at the beginning. Richard Newton\textsuperscript{37} adds that it is vital to also define the project’s scope at the beginning, a clear scope helps to define the resources needed and helps to understand the project better. It helps the planning when one knows what is in the project and what is not. When the question why is answered, the project manager starts to plan with the project team answers what and how. Objectives must be divided into smaller and smaller components. When this is done the project manager has detailed actions to achieve the objectives. Project planning has answered the questions what and how\textsuperscript{38}.

When tasks are in practicable forms the project manager identifies the resources needed to execute them. The main questions are who or what are needed and how much. For every task there needs to be a person in charge. The next step is to make a schedule for the tasks, scheduling is one of the most critical things in project management. Usually the project’s ending has already been determined, so the timescale is known. What has to be done is to estimate and determine the time needed for different tasks. At this point the project manager

\textsuperscript{34} S. Kettunen, *Onnistu... opus citatum*, p. 157.
\textsuperscript{36} Ibidem, p. 45.
\textsuperscript{38} Ibidem. p. 33.
needs to make sure that all the resources needed are available at the time. If tasks are arranged in a meaningful hierarchy they are easier to schedule. Then the project manager can see what needs to be done and in which order, because usually tasks are related. There are also different kinds of scheduling tools to use to help the scheduling, but nothing can be scheduled if the project manager doesn’t estimate the amount of work and time needed for the task. The main thing is to make a realistic schedule. The question when is answered\(^{39}\).

Even though the project plan is made carefully, changes might happen. While planning the project, one must be prepared to plan it again. Too detailed planning is a waste of time, because if necessary changes take place, one must plan it all from the beginning again. Changes might impact, for example the project’s schedule, budget or scope. That is why changes have to be measured carefully and think if it is possible to execute them. If changes are made, they have to be updated to the project plan. Because the possibility for changes is high, a part of project management is to make risk analysis. It consists of identifying risks, analyzing their possibility and meaning for the project and making a Plan B. Not every risk should be considered, just those likely to happen and which have a clear impact for example the schedule, budget or quality. By having a Plan B, it is easy just to change from A to B if necessary\(^{40}\).

The project manager’s most important job is to ensure that the project is heading towards and reaches its goal. The project manager’s daily work consists of controlling, supervising, solving problems, dealing with changes and risks, instructing the team, documentation, communication, decision making, taking control etc. Two of the most important tasks are supervising and controlling. By supervising a project manager assesses if the project is heading towards its goals as planned. Controlling is to make sure that resources are used to achieve the critical goals. With these actions the project manager makes sure that everything is done within the scope of the project, is documented, matches the standards and everything is done on schedule\(^{41}\). With evaluating the project continuously the project manager makes sure that the work is acceptable and meets the objectives. Evaluation helps the project manager make decisions considering the project’s process and helps to find out what is needed to be done differently in the future\(^{42}\).

**Project Leadership**

The project manager’s job is not all about scheduling and controlling things. The main purpose is to lead the project team and lead the human side of things. The project manager’s general task is to make people want to work for the goals

\(^{39}\) Ibidem. p. 41.

\(^{40}\) J. Heagney, *Fundamentals of..., opus citatum*, pp. 41-42.

\(^{41}\) R. Newton, *The project..., opus citatum*, p. 80-81.

\(^{42}\) J. Heagney, *Fundamentals of..., opus citatum*, pp. 112-119.
and not having to supervise them all the time. The project manager should learn, besides management skills, leadership skills to make the project team a high-performance project team.\textsuperscript{43}

It all starts with creating team culture. By listening to team members a project leader collects information of how they work and what are they like. The project manager creates a team culture where everyone feels comfortable.\textsuperscript{44} Team members need to feel they are part of the project and they want to help the project manager to achieve the project’s goals. This requires that the project’s goals and objectives and duties and responsibilities are clear to everyone in the team. Making the project a joint responsibility for everyone means that all achievements and problems are shared. Making the project team a part of planning the project helps in that.\textsuperscript{45}

Motivation is an important thing, a motivated person does a better job with higher quality. They are more spontaneous, responsible, self-contained and creative. Motivation leads to enthusiasm and commitment. These are features necessary while working on a project. People can be motivated in many ways, some ways work better with some and others appreciate different things. Delegating responsibility makes work meaningful. By giving tasks where a team member can challenge himself and improve his skills raises motivation. Thanking people for a good job and giving them fair feedback are good ways to impact motivation.\textsuperscript{46}

There are countless leadership skills to use in daily work. The project manager needs to be precise and demand high standards. To motivate the team for that, the team leader should himself do as he expects others to. The project manager needs to be an example, he needs to trust his team members and let them work as they want within the scope and schedule. Conflicts must be solved and the project team must not fear them. Everyone should have the ability to voice their opinion and those should be discussed in a good spirit. Team issues should be solved like any other problems with a professional touch. A good project manager uses leadership skills wisely and chooses the best methods for his team.\textsuperscript{47}

Peer to Peer (P2P) Learning Model

Laurea introduced the Peer to Peer (P2P) Degree Programme of Business Management in 2008. P2P is based on Laurea’s educational philosophy “Learning by Developing” (LbD).\textsuperscript{48} LbD is a mixture of a research-oriented, expansive and problem-based, as well as, constructive learning. The starting point of the P2P learning model is that the learning environment consists of an authentic

\textsuperscript{43} R. Newton, The project... opus citatum, p. 56.
\textsuperscript{44} V. Moisalo, Arjen johtaminen: Käytännön esimiestyötä, Infor, Helsinki 2010, pp. 34–37.
\textsuperscript{45} R. Newton, The project... opus citatum, p. 56.
\textsuperscript{46} J. Konttinen, A. Skyttä, Esimiehen mielityöt: prosessoivan johtamisen opas, Innotiimi, Vantaa 2010, pp. 39-42.
\textsuperscript{47} R. Newton, The project... opus citatum, pp. 57-58.
\textsuperscript{48} K. Raij, Learning by developing in higher education, Espoo 2014, pp. 10-14.
development project connected to working life. Students, lecturers, and co-operation partners from working life collaborate and generate new knowledge. The students’ learning is directly linked to these development projects from the very beginning of their business studies. In this unique programme there are no lectures or exams, instead the students work in teams to solve business problems. The lecturers’ main role is to supervise and support the students in their development projects. The goal is however, to let the students become more independent during their studies and to raise future professionals that will not hesitate to start identifying and solving problems they face.

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**Fig. 2.1. Working structure in the P2P learning model.**

The P2P learning model requires a flexible curriculum and a variety of projects. The curriculum (total 210 ECTS) includes five core competence modules (150 ECTS) which are Business and Entrepreneurship, Development of Business and Entrepreneurship, Practical Training, Development Specialist and Innovator and one module which is based on the core of each Laurea campus. Complementary studies (60 ECTS) consist of a minimum 15 ECTS modules which can be any kind. Students design their study plan themselves based on a vision of their future career plan. Project selection is based on the modules. Students are also supported by the tutoring of lecturers. The basic project extension is 15 ECTS. Each student

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Part 1. MANAGEMENT IN SCIENCE AND BUSINESS PRACTICE

implements two projects per semester. During the studies students participate in ten projects. All students participate in international projects as well and strengthen their English language skills.50

Most of the projects co-operation partners are small or medium size companies. The projects are free of charge to the companies, but they may pay a voluntary office fee (125€). The projects are implemented for the developing needs of the companies. Typical project topics are business, marketing and communication plans, accounting and business environmental analysis and organizing events. Co-operation partners participate in the project process by using their own time, resources and expertise. In any case, the active interaction between students and their co-operation partner is important for the students’ motivation. During the projects the students create strong networks and relationships to promote their future careers. The goal of the P2P learning model is to fill the gap between traditional education and companies’ expectations.51

A P2P-project starts with negotiations (a brief) with a co-operation partner. The partner introduces his organization and project objectives. In the briefing, the student team agrees on the preliminary timetable, checkups and contacting principles with the partner. Each team consists of 4-7 students, together first and senior students, because of developing orientation skills. Each project is supervised by two lecturers. The team and lecturers have weekly meeting with the agenda drawn up in advance.52

After the first meeting, the project team completes a team agreement and select a project manager and secretary for the project. The team agreement consists of team’s internal procedures and rules. The project manager’s main duties are communicating with the co-operation partner, the scheduling and leading the meetings. The project manager makes sure that the objectives will be met. Besides, the project manager delegates tasks, monitors the progress and also motivates and encourages other team members. The project secretary is in charge of the meeting agendas and memos.32

At the beginning, the team creates the project plan and a theoretical mind map to guide the project. The project plan includes the project’s background information, the project organization, goals, actions, risks, budget and timetable. The second phase in the project is theory writing, the theory is linked to the project’s practical part. In order to do this, the team has to familiarize themselves with the theme in question and read books, academic articles and other research materials.53

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52 Ibidem.
The team implements the project’s practical activities after the planning and theory writing phase. The activities are based on the project plan approved by the co-operation partner. Along with this, there are 2-3 theoretical skills demonstration presented by students. The aim of the demonstration is to prove the theoretical competence and encourage communication skills. The presentations are similar to oral examinations.

In the final phase the results are presented for the co-operation partner. Also the student team prepares the final report of the project. The final report consists of the theoretical framework, implementation of project, results, recommendations, conclusions and project evaluation. The results and business recommendations for the company are particularly focused on.

After the final meeting with the co-operation partner the students’ evaluation follows. Evaluation is based on the students’ self-evaluation, team evaluation and lecturers’ evaluation. In addition feedback is asked from the co-operation partner which pays special attention to co-operation and communication within the team and company during the project, as well as the usefulness of the results. Team and personal evaluation is based on the following equal three levels: Project planning and implementation, research and reporting and team work, interaction and communication. The amount of the ECTS determines the amount of work. Normally projects will accumulate 15 ECTS (1 ECTS = 1 credit = 27 hours) and the success of the project is shown in the grades. (Excellent 5, good 4-3, satisfactory 2-1).

The main objective of the research was to discover if the P2P learning model developed project management and leadership skills. Research was executed as a theme interview study, which took place from the beginning of January until the end of February 2015. There were ten interviewees, two male and eight female students aged between 21 and 37, all were senior P2P Business Students in Laurea. They had started their studies in 2013 and all had worked as a project manager one to three times. Interviewees were selected on purpose to be senior students, because they have more experience in projects and operating as a project manager. Interviewees also specialized in P2P project management. Interview themes were based on the role of project manager and dealt with management and leadership skills used in projects. During the interviews we found out what students had learnt about project management and how those skills would help them with their future careers. In the following paragraphs we introduce some results.

Interviewees were asked what they have learnt about leadership skills and managing a team when they worked as a project manager. All of them answered that they have learnt how important it is to prepare a project plan and realistic schedule. With those basic things in order it is easier to delegate tasks equally to team members. In their answers many interviewees pointed out, that it is important to give tasks fairly to team members and the project manager must trust that his team members can manage the tasks. Two interviewees said, that the
project manager cannot and should not do everything by himself and by delegating and trusting his team members he makes them more committed to the project. Four interviewees also said that a project manager should have very good human relations skills. Personal opinions of team members should be avoided. Also the point that the project manager should listen to his team members was mentioned. The project manager needs to hear, what team members have to say about the project. One student gave a good guideline for the project manager:

“Listen to your team members, treat them fairly, give them responsibility and trust them”.

In the P2P learning model students work with real-life companies. Interviewees were asked when they worked as a project manager that what the most important things in working with a co-operation partner. All answered that communication is the most important thing. Three of them said that it is important to make a communication plan at the beginning of the project. The plan includes how often they should communicate, what the co-operation partner wants to know during the project, how they should communicate and who is responsible for the communication. Interviewees also pointed out that if there is something to ask that should be done immediately so that project can go proceed on time and towards it goals. Three interviewees also said that it is vital for the project to determine its objectives with the co-operation partner at the beginning of the project. This is done so that the scope is realistic and the objectives that the co-operation partner wants to achieve can really be achieved. All interviewees considered communication between students and the co-operation partner most important.

“Suitable, clear and regular communication is the most important thing in working with a co-operation partner”.

As we have learnt, the project manager deals with different kinds of challenges. Interviewees were asked, what challenges they had faced when they worked as a project manager. Nine of the interviewees answered that they had difficulties with team members, who didn’t deliver their tasks on time or not deliver at all. This risks the project’s whole schedule. Another challenge mentioned, that is linked to the first one, was that team members were not motivated. When we asked how they dealt with those problems all interviewees emphasized the meaning of discussion. They had either discussed in private with the challenging team member or discussed the situation with the whole team. Sometimes project managers had to ask some help from lecturers. With discussions they have tried to understand what is wrong and what could be done differently to get the motivation for the project back on track. Usually discussions have worked and challenging team members have understood that they have acted wrongly. Sometimes tasks had to be discussed again and the project manager had taken a more supervisory role.
Although most of the time challenges were solved with discussions. Like one student said:

“The problem has to be faced and solved immediately by discussing”.

Every project is always evaluated. In the P2P-model students evaluate themselves, each other, how they have worked as a team and how the project went through all the steps. Lecturers also evaluate all students and work that has been done and the co-operation partner also gives his feedback. Interviewees were asked what the central things in a project’s evaluation were when they worked as a project manager. Eight of them said an honest description of everyone’s actions and tasks’ quality had been given. Evaluation cannot be based on personal opinions but on common criteria. Three of the interviewees also said that giving and getting feedback is important because that is how one can learn to be better. Six interviewees also stressed that at the end it is important to evaluate if the project has achieved its objectives and the quality of work meets the standards. They mentioned that work itself might be good, but doesn’t meet with the objectives. Three of the interviewees said that they had used intervening the evaluation to check with the lecturers that the project was aiming towards its objectives and if there was something to be done differently, either individually or by the team. None of the interviewees criticized the evaluation methods used in the P2P. This can be taken that evaluation is functioning and straightforward.

We aimed to know, how and what kind of readiness the interviewees learnt in P2P-projects when they acted as a project manager. Interviewees named many things and they all underlined the fact that practice has improved themselves and made them more prepared for a working life. Nearly all of them mentioned that they have learnt to make schedules and work with them, they have improved their organizational skills, delegating skills and the importance of planning and thinking it all through. Also nearly all mentioned that they have learnt how to work in a team with different people. They have also learned a great deal of relationship skills- how to listen to other people, what they can demand, how to impact and appreciate them and their opinions. Also responsibility, initiative and professionalism were mentioned. One interviewee said:

“I feel that I am able to manage a real project. I have gained a clear image of what real working life is. I believe that in my working life I will benefit from the fact that I have already worked with many different people”.

Summary

In this research we surveyed if the P2P strengthens students’ management and leadership skills and if it does, how. The research’s sample was ten senior P2P students, so results cannot be generalized widely, but can be held reliable because of the experience of the interviewed students. According to results, the P2P
develops competence of management and leadership skills necessary in project management in working life. In research students mentioned critical skills from project management: planning, scheduling, supervising and evaluating. They have learnt these management skills by practice and have a clear vision of management. Most importantly they have learnt leadership skills that cannot be learned from books only. By practice they have learnt to work with different kinds of teams, appreciate team member’s opinions and how to solve challenges. They have learnt to communicate with people in different situations, to motivate and listen to them. We can conclude that the P2P learning model strengthens students’ working life management and leadership skills notably.
3. The Importance of Integration in Hospital Quality Management

Introduction

The word "integration" (lat. *integratio* - means merge, creating a total from several parts) increasingly appears both in the media - when discussing economic and political problems as well as scientific publications. In particular, the word is often combined with the notion of "management" especially in phrases such as: integrated management, management integration, integrity management and integrated management systems, etc.

Integration processes are today, in addition to the implementation of innovations, conditions for the development of a company. Management integration is defined as a change in the direction of comprehensive quality understanding, supported on a solid knowledge foundation. And integration processes are an important tool for improving the management of an organization.

Taking into account observed decline of public confidence, the health care sector may want to consider the importance of integration in hospital quality management. Hospital specificity has a significant impact on the process and management functions, including quality management. Successful integration of hospital quality management to a large extent depends on:

- integration of distributed operations carried out in different organizational units (hospital wards, emergency rooms, administrative departments) - that is process integration;
- integration of staff knowledge employed in different cells of a medical facility, network integration, including tasks that are carried out by other hospitals;
- participatory integration, which refers to sharing in the process of improving the quality of medical services stakeholders, including patients.

Integrated health care is seen as positive from different points of view: patients, service providers (healthcare providers), managers and strategists. From the point of view of strategists, rules, regulations and financial arrangements that

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55 Prof., Wroclaw University of Technology, Poland.
may be integration friendly are important, as well as an evaluation, which allows for the improvement of health care systems integration\textsuperscript{57}. Health care providers put pressure on the coordination of work in a diverse, interdisciplinary task team, as well as among specialists and institutions. Configuration control of the combined streams of financing, coordination of common objectives, as well as the management of complex organizational structures, building and maintaining a culture of cooperation among diverse staff is important for managers. While the patients who are the most important for health care providers want easy access to care as well as its complexity.

Integrated health services mean different things to different people. Table 3.1 shows six definitions, that can be found in technical documents of the World Health Organization. These definitions are an example of the understanding and use of the term "integration" in different contexts of pursuit in the medical business.

**Tab. 3.1. Definitions integrated health services**

<table>
<thead>
<tr>
<th>Definitions/Understanding</th>
<th>Key issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Integrated is frequently used to refer to a package of preventive and curative health interventions for a particular population group. Examples are the Integrated Management of Childhood Illness (IMCI), Integrated Management of Pregnancy and Childbirth (IMPAC), Integrated Management of Adolescent and Adult Illness (IMAI) and (not specifically related to life cycle) Integrated Management of Cardiovascular Risk.</td>
<td>What interventions should be packaged together? How are management support systems best organized to service these interventions?</td>
</tr>
<tr>
<td>An integrated health service can refer to multi-purpose service delivery points – a range of services for a catchment population is provided at one location and under one overall manager. Examples are multi-purpose clinics, multi-purpose outreach visits and a hospital with the management of all its services consolidated under one Board and one Chief Executive. A feature of this form of integration from the client’s perspective is the opportunity to receive coordinated care, rather than having separate visits for separate interventions.</td>
<td>What functions should be included in “multi-purpose”? How can management systems best support these service delivery points?</td>
</tr>
<tr>
<td>Integrated services to some means achieving continuity of care over time. This may be about life-long care for chronic conditions such as HIV/AIDS, or a continuum of care between more specific stages in a person’s life-cycle – for example antenatal, postnatal, newborn and child care.</td>
<td>How to provide the services required by a chronically sick patient?</td>
</tr>
<tr>
<td>Integration can refer to the vertical integration of different levels of service – for example a district, hospital, health centres and health posts. In this form of integrated health services, an overall manager is in charge of a network of facilities and personal and non-personal health services – for example a</td>
<td>What services should be provided where, and how to ensure that clients are efficiently referred?</td>
</tr>
</tbody>
</table>

District or Provincial Medical Officer of Health, who in turn supervises the work of the managers of individual facilities.

Integration can refer to integrated policy-making and management which is organized to bring together decisions and support functions across different parts of the health service. For example a management team in an integrated system may have overall responsibility for the health status of a given population and may be able to simultaneously contract services from the public, voluntary and private sectors.

Integration can mean working across sectors. It occurs when there are institutionalized mechanisms to enable cross-sectoral funding, regulation or service delivery. In industrialized countries, this concept is frequently applied to the co-ordination of health and social services, such as for long term care for the elderly. It may refer to working with education services to develop effective school health promotion campaigns.

How best to provide an all-round good service for patients and how to solve problems such as a lack of co-ordination or gaps in the service?

What is the most appropriate sector(s) to deal with a particular health issue and establish linkages between them?


Quality in Health Care

The competitiveness of health care institutions is largely determined by the availability of medical services and the provision of high quality services. The key factors that determine the quality of medical services are accompanying processes. The process control system should therefore aim to achieve the best possible relationship between the level of medical services and the level and structure of the associated costs. At the same time it is important that coordination of all intangible activities must be effective and consistent with the patients expectations. This approach is based on the assumption that the service can only be optimally offered when all related activities will be performed in a coordinated way.

The quality of medical services is viewed as a resultant of three elements: the quality of the project (adopted procedure), compatibility of the project with the patients expectations and the quality of implementation (medical benefits implementation). If, however, the expectations and needs of patients will not be recognized, it will not be possible to adapt the quality of services to those expectations. Definition of quality, which directly relates to the field of health services is the definition proposed by the World Health Organization (WHO). According to this definition, the quality is the result (technical quality), how to use the resources (economic efficiency), services organization and patient

satisfaction\textsuperscript{60}. Technical quality constitutes: knowledge, clinical and organizational skills, technology and management systems. Nevertheless human relationships are important and also services binding (comfort, rooms aesthetics)\textsuperscript{61}.

Effective measures to improve health care quality require knowledge of attributes which characterize medical services and providers of these services\textsuperscript{62}. Quality of medical service depends on its "utility components" (user - component), i.e.: staff qualifications, adherence to standards (procedures), norms, but also equipment quality, medical equipment, medicine, etc. Furthermore, in health care we can distinguish a quality sphere, as shown in table 3.2.

**Tab. 3.2. The main sphere of healthcare quality**

<table>
<thead>
<tr>
<th>Quality in health care</th>
<th>Healthcare professional sphere</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>This is an area where the patient pays special attention on communication with medical staff (doctor, nurse, physiotherapist). Improving quality in this area is to provide service in the manner specified by the vocational authorities and professional healthcare providers.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Information sphere</th>
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<tbody>
<tr>
<td>It is a set of information that is delivered to the patient (if he has used drugs, how to proceed). It is important to eliminate the barriers caused by patient difficulties in understanding a specialized medical language and the atmosphere of concern.</td>
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<table>
<thead>
<tr>
<th>Technical sphere</th>
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</thead>
<tbody>
<tr>
<td>This is the service &quot;packaging&quot;. It is both the appearance of staff, cabinets, the waiting room as well as diagnostic equipment, medical devices and treatment methods.</td>
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<table>
<thead>
<tr>
<th>Management sphere</th>
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</thead>
<tbody>
<tr>
<td>This is an area, that for a patient is less important, although it does effect him. This is the implementation method of all management functions, used methods and tools, organizational and decision-making techniques, management style and culture of the organization. It's a way of the strategy.</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>Economic and administrative sphere</th>
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</thead>
<tbody>
<tr>
<td>This is an area in which decisions are made regarding effective and efficient use of resources, within the limits and directives that are established by the bursar or the local authorities.</td>
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<table>
<thead>
<tr>
<th>Marketing sphere</th>
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<tbody>
<tr>
<td>This is an area that helps to look at the organization from the perspective of the patient. Marketing is the &quot;input&quot; and &quot;output&quot; of the quality system. The research of the patients’ needs through marketing analyzes allows improvement in the quality system. A characteristic for the medical services industry is a ban on advertising.</td>
</tr>
</tbody>
</table>


\textsuperscript{60} WHO Working Group, Quality Ace In Health Care, 1989, p. 79.


The quality of medical services according to A. Donabedian is "this type of care, which maximizes the measurable patient’s welfare taking into account the balance of the expected benefits and risks associated with the process of care in all of its stages"63. He saw elements such as: availability, continuity, coordination, agility, as factors contributing to the formation of quality. He identified three major dimensions of quality:

- Technical - in which we answer the question: what do we have?
- Non-technical - in which we answer the question: how to we proceed with the recipient?
- Environmental - in which we answer the question: where is the service process?

All of the above quality dimensions are complementary to each other. It should be remembered that the model for creating quality medical services is dynamic. The patient expects that the hospital will adjust to his needs. We should, therefore, provide for the needs of patients. Changes should affect all spheres, which make up the value for the patient (table 3.1). Quality of medical services, according to R.S. Maxwell, is dependent on the fulfillment of expectations in the following areas: accessibility, proportionality services in relation to the needs, capacities (in relation to the patient), equality, social acceptance and benefits economization64. Consideration of these expectations is the responsibility of each provider, and their appropriate fulfillment can positively impact on the quality of provided services.

The Essence of Hospital Quality Management

Implementation of the mission and goals of the hospital requires continuous improvement of management quality, which is one of the conditions for the development and enhancement of the medical establishment’s competitiveness. A hospital is not at the same time a typical enterprise whose goal is to maximize profit. The duty of hospital managers is to ensure income levels to cover expenses associated with the treatment of patients, as well as providing them with access to the most advanced methods and therapeutic techniques. Therefore, hospitals are forced to operate in an economic way in order to get the most value-added results and perform their tasks better with the available resources. A growing number of medical institutions are interested not only in obtaining the accreditation, but also the introduction of quality management systems based on ISO 9001: 2008. The use of clearly detailed practices and norms which is an alternative to ISO 9001 is also becoming the expedient.

64 W. Kapala, Organizacja pracy a jakość usług medycznych, „Antidotum”, No. 4, 2001, p. 15.
The specificity of quality hospital management affects many elements that can be divided into several groups. Determinants of management are, among others:

- Environmental characteristics - pressure of expectations, demographic change, prevalence of various types of diseases, development techniques and medical technologies, emergence of new drugs and therapies, development communication techniques, etc.;
- Activities conditions - the need to save lives and restore health (implementation of the mission to which health care facilities are appointed);
- Priorities and goals - implementation of the needs of patients (goals revised with stakeholder groups, including the national health fund and the owners of establishments);
- Responsibility - to the patients, to the founders and bursars;
- Recipient of services - the patient (pressure from society to improve the quality of medical services)\(^{65}\).

Integration within the Hospital Process Control

An integration system in healthcare includes resources that are available to an organizational unit, structure of these resources, relationships, finance, wages, work organization, motivation to work, etc. The system also includes the processes which are a set of activities related to diagnosis, treatment, caring, rehabilitation and prevention. These processes also apply to broadly defined supply, training, financial accounts, etc. Results, which must be documented, monitored and evaluated, so that they could be improved are the result of all the activities. Therefore, the integration can relate to people who work in health care, their behaviour and communication, of processes, of information and broadly defined equipment\(^{66}\).

A dominant matrix structure in hospitals is considered by many authors as the optimum and most effective way from the point of view of process management\(^{67}\). Nevertheless, it gives rise to many difficulties for large institutions managers. These include, among others:

- Difficulties in managing the staff, relating to the dispersion of influence and controls, as well as unclear subjection;


- Often rigid bureaucratization of structure, which is difficult to impose on a spontaneous team form;
- A double official dependence of staff, which consists of the fact that supervisors who manage the processes are subject to both functional department and a manager.

Management within the matrix structure is also not easy, because of the frequently encountered problems in the plane between organizational units, where there are no arrangements, coordination and adequate information. Interfunctional barriers also exist between schools, which would ultimately create a network of cooperating organizations\textsuperscript{68}.

It can be concluded that the processes are the "bloodstream" of an organization, while the "nervous system" are integrated management systems. It is only this "whole" which is value-added for an organization. In order to satisfy the requirements of patients it is necessary to coordinate the planning, implementation and monitoring of the performance and economic efficiency of the human resource flow, of capital and related information\textsuperscript{69}. Coordination of activities, as part of the management function is associated with the necessity of solving complex, multi-criteria decision-making problems, the choice of "something for something" (trade off). Particular areas of strategic behaviour subsidize each other: cost with time, time with the level of customer service (quality), quality with cost, etc.\textsuperscript{70}. Troubleshooting decision-making in the area of resource flows in the context of strategic behaviour hospital triangle shown in figure 3.1.

Providing patients satisfaction by providing a high value medical service is the primary objective of the healthcare facility. Integration activities are a source of important synergistic benefits, which consist on removing or weakening conflicts between the different stakeholders (figure 3.2).

Fig. 3.1. Triangle of hospital strategic behaviour

Fig. 3.2. Integration of logistics activities effects in the health care institution
Considering the difficulties that apply to change in the offer of hospitals (which are forced into the changing needs of patients), the preferred solution would be cooperation with other providers of health services, i.e. Building the network's ties between suppliers of these services, integrated vertically or horizontally. Groups of these institutions could cooperate together in terms of the flow of materials, of information and implementation of medical services, e.g. to perform diagnostic tests. Adjustment of the offer and the service quality to the expectations of patients should be the goal of these activities. Important factors which appeal for building network connections on the medical services market are:

- Size structure of medical facilities;
- Imbalance between demand and supply;
- Structure of the patients’ needs and resources owned by the institutions should stimulate cooperation for the sake of the patients;
- Expectations of patients who are favourable to cooperation, because they appreciate the security offered by the joint action of a larger number of outlets, and thus the service complexity.

Accession to the process integration should precede cognition in practice, among others, of reference models, e.g.: TOGAF (called The Open Group Architecture Framework), TAFIM (ang. Technical Architecture Framework for Information Management) or renovation Porter's value chain model. Taking into account the decision-making benefits from the introduction of such models probably will facilitate the restructuring process of the hospital.

The efficiency of hospital processes depends inter alia on the coordination of the supply with the provision of medical services. You must first ensure the expected availability of resources and an appropriate level of "productive" ability, and secondly by entering into service technology to coordinate the process of their provision. Effectiveness of management should be emphasized in the possibilities to cover the needs of patients and in achieving positive financial results. It can be concluded that management in the field of medical services include: planning, organizing, motivating and control of resources and processes in order to ensure such service conditions correspond desirably with the patient's quality characteristics and contribute to the optimization of costs. Integration within the hospital process control should therefore manifest itself in an effort to maintain:

- High quality medical services;
- Better use of resources;
- Improve the efficiency of material flows;
- Elimination of redundant or inefficient processes;
- Reduce the duration of selected processes;

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The Importance of Integration in Building Quality Teams

The increasing complexity of the processes that accompany the formation of medical services limits the possibilities of their control by individual employees. One way to solve the emerging problems is the use of various forms of collaborative activities. These activities provide a greater possibility:

- To deal with a wider range of problems that are beyond the scope of possibilities of individual employees;
- Using a wide variety of experiences, skills, aptitudes and knowledge;
- Solving problems characterized by the complexity and wider range of impact on the organization’s usually multiple structures simultaneously;
- A positive impact on motivation and employee satisfaction;
- A more easy introduction of recommendations, which are the result of team work compared to the implementation of individual ideas\(^{72}\).

Features of teamwork are a key element of the quality improvement process, forming the basis for the construction of methods to support the increased involvement of employees, both medical and administrative. Proper employee motivation, ensuring the correct functioning of the groups, however, requires involvement of the top management to quality problems. The role, which is on the managers is primarily creating conditions for collaborative quality problem solving that develop a sense of acceptance and responsibility for decisions\(^{73}\). Vol. Improvement Team (QIT) and Quality Circles (QC), an increasingly popular solution for the integration of the staff employed in different departments and organizational units. Cooperation can, and sometimes should extend beyond the hospital and should focus on people interested in coordinating activities for the good of the patients and staff.

Principles and Potential Benefits from the Introduction of the Integration Philosophy in the Hospital

Concerning integration in the context of hospital quality management we can speak more broadly, looking for the universal principles of health care. Principles of successful integration within the created service offerings for patients are shown in table 3.3.

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Tab. 3.3. Rules for successful integration in healthcare

<table>
<thead>
<tr>
<th>RULES</th>
<th>SYMPTOMS OF PRINCIPLES IMPLEMENTATION IN PRACTICE</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. COMPLEXITY OF SERVICES THROUGHOUT THE HEALTHCARE</td>
<td>Integrated health systems impose responsibility for services planning, their purchase and coordination. Cooperation is necessary between the organizations of health and social care. The general rule should be continuous access to medical care (at every stage of human life).</td>
</tr>
<tr>
<td>II. FOCUS ON THE PATIENT</td>
<td>Patients’ needs are more important than the needs of service providers. The patient is the center of attention. Medical services reflect sensitivity to the needs of the population, so that the patient receives care &quot;in the right place at the right time&quot;.</td>
</tr>
<tr>
<td>III. GEOGRAPHICAL RANGE</td>
<td>Maximize patient access to medical services, while minimizing duplication. This requires identification of the people belonging to the area, including the right to medical care. Integration of this kind is difficult to achieve in some areas due to the small population.</td>
</tr>
<tr>
<td>IV. STANDARD OF HEALTHCARE PROVIDED IN AN INTERDISCIPLINARY TEAM</td>
<td>Each team member has well-defined responsibilities. The procedures are based on best practice guidelines. This contributes to the standard of health care and improvement in the quality of services. An interdisciplinary approach is one of the principles of integration.</td>
</tr>
<tr>
<td>V. PERFORMANCE MANAGEMENT</td>
<td>Success of the integration of health care depends on the performance of developed monitoring systems. These include indicators at different levels of the organization. It is assumed that care performance measurement and monitoring of these systems are conducive to improve the quality of medical services.</td>
</tr>
<tr>
<td>VI. INFORMATION SYSTEMS</td>
<td>Information systems enable efficient data management and results monitoring. Electronic health records connect patients with bursars and the service provider all over health care and provide relevant information to all interested parties (stakeholders).</td>
</tr>
<tr>
<td>VII. ORGANIZATIONAL CULTURE AND LEADERSHIP</td>
<td>Implementation and operation of an integrated health care system requires a leader with a vision, as well as organizational culture in accordance with the vision. In this case, an effective incentive system is necessary.</td>
</tr>
<tr>
<td>VIII. PHYSICIANS INTEGRATION</td>
<td>Integration of physicians at all levels. Physicians play a variety of leadership roles in the design, implementation and operation of an integrated health care system. A physicians integration process is not simple – physicians are often resisting change and do not accept the shared responsibility of a team.</td>
</tr>
<tr>
<td>IX. MANAGEMENT STRUCTURE</td>
<td>Coordination of activities based on the structure of supervision. Health care management requires take account of views of the different stakeholders groups. In a flat organizational structures can take full advantage of the skills and experience of employees.</td>
</tr>
<tr>
<td>X. FINANCIAL MANAGEMENT</td>
<td>An important element of integration is the way of medical services financing. Diversity of financing in: primary care, emergency, social, mental health is a barrier to integration. Financial mechanisms are necessary to allow for the pooling of funds.</td>
</tr>
</tbody>
</table>

The potential benefits of a properly implemented integration philosophy in a hospital are shown in table 3.4.

Tab. 3.4. The potential benefits of a properly implemented integration philosophy in a hospital

<table>
<thead>
<tr>
<th>POTENTIAL INTEGRATION BENEFITS</th>
<th>INTERNAL DIMENSION</th>
<th>EXTERNAL DIMENSION</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Improve management,</td>
<td></td>
<td>• Increasing patient satisfaction,</td>
</tr>
<tr>
<td>• Increase awareness of problems,</td>
<td></td>
<td>• Improving the image of the healthcare facility,</td>
</tr>
<tr>
<td>• Streamlining of processes in medical services,</td>
<td></td>
<td>• Increasing the competitiveness of the facility,</td>
</tr>
<tr>
<td>• Rationalization of time to provide medical services and the processes accompanying them,</td>
<td></td>
<td>• Increase in sales of medical services,</td>
</tr>
<tr>
<td>• Increasing motivation to supplement the knowledge, learning, participation in training,</td>
<td></td>
<td>• Improvement of the facility financial result</td>
</tr>
<tr>
<td>• Integration of medical and administrative staff,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Motivation and activation of employees,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Enrichment of the organizational culture,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Removal of the inter-departmental and inter-functional barriers</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


Summary

It should be emphasized that quality management in hospitals, which is efficient and felt by patients and employees requires focusing on managing the people on the processes. The quality of medical services results from the quality of the key processes (internal and external). Integration of activities, knowledge, hospital staff, equipment, cooperating institutions, capabilities, treatment and rehabilitation diagnostic gives the opportunity for a better and faster adaptation to the needs of hospitalized people. Thoughtful medical and administrative staff in the system and process categories should be considered as the basis and condition of a comprehensive hospital management.

The health and lives of patients is the most serious argument for building effective teams in hospitals to improve quality. Creating a pro-quality organizational culture and undertaking actions aimed at systematically improving the quality of medical services is a basic task for such teams. In the process of effort, integration of the whole team is essential, including the involvement of managers. This involvement is in fact the best motivator for all employees.
4. The Functioning of Modern Enterprises in Poland – Learning Lessons on Organization from the Implementation of the Japanese Matsushita Strategy Model

Introduction

It is a common perception that a successful contemporary organization must have Chinese origins. But before the “Chinese miracle”, for many years it had been the Japanese economy that was regarded as one of the most successful in the world. In 1980, Japan’s GNP was the third highest in the world, and if that trend had been maintained, by the year 2000 it would have been number one. But this did not happen. One of the reasons was the Chinese low price strategy and its role as the world leader of rapid development. This chapter will not explain the reasons for, or consequences of, the failure of Japan’s prospects, and neither will it focus on the “Chinese miracle”. Rather, the aim of this study is to show how contemporary Polish organizations can benefit from the lessons that can be drawn from a case study of the Japanese Matsushita organization of a few decades ago, and thereby achieve greater success.

In spite of Japan’s failure to attain the world leader position that once seemed to be a realistic prospect, and the taking over of this position by China, it is still very instructive to consider what kind of lessons could be learnt by contemporary organizations from the success of Japanese companies, especially in competition with the undoubted world leader – the United States of America. In many fields, Japanese organisations were more efficient and more profitable than American ones, and, as must be emphasized, in much less advantageous circumstances.

Today Poland for more than a decade has been a member of the formation that could one day become the second United States in the world - The United States of Europe - currently called the European Union. All the hopes and ambitions contained in its name, formation, membership criteria and laws must evoke comparison to the United States of America. Despite the fact that today’s most

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24 Ph.D., University of Natural Sciences and Humanities in Siedlce, Poland.
25 M. Kodama, Innovation through boundary management-a case study in reforms at Matsushita Electric, „Technovation”, Vol. 27, No 1, 2007.
fierce competition is not between The USA and Japan but between the USA and China, it is very beneficial to consider the influence of the most significant “success-forming factors” on the performance, profitability and productivity of Japanese organizations.

The reason for this is the different sources of success of Japan and China. The victorious Chinese route to success has been through such factors as low prices due to artificially maintained low wages and a huge, efficient workforce. In the Japanese way to the top we can see such factors as strategy, method and education. To be good in the Chinese way, it would be enough to have a large population ready to work for virtually nothing. To be good in the Japanese way it is not enough to use the existing advantages because Japan has not so many of them. Japanese organisations had to work harder to be able to compete, especially with American companies. They did not have so many advantages, were not from a large country, nor had such a large population as China. In these terms, Japan in the 1980s is similar to contemporary Poland, and there is much to be learnt by Polish organizations from their 1980s Japanese counterparts. Polish organizations do have some advantages and their products and services are cheaper than for instance German ones, but still Polish organizations cannot rely only on a low price strategy, because for them it would be not yield sufficient reward and means of survival. A strategy of a moderate price for reasonable quality offers far greater long-term prospects. This is why examining the Japanese route to success is more beneficial than analysing how the contemporary Chinese success is being achieved. We have to look back in spite of the fact that it is China, not Japan, that is the present rising sun on the economic sky and the shining star of Japanese economic power has already faded.

Though the Japanese ‘golden period’ is now regarded as belonging to the past, it is very instructive to take into consideration all the circumstances that contributed to the positive atmosphere surrounding Japanese organizations. If we consider some facts from macroeconomic conditions, we will be able to better understand the phenomenon of the success of Japanese organizations. We argue that no matter what kind of economics we consider - macro or micro; whatever perspective we take into consideration - a whole country or a firm; whatever kind of organization we describe - a state or a business; the example of the Japanese triumph, with its origins in a very skilful, wise and professional strategy management, should be evoked and examined today in Poland. This example could be very promising when we are thinking of contemporary Polish organizations, because it means that if we have not everything we need, we could compensate with good strategy management. But now the question arises: what is meant by “good strategy management”? This chapter attempts to answer that question by presenting a case study of one of the most popular Japanese companies, Matsushita.

77 Ibidem.
Despite the fact that Japan is a country no larger than a state such as Montana, and with virtually no physical resources, it could still beat the British in motorcycles, the Germans and the Americans in automobile production, the Swiss in watches, cameras and optical instruments, and the United States in its “traditional” fields of dominance such as steel, shipbuilding, pianos, zippers, and electronics.

One of the factors that should be taken into consideration when we are talking about the impressive achievements of Japan, especially in comparison with the United States of America, is the historical background that those two countries had experienced. During the Second World War, they were standing on opposite sides, and their positions at the end of the war were also dramatically different. Japan, as one of the allies of Hitler, had suffered during the war, particularly as a result of the Hiroshima and Nagasaki atomic bomb explosions. In contrast, the United States was not fighting on its own territories, and, although it lost many soldiers, it did not have to add to this the loss of buildings, women and children, and damage to infrastructure. Japan lost the war. The United States was not the only victorious country, but was the only country that could be unambiguously called the winner - it become more powerful and a more important player on the world political and military scene.

Those factors are very important when we are describing the Japanese “miracle” that occurred in the 1980s and was one of the most spectacular feats of post-war economic development. Moreover it was something astounding when we bear in mind other factors that had an influence on the remaining important competitors for the title of the best developed country in the world. One of them was the Arab oil crisis that occurred in 1974. While all other world “champions” in the democratic world experienced inflation and a decline in productivity growth as a result of higher petroleum prices, Japan did not. It should be remembered that Japan has to import most raw materials including oil, and importing this raw material means that it is entirely dependent on the quantity and price being offered. In spite of that, during the Arab oil crisis in 1974 Japan was able to maintain a very low rate of inflation, productivity increased, and, by most objective standards, it became a more competitive trading partner in the ensuing five years than ever before.

All the conclusions and remarks that were mentioned above in the introduction lead us to the main thesis of this chapter: the achievements of Japanese organizations from the nineteen eighties could be implemented in contemporary Poland. And the fact that contemporary Japan is not the field leader should not be regarded as a disadvantage. Still today Japan is better off than Poland.

There are many reasons why it is very beneficial for contemporary Polish organizations to examine the way to the top of the best Japanese organizations - and their operations model that led them to success - a few decades ago. One of
them is that contemporary Polish organizations are facing similar problems to those the Japanese ones had to cope with at that time.

Because the Japanese organizations were not competing only with each other, but more significantly with their more modern and better managed American counterparts, they had to face comparison with market rivals that were at the beginning better than themselves.

A similar situation can be seen today in Poland. After having become a member of the European Union, willingly or not, deliberately or not, Polish organizations are competing with the rest of the same market organizations from all the EU countries. The conditions are not identical but very similar. At the first stage of the competition, the US organizations were at a higher level of functioning and organization than their Japanese counterparts. This meant that the latter had to find a way to win in the unequal fight. Of course, we can argue that the fight could not have been so unequal if they managed to win. This is undeniable, but as was mentioned above, the external circumstances such as a lack of national raw material resources, the necessity of importing the indispensible components for production, and historical disadvantages made the Japanese organizations less competitive at the first stage.

Though Poland has many important natural resources, many Polish organizations have to import many components as well and especially when they are covering the field in the most advanced technology. We also have to compete with a bigger country if we consider that the rest of the European Union is naturally bigger than Poland alone and for some period of the decade when we have been a member of the European Union, we did not have all the privileges as the “old” members of the community. We can still have the division into two parts of Europe that differ in the level and the acceleration of development, commonly known as a “two speed Europe”. So we can see that this is a parallel situation to that which prevailed in the nineteen eighties between Japan and the United States.

The obstacles which Japanese organisations had to overcome, like starting from a lower level after the war, adapting to a different culture and different standards, and the necessity of exporting and being present on the global market are very similar to those facing contemporary Poland. Our country has to overcome the civilization gap that developed when Poland was not a democratic country. In the nineteen eighties, Japan had been building its new state for some time. This is the same in contemporary Poland. We have been in the European Union for more than a decade and we are not starting now from absolutely nothing. We have to adjust to a different culture. Though most of the European countries have the same civilization roots, the fact that Poland had not been a democratic country for a long period of time had a negative influence on corporate culture. Now, due to open borders and the time that has passed since Poland’s accession to the community, we still have to learn and adjust our standards to the European level.
the fact that the European Commission regularly introduces new legal regulations means that Polish organizations constantly have to adjust to new requirements.

The next similarity is the fact that Polish firms have to export if they want to develop and survive. Generally, the domestic demand is not sufficient to provide Polish organizations with the size of market that could give them prospects of proper development.

Taking all the previous thoughts into consideration we would like to sum them up as the thesis of this chapter: Polish contemporary organizations can learn a great deal from the Japanese “lesson” of the nineteen eighties. Because one of the most important factors of this success was good strategy management, it is very promising that not only financial factors can play a crucial positive role in good operations of the organization. Financial factors, in comparison to other “intangible” ones, are very objective and could be difficult to obtain. Good strategy management is something “soft” but also might be less expensive and easier to acquire than “hard” ones. Of course the employment of a very good and well experienced manager could also be very expensive. But fortunately contemporary organizations can learn from the best examples from the present as well as from the past and in this way be able to formulate a set of internally trained and promoted managers. This is why it is very beneficial to examine the case study of Matsushita. This is one of the reasons why the methodology of this chapter is based on case study.

Matsushita

In the nineteen eighties, Matsushita was of the same rank as five other giants in its industry: General Electric, Siemens, ITT, Philips and Hitachi. All these firms appeared on the list of the fifty largest corporations in the world. The products made by Matsushita were sold under many brand names such as National, Panasonic, Quasar, and Technics. The achievements of this organization were very impressive in themselves. But all that Matsushita was able to achieve was not just a matter of coincidence or good fortune or the weakness of close or more distant competitors. It was a deliberately developed strategy that was influencing all short-term and long-term decisions. It was the result of the vision and the consequence of implementing that vision into the operation of the organization. Making the framework of the organization was not only like designing a new production firm. It was forming a kind of a coherent organism that was able to work on the basis of its own culture and strategy. This is why Matsushita managed to

79 Ibidem.
become an organization that was able to make something more than money. The tool that enabled it to achieve that desirable level was an organizational system that was trying to meet the needs of society, its customers, its executives, and employees. The other essential element that was an important contribution to the success of that system was its openness to the changes that inevitably always come when an organization is operating for more than a short period of time.

It is very important to emphasize that the success of Matsushita was mainly based on the implementation of the best strategy and managerial tools that were “invented” outside Japan. It was the United States of America where the “art” of managerial work had its first “polish” and was organized as a system that could be taught on various training courses and lectured on at university. So the ability to learn and adopt all the world’s latest inventions was one of the traits that describe the success of Matsushita.

Those rules were present in the company from the very beginning. The founder of Matsushita, Konosuke Matsushita was an average man who started his career as an apprentice in a bicycle shop earning twenty five cents a day. But he was open-minded and readily learned about new technologies. Thomas Edison’s discoveries made a great impression on him and inspired him to leave his job and start his own business. His first product was a double outlet adapter. This was in 1918. Ten years later, the Matsushita Electric Company was a leader of the fledging appliance industry in Japan.

**Matsushita Strategy**

Matsushita’s strategy was founded on a few rules that were not as obvious as they are now. He did not copy someone’s ideas but was ready to find his own way to solve the problems he met on his route to success.

He was breaking down the “traditional” rules of doing business. One of them was to name the brand by the surname of the owner or founder. It was a custom in Japan, but Matsushita found it as a disadvantageous obstacle and decided to obviate it. He introduced the National name and started to promote it intensively by a vigorous advertising campaign. He also opposed another tradition in doing business in Japan at that time and created his own channels of distribution. In this way he wanted to have a direct route to retailers without the traditional chain of intermediaries.

The next factor in his success was focusing on the core elements that would lead him to his points. One of them was market share. He did not want to have only short-term high profits. He preferred to build up his brand and expand to the

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81 Ibidem.
83 Ibidem.
biggest possible market share. He was able to do it partly due to diminishing the costs of production. But he tried to “share” this extra profit with the customers. As frequently as possible, he tried to lower prices instead of taking higher profits. In the nineteen thirties it was a very common trend in doing business to recoup investments as soon as possible. This is why an ‘average’ businessman tried to lower the costs of production as much as possible, but at the same time to maintain the price that had been established from the beginning, or even higher.

Matsushita was an open-minded businessman and in spite of being the owner of a successful firm, he was still looking around for better opportunities for development. When he learned about Henry Ford’s pricing strategy, he decided to imitate this pattern. Henry Ford wanted to offer his Model T to the average customer, so he was economising on the production costs to be able to lower his price. But this strategy had nothing to do with philanthropy or generosity. In this way, Ford was able to maintain his dominance over the car market in the USA.

Matsushita followed the American carmaker’s way of doing business and tried to keep prices at the lowest possible level. That was an ingenious way of gaining popularity among customers and eliminate possible intruders that would like to become his competitors. Lower prices were a very efficient barrier to entry and allowed Matsushita to maintain his previous position without unnecessary threats.

The other trait of Matsushita’s successful strategy was his sense of the market (Meier, 2014). This is why he abandoned the seductive way of being the most up-to-date producer who offered his customers the newest technology. Instead of this, he tried to emphasize that his brands were good quality and that he was selling them at a very attractive price. This strategy was one of the core fundamental rules that led Matsushita to his position in business. He rarely wanted to launch a new product or to show off with revolutionary technology. But endeavoured to be the follower who produced the product for less than the others, and tried the hardest to have the best marketing campaign.

On the other hand, the position of follower did not necessarily mean that Matsushita did not want to invest in research and development at all. In the nineteen eighties he had 23 production research laboratories equipped with the latest technology available at that time. But the purpose of those laboratories was different from, for instance, Sony. Sony wanted to launch something new and

87 L. Meier, Probability..., opus citatum.
88 G. Weisenfeld, Publicity..., opus citatum.
89 J. Cage, D. Rouzet, Improving..., opus citatum.
seduce the customers with impressive new technology achievements. In contrast, Matsushita did not attempt to outdo Sony or any of his competitors in innovation. But he understood ‘research and development’ in a more sophisticated way. He put all his invention and efforts into analysing competing products and figure out how to do better. Pursuing this strategy, Matsushita was able to invest only 4% of his sales in R&D in the nineteen eighties and still be in the top fifty businesses in the world.

When we are recalling this strategy from the past we can have an impression that it is very up-to-date. The contemporary strategy of Chinese organizations is almost the same. Economizing on research and focusing on tracking the most technologically advanced products and copying them is the core of the strategy that contributed to making China a world champion.

Matsushita had always been focusing on long-term rather than short-term profits. In his strategy, the leading role is played by the idea that profits are linked to growth. The aim of investment is to enhance growth not short-term profits. And it worked in the eighties so well that Matsushita was the largest manufacturer of electronic appliances in the world. In 1979 his 4.2% net income as a percent of sales was equal to GE’s and nearly double that of Siemens and Philips.

### What can be Implemented in Contemporary Organizations

Today, many Polish organizations are in a similar position to that of Matsushita in the nineteen-eighties. But not many of them could be able to count on such spectacular achievements. Japan in the eighties was a growing economy that had to overcome the threats and perils of the second world war, change the system, and adapt to democratic rules to be able to be the part of the western world as an equal competitor. All these changes were painful and demanded openness and creativity from organizations, their executives, and the whole of society.

Poland has also had to pursue a similar pattern. This is the middle of the third decade that Polish organizations have had to operate in different circumstances than before. The change from communistic to democratic rules was not easy and entailed significant costs to many organizations. Some of them went bankrupt, while others were taken over. Some had to lose their good position due to changes on the market, but some of them became bigger, better and more solid.

Contemporary Polish organizations can learn a lot from Matsushita in the nineteen-eighties because the situation in 2015 in Poland is comparable to the

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90 T. Shibata, Unveiling..., opus citatum.
92 L. Meier, Probability..., opus citatum.
93 Ibidem.
circumstances that Japan had a few decades ago. Maybe Polish companies have more opportunities and advantages in competition with their European counterparts due to their presence as a member in the European Union. Japan in the eighties was not in that privileged situation when it was competing with America and organizations on both sides were in fact coming from two different cultural systems, and were not neighbours like for instance Poland and Germany.

But in spite of that, Polish organizations could pursue some of the patterns from the nineteen-eighties to be fully successful in 2015. One of these patterns is to be absolutely aware of the requirements of the market. Like Matsushita, Polish organizations should not compete on the market as technology leaders.

Research and Development is very costly and needs to be constantly nourished with large sums of money. It would mean the necessity of new credit and loans and some Polish organizations do not have the necessary credibility to obtain a sufficient sum of money.

But on the other hand the example of Matsushita proves that big spending on R&D is not indispensible for success94. It is sufficient to follow the rule that quality and price are the best directions in setting priorities and do our best to let our customers know that this is the real strategy of our brand.

In fact some of our organizations are already using these two elements as core ingredients of their positioning on the domestic and foreign markets. The Polish plumber and the Polish nurse, because they are inexpensive and reliable, have already conquered foreign markets. It is good positioning not only for services but also for products, especially when they have to compete with very cheap but at the same time very poor quality Chinese products, especially on the European market. The customers are ready to pay a little more to have much better quality.

In addition, the attitude to advertising and branding that Matsushita was paying great attention to are worth mentioning. Polish products might have problems, not because of their price or quality, but because the brand is hardly known to the customers. In this situation it is good to learn a lesson from Japan and admit that branding is as important or even more important than the product. Many Polish organizations have already coped with that problem and are selling their products and services under a well known foreign brand. It is not the best solution, but it might be a cheaper and more efficient way than spending huge sums of money on advertising campaigns.

A similar problem to branding is distribution. Matsushita tried to avoid the traditional long chains that led his products to the customers. Similarly, it would be better to work on new exclusive channels of distribution for a few Polish produces. Polish channels would allow our organizations to economise on distribution, keep lower prices and be more competitive on foreign markets.

The other trait of character that might be forgotten but, as was proved above, played a crucial role in the success was the fact that Matsushita was a man

94 Ibidem.
with an open mind and was interested in everything he was able to learn and implement from his competitors. This is how he was able to learn from Ford and GE. Polish organizations cannot spend a lot of money on tracking competitors in terms of trying to be the most up-to-date in terms of R&D. But they still can copy the best solutions in strategy, management and other fields that can be pursued without substantial financial spending. And this is one of the most important lessons from Japan, which was such a successful and promising country a few decades ago\textsuperscript{95}.

Summary

The aim of this chapter was to argue that contemporary business can learn a great deal from historical events even though the brightness of the past victory has faded. Polish contemporary organizations cannot pursue the Chinese pattern because our country is too small and with too different a level of development to be able to provide very cheap and very low quality products. The strategy that Polish organizations have already implemented is very similar to the example of Japanese Matsushita from the nineteen eighties. It is very beneficial to scrutinize the sources, tools and strategies that were used at that time because the contemporary situation and problems of Polish organizations demand a fresh impact and influence of good practices that led other organizations to the desired success.

\textsuperscript{95} Ibidem.
PART 2
MODERN TRENDS IN MANAGEMENT
5. Shaping the Continuous Process Improvement Ability

Introduction

Process improvement cannot be regarded as a one-time undertaking, a campaign, since value creation for a customer requires emphasis on processes spread over time. For this reason, it is becoming more and more important to constantly monitor the implementation of processes and systematically introduce changes in their implementation. R. Smith claims that "superior process performance could drive the future of the organization, helping capture new customers and markets." However, it is worth noting that if an organisation is to have a true continuous improvement programme, it should still develop single, team and organisational thinking that all employees are knowingly seeking opportunities of process improvements. Therefore, they must have the time, resources, incentives and feedback, especially useful to search for problems, and hence supporting the processes improvement. In this context it is possible to speak about the continuous process improvement ability which becomes what distinguishes the leading organisations on the market and becomes the subject of recognition and admiration.

Continuous Process Improvement in Concepts and Management Methods

Improvement is a part of management focused on increasing the ability for better satisfaction of customers' needs and increasing the market attractiveness of an organisation. The goal of improvement is to undertake activities enabling introducing changes, implementation of innovations in the existing management system, the result of which is improvement in the quality of identified processes, or the product and/or service offered to the customer. Since as a result of improvement, most often positive changes in the organisation are introduced, it may be assumed that improvement is a form of organisational development. Therefore, both development and improvement is a process of change in the

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structure graded positively from the point of view of a specific criterion (or a set of
criteria). In a broader perspective, it is the process of the object moving from less
desired states, regarded as less developed to more desired states, regarded as
better, more developed from the point of view of a specific criterion or a group of
criteria. Improvement is thus development, whose target state is excellence. It is
possible to observe a strong relationship among improvement, process
improvement, and pursuit of sustainable development. Improvement may include
continuous actions, e.g. constant monitoring of a process aimed at shortening the
duration of performed operations as well as temporary, but systematically
undertaken improving actions. Continuous improvement (CI) is defined as “an
organization-wide process of focused and sustained incremental innovation”.
According to J. Bessant and D. Francis, organizational capability of Continuous
Improvement provides dynamic mechanisms for involving the organization in
learning processes. Continuous improvement is also understood as making
systematic efforts in order to find and use new ways of action, to actively and
repeatedly take initiatives to introduce changes. This notion is also understood as
a situation in an organisation in which all of its employees are constantly searching
for opportunities to eliminate the causes of imperfections in the functioning of an
organisation. In many presently used concepts and methods of organisation
management, continuous improvement, including process improvement, is a
priority. The actions undertaken make it possible to eliminate errors, shortcomings,
defects, and hence to achieve better quality. This is associated, first of all, with the
changeability of conditions of the environment, increase in competitiveness and
focus on reducing operating costs of an organisation. It is also related to the focus
on greater satisfaction of the customers and increasing their loyalty is meaningful.
Process improvement can be understood as an undertaking to gain additional
benefits both for the organisation and its customers. It is in the interests of the
organisation that processes are perfected in a way to eliminate all actions not
adding any value, and enriching the activities required by the customers. However,
it is important to focus not only on the improvement of single processes, but it is
crucial to create a system of interrelations (process architecture improvement) so
as to improve the effectiveness of processes in a broader perspective, satisfy the

103 Ibidem.
customers and increase the effectiveness of entire organisations. Continuous improvement has become the basis for formalised quality management systems based on ISO 9000 standards. In sub-section 9.2 of PN-EN ISO 9004: 2010 standard, it is stated that "improving actions may include the scope ranging from minor improvements introduced continuously at the workplace to a significant improvement of the entire organisation". Continuous improvement is the key management principle, which is based on Shewhart-Deming’s improvement cycle (PDCA). In this area its essence is continuous improvement, enrichment and fulfilling the characteristics of the object. According to ISO 9000 standards, continuous improvement is a part of the quality management, focused on increasing the ability to meet the requirements concerning quality. PN-EN ISO 9000: 2006 standard indicates that these requirements may apply to such issues as efficacy, effectiveness or traceability, while PN-EN ISO 9004: 2010 standard stresses that improvement becomes a part of organisational culture, e.g. through providing people in an organisation with the possibility to participate in improvement, through their authorisation for such activities, establishing a system of recognition and reward for improvement. In accordance with the name of this standard, management taking account of the idea of continuous improvement is management focused on the permanent success of an organisation. The relation of continuous improvement and management is visible in the quality management philosophy, namely Total Quality Management (TQM) which can be treated as a strategy of continuous improvement of an organisation’s operation, and processes within it. However, there is no single, commonly adopted definition of TQM, but all include the idea of the self-improvement of an organisation. TQM is a true philosophy of management, but at the same time the goal to be pursued by using more and more effective tools of organisational development. TQM is related to gaining employee commitment, with constant processes improvement customer-orientation. This is a philosophy of continuous effectiveness improvement and the adaptation capacity of an organisation as a whole and involvement of all


109 PN-EN ISO 9004:2010, Zarządzani...opus citatum, p. 43.


employees and satisfying the needs of internal and external customers\textsuperscript{112}. It is essentially a way of planning, organising and understanding each activity and depends on each individual at each level\textsuperscript{113}.

Continuous improvement is very often identified with the kaizen philosophy. Kaizen is a method of small steps, using the efforts of all employees of an organisation, shaping their morale, supporting their commitment and self-discipline, based on common sense and low costs\textsuperscript{114}. It is also accompanied by thinking that small changes, proposed by the employees themselves are definitely easier to be implemented and do not encounter any resistance at their introduction. M. Imai claims that continuous improvement can be expressed in four points:

- Everyday improvement, improvement should take place everyday;
- Everybody improvement, improvement should apply to every employee;
- Everywhere improvement, improvement should occur everywhere;
- From small incremental improvement to dramatic strategic improvement\textsuperscript{115}.

In practice, Kaizen consists of searching for possibilities of improvements at every stage of processes implementation and indicates the need of conscious evaluation of tasks performed. The orientation on continuous improvement of processes is also observed in the Six Sigma method, particularly the DMAIC methodology present within it. Six Sigma is a disciplined, intentional and systematic approach designed to achieve excellence in many processes, from production to marketing and sales\textsuperscript{116}. With regard to improvement of processes one of the most recent solutions is the introduction of the Lean Six Sigma concept. It is based on a synergic combination of Lean and Six Sigma, whose primary goal is the elimination of a diagnosed wastage (muda) and providing products and/or services of high quality. In the opinion of M. George, combining the Lean and Six Sigma ideas is presently necessary for two reasons. Firstly, the Lean concept tools do not enable quality control in the course of particular processes and secondly, using only the Six Sigma principles does not guarantee significant improvement in the speed of processes implementation and does not eliminate the broadly understood wastage\textsuperscript{117}. A combination of Lean Management and Six Sigma enabled the development of a complex improvement system in organisations. Both approaches

\textsuperscript{116} R. Wolniak, \textit{Modele ciągłego doskonalenia stosowane w Six Sigma}, „Problemy Jakości”, No. 5, 2005.
\textsuperscript{117} M. George, \textit{Lean Six Sigma: Combining six sigma with Lean Speed}, McGraw-Hill Education New York 2002, p. XII.
were connected by emphasis on customer satisfaction and strengthening the role of employees in quality improvement.

Reference to improvement of processes may also be found in the more and more often undertaken attempts to create models of perfect management. According to N. Grigg and R. Mann granting the award of Business Excellence is "the basic manner of formal and public recognition of efforts towards improvement undertaken by organisations that achieved substantial improvement in their performance or the level of solutions defined as world class".

Continuous Process Improvement Ability

A complex and demanding environment creates the need of adequate adaptation and restructuring the organisation, which makes it possible to state that the primary features of an organisation as a system certainly include the ability of its facilitating and improving. Continuous improvement is a long-term process, conditioned by many factors, among which the following may be indicated: the adopted management concept, goals of the organisation, organisational structure, applied technology, characteristics of organisational culture, management style and employee competencies. Success depends to a large extent on the organisation's ability to learn, accumulate knowledge and the ability to improve processes. For an organisation to be truly effective, each part of it must work properly together towards the same goals, recognising that each person and each activity affects and in turn is affected by others. In the spirit of the concept of Organization Development - OD the basic manner of achieving organisational effectiveness is the transformation of beliefs, attitudes and values among people towards such a direction that they make efforts for organisation development. Initiation of various kinds of improvement undertakings is very important, however, their effective implementation should be connected, first of all, with understanding the current way the organisation functions and ensuring its functioning in the future as a system. In practice many improvement initiatives result in failure. The reason for such a state of affairs is not the fact that improving actions are naturally ineffective, but it results, above all, from the lack of

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118 T. Borys, P. Rogala [ed.], Doskonalenie sformalizowanych... opus citatum, p. 17.
understanding of their essence (when and how to implement them) and the lack of a systematic approach to their application. In connection with the above, organisations, more and more often, search for tools that will not only indicate the directions of improving the processes, but also in a comprehensive manner will enable the evaluation of needs and prospects of development. In this context emphasis is put on the importance of the organisation’s ability to improve processes, i.e. the possibilities a given organisation is characterised by with regard to making changes in the processes. It is assumed that the operations of contemporary organisations must have a new philosophy of systematic development, rather than dealing with situations requiring immediate intervention. To that end, identification of areas requiring long-term development should be carried out constantly along with the assessment of the extent to which facilitating activities may be undertaken immediately. It should be kept in mind that undertaking the development activities requires proper substantive preparation of employees, but also they must be willing to search for better solutions in everything they are occupied with. The effects of undertaken development activities depend on human abilities and skills, supported by appropriate motivation, will and the willingness to act, which can be expressed in the well-known formula in management: know, understand, want to be able to, be able to. In this context, employees should have the knowledge on how and why to improve processes, they should have permission to undertake development activities and should demonstrate their willingness to improve processes. Maintaining a balance between these elements is the basis for shaping the continuous process improvement ability.

In the light of the resource theory, the ability to develop may be presented as collections of the abilities of the company regarding collection, integration and use of resources in order to achieve the intended results. A characteristic feature of an organisation’s ability in general, but also the ability to develop is the fact that they cannot be "bought", they must be developed in the company. The literature on the subject emphasises that it is organisational skills, e.g. the ability to innovate, the ability to respond to the customer’s needs, the ability to improve processes, rather than management methods or organisational structure solutions that are for companies being the leaders on the market the object of recognition and admiration.

124 Ibidem, p. 128.
128 G. Osbert-Pociecha, Zdolność..., opus citatum, p. 72.
Shaping the Continuous Process Improvement Ability

According to the Polish Language Dictionary, the term: “to shape” means "to form, affect something in order to obtain a specific result”\textsuperscript{129}. On the other hand, abilities are "the power to do something”\textsuperscript{130}, also identified with skills, potential, qualifications\textsuperscript{131}. If the meanings refer to the continuous process improvement, it should be stated that shaping abilities are planned, having a well thought-out impact on the employees in order to increase their activity with regard to introducing positive changes in the processes and creating appropriate conditions.

The literature on the subject indicates a close relationship between the specified personnel practices, and the idea of Continuous Improvement – (CI) in the aspect of creating attitudes and behaviour focused on introducing improvements\textsuperscript{132}. Continuous process improvement requires the development of specific competences of the human capital for the company, from the moment of employment in the firm, through on-the-job-training, work rotation, team trainings etc.\textsuperscript{133}. Later, it is necessary to obtain the involvement of all the employees, starting with the management to first line employees, who should be able to recognise the existing problems and indicate the possibilities for improvement. Participation in employee improvement, even the least qualified, is intended to introduce improvement and decision-making at a possible minimum level in the hierarchy, by people whom the problems (changes) relate to\textsuperscript{134}. In practice, continuous process improvement abilities are shaped slowly by e.g. building appropriate organisational and psycho-social conditions, where the employees have authentic possibilities to contribute to the implemented processes. Abilities to improve processes perceived that way may refer to employees, but also the management as well as the organisational culture, management style and temporary and financial situation of the company\textsuperscript{135}. In processes improvement the importance of organisational culture is strongly emphasised, because its roots are in the beliefs of employees. Understanding its impact on the abilities to improve processes becomes crucial. The literature on the subject emphasises the importance of knowledge and motivating employees when introducing the idea of continuous process improvement. The development of employees and strengthening their involvement in achieving results of the whole

\textsuperscript{129} www.sjp.pl [10.02.2015].
\textsuperscript{130} Ibidem.
\textsuperscript{131} Ibidem.
\textsuperscript{133} C. Storz, Dynamics in innovation systems: evidence from Japan’s game software industry, „Research Policy”, Vol. 37, No. 9, 2008. p. 1486.
\textsuperscript{135} S. Nowosielski, Cięgłe doskonalenie..., opus citatum, p. 312.
team is important. Particular attention should be paid to guaranteeing the employees a share in benefits resulting from processes improvements achieved upon their initiative. New personal and social competencies should be developed, empathy, trust, cooperation and exchange of information and ideas among the processes executors\textsuperscript{136}. However, it is possible only if the company in general has the necessary human potential with a positive attitude towards processes improvement. Such employees should be characterised by task-orientation and teamwork, be full of initiative, open to novelties and aware of the need to improve the implemented processes. In particular, under professional capabilities, they should have the ability to recognise the essence and causes of problems (important at the stage of analysis, the ability to creatively find and prepare solutions to problems (at the stage of design), the ability to make and implement decisions (at the stage of implementation) and, above all, the ability to work in a team\textsuperscript{137}.

Managers at the highest level in organisations, in accordance with priority goals of the whole organisation accept the management model and initiate focus on continuous process improvement. However, it should be remembered that in practice, implementing the concept into specific actions requires many procedures and continuous impact on the employees, shaping their ability to improve processes. In addition, it should be remembered that there are various kinds of difficulties and errors in management, which can inhibit the development of abilities to improve processes. Problems may be signalled at this point of an informational, cognitive, volition, environmental and ability nature\textsuperscript{138}. They are related to the previously presented formula elements: know, understand, want to be able to, be able to. Table 5.1 presents mutual connections between them.

\begin{center}
\begin{tabular}{|l|l|}
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\textbf{Elements important for the continuous process improvement in organisations} & \textbf{Factors hindering shaping the continuous process improvement ability} \\
\hline
Know what continuous process improvement aims at & Information \\
Understand the idea of continuous improvement & Cognitive \\
Be willing to systematically undertake improving actions & Volition \\
Be able to systematically undertake improving actions & Environmental \\
Be able to systematically undertake improving actions & Ability \\
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\end{center}


\textsuperscript{137} S. Nowosielski, \textit{Ciągłe doskonalenie...}, opus citatum, p. 313.

\textsuperscript{138} Vide, M. Czornik, [ed.], \textit{Wdrażanie strategii rozwoju miasta}, AE w Katowicach, Katowice 2003, p. 67.
In organisations communication errors often occur already at the very beginning of introducing the idea of the continuous process improvement. Very often the main assumptions of the adopted processes model improvement are unknown to the executors of the processes. The fact that a commitment of employees is based on understanding and accepting the adopted improvement concept is ignored. There is no plan for effective communication in organisations and precision in messages provided. Apart from an induction training of an information nature, specialised training, which deepens the general knowledge, is lacking. In this situation managers should perform the role of an organiser, a propagator of process continuous improvement and an entity interested in the consistent introduction of improvements in processes.

The existing negligence in the flow of comprehensible messages in many organisations turns into barriers of a cognitive nature, when too little information is tantamount to incomprehension of the essence and the needs of improvement activities or their incorrect understanding. In this situation it has appeared necessary to show the relations between process improvement and the benefits it brings to customers, including internal customers, therefore employees of the organisation. It is also important that the management systematically gets acquainted with the degree of understanding the idea of continuous improvement by teams of implementers, in different parts of the organisation.

The most frequent symptom proving the presence of problems of a volition nature is the aversion to implement improvement activities. It may result from various reasons, these can be for instance, a bad experience of the employees in this respect in previous periods. In this situation it is harder to change attitudes from negative into positive than to create positive attitudes towards new activities. A negative attitude towards improvement activities may also result from the lack of feedback concerning what happens later with the submitted improvement idea. Negligence in this area is discouraging, the employees do not know whether their idea was accepted or for what reasons it was rejected. Another source of aversion to the prospect of improving processes may be causes resulting from discrepant interests of the executors of processes and the management staff. In this case the grounds for undertaking improvement activities may be questioned as well as the lack of involvement in this respect among employees. In the event it is difficult to change the attitude of some employees, much may be achieved through courses of other employees, the so-called agents of change, having a good attitude towards activities regarding continuous seeking opportunities to introduce changes in the implemented processes. Agents of change are people who notice problems and are able to persuade the group to fight it. R. Luecke indicates that agents of change are leaders (not necessarily formal) thanks to their ideas, have a perception of the world through a different prism by which they may induce others to be active\textsuperscript{139}.

The barrier of a volition nature is also related to being tired due to the need to continuously question the existing state of affairs in organisations. It is necessary to bear in mind the fact that the more improvements are introduced in processes, the more difficult it is to detect new problems and have employee commitment. Continuous process improvement is not a self-driving machine to make changes, it requires appropriate thinking, teamwork, the support of managers as well as an organisational culture, which values seeking the opportunities to introduce change. It is not possible without a proper organisational climate and goals determined at the highest management levels. It relates not only to single processes, but also managers who strongly care about improvements in the process space.

Subsequent problems in shaping the desired abilities to process improvement can be of an environmental nature. In general they can be divided into external and internal. They may result from various kinds of resource deficiencies, including financial and temporary. In the event that the employees feel "overwhelmed" with their daily duties, the appeals of managers to intensify improvement activities may be to no avail. For this reason, when seriously approaching improving processes, it is important to manage working time properly, using both extensive and intensive forms\textsuperscript{140}. Poor involvement in processes improvement can be observed also when the employees have the time, but the management staff assigns a higher priority to duties assigned to the given position and improving actions are treated as additional work. In such circumstances the proper setting of priorities becomes a primary issue, the employees must have a clear message that involvement in processes improvement is equally as important as the performance of daily tasks. Referring to the financial matters it should be stated that in the event of the absence of funds for the appropriate shaping of abilities to process improvement, many improvement initiatives will neither be initiated, nor performed. Among environmental barriers, trends and phenomena that occur in the external environment should also be indicated. They can have an impact on the attitudes of employees towards continuous process improvement. Among them the economic situation in the environment may be indicated as well as social or demographic trends hindering and even preventing the introduction of improvement projects.

Shaping continuous process improvement ability may be also hindered by the lack of skills to create conditions, and a proper atmosphere to be active in this respect. In this situation it is possible to speak about skill problems. It is impossible to direct the organisation towards a continuous search for changes in the processes without the appropriate adaptation of e.g. an organisational structure motivation system, an information flow system etc. to the new situation in the organisation. Creative activities undertaken by the employees, burdened with risk must be supported in organisations with system solutions. On the one hand, it is important to give the employees freedom in action while, on the other hand, conditioning

\textsuperscript{140} In more detail S. Nowosielski, Ciągłe doskonalenie..., opus citatum, p. 314.
the amount of bonus on the contribution to improving actions and obtained processes results. In the event the effort of employees is not reflected in the bonus awarding system, it is difficult to expect continuous readiness for introducing improvements and initiative among employees. It is becoming more and more important to correctly identify various indicators ensuring measurement of desired behaviour and attitudes among the processes executors and the evaluation of effects of continuous improvement obtained by them. Such evaluation criteria, to a large extent, affect the effectiveness of implementation of the idea of continuous improvement. Based solely on the conviction that the employees should care about continuous process improvement may be illusory and is an example of wishful thinking. Employees, instead of undertaking specific improving actions may simulate behaviour pretending to be an activity, but not being one and not reflected in the expected improvement in the implementation of processes. In many cases focusing management on continuous process improvement forces changes in the organisational structure, without them it is impossible to achieve the assumed goals, for instance it is difficult to imagine acceleration of implementation of many processes without changes in the organisational structure or circulation of documents etc. It is also necessary to constantly monitor the improvement programmes being implemented and the analysis of the obtained results. Additionally, in conditions of a permanently changing environment, an organisation cannot function reactively using the previous potential as long as it enables it to achieve the advantage of income over costs, but should rather be proactive, which means conscious deviation from the previous, satisfactory action for the benefit of the future, more promising, yet more risky one. In addition, in the conditions of a constantly changing environment, an organization cannot operate reactively, using the current potential as long as it allows achieving the advantage of revenue over costs, but it should be proactive, which means conscious deviation from the previous, satisfying actions, in favour of future ones, more promising, but also more risky\textsuperscript{141}.

**Summary**

The above considerations on continuous process improvement ability indicate the complexity of the chosen subject. Effective shaping of the process improvement ability depends on a number of factors, the internal situation of an organisation happens to be different, organisational as well as cultural, competence and financial conditions may vary. In addition, managers may establish different priorities for improvement projects and customers may define differently

the expected value. The need to consider the impact of such a diverse range of factors results in the fact that suggesting one method of shaping the process improvement ability is impossible. In such circumstances every organisation, using a situation approach, should develop its individual way in this area. It should also be remembered that the development of the possibility to continuous process improvement is an arduous task, requiring patience, creativity and proper adaptation of various internal conditions to the still changing environment of the organisation. It is important to engage all the employees in processes improvement, their understanding of reasons for such a situation and developing among themselves the internal sense of obligation towards customers and the organisation. It is important that the employees want, and are able to develop, their knowledge and skills and desire to undertake action, and the managing staff is able to analyse the emerging problems and diagnose the readiness of the organisation and employees to introduce changes in the processes.
6. Inbound Marketing as an Area of Using the Internet in the Strategy of Promoting Goods and Services

Introduction

Whereas until recently the Internet has been generally perceived as a database enabling access to vast resources, to more or less reliable information, nowadays it is becoming the basic platform of supporting business processes of companies\textsuperscript{143}. This technology creates incredible possibilities of managing entities of public administration, especially in the area of data gathering and processing, communications and liaising with clients. The Internet revolutionises a lot of social and economic areas. Its thriving expansion made it possible that e-shops, e-banks, e-offices e-newspapers, e-television and e-learning platforms emerged and dynamically evolved, along with many other practical implementations.

The expression of dynamic development of the Internet is its applicability in numerous areas of companies’ activity, and in those in the strategy of promotion and liaising with customers. Nowadays lots of educated and IT-literate consumers are making use of possibilities the Internet provides, such as search engines and comparison shopping websites, just not to spend their time on direct visits to shopping centres. That phenomenon contributed to the emergence of a new form of marketing in the Net – Inbound Marketing. In conditions where the Internet users are capable of finding information on preferred goods and services, the job of marketing specialists is to attract the attention of consumers, entering into long-lasting relationships with them and finalizing a transaction. In this chapter the Author is indicating the extent to which the phenomenon of the Internet is changing the traditional approach to strategies of promoting goods and services.

The Idea of the Internet and Beginning of its Development

The Internet is a global computer network that connects all the computers connected to local area networks (LAN)\textsuperscript{144}. It is a universal worldwide system of exchange of information and communications. It is also a very complex set of a huge

\textsuperscript{142} Prof., Poznan University of Economics, Poland.

\textsuperscript{143} K. Walkowiak-Markiewicz, Nowe media i techniki badawcze w badaniach rynkowych i marketingowych, [in:] Marketing oparty na wiedzy w świetle procesów decyzyjnych, [ed.] W. Ciechomski, R. Romanowski, UE w Poznaniu, Poznań 2013, p. 27 and subsequent.

\textsuperscript{144} The etymology of the term Internet is derived from shortened from internetwork, from inter- + network (n.).
amount of data resources. The Internet is perceived as a break-through phenomenon in contemporary social communications. Its attributes make it an important source of competitive advantage for companies and institutions which can make use of it. Using the Internet is nothing else but the activity of members of society by means of the network, in order to find and implement information resources from there\(^\text{145}\).

The Internet is based on atomized system of a wide area network and covers the globe. It does not have however, as an opposed to other computer networks, a central disposition centre or complex hierarchy of centralised management. Thus it does not belong to anybody, nor does it have administration or management bodies. Certainly telecommunication links, including satellite links, which are much needed for establishing and keeping online contact, belong to the State or private entities. Also telecommunication companies, corporations and various institutions engaged in providing the Internet (so-called Internet providers) are operating in accord with economic and decision-making freedom as for staying in the market or withdrawing. Thanks to them any owner of a computer equipped with a modem, and who will sign a relevant contract with a provider, can with no problem become a member of the big family of Internet users operating in “the global village” Yet none of the above mentioned companies or institutions is empowered to manage the Internet as a whole.

From a technical point of view the Internet is a computer network consisting of millions of computers and servers. Each piece of information that is being sent is transmitted through consecutive internet exchange points and eventually reaches its recipient. Servers at the exchange points play the role of a relay which, as they receive a piece of information, check its address and further relay it in the desired direction. The phenomenon of the Internet consists of one thing which was imposed, or rather accepted unanimously, which is the manner of communications among computers, a so-called Internet Protocol, which is setting a common denominator, so that a piece of information can be deciphered by a recipient.

The genesis of the Internet dates back to the fifties of the 20th century, when the prototype network of computers was created in the Cold War era in 1957\(^\text{146}\). Its origin was connected with the military goals of the US, oriented towards a quest for new military technologies, which might have represented an effective response to the launch of the first satellite by the Soviet Union. The American federal government undertook preventive measures within the Department of Defence whose aim was to prevent the destruction of army headquarters with a single precise conventional or nuclear attack. In the then military doctrine, elimination of the head structures of the armed forces issuing commands for individual branches

\(^{145}\) J. Zieliński, _Ideologia Internetu_, www.winter.pl/ideologia.html [25.03.2015].

\(^{146}\) As early as in the sixties of the 20th century the term of informaton society was coined, Vide M. Golinski, _S połeczeństwo informacyjne – geneza koncepcji i problematyka pomiaru_, Szkoła Główna Handlowa, Warsaw 2011, p. 30.
of the armed forces (land, marine and air forces), as well as for armies and divisions, meant a crushing defeat of the enemy as early as in the first phase of a military conflict. In order to avoid that, the body named the Advanced Research Project Agency (ARPA) was founded, within which the best American civil scientists and army staff officers commenced a search of such systems and tools of commanding, of which flexibility, durability and self-recovery would secure continuity of command, despite a nuclear attack on the general staff. It has to be stressed here that the world of that time was endangered with an outbreak of a nuclear conflict between NATO and the Warsaw Pact and self-annihilation. It was the era of conflicts, such as the Korean war 1950-53, workers’ uprisings in Berlin 1953, Poznań 1956, and Budapest 1956, construction of the Berlin Wall in 1961, Cuban Missile Crisis in 1962, the zenith of the war in Vietnam 1965-73, or Arab-Israeli wars in 1956, 1967, 1973).

When we describe the genesis of the Internet from the present perspective we can conclude, that it is the irony of fate that the technology which was created in the cold war era of mistrust and hostility among nations, was then reserved for the civil sphere for the two next decades (in Poland and other states of the communist bloc until political changes in 1989), today serves crossing intercultural barriers and inter-religious mistrust and still have better cognizance and understanding among other dwellers of the global village.

The Internet incredibly reduced the distance and let people, especially the youth, understand that they have a lot of things in common, that they are fans of the same football clubs or music groups, or follow the same fashion styles. They discovered that they have similar adolescence problems, existential questions etc. In that plane the integration role of the Internet cannot be overestimated. Social media, such as Facebook, and communication services, like Skype or Gadu-Gadu or Tlen are used by hundreds of millions of young people and contribute to mutual understanding much more than any governmental programme.

Here it is worth mentioning another question relating to the genesis of the Internet. Namely, the marketing concept of the product structure assumes that apart from the core, real product and the expanded product, there is also the potential product, namely its probable applications in the future. In the case of the Internet, the additional applications (so-called potential product) turned out to be very impressive.

The majority of landmark inventions emerge from pure coincidence, laziness (necessity is the mother of invention) or effect of military research projects. As for the Internet the latter is the case. Of course it is not the only invention to have transferred from military to the civil sphere. Other examples include:

- Computers (ENIAC Electronic Numerical Integrator And Computer) designed in 1943-45 by J.P. Eckert and J.W. Mauchly at the University of Pennsylvania, USA. It contained 18 thousand electronic valves and weighed over 27 tons. Its primary use was calculating artillery firing tables depending on the
distance of the target and the kind of missile. In fact it was in use in the US Army until 1955 calculating not only artillery tables, but also making analyses of the hydrogen bomb, used for the design of tactical nuclear weapons, researching on cosmic radiation and designing aerodynamic tunnels);

- Extremely durable off-road vehicles like the Jeep (sold to the public since 1945);
- Walkie-talkie radiotelephones (Motorola supplied the US Army since 1941);
- GPS Satellite navigation (Global Positioning System) developed by the US Department of Defence in 1959;
- Microprocessors (built into F14 fighter planes controlling computers since 1970);
- Sunglasses (designed in 1936 for pilots of military planes);
- Microwave ovens (a result of an accidental discovery at a US military laboratory that electromagnetic waves of radars could heat up food);
- Teflon covered pans (Teflon, Polytetrafluoroethylene was initially used by the army to produce slippery coatings on missiles in order to reduce the air resistance). Teflon as the substance of very low friction coefficient proved to be useful to every housewife – after 1956;
- Duct tape (developed for the army and used during WW2 to seal ammo boxes);
- Glues like Super Glue (Cyanoacrylate discovered in 1951 with the aim to make instant repairs in plane cockpits);
- Other inventions, such as electronic watches used in space programmes, light metal alloys, carbon fibres, energy drinks, synthetic food of long shelf life, etc.

The Internet is a milestone of civilization development. Its emergence can be placed alongside such events like development of rail transport, telephone, combustion engines, use of electric power, radio, television, cinema, plastics and microelectronics.\(^\text{147}\)

So to continue the description of the genesis of the Internet and its transfer from military spheres safeguarded by secrecy into the civil society it has to be mentioned that the split of the Internet in the USA into military (MILNET) and civil (ARPAnet) parts occurred in 1983, and the bar on using the Internet for commercial purposes was lifted in USA as late as 1992. The outcome of the latter legal deregulation was, among others the fast development of e-commerce. The first internet e-shop (Amazon.com) was founded By Mr. Jeff Bezos in 1994, and launched in 1995. In Poland the first e-shops were launched in 1996.

The genuine development of the Internet in Poland was possible after the political changes in 1989. 17 August 1991 is conventionally assumed as its beginning, when the first exchange of e-mail between Poland and the outside world

\(^{147}\) A. Sznajder, Technologie mobilne w marketingu, Wolters Kluver, Warsaw 2014, p. 15.
took place\textsuperscript{148}. The connection was pursued with the use of the ka9q protocol from a barrack in front of the Physics Department of the Warsaw University in Hoża Street. A lecturer of physics at the University Mr. Rafał Pietrak established a connection with the use of the ka9q protocol with Mr. Jan Sorensen of the University in Copenhagen. In view of other sources the first Internet transmission was pursued in November 1990 by Mr. Grzegorz Polok of the Institute of Nuclear Physics of the Polish Academy of Science in Krakow.

The phenomenon of the Internet is unquestioned and unprecedented. Apart from quantitative development of the Internet, as measured by the number of users and computers, development of applications is equally important\textsuperscript{149}. It can be expected that in the near future:

- The range of the net, the signal quality and transfer speed will improve;
- The still growing number of mobile phones and other mobile devices will have features enabling efficient and comfortable use of mobile internet;
- Intelligent programmes will be in use recognizing a king device and adjusting the traditional mobile version of a website;
- Displays of mobile phones and i-pods, web browsers, navigation systems, content of websites in their mobile versions (graphics and audio files) will be quickly adjusted to users’ expectations and preferences;
- Promotional messages will be even more personalized.

Intensive development of the Internet has been a major factor of social and economic changes\textsuperscript{150}. One of them is the transition from 1.0 marketing focused on product, through 2.0 marketing focused on customers, to 3.0 marketing, in which value is the reference point\textsuperscript{151}. One of the outcomes of its dynamic expansion is the implementation in promotion strategies by companies with the purpose to optimize their marketing communications with customers.

### The Idea and Instruments of Inbound Marketing

Inbound marketing can be defined as the process of assisting potential customers in finding a company and its offer – often before they are ready to make the purchase. The aim of that process is the transformation of initial weak brand awareness into brand preference. The following activities pursued to that effect can be mentioned:

- Making use of the chain of acquaintances, experts and brand ambassadors;

\textsuperscript{149} M. Ciesielski, \textit{Zarządzanie łańcuchami dostaw}, PWE, Warsaw 2011, p. 130.
\textsuperscript{151} J. Królewski, P. Sala [ed.], \textit{E-marketing}, PWN, Warsaw 2013, p. 11 and subsequent.
- Pursuing partnership programmes in co-operation with advertising agencies;
- Stimulating the level of sales through attractive incentives;
- Providing reliable arguments which prove that the offer is attractive;
- Building up the image of a reliable supplier\textsuperscript{152}.

Inbound Marketing is the art of being found on the Web via such services as Facebook, YouTube or Twitter\textsuperscript{153}. It is strategy based upon the consent of its recipient, and consists of increasing sales volumes by attracting users of crystallized profile do the website. Focusing on a specified target group is possible by publishing interesting articles in blogs, using social services and applying techniques of search engine optimization\textsuperscript{154}.

The term Inbound Marketing was coined by Brian Halligan in 2005. He is associated with the Hubspot company, which offers a wide spectrum of tools for effective management of activities in the area of Inbound Marketing, specified in figure 6.1.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{inbound-marketing-diagram.png}
\caption{Instruments of Inbound Marketing}
\end{figure}

Source: https://placester.com/real-estate-marketing-academy/5-steps-to-demystifying-seo-and-inbound-marketing-for-real-estate [access: 11.03.2015].

\textsuperscript{154} http://www.clickray.pl/inbound-marketing [11.03.2015].
Inbound Marketing provides very useful information and tools for customers just to attract them to a given internet site. Its aim is to build up interaction and a long lasting relationship with potential customers. Inbound Marketing first and foremost relies on using blogs, content publishing, SEO, and Social Media [http://www.hubspot.com/inbound-marketing, access: 11.03.2015].

Activities connected with Inbound Marketing differ to a large extent from the ones classified as so-called „Outbound Marketing”, which can be regarded as the traditional way of reaching customers and encouraging them to make a purchase. Thus it is a standard form of marketing consisting of promotion techniques directed to the public who are not necessarily interested in the given offer. The following can be counted into outbound marketing activities: commercials on TV and the radio, advertisements in newspapers and magazines, telemarketing, stands at fairs, mailing, mass e-mail campaigns, and public relations activities. Outbound Marketing can provide relatively faster access to a certain group of recipients, yet quite often such activities are connected with a higher level of risk and initial expense in preparing a marketing campaign. Outbound Marketing is often perceived by customers as overly aggressive\(^{155}\). Using technology that can monitor incoming connections, blocking TV commercials, using spam filters and pop-ups blocking can significantly limit efficiency of such kind of marketing actions.

Apart from the Outbound Marketing category, another category is the so-called Interruption Marketing. The basic difference between Inbound Marketing and Interruption Marketing is that inbound marketing channels and strategies consist of soft winning the user’s attention as contrary to interrupting a sequence of their activities. Inbound marketing is part of a user’s routine, whilst Interruption Marketing is standing in their way, and is breaking the natural sequence of activities. Interruption marketing is trying to draw the Internet user’s attention to the message of the advertisement. In the case of Inbound marketing the users themselves, out of their own initiative, find the marketing message\(^ {156}\). Activities of Interruption Marketing and Inbound Marketing are enlisted on the figure 6.2.

Inbound Marketing is a natural response to the drop in efficiency of traditional, outbound marketing techniques, such as: outdoor, advertising in the press or on TV. It is assumed that customers in their search for information can discover such content which is valuable for them from the prospect of would-be, potential purchases. Working in such ways, Inbound Marketing is trying to be non-invasive\(^ {157}\).

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\(^{156}\) [http://www.blog.performancemedia.pl/][12.03.2015].

\(^{157}\) [http://blog.performancemedia.pl/seo/co-to-jest-marketing-przychodzacy-inbound-marketing][15.03.2015].
In the conditions of ever growing competition in the market and a dynamic flow of information it is imperative that the content quality is still higher for potential customers. In order to get them interested in a specific offer or service nowadays, a dry technical message is insufficient, but rather should be interesting and urging interaction. The principle of Inbound Marketing is providing the recipients with a useful and reliable product, not being strictly an advertising message. Optimally compiled content may make the readers not only buy advertised products, but also spread some interesting views or comment among friends or business partners.\(^\text{158}\)

One of main potential benefits that a company may get from the implementation of the strategy of Inbound Marketing is an increase in brand awareness. In the past the vast majority of activities aimed at building up brand awareness consisted of using tactics of paid promotion. Thanks to Inbound Marketing, companies may however build up brand awareness and not bear

\(^{158}\) http://www.clickray.pl/inbound-marketing [15.03.2015].
substantive costs at the same time. Market research can prove that over 90 per cent of all purchasing cycles start in the Internet environment. Messages published online are often the first point of contact of a potential customer with a given product. They make it possible to build up a positive brand image, and also enhance brand awareness.

Another benefit that can be achieved thanks to the implementation of the Inbound Marketing strategy is winning a bigger number of would-be customers and yet maintaining low costs of marketing activity. Each content as published on the Internet is a kind of a specific asset which can be beneficial over longer periods of time. Long-term activities connected with the popularization of certain contents result in attracting a big number of visitors to a given website.

Although the strategy of Inbound Marketing is relatively new, it was quite quickly accepted by employees of marketing departments throughout the USA. Approximately 60 per cent of companies use at least one instrument of Inbound Marketing strategy. Over 34 per cent of marketing budgets is allotted in activities connected with Inbound Marketing (about 11 per cent more than in Outbound Marketing tactics). In 2013 48 per cent of American marketing specialists planned increasing expenses on Inbound Marketing. That trend levelled off during the last 3 years [http://www.hubspot.com, access 11.03.2015].

The advantage of Inbound Marketing is also reaching a high ratio of return on investment in marketing activities. 66 per cent of marketing specialists can confirm that using such a strategy means that the cost of winning a new customer is much lower than average. In the USA in 2013, 34 per cent of prospective customers were won thanks to activities in Inbound Marketing. As many as 41 per cent of marketers confirmed that Inbound Marketing led to positive returns on investment. 10 per cent of American companies employ at least one person who is engaged in creating marketing contents. Figure 6.3 presents priorities of American companies that implement solutions in Inbound Marketing.

Fig. 6.3. Main priorities of companies which apply the Inbound Marketing strategy
Source: own study on the basis of: www.hubspot.com, access 12.03.2015]
Four basic pillars of Inbound Marketing are: website statistics, brand loyalty, conversion and efficiency measurement\textsuperscript{159}:

- Website statistics. The pillar of Inbound Marketing is the biggest barrier to apply. A vast majority of them are not aware of how to effectively increase the number of visits to their website. Most often they are able to achieve that through promoting in the same places as their competitors. To make the activities more efficient it is very important to take care of the attractive content of the website, and an especially interesting and updated offer content, and interesting materials published on blogs or social media.

- Brand loyalty. Many companies are able to increase the number of visits to their website, it is very important that such activity should translate into brand loyalty. One of the ways to accomplish that is publishing the interactive content on the website and presenting products and services in such a manner that they are attractive to customers. The activities should contribute to turning a casual visitor to the company website into a loyal customer.

- Conversion\textsuperscript{160}. Conversion of a visitor to the website into a stable and loyal customer is a challenging task. The first contact of the potential customer with a company, and indeed with the company website is very important. It is vital that it should be designed in such a way that it would give added value to the company and its offer, and feature precise call to action.

- Efficiency measurement. In order to increase the number of regular customers it is very important to understand which marketing actions are most effective for specific products or services. Based on that knowledge only such advertising campaigns should be developed that would give the best ROI ratio. It is the only way to achieve stable growth of sales, and maintain at the same time, low costs.

\textbf{Content Marketing in the Strategy of Inbound Marketing}

Inbound Marketing is closely linked to contents marketing as it involves creating interesting informative and amusing contents, which are subsequently optimized and widespread via communication channels on the Internet. The options of using contents in the Internet environment are not limited to articles published in blogs, video files, photographs or audio channels. One can also use social media, e-newsletters, case studies, articles published on other websites, internet events (interviews, presentations or training courses), trade reports, e-books, webinaria

\textsuperscript{159} http://www.sprawnymarketing.pl/ [15.03.2015].

\textsuperscript{160} Conversion is understood as an actual sale. It is measured with CR ratio (conversion rate), which determines the percentage of transactions concluded as compared to the number of clicking the website, and with the CPA ratio (cost per action) which illustrates the cost of pursuing a given action. See: A. Maciorkowski, \textit{Efficient marketing e-mail marketing}, Samo Sedno, Warsaw 2014, p. 10.
The term "content marketing" was first used in the Internet environment in 2001. Obviously companies had been engaged in the publishing and distribution of various contents much earlier. However, other terms had been used to describe the procedures, for example consumer media, corporate media or brand media. The first activities in the field can be attributed to John Deere, the founder of agricultural equipment Dere & Company and „The Furrow” magazine. Instead of sending catalogues with descriptions of the offered products, John Deere started by educating prospective customers in the area of agricultural technology (1895). The magazine was not filled with advertising messages aimed at enhancing mail orders, but rather with useful farming information. Deere hired journalists and artists, who presented specialist knowledge in a very attractive way, which helped readers solve their problems. „The Furrow” magazine is still published today and its monthly circulation is 1.5 million copies in 12 languages, and is delivered to farmers in 40 countries. Other examples of content marketing used a relatively long time ago is the in-depth guide for drivers created in 1900 by the Michelin company, a cookery book by Jell-O in 1904, and a design magazine published since 1913 by the engineering company Burns & McDonnena.

Content marketing should not be a sole marketing instrument as used by a company. One should also bear in mind that, in order to achieve satisfying results, content marketing should be used in a relevant context and on appropriate level. Also the business of the company should be taken into account, the type of customer, as well as the micro- and macro-environment.

So-called automation of marketing actions is closely linked to content marketing. It is a consequence of the fact that the ever growing mass of data and information is inflowing into marketing departments as acquired with the use of marketing analysis programmes. In order to compile the information into a coherent whole and be able to take rational decisions on such grounds, many companies opt to make use of IT platforms developed for automation of marketing. Capabilities of "marketing automation" software are very wide, and allow, among others:

- Creating contents (blog articles, e-mailing, e-commerce websites);
- Multi-channel marketing (social media, search engine optimization, pay-per-click (ppc) advertising);
- Gaining contact information from prospective customers, appraisal of their attraction and keeping in touch with them;
- Integration with crm systems and with applications linked to the social media;
- Managing multiple web pages;
- Forecasting marketing budgets;
- Analysis of return on marketing investment;
- Managing labour organization and marketing projects.
All those benefits lead to the implementation of such solutions in companies.

Another tool of fostering the idea of Inbound Marketing is the social media, which have significant influence on the way the Internet is used. The phenomenon relating to the social media, which is manifested by the fact that lots of young people can spend a couple of hours on a daily basis, aroused interest among marketing specialists, trying to draw consumers' attention via those very forms of media. Making use of the social media and e-mailing, a company is able to maintain close relations with groups of key customers\textsuperscript{161}. The social media are directly linked to content marketing, as they serve mainly publishing and promoting marketing materials and other information drawing consumers' attention.

The following benefits are possible thanks to the social media:

- Increase of the number of visitors to a website;
- Rising spontaneous and assisted brand awareness;
- Creating positive connotations with a brand and its good image;
- Promoting opinions and thus providing social proof, which consists of expressing the fact by users that they like a specific brand and share positive opinions with other people.

Use of such portals as Facebook, Google+, Twitter, or Linkedin may substantively increase interest in the products of a company\textsuperscript{162}. Only during subsequent stages of the purchasing process do consumers become fully aware of the significance of their needs, consider available purchasing alternatives, make final decisions and enter into relations with the producer or the vendor of specific goods or services. Contents communicated by means of the social media most often belong to the category of education or entertainment services, which ensures wide absorption.

Summary

The Internet is changing the previous extent of the activity of commercial companies. In mutual relations between sellers and customers the role of the latter has been growing significantly, as they are able to easily compare offers of alternative goods, raise their expectations and switch to another seller. The Internet allow reduction in costs of transactions and in an unprecedented scale decreases the time of access to information and transfer thereof.

The strategy of modern Inbound Marketing allows implementing various marketing tactics and forms of communication. Here we can specify search engine optimization, providing a positive experience associated with a specific brand (“user experience”), branding, creating and distributing contents, and optimization

\textsuperscript{161} J. Reed, \textit{Marketing internetowy}, Helion, Gliwice 2012, p. 79.

\textsuperscript{162} The phenomenon of Facebook is taken up by, inter alia, D. Kerpen, \textit{Lubie to!, Potęga marketingu szeptanego na Facebooku}, Helion, Gliwice 2013, p. 14 and subsequent; M. Hyatt, \textit{Twoja e-platforma. Jak dać się wybić w świecie pełnym zgiełku}, Helion, Gliwice 2013 p. 18 and subsequent.
of indexes of website conversion. Inbound Marketing leads to drawing the attention of visitors to websites, and at the same time does not generate vast expenses on marketing actions. To express it more vividly – the whole strategy consists of „deserving” customers’ attention, and not in buying access to their attention. The prospects of development of Inbound Marketing are very promising, as proved by American Companies’ experience. It can be assumed that those Polish companies which will be able to implement the tools of Inbound Marketing, will have a competitive advantage in the area of market communications with buyers and will have success in the market.

Introduction

While deliberating on the subject of management, Peter F. Drucker draws attention to the dynamic search for innovative methods in management observed at the present. Enterprises and organizations both in business and the public sector implement forms of management that not always follow the latest trends. Why is this so? The authors hereof will try to outline aspects associated with the implementation of these new trends, including trust management.

Another question of interest here is: are there any determinants or ways of attaining perfection in management of the above groups of organizations? By reference to W.M. Grudzewki’s and I.K. Hejduk’s discussion, it appears that mutual trust and building trust-based relations is a constant element of managing organizations. Undertakings that use trust management, either intentionally or unintentionally, reduce the feeling of uncertainty of the future of a given company.\footnote{W.M. Grudzewski, I.K. Hejduk, A. Sankowska, M. Wańtuchowicz, Zarządzanie zaufaniem w przedsiębiorstwie, Wolters Kluwer, Cracow 2009, pp. 9-10.}

The analysis of E. Skrzypek’s deliberations regarding the methods of achieving excellence in an organization under changeable circumstances leads us to the conclusion that both theory and practice have produced numerous methods and forms allowing an organization to achieve perfection in organizational, financial, technical, technological, and social areas. Thus, the need for improvement is evident. It is necessary to seek tools, methods, and fields in which excellence in an organization, more and more often a learning organization, may be attained. What is of outmost importance in the process of achieving perfection is the possibility to increase effectiveness and efficiency of management, including but not limited to accessibility and ability to use assessment tools. What is more, effective management of all areas of an organization leads to a more broadly understood quality improvement. Contemporary enterprises conduct their operations in an increasingly competitive environment, which requires business entities to initiate improvement processes. Competitiveness is becoming motivation.
for achieving excellence in management, whereas the factor responsible for improvement is knowledge gained both at university and in practice\textsuperscript{166}.

Developing and looking for new trends and methods of perfecting management and implementing innovative forms of managing organizations constitutes a great challenge. Nevertheless, one should not fear change as, on many occasions, it only enhances the art of management, both in the private and public sectors.

The Idea and Definitions of Trust

At first, we need to elaborate on the idea of trust presented herein. According to the Dictionary of Polish Language (Słownik Języka Polskiego PWN), it is a noun derived from the verb "to trust", i.e. to have or place confidence in someone; to believe that what one says is true; to believe someone's assurance, promise\textsuperscript{167}. Literature provides other definitions of trust, too. According to Prusak, Cohen (2001), Fazlagic (2004), trust is one of the elements of social capital. On the other hand, "Essentials Economics" (2004) maintains that trust is something fragile and as such, is difficult to maintain and build and easy to lose. Gambetta (1988) claims that trust is a resource that contributes to the achievement of specific economic outcomes, it plays a vital role in economic life and enables effective market exchange. Hosmer (1995) defines trust as the expectation of individual people, groups and companies towards other people, groups and companies; we want to believe that behaviour and decisions will be based on ethical principles.

Weber, Deepak, Murnigham (2005) say that trust is the foundation of social interaction, a valuable resource located in interpersonal and organizational relations. Pillutla (2005) declares that trust is a mental state expressed by positive expectations as to the motives behind a given behaviour of others; whereas Sztompka (2007) argues that trust is „a bet made with regards to the subject of uncertain future actions of other people”. Lewicki, Bunker (1996) tell us that trust is also a sort of condition represented by positive expectations regarding the motives of others' conduct. In accordance with the definition of Robbins, Decenzo (2002), trust is often a specific expectation; workers want another to be an opportunist in words, actions and decisions.

Literature approaches the definition of trust in a variety of manners. By alluding to W.M. Grudzewski and I.K. Hejduk, we can say that generalized trust is trust between strangers that is not based on previous cooperation. General trust results in the growth of the social tendency to have confidence in business.

\textsuperscript{166} E. Skrzypek, Sposoby osiągania doskonałości organizacji w warunkach zmienności otoczenia, Uniwersytet Marii Curie Skłodowskiej, Lublin 2006 , pp. 9-10.
\textsuperscript{167} Mały Słownik Języka Polskiego, PWN, 1996
relations\textsuperscript{168}. As a consequence of the above role of trust as an element related to the changeability of our environment, a new trend associated with management by or through trust is being developed, which is more and more often used in organizations.

From a process perspective, trust is both a product and a resource of a specific process. Trust management reinforces the processes of knowledge sharing because it reduces the level of fear of losing the individual qualities of employees, such as one's job or a position in an organization. Trust should be shaped from the beginning of cooperation and the process of trust shaping will largely depend on knowledge quality and the rate of its exchange\textsuperscript{169}.

**A Selection of Aspects Related to Trust Management**

Following the ideas of W.M. Grudzewski and I.K. Hejduk, we may say that management by trust refers to a delineation of guidelines related to building up trust, the importance of the leader in trust management, developing trust within a team, the influence of communication on trust, the relation between trust management and knowledge management, and the relationship between trust management and crisis management.

When building up trust, one should be aware that for results to be satisfactory, actions need to be multidirectional in nature. The process of creating trust should begin, first of all, with oneself (inner trust, self-trust) and a detailed insight into one's intentions and values. A person, in particular in a managerial position, who does not trust himself, is unable to create trust in others. Another stage to be mentioned here is a construction of one's own reliability for others, employees, to trust us. Significant elements are honesty, caring for others, and showing results. However, for trust to appear one ought to be ready to trust another person. In the case of an enterprise, it is the manager, senior management, who should initiate the construction of relations based on trust. This means, in particular, ascribing good intentions to employees and taking care of their concerns. An effectively planned and developed programme of trust gaining in enterprises and organizations should include essential, key issues that have an influence on trust. These include, above all, the vision of an organization, clearly defined to employees, organizational values, i.e. trust needs to be incorporated into the organizational culture, a just remuneration system, a friendly working environment and surroundings, management ought to take effective decisions.


\textsuperscript{169} M. Bugdol, *Wymiary i problemy zarządzania organizacją opartą na zaufaniu*, UJ, Cracow 2010, p. 111.
regarding human resource management and the methods of taking decisions in an enterprise\textsuperscript{170}.

Another important aspect of trust management is the significance of the leader. Employee trust of the leader in organizations and enterprises is an element of leadership, i.e. such characteristics as responsibility, vision of the future, realization of plans and strategies of others. Leadership and its features is perceived as an influence on other people, the purpose of which is to induce others to participate. It is possible and achievable only in a situation of trust built up by the foundation of the leadership. Without trust, employees are not convinced that the direction chosen by the leader is the right one. Thus, it is more difficult to implement a strategy one selected for an organization or undertaking. In such a case, we can speak of a lack of strategic trust, since employees believe that leaders undertake correct and effective decisions as regards market demands, the methods of building up the future of a company and shaping competitiveness. A lack of trust in the leader, expressed by a tendency of employees not to be frank towards their supervisor, is a source of numerous problematic situations, in particular at the time of crisis or difficulties, when information reaches the leader too late or does not reach him at all. What is more, we need to remember that it can work as well the other way round, i.e. the leader can be dishonest with regards to his subordinates. Trust of the leader brings about openness and engagement, and employees feel the importance of their work and freedom of action, which can positively affect the outcome of the whole company. The leader should show leadership qualities, such as good and honest communication, support and respect for his subordinates, fairness, predictability, competence and loyalty. What is significant, is the authenticity of the leader and loyalty towards oneself and one’s values\textsuperscript{171}.

Trust building within a team is a process in which trust directly affects the way the team functions and achieves results. Trust has an effect on organizational variables, which shapes the working environment. There are many facts in favour of team-work, including but not limited to, teams enabling enterprises and organizations rapid production and delivery of goods and services of high quality. Thanks to exchanges occurring within a team, organizations learn and hence develop innovativeness, which influences common creation and integration of information that individuals would be unable to use on their own. Actions taken under the circumstances of trust and openness are highly creative and novel. A lack of trust within a team leads to a low quality of performed tasks, a high level of stress, a risk of failure, and disengagement of employees from joint undertakings. Team management is an arduous task. Trust breeds commitment to work, is a stimulus to act, and gives one an opportunity to complete joint enterprises.

\textsuperscript{171} Ibidem, pp. 98-102.
members in a trusting relationship can rely on each other, which protects the interests of the whole organization\textsuperscript{172}.

What is significant for building trust within a team is an empirically proven effect of communication on trust. Communication, i.e. sharing information strategically important for an enterprise or an organization in a formal or informal manner. Initial communication, prior to completion of a specific task, has a positive influence on the cooperation and stability of team behaviour at work. It is particularly vital when it comes to new teams, where people do not know each other well. In the case of communication within a team, one ought to bear in mind also the size of a group. In smaller teams of up to 20 people we may observe a higher effectiveness of performed tasks. The frequency of communication between various team members has a substantial effect on trust. If communication is scarce, trust is guided by individual propensities for trusting other people. In the case of intense communication, experience and relations between the parties has a great role to play. The level of trust is adversely affected by multiculturalism within a group. The primary reason behind this are the different communication styles. To increase the level of trust within a team with low communication, one should affect the general trust of each individual team member. Team communication building is also of special importance. It is the underlying strategy of trust development and consists of communication forms, such as face-to-face, open exchange of information, and a communication plan\textsuperscript{173}.

What is more, trust management involves an affinity with knowledge management because trust is a key component of knowledge exchange between different parties. Learning is a major organizational factor, whereas trust plays an important role in the process of knowledge exchange. Traditional forms of learning involving adaptation are replaced with anticipating situations through the creation of a vision of the future and acquiring effective methods of learning. The principles of sharing knowledge with the use of the rules of trust should be determined clearly and honestly. A significant part of it is played by rewarding those who share knowledge and information and acquire and develop knowledge. We cannot forget that the atmosphere within a team largely depends on the way of dividing rewards for knowledge and idea sharing. At various stages of knowledge management, trust serves different purposes. When knowledge is generated, it guarantees an atmosphere of tolerance for potential mistakes and errors. It increases the drive for knowledge and learning. It enhances the propensity to share knowledge in writing. It leads to the transfer of knowledge to those whom we trust. This means that an alliance between the source of knowledge and its consumer is crucial for the process of efficient knowledge sharing\textsuperscript{174}.

\textsuperscript{172} Ibidem, pp. 105-108.
\textsuperscript{173} Ibidem, pp. 113-114.
\textsuperscript{174} Ibidem, pp. 122-127.
Trust, which plays an important role in the processes of knowledge management, favours acquiring tacit knowledge based on employees' experience. Explicit knowledge, contained in pictures and words, is definitely much easier to transfer. The process of sharing knowledge depends on the workers' participation in training, open, direct communication within an enterprise and management's support. The effect of knowledge exchange is further determined by reciprocal reliability and remuneration. It is true that motivated personnel is ready and willing to share knowledge, whereas a controlled employee becomes somewhat withdrawn. The higher the level of motivation, the bigger the chance of information sharing. Another significant factor is the impact of external factors. The degree of trust changes with the degree of motivation\textsuperscript{175}.

The relation between trust management and crisis management is a vital element of the functioning of enterprises and organizations. Signs of crisis may negatively affect the ability to build trust. Concrete actions may differ, depending on the type of crisis and associated external and situational factors. Nevertheless, we may outline a few principles allowing one to function at a time of crisis on a basis of trust. They include the following: rapid reaction to errors, talking responsibly about truth, honesty of expression when one lacks knowledge, empathy and compassion, undertaking preventive action effectively and compensation for loss. In critical situations, trust maintenance within a team and enterprise is key\textsuperscript{176}. A frequent mistake made by managers in times of a downturn is paying attention to external relations with the media and the customer, while paying too little attention to one's employees or even neglecting them, which weakens organizations and deepens the crisis.

**New Trends in Management for Enterprises of the Future**

Trust management is associated with the development and functioning of an organization, where it is of great significance. Interest in the phenomenon of trust increases with a rise in strategic forms of cooperation between companies. When there is no trust, costs of conducting economic activity rise by a half and employees need to be constantly monitored and controlled, which is an additional source of cost for enterprises. Trust is an underlying element of the operating strategy of organizations. Organizational trust applied in enterprises of the future has five dimensions related to communication, personality, calculation, institutionalism and perception. The personality dimension of trust within an organization is founded on a system of norms and values followed by its members. When trust is built up, clarity and stability of the environment are essential, i.e. its institutional dimension. Trust within an enterprise is, indisputably, a condition of correct and

\textsuperscript{175} Ibidem, p. 110.

\textsuperscript{176} Ibidem, pp. 133-136.
proper functioning, whereas trust management is a new trend of management generating competitive advantage of the companies it applies to\textsuperscript{177}.

Enterprises of the future will have new requirements with regards to management. To meet the said requirement, the system of management should be innovative. In addition to the system of trust management, another innovatory system is the system of knowledge management. It promotes novel ideas and solutions, and guarantees conditions for continuous development, improvement, and accomplishment of an adopted strategy. Equipped with the above, organizations can manage tasks and be up to market challenges. We should bear in mind that the new system that will constitute a fresh trend and become innovative needs to be adequately controlled at all stages: from its construction, i.e. the idea, through demand for such a system, up to the system launch. Studies demonstrate that companies implementing new systems of management achieve better outcomes and have greater success. With regards to innovation, the analyses of the World Bank reveal that Poland is placed in the middle of all states considered\textsuperscript{178}. This result is certainly satisfactory but, as we know, it could be better.

\textbf{Summary}

New trends in management will be implemented in those enterprises that behave dynamically amongst their competition and environment. The factor which differentiates these organizations may be the attitude of their management boards or owners to events occurring internally. Hence, we may distinguish three types of behaviour: active, proactive (passive) and reactive. Such behaviours mould the environment of enterprises' activities and develop methods of competing and acquiring market advantages\textsuperscript{179}.

Candidness and dispelling the myth of a perfect organization are necessary conditions for contemporary enterprises' management to be effective. An open, communicative nature refers to cooperation with buyers and treating them as participants in the organization. This is a consequence of trends imposed by the processes of globalization, improvement of technology and an increase in the rate of innovation and promotion or products on the market. In such a situation, a satisfied and loyal customer becomes part of the organization, similar to a valuable and loyal employee\textsuperscript{180}.

Innovation should be simple, but also directed at something specific so that the new system that will become a fresh market trend will not cause confusion

\textsuperscript{177} W.M. Grudzewski, I.K. Hejduk, A. Sankowska, M. Wańtuchowicz, \textit{Zarządzanie zaufaniem w organizacjach...}, opus citatum, pp. 201-211.


within a private or a public administration enterprise. A properly implemented and certified integrated management system results in dynamic development of enterprises and organisations. Improving work organisation by an unambiguous specification of tasks and competence of employees leads to fulfilment of customer's expectations and needs. It strengthens the company's position on the European and domestic markets. Implementation of IMS is connected with the effective management of one's resources. It organises and eliminates a number of unnecessary actions and incongruities in all areas of the organisation. The Integrated Management System increases flexibility in the implementation of change and affects document load. It quite logically and transparently relates procedures and processes referring to various systems. It facilitates management and actions aimed at laying foundations for the prospective implementation of the Total Quality Management system. The Integrated Management System makes supports meeting legal requirements and assures rapid adjustment of internal regulations to the changes affecting the bidding legal system. It creates a positive image of the company both in the eyes of its contractors and customers, and of supervisory bodies\textsuperscript{181}.

\textsuperscript{181} M. Klimek, A. Klimek, Challenges of effective management and methods of achieving excellence in the organisation at times of crisis and under variable conditions, [in:] Successful management in crunch time, [ed.] J. Kardas, A. Świrksa, Siedlce University of Natural Sciences and Humanities, Siedlce 2014, pp. 92-93.
8. Dialogue with Stakeholders in the Management of Corporate Social Responsibility

Introduction

Every organization operates in a specific environment, and not in a vacuum, and for this reason is influenced by others. The group of entities with great significance in the activities of the organization are stakeholders. In terms of the theory of the stakeholder management they are defined as individuals and institutions that belong to an organization's environment and remain with it in direct or indirect relationships. One of the challenges to facilitate the activities carried out by an organization in the pursuit of sustainable business is to build good relationships with stakeholders who have an impact on the survival and functioning of the organization. This becomes possible with reference to standards for socially responsible behaviour of the organizations. They should take care of the conscious search for ways to build and maintain good relationships with their stakeholders. Against this background, are presented the conditions conducive to the formation of the desired relations with key stakeholders who have an impact on the achievement of the objectives of the organization.

Due to the nature of relations between interest groups and the organization three groups of stakeholders can be identified184:

- Constitutional stakeholders - those involved in the creation of organizations such as the board of directors, employees, shareholders, owners;
- Contractual stakeholders - entities in a direct relationship with the organization due to the implementation of its objectives pursued, i.e., customers, collaborators, suppliers;
- Contextual stakeholders - entities over which the organization has an indirect effect, that is, social institutions, government, environmental organizations, the people of the region.

All of the above mentioned groups are important from the point of view of social responsibility, which makes them more and more demanding and expects the involvement of stakeholders in taking action to achieve the goals of sustainable

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182 Ph.D., Czestochowa University of Technology, Poland.
183 Ph.D., Czestochowa University of Technology, Poland.
development. According to the idea of social responsibility, the organization is committed to work with stakeholders through the use of appropriate mechanisms to communicate with them. The currently accepted approach to relations with stakeholders is to conduct an ongoing dialogue with them and to encourage active participation in the implementation of projects in the area of social responsibility. This is done in the process of social dialogue and on the basis of the formation of the desired relationship.

**Corporate Social Responsibility to Stakeholders**

As it was stated above, a socially responsible organization should conduct an ongoing dialogue with its stakeholders. Prior to the involvement of stakeholders in the dialogue process the company must answer some key questions:

- Why does it want to turn to its stakeholders in building the company's strategy, and why is it crucial to determine the purpose of the dialogue?
- Who is a stakeholder and what is his position in the environment of the organization?. Based on the answer a stakeholder map should be created determining to what extent each group of stakeholders may affect the business of the company, and what impact the company has on them;
- What areas of your business should be made the subject of dialogue and feedback on which the company depends?

As part of its corporate social responsibility organizations join the declarations concerning the delineation of stakeholder groups to which action will be taken related to the implementation of CSR. Formulated by a particular organization, declarations and commitments to stakeholders are due to the overall strategy of the company, which refers in particular to the social and ethical issues that occur in different areas of its strategic course of action. This means that all decisions in relation to changes in the objectives and methods necessary for the implementation of strategic measures need to be considered in terms of social responsibility of the organization.

In the context of the social policy organizations entering into relationships with the environment demonstrate different attitudes:

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185 Dialog pomaga zarządzać odpowiedzialnie, Forum odpowiedzialnego biznesu, ecorynek.com [13.05.2015].
- A reactive attitude - shows that a socially responsible organization takes action only when the absence of such a reaction may be the cause of difficulties in achieving its objectives. As an example of such a situation, one can cite organizations that are of strategic importance for the state, operating in natural monopoly conditions where they are strikes. These organizations building their monopoly sometimes lack a clear focus on the main dimension of their own responsibility, namely to improve the working conditions of workers. It must therefore be assumed that this dimension is not an act carried out by the organization management policy, a response to certain conditions. Therefore, it would be helpful if there was a reactive posture fixed element of the policy of the organization;

- A defensive attitude - is to eliminate threats lurking in the organization, but is not accompanied by reflection. This attitude is focused on the external environment and less on the organization and its internal stakeholders. When the company finds difficulty in further feedback from the environment it loses interest in CSR, because it is only the elements of the environment, which directly relate to the production process. When, for example, the company proceeds to build a sewage treatment plant or the installation of filters to be a more defensive reaction against the consequences rather than the ability to implement strategies towards the local community;

- Attitude adjustment - that all activities undertaken by the organization allow to adaption to the requirements of the legal nature and expectations of the public. That attitude is expressed in the creation of a variety of codes, in taking initiatives for the dissemination of good practice;

- A proactive attitude - manifests itself in activities that do not fall within the scope of the existing legal framework, and even go beyond main social expectations. An example of this attitude can be specified to print a description of a drug with analgesic in Braille. It follows that the pharmaceutical company is responding to the needs of consumers belonging to a small segment of the market thus gaining approval and recognition due to the unique approach of society to people with limited vision.

In order to find the compatibility between business and society, the concept of social responsibility refers to the sphere of ethics of the organization. Business Ethics aims to seek solutions to the requirements of the intermediate, connecting a moral concern for the observance of the interests of the company. Currently, the problem of business ethics is becoming increasingly important especially in the context of the increasing competition in the market. To cope with the challenges organizations should begin to build on the principles of ethical conduct and to
It is worth quoting the main groups of issues falling within the scope of business ethics, namely\textsuperscript{188}:

- Problems of work, and in particular the relationship between management and employees, as well as relations between subordinates themselves. This group covers issues related to the problems of the exploitation of workers, unequal treatment, objective assessment;
- Ethical issues relating to advertising and promotion - advertising inconsistent with the quality of the offered services or products, unlawful manipulation of emotionally focused actions on the recipient, not the rationality of receipt. The difficulty with the problem lies in the fact that even the existence of laws that prohibit the use of false information in advertisements, in practice, does not cause any sanctions;
- Ethics in competitive activities, covering such issues as: bribery, spreading false information about a competitor, building a bad image in the media, copying the products of other manufacturers, the violation of the rights to the trademark.

In literature you can find out the opinions of encouraging the development of the organization's code of ethics in order to reduce costs and thus generate profits. Here are some of them\textsuperscript{189}:

- To reduce or even prevent the onset of unfair behaviour (lying, corruption, embezzlement);
- Reducing the number of situations in which there is a conflict of interest;
- Increasing the credibility of the organization's members;
- Increasing the loyalty of one's subordinates;
- An increase in the improvement of the organization's reputation.

It is worth noting that the very development of an organization's code of ethics does not constitute any guarantee that it will immediately take ethical action. Note, however, that an ethical organization is one where employees respect and act in accordance with moral principles, it is also investing in its employees, which even includes such activities as a clearly defined path of development, keeping promises made, a proper relationship between employees and decent wages for work. For an organization to function properly, ethics should be entered into the business and find confirmation in daily practice, because in the context of the long-term development of the company, only the company's ethical behaviour becomes profitable\textsuperscript{190}.

\textsuperscript{188} J. Kowalczyk, Odpowiedzialność społeczna i przeciwdziałanie korupcji w zarządzaniu organizacją, CeDeWu, Warsaw 2009, p. 13.
\textsuperscript{190} J. Kowalczyk, Etyka, odpowiedzialność społeczna i przeciwdziałanie korupcji w zarządzaniu organizacją, [in:] Problemy etyczne w organizacji uczącej się, [ed.] E. Skrzypek, Uniwersytet Curie-Skłodowskiej w Lublinie, Lublin 2010, p. 410.
Based on the principles of the activities of the organization, ethical conduct should place emphasis on the adoption of such standards, which will contribute to the exclusion of two major, yet easily visible and dangerous phenomena, namely:

- Bad labour relations, which can be observed among companies that are oriented by a quick profit with little effort. Organizations seeking to achieve this objective approach to employees as an object;
- Unfair treatment of customers and other counterparties revealed in the following procedures: failure to provide customers with full information regarding the characteristics of products or services, in particular regarding defects, rude customer service, lack of constructive conflict resolution skills especially when complaints are reported by the customer and lack of deadlines for their completion.

Dialogue with Stakeholders from the Point of View of Corporate Social Responsibility

In the dialogue with stakeholders, the company has the ability to effectively respond to the needs and expectations which are important for the groups involved in the decision-making processes. With a view to encouraging stakeholders to a dialogue, it turns out to be important to prepare the tools and the choice of activities to streamline its channels of information flow between interacting partners. Significant support in this area is achieved by the use of three standards, each of which can operate with a view to building and managing effective relationships with stakeholders. Standard AA1000APS sets out rules to help in the development of activities in the field of relationship management and stakeholders cooperation with the organization. Standard AA1000SES shows the possibility of the effective integration of stakeholders in social dialogue, and contains specific recommendations for planning and dialogue. AA1000AS Standard is a tool for verifying the activities and CSR reports.

Stakeholder relationship management requires consideration of the process of identifying groups of interest. This stage comes down to describing those groups that have an interest in working with the organization. This is an analysis of three groups of key issues:

- Interest groups - who are interested in the activities of the organization, how they perceive the company in question;
- Values of the stakeholders;
- Social issues, which of them will be affected over the next 10 years by the company and other stakeholders.

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Given a detailed analysis of the stakeholders to be assessed by the following elements:\(^{192}\):

- The power of the stakeholders - the basis for its consideration: in relation to domestic interest groups (position in the hierarchy, the impact on others, control of resources, control in the work environment), with respect to outside interests (resource dependency, commitment to internal processes, knowledge and skills);
- The predictability of their reactions and actions;
- Showing interest in the affairs of the organization.

In order to precisely determine who among the stakeholders can be extremely important and useful, the organization uses the mapping of stakeholders. With this tool, a division is made according to the criteria assuming the nature of the relationship - positive (funders), neutral or negative (competitors), relevance (in the foreground, secondary-plan).

It can therefore be seen that the mapping of stakeholders is an extremely valuable way of sustaining relationship management and deepening the existing or establishing a new one, depending on whether the specified group is essential for the organization. During the practical application of this too, it is often seen that the structure of relationships in the organization turns out to be complex. The result is to reveal the dynamic nature of the relationship with the environment and the diverse roles they take on individuals, and producing an image of the forces considered essential for the functioning of the organization\(^{193}\).

Building a good relationship with stakeholders, organization can reduce the risk of conflict with various stakeholder groups. Thus, in the search for effective ways of ensuring the development of positive relationships with stakeholders, it is important to care for the preservation of relationships among small, representative groups.

In the era of the universality of the Internet, there is nothing in the way to be able to conduct a dialogue on important topics. However, the Internet should not be considered as an irreplaceable instrument for dialogue with stakeholders. Today, organizations pay particular attention to direct meetings during which there is an opportunity to build consensus. On the one hand, it boils down to listen to different opinions and expectations. On the other hand, to present their point of view on the matter. After this process, called identifying and acceptance by stakeholders indicators for monitoring adopted to implement jointly formulated vision for the development takes you to the stage of intensive work for the commitments that should result in their execution.

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193 SWISS Contribution Parp, Materiały dla uczestników spotkania informacyjnego na temat społecznej odpowiedzialności biznesu w ramach projektu „Zwiększenie konkurencyjności regionów poprzez społeczną odpowiedzialność biznesu CSR” [25.04. 2015].
A key element of building relationships with stakeholders is demonstrating achievements. This is a good time to talk and explain. Favoured by thematic reports, which are reflected in the results of the work. Reports shall be subject to verification by experts on the implementation of the strategy and their achievements and communicated to stakeholders in an open manner.

Forming relationships with stakeholders boils down to many activities. They should not be limited only to the activities of the organization to interest groups. It turns out that the organizations have begun to make demands on their own environment, expectations are the following from organizations posted to the different groups of stakeholders:

- Investors - capital growth, long-term commitment;
- Consumers - loyalty, support, response to the actions;
- Staff - loyalty, professionalism, motivation, flexibility, reliability, knowledge and skills, mentoring, volunteering;
- Suppliers - indisputability in relation to the regulations, complete solutions, integration;
- Regulators - the consistency of regulation in different markets, informal advice, early involvement, the creation of regulations, licensing;
- Communities - qualified resources, support, integration, grants;
- Journalists - fair treatment;
- Pressure groups - closer cooperation, participation in research, Co-branding;
- Partners, allies - the interplay sale, development, participation in the costs.

Taking into account the above factors in the strategy of the organization, enables the relevant interest groups in the activities of organizations which results in its market advantage. But we must remember to use the potential of the stakeholders in the implementation stage of social responsibility activities to increase the transparency of the company and the long-term development of relations with stakeholders which will result in the company's development in a sustainable way.

Summary

Literature of corporate social responsibility highlights the need to effectively manage relationships with stakeholders, respect their needs and responsible treatment by the organization. These issues are particularly relevant in the context of the strategic management of the organization. It is worth emphasizing that it is necessary to demonstrate the integrity and accountability by all parties involved in the process of interaction.

MANAGEMENT IN BUSINESS

PART 3
CHALLENGES FOR BUSINESS – RESEARCH RESULT
9. Integrated Organizational Management Model in Overcoming Challenges of Sustainability

Introduction

The concept of sustainable development has already become an internationally accepted model of environmental and development policy. However, starting from the so-called Brundtland report (1987) and especially since the Rio Conference (1992), sustainable development often bears more or less theoretical implications based generally on two assumptions: first, societal development can no longer be viewed without considering its natural prerequisites; second, instead it must be coupled with the reproduction thereof. Generally it is believed, that societal development should not lead to constraints on the chances of future generations meeting their needs. Unfortunately, the current level of uncertainty about the future and about political, economic and ecological development does not facilitate decision making by public institutions, businesses or private individuals. Acting without knowing all (or at least enough) of the answers may mean that we purposely shift our focus to those areas where possible solutions do not emerge. However, entrepreneurship as a phenomenon entailing high level risk in daily activities is an engine driven by profit-seeking motives. Under these conditions the uncertainty in sustainable entrepreneurship issues can hinder attempts to inject innovative ideas about social welfare into mature businesses, in other words to build a corporation’s capacity for sustainable entrepreneurship. During decades numerous aspects of CSR have been the subject of investigation in both academic and business studies. There is much discussion and critical scientific analysis to what extent real progress has been made towards sustainable development adoption at enterprise level. The academic press is still under discussion about what attracts a firm to be committed to social issues. The societal expectations about the responsible role of business in society are on the increase and recent research, the concept integrating former pursuits – corporate social responsibility (CSR) started developing with growing recognition. Apparently, this implicates a shift from the pure shareholder perspective of maximizing profits and corporate value towards a broader concept that encompasses multiple...
stakeholder concerns and values. Neither is clear, the motives and tools of an enterprise to operate in this manner. To fill this gap, we provide an analytical framework for linking the concepts of CSR and enterprise sustainability with each other on the context of stakeholder management.

The goal of the chapter is to construct a new methodological approach and present theoretical insights of the interaction among CSR, performance of sustainable enterprise and stakeholder management through the introduction of the methodological framework of the diagnosis of CSR motivations at the level of a firm seeking to have effective stakeholder relationships. The goal pursued by the chapter allows highlighting the scientific problem of the research: how practically to achieve conceptual goals of sustainable development at an enterprise level by employing entrepreneurial tools emerging from the context on corporate social responsibility?

The methods of the research: In order to conceive the analyzed problem, general scientific methods were employed as follows: comparative structural analysis and synthesis, logical analysis of academic press, and fuzzy-logic modelling.

Prerequisites of Stakeholder Management in an Organization

Organizations generate intellectual, environmental, and social capital in addition to financial capital. In successful organizations, the three core elements of strategy, structure, and culture are aligned and respond to external forces and changing expectations. The relationships among core elements are dynamic and adaptive, both in relation to each other and in relation to the overall fit between the organization and its environment. A comprehensive orientation toward stakeholder management penetrates the core of the organization; in the redefined organization, all the three elements and their alignment reflects the underlying humanistic commitment to the organization’s stakeholders. A clear demonstration that management possesses and intends to implement a compelling vision of the enterprise – who we are, and what we stand for – provides the essential foundation for effective stakeholder management.

Organization-stakeholder relations lead to new ideas about the responsibilities of organizations, the role of managers, and the most appropriate management style. Seeing organizations and their relationship with stakeholders from a systems perspective helps us understand that organizations, as organic systems, undergo self-regulation and renewal through interactions with diverse parts of their environment. The more dynamic view of organization-stakeholder relations acknowledges the interdependence that exists between companies and their stakeholders and asserts that stakeholder relationships can be a source of

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opportunity and competitive advantage rather than simply a threat or drain on organizational resources.

However, for most companies, the attention of management has been focused on one stakeholder group at a time. Collaborative approaches are often confined to specific parts of an organization. Rare is the company that adopts a comprehensive and strategic approach to relationship building that is governed both by deep social values and by recognition of the bottom line.

The competitive stakeholder analysis is a good method for identification of stakeholders, their prioritization and in that way influences the situation and gets the output that creates additional value\(^{199,200}\). It is not difficult to carry out stakeholder analysis; it does not take much time especially compared to the possible loss of not doing it\(^{201}\). Stakeholder analysis is vital for bringing ideas that are worth implementing as well as for social policy development striving for the organization’s welfare\(^{202,203}\).

Stakeholder analysis can be executed by identifying and defining them according to the attributes, interaction and interests in relationship with the dealt issue. Before carrying out the analysis the organization must set the goal for doing it. There can be found numerous reasons for performing stakeholder analysis in academic literature:

- Empirically to detect existing relationships between stakeholders\(^{204}\);
- Analytically to improve intervention\(^{205}\);
- As a management tool for policy establishment\(^{206}\);
- To understand the key stakeholders and assess their interests\(^{207}\);
- To look for compatibility between the organization goals and interests of the stakeholders\(^{208}\) as a tool for alignment and prevention of misunderstanding\(^{209}\).


\(^{209}\) P. Engel, *The Social Organization of Innovation..., opus citatum.*
Instead of stakeholder analysis Freeman and Gilbert (1987)\textsuperscript{210} use the concept of stakeholder management’ emphasizing the importance of partnership relations, their management but not control. Stakeholder analysis/management is a tool for different world synthesis and assures that satisfaction of stakeholder interests and needs could be reconciled with business interests and consequently implemented\textsuperscript{211} \textsuperscript{212} \textsuperscript{213} \textsuperscript{214}. Consistent exploration of various interests can reveal solutions for problem resolution and eliminate the majority of the objections arising due to different interest and requirements. Relationships between the organization and key stakeholder groups evolve over time and it is important to understand the development of these relationships. Of all the stakeholders in economic processes, enterprise forms the hub of all economic development-related. The majority of academic literature seeks to find a suitable foundation for stakeholder management where more often stakeholder management is understood as an issue, not only for a particular managers, but rather for the whole organization. An implemented stakeholder management system can provide a tool for answering these questions (figure 9.1).

Organizations should see their stakeholders as an integral part of their business environment and this part should be managed so as to ensure benefit. From this aspect stakeholder management can be viewed as part of a strategy where important stakeholders are involved. It can be presented as system based on Deming-Shewhart PDCA (plan–do–study–act) cycle and cover planning: design or revision of business process components (phases 1–3), doing: implementation of the plan and measurement of its performance (phases 3–4), studying: assessment of the measurements and report of the results to decision makers (phase 5), and acting: decisions on changes needed to improve the process (phase 6). A stakeholder management system reveals issues that are important to the stakeholder management process, gives better understanding on how the processes work, and how conceptual framework addresses the relevant issues. The model of stakeholder management is not only a descriptive framework but it also leads to recommendations on procedures, tools and implementation processes.

\textsuperscript{210} Freeman, R.E., & Gilbert, D. Managing Stakeholder..., opus citatum, pp. 397-422.
\textsuperscript{212} J.K. Foley, From Quality Management to Organization Excellence: Don’t Throw the Baby out with the Bath Water, Proceedings of the fourth international and seventh national research conference on quality management, Sydney 2001, pp. 154-177.
\textsuperscript{213} D. Susniene, P. Vanagas, Comprehensive Stakeholder Analysis as a tool for Satisfaction of Stakeholders Needs and Interests, Economics and management, Tarptautines mokslines konferencijos pranesimu medziaga, Kauno 2007, p. 12-osios.
Stakeholder relationships can play a decisive role in smoothing the effects of business cycles in the firms by its contribution to the consolidation of the stakeholders’ relation. Stakeholder management that is adjusted to organizational processes can help the organizations to successfully develop in a turbulent environment. Every organization has the processes that involve different performance aspects. Reflecting stakeholder needs in these processes helps organizations to achieve better results.

**Stakeholder Analysis Technique**

Stakeholder analysis and engagement are the main tasks in stakeholder management. The purpose of stakeholder analysis is to indicate whose interests and why should be taken into account when making a decision. So we must ask and answer for ourselves questions such as “Who are the stakeholders?”; “How can we gain insight into their interests and values?”, “What is the total effect when there is more than one dimension of the stakeholder attributes” and “How can we
simultaneously address what are certain to be conflicting interests and values among the various stakeholder groups?\textsuperscript{215}

The competitive stakeholder analysis is a good method for the identification of stakeholders, their prioritization and in that way influences the situation and gets the output that creates additional value. The list of stakeholders of a particular organisation can vary over time and is dependent on factors that determine the prevailing power balance among various parties, such as culture, type of market, and government system\textsuperscript{216} analysis can be executed by identifying and defining them according to their attributes, interaction and interests in relationship with the dealt issue.

The benefits from a stakeholder manifests itself in different forms: a stakeholder can bring new resources, provide know-how, help with entering new markets or otherwise increase the organization’s strength. Second, it depends on the stakeholder’s attitude to the issue, i.e. if it is negative and threatening or it can weaken the company’s position/support or even cause damage, then it should be given close consideration. One more stakeholder aspect – influence – must also be considered. The influence should be considered as a wider concept which covers several stakeholder attributes (e.g. power, interest, benevolence, reliability) and their presence and strength can determine the degree of a positive/negative influence.

The Research

It is impossible for all stakeholders to have the same interests and needs. Once organizations have identified their stakeholders, it is necessary to define the importance of satisfaction of their needs to the organization i.e., which stakeholder needs should be satisfied and which needs should be postponed for the future (this depends upon the situation and such stakeholder attributes as power and interest). There will always be a weak stakeholder, or even to some extent unfavourable for the organization’s needs that could be left unsatisfied for some time. Therefore the problem of prioritization and evaluation of the total influence arises and encompasses different factors.

The research takes into account one more dimension of a stakeholder’s attributes that is missing\textsuperscript{217} and this is whether the stakeholder group is supportive (benevolent) or not. Any stakeholder or their group could be supportive or

threatening, and stakeholder strategies would be contingent to the level of support. This means that a comprehensive and quantitative model of stakeholder influence evaluation and prioritization should also identify whether stakeholders are supportive or threatening and how much.

While numerous schemes have been created that identify, categorize, and prioritize corporate stakeholders\textsuperscript{218} \textsuperscript{219} \textsuperscript{220} and etc. in this research we do not focus on steps on how to identify stakeholders we rather go further to the next step and consider their influence according to such attributes as interest, power, benevolence (position on the issue, supportive or not), and reliability (how trustworthy a stakeholder is when certain agreements are achieved). The reliability factor is more or less a personal stakeholder’s trait or it can be determined by the situation, but we consider it an important attribute/factor influencing the stakeholder’s behaviour as a stakeholder or his/her intentions can be very benevolent but for some reasons he/she is not taking any agreed actions concerning the issue. The legal or ethical factor “legitimacy” and the time sensitive factor “urgency” should be taken into account after the level of the stakeholder’s influence has been identified. The evaluation of the attributes (power, interest, benevolence and reliability) and all their possible interactions would enable the management to clarify for themselves what actions to take when dealing with stakeholders or their groups, which stakeholder or group should be given a priority or which stakeholder or group could be involved to support the decisions. For example a stakeholder has power and benevolence but no interest. If there is a need to strengthen the position in tackling the problem the organization can take certain actions to interest and involve that stakeholder. Another example can be given about reliability. At first sight it can be assumed if it is low then it can bring a negative effect. But this is not always true because if interest is high or medium, low reliability can be expected not to manifest itself in case benevolence is positive. The combination of these four attributes/factors and their strength can bring different outcomes to an organization.

Therefore with our research we try to point to the need of gathering different information about the stakeholder, to consider what is known and not known about various stakeholders bearing in mind the discussed four attributes above.

This research offers a quantitative computer model of gathered or available qualitative information about stakeholders. The model is based on fuzzy logic of these four attributes/factors and their influence as a practical tool for dealing with the stakeholder management issues and can be used in management for making decisions.

Modelling and computer simulation can contribute to a deeper understanding of the issue. To develop a model that is able to explain or predict what could happen if some parameters are changed usually one needs precise estimation of these parameters, input and output variables. Unfortunately, the knowledge and verbal conclusions of experts about the influence of input factors or parameters on output (in our case on organization’s performance) cannot be considered precise. They are approximate and contain uncertainty from a mathematical viewpoint.

To overcome these differences between qualitative and precise quantitative models and to build a digital model based on qualitative knowledge and estimation of influence on the organization, it was suggested to apply a form of fuzzy logic. Fuzzy logic is a precise logic of imprecision and approximate reasoning.

The fuzzy sets and fuzzy logic were introduced by prof. Lofti A. Zadeh in his research papers. Over the years since these ideas were published, his proposal has gained recognition in various fields of research. This research was an attempt to apply fuzzy logic ideas to develop a model of the input factors/attributes (benevolence, interest, power and reliability) and their influence on the enterprise.

In order to give a quantitative evaluation of these factors, each factor was divided into three linguistic levels, called terms in fuzzy logic, – interest and power into levels low, medium and high, benevolence into negative, neutral and positive, and influence into negative, zero and positive. These levels permitted to code expert-type knowledge into IF THEN rules, for instance:

IF benevolence is negative
and interest is medium
and power is high
and reliability is low
THEN influence is negative.

Taking into account that the IF part, called antecedent of the rules, was comprised of four factors benevolence, interest, power and reliability where each had three levels, then the rule base consisted of \(3^4 = 81\) rules.

The problem of knowledge uncertainty can be conveyed and discussed in details following the case of factor interest. The factor was split into three linguistic levels – low, medium and high and besides that, the factor was assigned scores \(x\) ranging from 0 (lowest) to 10 (highest). This implied that scores were also divided into three subsets corresponding to the above mentioned levels – low, medium and high. In a traditional set theory, there exists a clear distinction between members and non-members of a set. Contrary to crisp sets, a fuzzy set or subsets, as in our case, can partially overlay each other and thus can be formed by assigning a membership value \(m_{level}(x)\) to each level in the interval of [0,1]. If, for instance, interest was evaluated with score \(x = 7\) and was calculated \(m_{high}(7) = 0.6\), then this

means that such interest belongs to the level high with membership value 0.6. It should be understood that the assertion “x is high” is true just with the degree 0.6, while the absolute truth has the degree 1. The statement that is absolute false has the degree of truth equal to 0, for instance, the statement “x = 7 is low” is absolutely false, hence \( m_{\text{low}}(7) = 0 \).

Figure 9.2 shows that membership functions overlap. For instance, when the score \( x = 4 \), then such interest is medium with the truth \( m_{\text{medium}}(4) = 0.7 \) and is low with the truth \( m_{\text{low}}(4) = 0.3 \) . Hence, if the evaluation \( x \) of the factor interest slightly changes or two experts give close to 4 but different scores, then anyway the interest evaluation as partially low ant partially medium remains right, just slightly change the degree of truth of both evaluations. This enables to overcome the problem of imprecision of qualitative knowledge.

Similarly for input factor benevolence three membership functions \( m_{\text{negative}}(x) \), \( m_{\text{neutral}}(x) \) and \( m_{\text{positive}}(x) \) were constructed. The factor was assigned scores \( x \) ranging from \(-10\) (lowest) to 10 (highest). Scores with a negative sign indicated the negative influence direction of the stakeholder on the organization. For the input factors power, reliability and the output factor influence membership functions \( m_{\text{low}}(x) \), \( m_{\text{medium}}(x) \) and \( m_{\text{high}}(x) \) were also constructed. The factor power was assigned scores \( x \) ranging from 0 (lowest) to 10 (highest) like the factor interest. The factor reliability was assigned scores \( x \) ranging from 0 (lowest) to 5 (highest). This different from other factors’ range was chosen to demonstrate that the range is not necessary to be from interval [0, 10]. For instance, the range [0, 10] can be obtained from range [0, 5] by multiplying scores with 2. Neighbouring membership
functions were overlapped. This assured compatibility of imprecise qualitative knowledge.

Thus the general structure of the fuzzy inference system took the form as shown in figure 9.3. There the input factors are shown on the left side. Values of these factors are processed by the rules block and performed by fuzzy interface. And finally, the digital value of the influence is obtained by the defuzzification.

![Fuzzy System Diagram](image)

**Fig. 9.3. The fuzzy system**
Source: own study

The relationship between input and output is called inference system. The system was based on expert qualitative knowledge given in table 9.1. It is seen from the table that an expert was asked to evaluate, just linguistically possible influences of stakeholders influence on the concrete enterprise under various possible combinations of power, interest, reliability and benevolence. The inference engine consists of IF...THEN rules derived from expert knowledge and it is a sophisticated rule base as each input factor may simultaneously partially belong to two fuzzy levels. This implies that four input factors may simultaneously activate up to $2^4$ rules with different contribution to the output factor influence.

**Tab. 9.1. Qualitative knowledge about stakeholders influence on the enterprise “H” under various combinations of power, interest, reliability and benevolence**

<table>
<thead>
<tr>
<th>POWER:</th>
<th>INTEREST:</th>
<th>RELIABILITY:</th>
<th>BENEVOLENCE:</th>
<th>INFLUENCE:</th>
</tr>
</thead>
<tbody>
<tr>
<td>low, medium, high</td>
<td>low, medium, high</td>
<td>low, medium, high</td>
<td>negative, neutral, positive</td>
<td>positive, zero, negative</td>
</tr>
<tr>
<td>low</td>
<td>low</td>
<td>low</td>
<td>negative</td>
<td></td>
</tr>
<tr>
<td>low</td>
<td>low</td>
<td>low</td>
<td>neutral</td>
<td></td>
</tr>
<tr>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td></td>
</tr>
<tr>
<td>high</td>
<td>high</td>
<td>high</td>
<td>positive</td>
<td></td>
</tr>
</tbody>
</table>

Source: own study
Several methods exist to compute the output variable values. This research was based on the convenient Mamdani inference method as it suited well for the types of membership functions used for factor influence fuzzy levels. The developed model allows one to explore the connection between input and output factors and to visualize this dependence in 3D space (figure 9.4).

![3D plot of influence dependence on interest and power](image)

**Fig 9.4.** Plot of the influence dependence on interest and power when other factors are fixed: benevolence = neutral and reliability = 4.5 (partially neutral, partially low)

Source: own study

For instance, in the given drawing there is plotted an influence dependence on interest and power, while the other two factors are fixed at their levels benevolence = neutral and reliability = 4.5 (partially neutral, partially low). This demonstrates that modelling by fuzzy logic factors can be assigned concrete scores or verbal levels as well. It is seen that at this fixed levels of benevolence and reliability the maximal influence is about 6 score points and it is reached when interest is high about 9–10 scores and does not depend on power. But it is the case when power is high. For all power values, the influence remains dependent on interest and the influence increases along with interest increase. The plot also reveals that interest and power interact resulting in maximal values of the influence.

Similarly the model makes it possible to present and analyse the dependence of the influence on any two factors when the remaining another two factors are fixed at the arbitrary level. It should be pointed out that the fuzzy rule base was just verbal mapping of expert-type knowledge and at no stage of the model development was there any explicit quantitative dependence of the output factor influence on the formulated input factors benevolence, interest, power and reliability.

Many fuzzy logic modelling environments, for instance such as Matlab Fuzzy add-on or FuzzyTech, have a capability to export a model into programming language and a stand-alone code. This code can be later used in another more
general model. For instance in agent-based models the fuzzy submodel code may be used by intellectual agents, say suppliers or firms, in decision making, or for evaluation of the dynamic business environment.

The analysis of a dependence plot also enables one to find possible errors or contradictions in the expert knowledge given in the rule form. If three input parameters are fixed and one is left to change, say interest, then the corresponding dependence influence (interest) should form a monotonous (increasing in this case) curve on the surface. If not, i.e. the surface has a local minimum or maximum, then there should be an inconsistency in the rule base.

To test the feasibility of the model against the expert knowledge, i.e. against the source data, the numerical defuzzified evaluation at different points was computed and compared with expert knowledge, corresponding to maximum values of membership functions. The comparison is given in table 9.2. It is seen from the table that the prediction by the fuzzy model influence numerical evaluation does not contradict expert verbal evaluation. But on the other hand the model avoids giving maximal evaluation of the possible influence. That can be explained by the fuzziness of the method and expert knowledge as well.

Tab. 9.2. Comparing the fuzzy model predicted influence against expert evaluation

<table>
<thead>
<tr>
<th>Power, mb(x) = 1</th>
<th>Interest, mb(x) = 1</th>
<th>Reliability, mb(x) = 1</th>
<th>Benevolence, mb(x) = 1</th>
<th>Influence y</th>
</tr>
</thead>
<tbody>
<tr>
<td>low, x = 1.5</td>
<td>low, x = 1.5</td>
<td>low, x = 0.5</td>
<td>negative, x = –8</td>
<td>neutral, –5 &lt; y &lt; 5</td>
</tr>
<tr>
<td>high, x = 9</td>
<td>low, x = 1.5</td>
<td>low, x = 0.5</td>
<td>negative, x = –8</td>
<td>negative, –10 &lt; y &lt; –5</td>
</tr>
<tr>
<td>low, x = 1.5</td>
<td>high, x = 9</td>
<td>low, x = 0.5</td>
<td>negative, x = –8</td>
<td>negative, –10 &lt; y &lt; –5</td>
</tr>
<tr>
<td>high, x = 9</td>
<td>high, x = 9</td>
<td>low, x = 0.5</td>
<td>positive, x = 8</td>
<td>positive, 5 &lt; y &lt; 10</td>
</tr>
<tr>
<td>high, x = 9</td>
<td>high, x = 9</td>
<td>high, x = 4.5</td>
<td>positive, x = 8</td>
<td>positive, 5 &lt; y &lt; 10</td>
</tr>
</tbody>
</table>

Referring to table 9.2 data it can be noticed that the model system in both cases gave a somewhat lower evaluation in scores but the same evaluation in linguistic terms. The systematically slightly lower evaluation given by the system may be explained, that the fuzzy model was developed with very general assumptions and knowledge about one enterprise while the test was carried out on real data of another enterprise. Taking into account that the linguistic evaluations of the experts and the model in both tests do not contradict, the performance of the fuzzy system should be assumed as reliable.
Summary

In order to continue to have value in management practice and even improvement in the world it is important for companies to seek sustainability and social responsibility which could be achieved through successful stakeholder management. Stakeholder management implies different kinds of relationships with them. In practice, companies can efficiently manage the behaviour of its stakeholders and benefit from the relationships, as very often different stakeholders can provide critical contributions due to paying attention to their interests.

In business it is not easy to reconcile various interests, but those differences can excite the creative combination of business processes to generate mutual benefits. A diverse array of stakeholder functions is an integral part of the organization’s health as the various organs of the human body. All organs are important because they are essential biological components of the system, as well as shareholders, employees, consumers and other stakeholders who carry out important functions in the socio-economic system which we call the organization. The whole point of stakeholder management is how to turn stakeholder issues, which can cause problems and conflicts, to a source of strategic advantage in pursuit of sustainability and social responsibility.

After academic literature reviews and prevailing viewpoints it is apparent that it is not enough to identify an organization’s stakeholders, it is necessary to perform comprehensive stakeholder analysis, which must examine and comprise. Stakeholder identification according to the relationship with the organization (enabling linkages, functional linkage, diffused linkage, and normative linkages).

But this analysis cannot be comprehensive because one dimension of stakeholder attribute missing is whether the stakeholder group is supportive or threatening. Stakeholder strategies would be contingent on the level of support. Neglecting this attribute can undermine the success of the organization’s strategies towards stakeholder relationships.

After a presentation of stakeholder theory analysis in academic literature, it became clear that a theoretical approach is missing on how to find harmony between stakeholder interests. Obvious criteria are absent therefore it can capacitate some kind of organizational lawlessness.

The research was built on the works of other researchers who have generated new ideas and techniques in exploration of stakeholder management and analysis as the development of positive relationships with stakeholders is a necessity for organizations. Therefore the organization with its management must be proactive in gathering information about stakeholder positions, needs and interests as to plan future steps in taking certain actions or making decisions and avoiding negative influence from them. For this purpose it was necessary to identify stakeholder attributes (interest, power, benevolence, and reliability) that are important in deciding about their influence, and to take into account all possible
attribute interactions that could reflect stakeholder influence and strength to an organization and to offer possible solutions in striving for interest and harmonization between an organization and its stakeholders.

The research made its contribution by offering a theoretical framework for a stakeholder management system. From a practical point of view, our results provide some guidelines for management and boards when dealing with various stakeholders regarding their various attributes and effectively monitoring management policy.

Another contribution of this chapter is the application of the fuzzy logic model in explaining and/or predicting stakeholders’ influence on the issues the organization seeks to solve and to provide relevant information for the stakeholder relationships management. The fuzzy modelling enabled developing the quantitative dependence of the factor influence on the factors benevolence, interest, power and reliability from the qualitative knowledge contained in the linguistic rule base. The fuzzy model’s 3D plots depict the qualitative knowledge graphically and make it easy to analyse and evaluate the resulting influence of the previously discussed factors and their interactions. Besides this, the fuzzy model developing process enables one to notice possible inconsistencies in the qualitative knowledge. The stand-alone code of the entire fuzzy model may be used in more general agent-based models as a decision making engine of intellectual agents.

Concerning the model, the intention was to present conceptual insights on possible solutions of measuring stakeholders’ influence. Therefore no solutions for all possible enterprises and stakeholders were included. The concrete adjustments to the model should be made for concrete enterprises.

To summarize, the key idea of the chapter is that, on the basis of stakeholder management literature and the authors’ ideas, managers should be offered some practical tool to efficiently deal with the stakeholder management issues as right decisions in the short run perspective generate beneficial outcomes for the long run perspective. And there is an obvious need to continue the research and carry out an elaborate empirical testing of the discussed digital model (based on qualitative estimation of influence on the organization) on the organizations and suggest further useful insights into the modelling technique and in application and operation of stakeholder management relationships for successful decision making and cooperation with them.
10. Knowledge Management as a Platform for Integrating Management Concepts in the Organization – Research Results

Introduction

Knowledge management has been very popular in recent years. Knowledge is described as one of the key assets that organizations use to maintain a competitive advantage. It is important in decision-making, planning, evaluation and forecasting. Knowledge-based organizations recognize the functional, procedural, instrumental and institutional aspects of knowledge management. It is recognized as a major part of the management process in an organization. Not only should it coexist with other concepts but also remain in compliance with them. Knowledge management should be involved in all activities in an organization, because it provides the principles of creation, organization, transfer, and application of knowledge within enterprises. This is due to the fact that the basis of all organizational activities and projects are based on both explicit and tacit knowledge. The chapter indicates the most important aspects of knowledge management, which were verified in research done among the Polish Quality Award laureates in 2012. It indicates the determinants of efficient knowledge management in the organization in the light of the research results. It presents the opinions of firms regarding the needs and possibilities for integrating management systems based on the concept of knowledge management in an organization.

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223 Ph.D., Maria Curie-Skłodowska University, Poland.
Aspects and Areas of Knowledge Management in Organizations

The area of the activities of knowledge management is extensive. It can include organizational, technical, social, economic and legal aspects\textsuperscript{227}. The organizational aspect relates to the creation of an appropriate organization system suited to the needs of the organization, which becomes the basis for the formation of an interactive environment. The technical aspect is focused on technical equipment and ICT technology to facilitate interpersonal contacts, flows of codified knowledge, its retention and protection, it also contains the technical side of embedding knowledge in products, services and structural capital. The social aspect draws attention to the fact that the basis for knowledge management are the people who possess the personalized part of a body of knowledge. Their actions affect the progress and effectiveness of key processes associated with knowledge. The economic aspect is related to the economic side of the generation and exploitation of knowledge and emphasizes the importance of sourcing, distribution of financial resources for knowledge management and the evaluation of effectiveness and assessment of knowledge. The legal aspect of knowledge management takes into account the issues of the acquisition and protection of knowledge. It also refers to the correctness of the activities related to the management of knowledge in relation to mergers, cooperation agreements, patents, or consulting services.

K. Perechuda highlights the following aspects of knowledge management\textsuperscript{228}:

- Functional, knowledge management is the implementation of the basic functions of management and takes into account the operational functions that relate to the acquisition and retention of knowledge;
- Processes, knowledge management regulates conduct and disposition, with a view to creating a suitable environment that will enable the efficient implementation of operational functions and thus the implementation of an appropriate organizational system design, optimize key processes related to knowledge, climate and organizational culture that orient people in developing knowledge and its appropriate use;
- Instrumental, knowledge management describes the methods, instruments and tools that contribute to a holistic approach to processes involving knowledge: knowledge generation, storage, distribution of knowledge, identification in all areas and levels of the organization;
- Institutional, knowledge management includes posts and work teams whose task is to implement the functions and responsibilities in the area of knowledge management by way of technical and organizational instruments.

Enterprises based on knowledge recognize the functional, procedural, instrumental and institutional aspect of knowledge management. In order to confirm this fact in the context of the research conducted by the author and in order to show the relationship between quality management and knowledge management in quality-oriented enterprises, the laureates of the Polish Quality Award, the respondents were asked which of the identified aspects should be taken into account in an organization (figure 10.1).

The functional aspect of knowledge management is focusing on knowledge resources and tasks designed to increase and improve the use of knowledge. This aspect is taken into account by 82.6% of the respondents. The knowledge management in the processes aspect, enabling the creation of systems, procedures, regulations and documentation is taken into account according to 76.1% of the respondents. 19.6% of the respondents had no opinion in this regard, and 4.3% did not see the need for this aspect of knowledge management. The instrumental aspect of knowledge management includes instruments such as decision support systems, incentives and tools, the Internet, databases. It is necessary, in the opinion of 82.6% of the respondents. 15.2% of the respondents had no opinion on that matter, and 2.2% did not see the need for this aspect of knowledge management (figure 10.1).

The institutional aspect of knowledge management refers to the system of posts and work teams focused at knowledge resources, and its inclusion in knowledge management is necessary in the opinion of 54.3 % of the respondents. 41.3% of the respondents had no opinion and 4.3% did not see the need for this aspect of knowledge management.
Knowledge management in the enterprise may involve different areas, so it was requested from the laureates of the Polish Quality Award to indicate which areas they think should fall within the scope of knowledge management.

Tab. 10.1 The area of knowledge management in organizations

<table>
<thead>
<tr>
<th>What areas should knowledge management comprise?</th>
<th>Yes, and definitely yes</th>
<th>No</th>
<th>Hard to say</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managing the intellectual potential of employees, managing knowledge resources, knowledge management backed by information systems</td>
<td>37 93,5</td>
<td>0 0</td>
<td>3</td>
</tr>
<tr>
<td>KM as information management</td>
<td>40 86,9</td>
<td>0 0</td>
<td>6</td>
</tr>
<tr>
<td>KM as human resources management</td>
<td>34 73,9</td>
<td>0 0</td>
<td>12</td>
</tr>
</tbody>
</table>

Source: own study

Nearly all respondents (93.5%) indicated that knowledge management in organizations should include management of the intellectual potential of employees, management of knowledge and information to support knowledge management. Treating knowledge management as information management is for 86.9% of the respondents while 73.9% of the respondents believed that knowledge management is related to human resource management (table 10.1).

Nowadays, knowledge is increasingly considered as:
- Intellectual energy supplying the brain;
- The basis for the development of human personality;
- A motivator to act;
- A model of the observed world;
- An integrating factor for communities using a certain kind of knowledge;
- A resource accumulated for the potential use by anyone, anytime, anywhere, for any purpose;
- Capital profiting the owner;
- Merchandise being the subject of exchange, with a price tag, intended for sale and finding a buyer.

Thus, the knowledge has become more and more complex issue to consider.

Conditions for Efficient Knowledge Management in Quality-Oriented Organizations – Research Results

Knowledge management is a new interdisciplinary business model. A. Tiwana stresses that knowledge is a business tool that is used in decision-making,

planning, evaluation and forecasting\textsuperscript{230}. Knowledge management is a concept that should be taken into account in the strategy and planning of modern business\textsuperscript{231}. Organizations are looking for new solutions supporting, refining or replacing existing ones. Knowledge management as a concept of management should be part of the process of managing an organization\textsuperscript{232}. It should not only coexist with other concepts but in compliance with them. Knowledge management should be treated as a holistic concept as its scope covers all activities in the organization.

Knowledge management is a concept that is being implemented to a varying degree and level in organizations throughout the world. Laureates of the Polish Quality Award determined the usefulness of knowledge management in selected activities in their organizations. They were asked to indicate the usefulness of knowledge management in the area of innovation, profits and competitiveness. The usefulness of knowledge management for these activities ranged from 2 to 5, usefulness in improving innovation (4.5), usefulness in improving competitiveness (4.3), usefulness in the area of meeting customers' needs better, and marketing activities (3.8), usefulness in profitability (3.5) (figure 10.2).

![Fig. 10.2. Usefulness of knowledge management in the area of innovation, competitiveness and profit](image)

Source: own study


Knowledge management can serve as an integrator for other management concepts\textsuperscript{233}. Knowledge is used to implement the strategic and operational objectives of an organization. Each of the management ideas assumes certain requirements of knowledge. The success of any management concept depends on people, their knowledge, skills, attitudes and commitment to the organization. Knowledge management refers to knowledge on management hence there is a need to know how to manage the use, development and modification of concepts, methods or management techniques. Knowledge management is a concept combining all the ideas together. At the same time, each organization taking into account its specificity, goes its own way in managing knowledge. If ISO took into account, to a greater extent, solutions in the area of knowledge management in the ISO 9001 standard, then companies would have some reference, but this was not done. At the same time a reference to the problem of knowledge management was included in the ISO 9004 standard.

An integrated management system combines all systems and processes into a single, complete structure, which allows employees to work in the system with unified objectives. Integrated management environment provides clear information on all aspects of the organization, on how they influence one another and what risks are associated with certain areas. The use of such a system also allows reducing the level of duplication of processes and facilitates the implementation of new systems in the future.

In order to obtain a certificate in the field of an integrated management system, organizations are required to prove the effective implementation of a unified management system, connecting all existing management systems standards into one structure. An integrated management system provides evidence that an organization:

- Is able to identify, analyze and control risks in the organization;
- Has built an organizational structure that allows it to properly oversee risks in the organization;
- Is transparent and can delegate tasks, powers and responsibilities for specific aspects of risks relating to quality, the environment and safety;
- Is documenting the implementation of these actions in accordance with the plan.

The integration of management systems brings certain advantages in the economic, organizational, technical and social spheres, therefore, the respondents were asked the question: Is it possible to integrate a knowledge management system in an enterprise with a quality management system and other systems (which). Respondents in 60.9% of the cases saw the possibility of the integration of

management systems, only 2.2% gave a negative response. Among the systems indicated were an information security management system and an environmental management system (figure 10.3).

![Pie chart](image)

Fig. 10.3. Prospects for the integration of knowledge management in an organization
Source: own study

At the same time, one needs to be aware that the integration of management concepts is, for many reasons, a very difficult process. Some of the reasons include:

- The features of the concepts are insufficiently clearly defined;
- Not all concepts are adequately characterized in management theory;
- Concepts undergo some modifications and changes in time.

Management concepts applied in an organization should constitute a coherent, comprehensive and integrated management system. Deciding which management concepts should be used in an enterprise, managers should be guided by the factor of their usefulness to the company. To do this, they need to ask the following questions, which may be helpful in making the choice of how to integrate concepts of management:

- Is integration needed?
- Do we have sufficient knowledge about the nature, rationale and methodology for carrying out the integration of management concepts?

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• Does integration of management concepts address crucial problems of the organization?
• Does the integration harmonize well with what we have in the organization?
• Can we integrate management concepts ourselves?
• What benefits can we expect?
• How much can we lose by engaging in this project?
• What repercussions does the implementation of these concepts carry?

Knowledge management may allow every organization to develop its own concept of managing knowledge which will be based on the compilation of attributes, methods and tools that organizations deem most suitable. Knowledge management enables organizations to use sources and resources of knowledge in the implementation of various management concepts. It also allows organizations to gain the best possible knowledge that will permit the integration of management concepts within the company.

In order to demonstrate the validity of adoption of knowledge management as a 'common ground' on which organizations can start the integration process, respondents were requested to point to the benefits knowledge management has brought, or may bring in quality-based organizations (figure 10.4).

According to respondents knowledge management translated to an increased effectiveness of the organization, ranked 4.2. A 4.0 ranking was assigned to inspiring employees to effective thinking and sharing the best practices and experiences. A 3.9 ranking was given for the benefit of increased effectiveness of the internal decision-making process and the benefit of knowledge management systems capitalizing on the knowledge of employees. A 3.8 ranking was given for shaping attitudes, experiences and skills conducive to the expansion of competencies and generating value. A 3.7 ranking was given for gaining knowledge from their own employees (tacit knowledge), increased productivity and profits, creation of a value-based culture as well as product innovations and product range upgrade. Knowledge management can shorten the time for task execution (ranked 3.6), reduce manufacturing costs and thus increase competitiveness (ranked 3.5). Relatively low, 3.5 on average, respondents rated the ability to identify knowledge gaps in their organizations. The lowest average rating (3.2) was given to the increase in employee loyalty. All of the above benefits confirm the usefulness of knowledge management in quality-oriented organizations (figure 10.4).

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Fig. 10.4. The benefits of knowledge management to organizations

Source: own study

Summary

Knowledge management has become a key concept applied in managing an organization functioning in a knowledge based society. Knowledge is a crucial, strategic organizational resource in any organization. In the knowledge management process it is important that it should extend to all aspects of management. For organizational and economic reasons, attempts are being made to integrate existing management systems. Integration should be based on a knowledge management system, because knowledge, both explicit and tacit is essential in making decisions aimed at improving the efficiency and competitiveness of any organization functioning in a changing environment. The results of research conducted by the author in quality-oriented enterprises, the winners of the Polish Quality Award for the years 1995-2010, confirms the growing importance of knowledge management in the organization.

Introduction

Progressive intensification of economic, political and cultural cross-border relations has become a megatrend in the modern global economy. Globalization involves the most fundamental changes occurring in the world today. This process is compared to the tectonic movement of our era or to the shock of the global community foundations, which permanently changed the direction and path of development for the future. They led to the emergence of a new world system, which ideology is economic freedom. Implementing new standards has a significant impact on the expansion of international enterprises. Privatization and neo-liberal economic policies, and the increase in capital flows make up the new image of the environment, in which entities operate today. Globalization creates new opportunities for companies to improve their efficiency, opens the route for them to larger markets and also leads to the formation of global space of hyper competition and a global network of production or distribution. Consumers on the other hand are provided with a more varied range of products and lower prices for goods and services.

The Polish insurance market has undergone intensive transformation resulting from the development of the market economy model in our country. Changes in the rules governing insurance activity led to the opening of the Polish market to foreign financial institutions. Indigenous institutions have to face competition from international insurers. Drawing on their experience, Polish insurance companies have enriched their product offer and modified marketing strategies.

237 Ph. D., University of Lodz, Poland.
240 R. Piasecki, Rozwój gospodarczy a globalizacja, PWE, Warsaw 2003, p. 73.
244 K. Sowa, Strategie konkurencji korporacji ponadnarodowych, Difin, Warsaw 2006, p. 36.
The development of the new technologies has shortened the distance and time that separate manufacturers, suppliers and buyers around the world. Multinational corporations can realize internationally standardized marketing strategies and implement universal models designed for a large group of clients. The desire to improve the quality of products services and care for loyalty and customer satisfaction requires extensive knowledge. Achieving a satisfactory level of quality is a long process, covering the entire life cycle of a product or a service. In the light of the rapidly changing market conditions, strengthening the position of the company, also on the insurance market, depends on its ability to identify opportunities and threats, anticipation future conditions and quickly adapt to an evolving environment. Growth through innovation involves the creation of original theoretical concepts and practical solutions expressing completely new quality. The motivation of insurance companies to undertake innovative activities is a prerequisite for improving their competitiveness. Consequently in this they can gain new customers and offer a far greater scale of services. According to modern theories of marketing distribution is treated as a synonym of comfort for the client. Therefore the strategy based on the quality of insurance services has become very popular nowadays. From the point of view of the insurer it is extremely important to achieve high standards at every stage of the production and sale process. Such an approach can better distinguish its own products from those offered by their competitors and encourage consumers to choose them. Success on the insurance market is conducive to automation of the sales process. The introduction of modern solutions, which includes a direct channel, leads to improvement of the customer service, adjustment of the offer to their expectations and individual characteristics (parameters that determine the risk assessment).

Research Methodology

Being interested in the problems of advancing globalization processes, internationalization of the insurance companies and the growing importance of foreign investment on the Polish insurance market, the author decided to analyze the changes taking place in this sector. The trends observed in the global economy

248 Quality is defined as the degree to which certain actions taken by the insurer meet the needs, requirements and expectations of the customers. The concept of quality within the are of the insurance services market is a complex notion. This is due to the fact that first we pay the insurance premium but only later we find out about their real quality. The act of consumption of purchased services is often delayed in time.
significantly affect the insurance activity in Poland and the innovative processes within this segment. The development of new technologies enables enrichment of the range of available services, as well as expanding their distribution channels (telephone, Internet, bank). Those tendencies create the transformation of demand for insurance. Conclusions concerning the changes in consumer attitudes to offer of the different financial institutions in Poland derive from focus researches\textsuperscript{250} and the analysis of statistical data published by the Polish Financial Supervision Authority\textsuperscript{251} and Swiss Re\textsuperscript{252}. Study of literature and personal research carried out in the form of expert interviews with representatives of the Directorate of leading insurance companies on the Polish market\textsuperscript{253} gave a chance to collect interesting comparative material and to obtain expert comments on the evolution of the strategies of the analyzed entities and changes of the insurance market\textsuperscript{254}. Consequently on this it was possible to confront the interlocutors opinions with the views and theses presented in the Polish and foreign literature.

**The Insurance Sector vs. Socio-Economic Development**

The insurance market covers all relationships between the clients applying for insurance coverage in a given territory and at certain times and those entities that offer insurance services\textsuperscript{255}. Under this concept therefore, lies the process by which the policyholder and the insurer determine what type of insurance they are going to purchase /offer and agree to the terms of this transaction.

Insurance provides protection against the harmful effects of random events and compensation of their impact\textsuperscript{256}. Nobody is able to exclude an accident. However, adequate care can prevent it or minimize the potential risk. Threats are associated with each project but the consequences of not being insured can be

\textsuperscript{250} The study involved 40 people in the age of 20-65. The discussion was conducted with 5 groups of 8 people in 2014.
\textsuperscript{251} Annual and quarterly reports are available on www.knf.gov.pl.
\textsuperscript{252} Special reports (Sigma) and statistical data concerning the worldwide insurance market are available on www.swissre.com.
\textsuperscript{253} 17 interviews with senior staff (8 among the insurance companies: AXA ŻYCIE TU SA, TUńŻ CARDIF POLAND SA, Nordea POLSKA TUńŻ SA, UNIQA, Warta, PZU and 9 in banks: Bank BGŻ, BNP PARIBAS BANK OF POLAND SA CREDIT AGRICOLE, ING BANK ŚLĄSKI, CREDIT BANK, ROYAL BANK OF SCOTLAND, RAIFEISEN POLBANK, BANK POCZTOWY, PKO BP). The study involved banks cooperating with insurance companies. Occurring on the line "Bank-Insurer" links are the result of agreements between those two institutions (cross-selling or promoting products of the partner, bancassurance or simultaneous involvement of foreign investor in both institutions - strategic alliances).
\textsuperscript{254} The conducted expert interviews enabled comparison of the strategies implemented on the Polish market with the strategies of these companies used in the country of origin and on the other foreign markets.
quite severe. Random events disrupt the functioning of individuals and enterprises. In many cases, it also causes enormous difficulties for the economy of countries and their governments, imposing significant budget payments of benefits and compensation for people who, for various reasons, have chosen not to protect their life, health and property.\textsuperscript{257}

Insurance companies take certain steps to reduce the probability of mishap and to minimize its negative effects. As financial intermediaries they carry out the risk’s transmission, spreading to many entities financial losses resulting from the occurrence of the circumstances specified in insurance contracts.

The insurance companies (through a contributed investment policy) balance the situation on the money market. Financial accumulation (made by the insurers) and reassignment of expenditure are undoubtedly a positive impact on the overall economy. Insurance premiums are storing the current consumption in favour of later expenditures. Compensation and benefits paid by the insurance companies contribute to the growth of consumption as they are allocated for restitution and purchases of durables. In this way, insurance, acts as quasi automatic stabilizers and can be considered stimulators of economic and social change. They also constitute an important element of safety and prosperity of nations. On the one hand, the insurance industry as the first one is affected by fluctuations, but on the other it has a big impact on the condition of the economy. Slowdown and recession have a negative influence on the insurance market. In contrast, the economic recovery generates higher investments and leads to a growing number of active entities, which triggers directly an increase in demand for insurance protection against the possible effects of economic risk.

The relationship between socio-economic development of the country and the evolution of insurance is a form of feedback. Economic growth leads to new situations in which people and enterprises are facing an uncertain future. The emergence of new threats poses new challenges in terms of risk assessment and calculation of insurance premiums.\textsuperscript{258} Market development also gives rise to a different perception of risk. The concept of conscious management is gaining in importance. Entities try not to avoid risk, but to limit its negative effects.\textsuperscript{259} This results in the consequent increase in demand for insurance. Ensuring a high level of quality services and adapting them to changing customer expectations has a significant impact on the competitive position of insurance companies.

\textbf{The Insurance Market in the Face of International Competition}

Competitiveness is one of the pillars of the market economy. The presence of a large number of entities operating in a similar area of the market inevitably

\textsuperscript{257} A. Karmańska, \textit{Rachunkowość zarządcza ubezpieczyciela}, PWN, Warsaw 2003, p. 60.
\textsuperscript{258} S. Wieteska [ed.], \textit{Ubezpieczenia}, „Acta Universitatis Lodzïensis, Folia Oeconomica”, No. 244, 2010, p. 3.
\textsuperscript{259} Ibidem, p. 350.
leads to rivalry between them at various levels. Competition promotes the selection of less efficient companies. Effectiveness improvement of one entity becomes a threat to the others. Competition processes taking place on the insurance market play an important role in its evolution. They affect all changes in the conditions of the insurance activity. Appropriate methods of operation and innovations give insurers the chance to maximize profits and their market value\textsuperscript{260}. The rivalry between these entities includes such aspects as the quantity and quality of the agreements, return on investment or a proper risk assessment. These parameters have a significant impact on the amount of insurance premiums, which are one of the tools of competition policy. However, the level of contributions is the result of several factors: the likelihood of negative circumstances, the type of insurance (property or life), the age and sex of the insured, the time of insurance protection, discounts or allowances. Differences in the amount of premiums in different companies may also be the result of pricing policy. Many companies deliberately lower prices for some products, hoping to attract specific buyers who will choose in the future also more expensive services offered by them. On the other hand, other insurers inflate the prices of some insurance to change the structure of their portfolio and to remove deficit services from it. In addition, the identification of the insurance premium with a price may be an oversimplification, especially in the case of life insurance. Pricing of insurance products may also result from combining them into packages. Sold in this way, they are cheaper than those offered individually. This type of insurance is easier to manage, because the risk is distributed in a better way and the service generates lower costs. But in the long run price competition may have adverse effects, leading to a decline in the credibility of the company, to the deterioration of the economic situation and to the slowdown of the development\textsuperscript{261}.

It is emphasized that - apart from the level of contribution - the attractiveness of the offer of the insurance company may be affected by the financial situation of the insurer. Stronger insurance companies usually take a dominant position on the market. Financial liquidity and profitability of the company proves its ability to compensate losses and implementation of existing commitments. A sufficiently high level of funds, and insurance technical reserves give customers a greater sense of security. Another important measure taken into account in the assessment of the financial standing of insurance is the efficiency of investments and their profitability. Revenues generated from investments allow for the calculation of premiums at a level corresponding with risk compensation. Funds to cover other costs may derive from investments. Thanks to profitable placements


insurers receive higher earnings and have the ability to reduce the amount of the insurance premium.

Presented by the insurer the way of customer service is one of the aspects that have a significant impact on the competitive position of the company. It is determined by the speed of the service, attitude of employees to their work, availability of services (convenient location, opening hours), equipment (the most modern contributes to a reduction in operating time) or formalities (the amount of insurance documents). The earlier experience of customers, and their opinions play an important role in assessing the quality of the service. A significant impact on the perception of quality is also the competent, friendly and courteous attitude of the provider, his concern for the interests of customers and its credibility and reliability.

Awareness of the needs of buyers and the ability to adjust the offer to their expectations is extremely important in the light of rapidly changing market conditions. For this reason, insurance companies drop out more often from individual products to a wide range of services, giving customers additional benefits, taking into account their current situation. Insurers combine products or create new types of services targeted to a specific audience. Insurance companies are trying to increase the number of specialized service packages and extend the scope of insurance coverage. This is consistent with modern marketing trends, observed in different markets, engaging customers in the process of creating a service, and do not depreciate the importance of economic and financial condition of the insurance company, it should be noted that the flexibility of the insurer and its innovation can significantly influence the choices of potential clients.

Cooperation between Banks and Insurers (Bancassurance)

The fact that the modification of the range of services, improving their quality and their adaptation to the changing needs of customers is one of the fundamentals of an effective strategy, many insurance companies have decided to cooperate with the banking sector. A single entity, operating on many markets, may be too weak to cope with the increasing competition of the large financial conglomerates. Consequently on agreement, partners may combine their resources and add new value to the services provided by them and thus constitute an alternative for diversification of their current activity\textsuperscript{262}. A richer society expects diverse and flexible financial services. In addition, customers' knowledge and their understanding of the economic, investment aspects have significantly increased.

The structural changes that have taken place in the financial market and the development of competing forms of financing business ventures resulted in the decreased importance of banks as financial intermediaries. To save society

\textsuperscript{262} Cooperation between partners from different sectors occurs when the parties have attempted to broaden the scope of their activities. Partners of alliances decide to enter brand new areas, in terms of technology and product offered.
therefore, different entities compete: banks, near banks (insurance companies, savings banks, brokerage houses) and non-banking institutions (manufacturing corporations, department stores, mail order houses, companies that finance the purchase of cars). They provide, at the same time, and in one place, a variety of additional services.

Banks and insurance institutions adopt this strategy to diversify their offer in order to protect a current customer base and maintain the achieved level of profitability. The free movement of capital between the different sectors of the financial market has triggered a growing number of cooperation agreements. The partnership relationship becomes the equivalent of a competitive strategy as a key tool of management. Companies which do not have some of the features of competitiveness or resources, combine their potentials with entities with complementary skills or qualities. Created alliances give the partners a chance for getting together a competitive advantage. In the era of globalization, global financial markets, an attempt to succeed alone, only following the path of inner development may prove to be an insufficient solution.

An equally important aspect is the flexibility of the cooperation, so significant in an uncertain, rapidly changing business environment, requiring sensitive market awareness and rapid response to new needs voiced by consumers. A skillfully matched offer, transparent to the clients, also inexpensive, will encourage recipients into frequent contact with the financial institution, which from its point of view is an extremely important value and asset. Achieving a high level of customer retention leads to a better quality of service.

Integration of financial market activity creates a synergy effect, in which the demand for one type of financial service generates demand for other services, often with a complementary nature. A combined offer can provide: life insurance/insurance against accident (loss of ability to work)/insurance of regular repayments/home insurance and its contents against theft, fire or burglary, combined with credit or a loan. Relatively unknown is the security for holders of personal accounts and deposits. The most popular is travel insurance (the theft of money, cost of treatment after an accident abroad) or insurance of lost/stolen debit and credit card or against theft of cash paid out from the ATM.

Cooperation with the bank or insurer supplements the range of products and extends the offer to those services which have not occurred in a scope of basic solutions of the financial entity. In response to a question about the attitude of the clients to the integrated financial services, respondents emphasized that the majority of consumers have a great interest in them. According to the bankers,

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265 Retention level is defined as very high, if the clients resigning from the product does not exceed 3%, high - 7%, and the average - 11.5%.
266 Based on the interview in PZU and AXA.
many recipients were asking about the insurance linked to credit, even when those products were not present in a regular sale\textsuperscript{267}.

Banks create packages of services convenient in use, best suited to the clients’ expectations. For this purpose, they sign agreements with various insurance companies, specializing in certain types of products. Development of integrated financial services depends on customer orientation\textsuperscript{268} and attracting new buyers for already offered services\textsuperscript{269}. For this reason, the company insists on raising awareness of personnel in the field of psychology and contact with the client\textsuperscript{270}.

Collaboration between insurers and banks contributes to the change in the role that now an insurance agent or employee of the bank plays. With a comprehensive range of products, it becomes a kind of guardian, who can support the customer in any decision connected with the purchase of the financial services\textsuperscript{271}. The demand for integrated financial services is determined by the amount of income. An agent analyzes the purchasing power of the consumer and tries to match it to the expectations and current demand of the financial services. It’s far more difficult to encourage customers with decreasing income to the extension of the range of services they use. It is not easy for them to set aside an additional amount to pay another premium. In cases of the mentioned clients the specific skills of insurance agents and financial advisors will be required. They should demonstrate the ability to convince the customer that making investments in times of crisis is reasonable because the return on it will be after a few or even several years.

Representatives of insurance companies said that it is difficult to identify a group of customers whose interest in a specific range of products would be greatest. In their opinion, there is a correlation between demand and customers’ life cycle\textsuperscript{272}. Consumers aged 20-30 are mainly interested in insurance attached to cards (issued by a bank) or travel insurance (useful during trips abroad). People aged 30+, having a family, aim at securing a future of for themselves and their family, look for products that combine the function of insurance and the accumulation of capital. While taking out a loan (to buy a home, a car), they consider insurance, because they are aware of the potential risk of non-repayment in the case of job loss or loss of ability to work.

\textsuperscript{267} Based on the focus researches and interview in BANK POCZTOWY, PKO BP, PZU.
\textsuperscript{268} Mentioned in 10 interviews (6 banks and 4 insurers).
\textsuperscript{269} Shown in 8 interviews (5 banks and 3 insurance companies).
\textsuperscript{270} Emphasized by the representative of WARTA.
\textsuperscript{271} Based on the conversation in WARTA, BNP, ING BŚ, RAIFFEISEN, CRÉDIT AGRICOLE, KREDYT BANK.
\textsuperscript{272} Based on the focus researches and interviews in BANK POCZTOWY, ING BŚ, NORDEA, AXA, PZU, WARTA, CARDIF.
Technical Advancement (Direct Channel)

The information revolution leads to the birth of new activities by creating a derived demand for new products\(^{273}\). Innovations in the distribution of insurance services are an attempt to change the way of reaching the potential client. The classic form of sales (agents, insurance brokers) - at the premises of the insurer or the customer’s house\(^{274}\) - is increasingly supplemented and in some cases even replaced by the Internet, telemarketing\(^{275}\), non-insurance intermediaries (post office\(^{276}\), car dealers, travel agencies).

In addition to the important role played by the opportunity to purchase insurance over the phone or Internet, they are no less important as a source of information about insurance products\(^{277}\). Browsing websites or calling the hotline gives customers a possibility to gain knowledge about offers of a financial entity, conditions of insurance agreements and the cooperation with other partners offering the financial product\(^{278}\). The internet is considered a powerful communication tool. When it’s used in a thoughtful way, it can positively influence the image of the company. Constant monitoring of the image on the web and responding to negative messages is very crucial in the digital age. Insurance companies follow good practices used by other financial institutions. They are aware of the fact that building and maintaining long-term relationships with buyers is the key factor of their success\(^{279}\). They can realize this objective by the implementation of a sustainable development (sustainable business) strategy through activities typical of the so-called socially responsible business (communication management)\(^{280}\). According to TNS Pentor the perfect insurer should be primarily honest, alert customers about all circumstances and optimal solutions for them and above all not to disappoint in unfortunate situations\(^{281}\).

Companies leading in computing look for effective methods to shorten the insurance sale process. However, the high degree of technicality, which is characteristic of the direct model, also includes a centralized and structured relationship management system. Comprehensive service is based on the idea of an online contact at each stage of the contract (from its conclusion, on the duration


\(^{274}\) Then the agent is able to assess the potential risk, the presence of which the customer is not aware of, or in the case of life insurance to carry out a full demonstration of an offer, making simulations, changes depending on the specific needs.

\(^{275}\) Link4, Dutch-Israeli non-life insurance company, was the pioneer on the Polish market. In January 2003 it began its activity by offering motor insurance via the phone.

\(^{276}\) Plan connected with the insurance activity was announced in November 2002.


\(^{278}\) According to the report, *"Finance on the Internet"*, prepared by the portal Interaktywnie.com, every other driver declares that he/she seeks information about the insurance in the network.


of protection, in the process of policy renewal, injury) and to record all events associated with the policy. Moreover, such a channel enables more precise data verification (the client has given by telephone or electronically). Advanced technology also supports the management of the insurance company’s internal processes. It improves current analysis of marketing effectiveness and attractiveness of the offer and customer segmentation, taking into account various risks specific to the particular groups of buyers. Insurers that do not have sufficient technological capacity to implement projects on a large scale in a short time, decide to cooperate with an external telemarketing company. Consequently by signing an agreement with a specialized direct sales partner, the insurer does not bear the costs of recruitment and maintenance of a greater number of employees. The external call centre is responsible for the selection of the appropriate group of vendors, which is shaped as a team to achieve statistical results. The competitive advantage of outsourcing call centres derives from an increased desire to gain new customers and to develop cooperation with the partner. Internal call centres usually engage sellers under an employment contract. The main disadvantage of this kind cooperation is the fact that the future of employers is not so much dependent on the achieved sales effects.

The direct channel in Poland had a share of approx. 5% of the insurance premium in 2014, which in comparison with foreign markets such as the United Kingdom (circa 40%), Germany and Italy (over 10 percent of policies sold through the Internet or telephone) is not a dizzying effect. A key factor in determining the development of direct sales is public access to the Internet and the trust of Polish citizens to purchase by using these type of channels. Active people, among whom electronic means of concluding contracts are very popular, pay special attention to the possibility of improvement of the service. Any innovation in the distribution and available offer also meet with a positive reception from younger buyers. Older consumers (50 +) usually have a conservative approach to the role of financial institutions. The representatives of this group will go to the insurer to buy a policy and to the bank to take a loan. Due to a limited access to the Internet or a lower level of knowledge in this field, people of this age look for financial services in the establishment of the entity. Direct contact with the agent or financial advisor gives them a sense of satisfaction that the case – they’ve asked him about - has been properly settled. Probably after many years it will be possible to forego this traditional means of contact.

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284 Direct market value exceeded 1 billion PLN and with his participation 5 million agreements were concluded. About 60% of them were kind MTPL insurance (Civil Liability insurance).
286 Based on the interview with representatives of BANK POZTOWY, PKO BP, PZU, RBS.
287 PZU and PKO BP, as the longest-operating on the financial market institutions, have a great trust of many customers in the group of 50 +.
The direct channel is considered complementary to the traditional sale network. According to experts, this model has particular opportunities for simple, highly standardized products (travel insurance and MTPL), where the decisive factor for the purchase is the price. Buyers of especially more complex products, that require competent support from the intermediary (life insurance, investment insurance), will use the services of the agency segment. This involves the psychological sense of security and trust, essential for insurance contracts concluded for a period of 20-30 years and for an amount of a few or several thousand PLN.

Agents should be aware that the development of the direct channel will be for them a kind of test. Only those agents who will be the most efficient, able to transform into professional financial advisers or guardians and offer the products of many companies can stay in the market. There will be no place for agents, who are not fully engaged in sale and who do not improve their knowledge. Exclusive agents also have a difficult task, especially in the area of property insurance. This model has a chance to defend itself in the field of life insurance, treated as a complex product that requires a lot of work. Maintenance of an exclusive channel is reasonable when it gives the customer a sense of professional service, provided by the agent perfectly familiar with the offer of the insurer. In the era of the development of tools for comparing products it is not easy to be credible while showing as the best, the offer of only one insurance company. Those insurers that provide their employees with modern applications (enabling simultaneous evaluation of different insurers services, effective management of the customer base, verification of the payment status of the policy) can succeed on the financial market.

Many authors state that the optimum customer service, building the image of the company and the condition of the entire insurance market can derive from the cooperation of all distribution channels. In their opinion a multi-channel model creates high added value. Choosing only one form of sale may lead to the imminent depletion of the insurer’s potential. Gaining competitive advantage requires the hybrid model (being a synergy of a traditional and modern sale model). The proper functioning of such a system depends on the appropriate incentive programme (based on attractive commissions for agents, giving them full

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290 Ł. Jadachowski, *Synergia..., opus citatum*, p. 14
control over the process of renewal) as well as training and monitoring system of sales. Agents are the flagship of the company. Therefore they should meet high expectations, should represent perfect knowledge of the products and accuracy in the application of procedures. On the other hand, their suggestions are the basis for change and improvement implemented in all areas of the insurer’s activity.

Summary

The global market is the most unpredictable phenomenon on earth. Facing the competition requires a high level of technological advancement. Contemporary enterprises are learning organizations that need to meet the demands imposed by the information society. Success on the international stage is determined by the skillful management of knowledge, and proper use of the gap as an instrument for the continuous improvement process. Companies have to develop strategies taking into account the characteristics of the international economic environment.

The emergence of new threats generates a demand for services which can protect people against the negative effects of various random events. Failure of the state health care system has stimulated interest in medical insurance programmes. The tendency to prolong the period of work as well as the loss of confidence in the state social security system has forced insurance companies to extend the range of investment, structured and capital accumulation products, giving the opportunity to receive benefits similar to the last salary before moving to retirement.

Technological progress has contributed to the development of new distribution channels (Internet, telephone). The introduction of the direct channel in the insurance segment is gradually bringing tangible benefits to both sides of the market. Insurance companies can reduce the cost of business and shorten the time of the customer service. According to experts of the Polish Insurance Association we soon should enter the era of mobile direct (sale of insurance through applications for smart phones and tablets), which combined with the traditional channel will create favourable conditions for buyers with different preferences.

The process of transformation on the insurance market has not been completed. Innovations, new distribution channels and cooperation with banks give the insurers a chance to face the new strategic challenges occurring on the financial market.

295 K. Mędrala, Priorytet: jakość..., opus citatum, p. 29; B. Biały, Direct..., opus citatum, p. 16; T. Jagła, Wyzwania..., opus citatum, p. 18.
296 B. Biały, Direct..., opus citatum, p. 17.
299 E. Skrzypek, Rola..., opus citatum, p. 92.

Introduction

Energy security of the state and technological transformation of the energy system sector are strategic issues. Energy security in an operational context is critical infrastructure subsystem included in security and crisis management plans. Key terms referring to energy and used in this chapter are: energy security, energy resources and fuel, energy technologies, transmission infrastructure, storage and distribution, generation objects, critical infrastructure and its threats.

Energy security is the uninterrupted supply of fuel and energy for citizens and industry. The main energy security factors include access to energy resources, also outside the country, diversification of fuel supply sources and directions, as well as construction of a new generation capacity based on various generation technologies that would allow them to balance the domestic demand for energy. The energy policy of Poland is focused on ensuring appropriate development of the generation, transmission and storage infrastructure, as well as on stimulation of investment in modern, energy-efficient technologies and products, and on limiting the dependence on supplies of energy resources.

Fuel and energy resources are primary energy and can be divided into renewable and non-renewable ones. Renewable resources are solar, wind, tidal energy and biomass. Non renewable (fossil) fuels are of organic origin: coal and lignite, peat, oil, oil shale, natural gas; fissile nuclear fuels: uranium and thorium; and nuclear fusion fuels: deuterium, lithium, helium. Fuel and energy resources

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300 Ph.D., Warsaw University of Technology, Poland.
301 Prof., Warsaw University of Technology, Poland.
are converted into an energy conversion processes so the final energy will be
delivered to customers as electricity, heat, gasoline, diesel fuels, synthetic gas,
nuclear fuel.

**Transmission, storage and distribution infrastructure** includes network
structures for transmitting fuel and energy, namely transmission power lines (high
and medium voltage) with transmission stations; gas pipelines with gas stations,
compressor stations and distributive nodes; for liquid fuel – oil pipelines. Natural
gas and oil are stored as strategic reserves as well as to optimize the operation of
transmission systems. Oil and fuel are stored in depots, while gas is also stored in
relevant geological structures (caverns). Important elements are international
interconnectors which allow the flow of electricity, oil and gas in one direction or
bidirectionally. Coal is transported on railway routes, and stored at mining sites and
directly by power stations. The last network category are local heating networks.

**Generation facilities** are power plants, combined heat and power plants as
well as heat plants. They produce adequately: electricity, both heat and electricity
and only heat. All facilities are located due to the proximity of fuel (e.g. large power
plants are located in the southern part of Poland, close to coal resources) or close
to their customers.

**Critical infrastructure**\(^\text{305}\) is narrowed here to the subsystem: supply of
energy, energy resources and fuel. This includes previously described generation
facilities, transmission, storage and distribution networks. There is a clear division
of respective electricity, natural gas, oil and heat sectors.

**Critical infrastructure threats**: in the electricity sector the most often
mentioned threats are failure and damage on various scales and varying intensity,
extreme weather events, consumption increase and peaks, failure in logistic
systems as well as external factors such as a limitation of the natural gas supply,
international conflicts and terrorist acts.

**The Development of Energy Technologies**

Energy is one of the most essential elements of national security. The main
energy security factors include access to energy resources, also outside the
country, diversification of fuel supply sources and directions, as well as construction
of a new generation capacity based on various technologies that would allow
balancing the domestic demand for energy. The energy policy of Poland is focused
on ensuring appropriate development of the generation, transmission and storage
infrastructure, as well as on stimulating investments in modern, energy-efficient
technologies and products, and on limiting the dependence on supplies of energy
resources\(^\text{306}\).

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\(^{305}\) Act of 26 April 2007 on Crisis Management, (Journal of Laws 2007, No. 89, item 590 with subsequent
amendments).

As far as the energy supply is concerned, Poland is to a large degree a secure country. However, the weaker elements of security are dependence on imported oil and gas, which are not diversified in terms of directions, an outdated power system infrastructure, particularly in terms of generation and transmission. Energy resources are imported from politically unstable territories or become an instrument for achieving political and economical goals of the exporting countries, which forces a diversification of import directions. An example is the construction of an LNG terminal in Swinoujscie which will enable Poland to import liquefied gas through the sea route.

The energy sector will be more and more influenced by the EU regulatory policy which creates financial challenges and introduces restrictions in the energy sector. Energy security will improve due to the diversification in routes and sources of raw material supply, the use of unconventional deposits, generation sources, also based on nuclear power, as well as to the achievement of stability of energy supplies by means of the development of generation and network infrastructure.

The national power sector is in transformation which is reflected in the ongoing and planned investments in generation and transmission infrastructure. (The URE President points out that in the years 2014-2018 there will be over 18 GW of new generation capacity, 7,5 GW of which will be wind mills). The scheduled investments classified according to the fuel technology are:

- Coal 26,5 mld zł 3 990,0 MW
- Natural gas 13,4 mld zł 4 083,6 MW
- Wind 8,9 mld zł 1 467,6 MW
- Methane drainage from coal mines 0,7 mld zł 91,0 MW
- Biomass 0,4 mld zł 82,9 MW
- Solar 0,04 mld zł 6,6 MW
- Others 0,8 mld zł 305,4 MW

In the project of the Energy Policy of Poland until 2050 presented by the Ministry of Economy there are three main targets. The first one is to ensure the national energy security through actions aiming at diversification of resources, to ensure an appropriate level of power generation capacity as well as to develop and maintain transmission and distribution capacities. The second target is increasing economical competitiveness through rational energy prices thanks to the development of competitive fuels and energy markets. The third target is a part of the EU climate and energy policy and concerns limiting the environmental impact of the energy sector through restricting greenhouse gases emissions and the development of renewable energy resources.

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307 Ibidem, p. 25.
The review of foreign literature on methods for the evaluation of energy security levels shows a rich methodological support. Aspects evaluated for energy security are:

- **Supplies of primary energy:**
  - Availability of primary resources;
  - Geographical concentration of resources;
  - Forecasts or scenarios of energy export;
  - Average production cost and cost fluctuations;

- **Upstream markets and imports:**
  - Systematic and specific risk;
  - Reliability of suppliers and supply routes;
  - Dependence, independence or interdependence among states;

- **Domestic markets and infrastructure:**
  - Reliability, resilience and robustness of infrastructure;

- **Economic vulnerability:**
  - Welfare loss from high or volatile prices;
  - Economic consequences of resource scarcity;
  - Outage cost from power disruptions;

- **Integrated methods:**
  - Holistic supply chain security/security of energy services;
  - Spatial and/or temporal comparisons of security.

An interesting example is the Index of the U.S. Energy Security Risk. The Index of the U.S. Energy Security Risk uses available data and forecasts to develop the metrics that collectively describe (as sub-indexes) the geopolitical (30%), economic (30%), reliability (20%), and environmental (20%) risks that in turn measure energy security in a single index (100%). The sub-indexes are measured using 9 broad types of metrics that represent and balance some key on regular competing aspects of energy security:

- Global Fuel Metrics;
- Fuel Import Metrics;
- Energy Expenditure Metrics;
- Price & Market Volatility Metrics;
- Energy Use Intensity Metrics;
- Electric Power Sector Metrics;
- Transportation Sector Metrics;
- Environmental Metrics;
- Research and Development Metrics.

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311 Ibidem, p. 4.
Detailed measurements of those evaluations are publically available\(^{313}\). It has to be noticed that the Polish publically available strategies mention similar aspects but are general, as far as a qualitative approach is concerned. However, the most important issue is the practice which means implementing necessary investments in energy infrastructure.

It is hard to be uncritical towards the scarcity of specific actions, especially looking at the time between the decision and its realization. The example that should be mentioned in this context is the contraction of the LNG\(^{314}\) terminal in Swinoujście, which is significantly delayed.

Energy security has been shaped in various aspects, including political aspect. Policymakers calculate the cost of energy security and their final decisions are satisfactory compromises, Świrski K. wrote that energy security has its price and increasing any energy prices for industrial and private consumers is also a problem for the national economy, as higher fuel and energy prices result in lower competitiveness\(^{315}\).

**Protection of Critical Infrastructure**

The technical infrastructure of the subsystem named ‘Energy Supply, Energy Resources and Fuels’ is supposed to ensure:

- Coal for electric power needs;
- Electricity generation and its supply to individual and industrial customers;
- Production, import and processing of crude oil;
- Production and supply of liquid fuels;
- Production, import and delivery of natural gas to customers\(^{316}\).

**Power system**: includes power and cogeneration plants working for the National Electro-Energy System, and industrial cogeneration plants. The total installed capacity exceeds 38 GW. The share of renewable energy is increasing (the installed capacity of nearly 2.3 GW). Electricity is transmitted through transmission networks (ultra-high-voltage lines, high-voltage and medium voltage). The customers are supplied through distribution network systems.

The basic source of energy, hard coal, is mined in the mines in the Lesser Poland, Silesia and Lublin voivodeships. Lignite mining is conducted mainly in four open-pit mines in the Konin Basin, Turoszow Basin, Bełchatow Basin and Sieniawa

\(^{313}\) Ibidem, p. 32.

\(^{314}\) LNG - Liquid Natural Gas.

\(^{315}\) K. Świrski, *Co może zrobić europejski Prezydent dla polskiej energetyki*, 2014. http://www.cire.pl/item,98190,13,0,0,0,0,0,co-moze-zrobit-europejski-prezydent-dla-polskiej-energetyki-html.

in Lublin voivodeship\textsuperscript{317}. In the energy mix of electricity production the share of natural gas and renewable energy sources (mainly wind power and biomass) is increasing.

**Natural gas** consumption in Poland stands at 14 billion m\textsuperscript{3}, and the structure of its sale remains at a stable level. The use of natural gas will grow, which is associated with the expansion and modernization of transport systems, storage and distribution of fuel (Kaproń H., Wasilewski A. 2012). The raw material imported is approximately 80%. In 2012, imports under the Yamal contract amounted to 10.9 million m\textsuperscript{3}, intra-community acquisition (Germany and the Czech Republic) is a volume of 1.6 billion m\textsuperscript{3}, while national mining is estimated at 4.4 billion m\textsuperscript{3} \textsuperscript{318}. The transmission system is a network of pipelines with a length of 9853 km with functional objects such as gas stations (869), compressor stations (14) and nodes (57)\textsuperscript{319}. Currently operating in Poland are seven underground gas storage facilities, five of which were created in partlyexploited natural gas deposit sites, namely Wierzchowice, Husów, Strachocina, and Swarzow-Brzeznic. Two of them - Mogilno and Kosakowo - were built in salt deposits (gas storage takes place in the leached salt caverns). At local level gas is delivered to customers through distribution systems.

An important part of the gas supply system will be the LNG terminal in Swinoujście (under construction), which will receive and regasify delivered liquefied natural gas. The terminal's capacity will be 5 million m\textsuperscript{3} with an option to increase to 7.5 million m\textsuperscript{3}.

**The crude oil** sector consists of companies extracting, supplying, storing up and processing crude oil, as well as production and storage of liquid fuels. The Polish petrochemical industry consumes 24 million tons of crude oil annually which is mostly imported. The eastern direction dominates, oil is imported through ‘Friendship pipeline’ and goes to refineries in Plock and Gdansk. The second way is the import by sea, oil is received in the Gdansk Naftoport. The material can be pumped through the Gdansk-Plock pipeline in both directions. An important element of the logistics system are storage facilities\textsuperscript{320}.

**The thermal energy sector**: The main feature of heating companies is the local character of their activity. The various sources and networks operate in the area of a city or agglomeration, which means that there is no one homogenous heating market in the country, unlike in the case of electricity, gas and liquid fuels. Specificity of the heat supply lies in the fact that energy is delivered to customers through a heat carrier - hot water or steam. The technical potential of heating

\begin{footnotesize}
\textsuperscript{318} Urząd Regulacji Energetyki Sprawozdanie Prezesa URE z działalności w 2013 r., Warsaw 2014.
\textsuperscript{319} Rządowe Centrum Bezpieczeństwa, Krajowy Plan Zarządzania Infrastrukturą Krytyczną, Warsaw 2013a, p. 16.
\textsuperscript{320} Rządowe Centrum Bezpieczeństwa, Narodowy Program Ochrony Infrastruktury Krytycznej, Warsaw 2013b, pp. 21-22.
\end{footnotesize}
companies is characterized by high fragmentation and differentiation. Heating companies have a multitude of different heat-generating sources, however, the sources with smaller capacities are dominating.

In the National Plan for Critical Infrastructure Management, the averaged hazard risk assessed for the fuel and gas supply was evaluated as probable and of higher effect. The most common causes are: failures and damage, extreme weather phenomena, growth in consumption, failures in logistic systems, as well as external factors such as restrictions in the supply of natural gas, instability in the international situation and terrorism. The disruption of supply (electricity, oil and gas) has serious consequences for the population, the economy and the environment. The economic effects are particularly severe and widespread because they affect not only other critical infrastructure systems but the entire economic sectors and the population directly.

When it comes to threats to the supply of electricity, it is noted that power network failures can occur with great intensity and they may be the so-called systemic failures, blackout, or dysfunction of the system over a wide area. A power deficit caused by the insufficient generation capacity or some transmission line constraints is also probable. For that reason investments in this sector are very important.

The Development of Energy Technologies

The development of energy technologies is currently intensive, technologies are competing with each other in the area of costs and efficiency performance, and it can be concluded that the model of the national energy mix is not precisely defined. The discussed issue is energy security, particularly the need for diversification of fuel supply and the reconstruction of power capacity, new solutions including renewable energy sources are also taken into consideration. However, the necessary higher capital expenditure on new technologies as well as available fossil energy resources lead to some specific solutions for Poland e.g. Clean Coal Technologies. The energy mix is also under question due to the uncertainties related to the requirements of the climate-energy policy, especially after the year 2020 when current commitments shall cease to apply.

In The National Research Programme realized by the National Centre for Research and Development, energy is one of the seven strategic areas. The preliminary diagnosis as a starting point for specific sector programmes states that the domestic energy sector should transform in a long-term perspective into a

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321 Urząd Regulacji Energetyki Sprawozdanie Prezesa URE z działalności w 2013 r., Warsaw 2014.
323 The cited characterization shows the threats in the matrix of effects and the likelihood of double and dimensionless terms of the graph is divided into four quadrants. The mentioned risks to the supply of gas and oil are located in the quarter which corresponds to a higher probability and tertiary effects.
sustainable and low-emission system, environmentally friendly, using diverse energy resources, with increasing energy efficiency. The outdated and inefficient energy infrastructure in Poland, the high dependence on external supplies of fuel and energy, the relatively strong energy impact on the environment and the undertaken commitments related to the EU energy and climate policy are the factors which altogether indicate that numerous significant technological and technical changes in generation, transmission, energy-saving distribution and storage are necessary. It should be emphasized that the development of new energy technologies is essential for the transformation into the green economy, supporting the targets defined in the ‘Europe 2020’ strategy, in particular under the flagship initiative ‘Europe efficient energy resources’.

In the current situation, the key elements of the development of energy technologies include:

- Implementation of the Polish Nuclear Power Programme;
- The development of distributed technologies including the use of renewable energy sources;
- Development and implementation of Clean Coal Technologies;
- Development and implementation of hydrogen technologies;

Implementation of the Polish Nuclear Power Programme: the use of nuclear technologies in Poland was stopped in the 80s because of the Chernobyl disaster. The currently realized program assumes launching a nuclear power plant in 2025.

The schedule of the programme consists of 4 stages:

- 2014-2016 establishing the location and signing a contract to provide the technology for the first nuclear power plant;
- 2017-2018 designing and preparing all technical documentation, obtaining all required decisions;
- 2019-2025 obtaining the building permit and construction of the first block of the nuclear power plant; starting the construction of consecutive blocks; launching of the first block;
- 2025-2030 continuation and the start of construction of the next power blocks.

Although the programme is implemented in accordance with the schedule, the locations have not been selected yet and the decisions have caused a very strong social controversy. The power generation technology also has not been indicated. A nuclear power plant is a facility requiring special protection because of the range and scope of possible negative effects when there is a failure. The

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storage of radioactive waste is also a issue. As far as the Critical Infrastructure Protection is concerned, a nuclear power plant in Poland is a new kind of project and it will be necessary to develop further, in relation to the existing, requirements. In addition to the natural causes, intentional actions like terrorist attacks have to be taken into account, which is why those objects require specific physical protection. Nuclear technology also has the advantage that the fuel is condensed and it is feasible to have long term storage. Accumulating the volume of fuel for several years is technically simple because the annual fuel requirement of a third generation nuclear power plant with a capacity of 1000 MW, producing 8 TWh per year, is approximately 20 tons. 

The development of distributed generation technologies, including the use of renewable energy sources, concerns mainly installations using solar radiation and wind energy. They may be small installations, also mounted in the backyard. Wind farms are larger but in comparison to professional electric power facilities are still small (one wind energy installation has up to 2 MW, power capacity). Those installations operate locally and are a part of the distributed energy system. The development of distributed energy generation technologies on a large scale will require expansion of the grid (low voltage) that will receive the excess electricity for the distribution and transmission system. Such networks are called smart grids. Energy security is increasing and the required intensity of physical protection of such (critical) infrastructure is lower, because distributed systems are operating locally and on a limited scale.

The development and implementation of Clean Coal Technologies means technologies like storage of CO₂ and coal gasification in the bed. It seems that the first variant, the so-called CCS (Carbon Capture and Storage) concept, when CO₂ is injected into underground geological structures, is discarded and will not be commonly implemented. Some expectations are connected with gasification of coal at the site and production of synthetic gas. The advantage of this solution is the ability to exploit coal deposits in a cost-effective manner and with a lower risk of accidents. Another advantage is the form of finally produced synthetic gas that can be processed in thermo-chemical processes, i.e. into liquid fuel. This is a promising direction taking into account the national coal reserves. However, the social dimension of the mining sector is also highly problematic and this is a case when technological transformation is accompanied by social changes.

Development and implementation of Hydrogen. Hydrogen power, which belongs to the so-called emerging technologies, is currently at the early stages of development. Apart from future commercialization, conducting research in this
area, including the fuel cells, will provide research and technical contact with the most demanding contemporary technologies for Polish R&D communities\footnote{Narodowe Centrum Badań i Rozwoju, \textit{Krajowy Program Badań. Założenia polityki naukowo-technicznej i innowacyjnej państwa}, Załącznik do uchwały nr 164/2011 Rady Ministrów z dnia 16 sierpnia 2011 r. Warszawa, 2011, p. 10.}.

\textbf{Consequences for the Critical Infrastructure}

The framework for the management of the critical infrastructure in emergencies is determined by the law\footnote{Act of 26 April 2007 on Crisis Management, (Journal of Laws 2007, No. 89, item 590 with subsequent amendments).}, guidelines, characteristics and operational procedures are described in the strategies\footnote{Rządowe Centrum Bezpieczeństwa, \textit{Narodowy Program Ochrony Infrastruktury Krytycznej}, Warsaw 2013b; National Security Bureau, \textit{National Security Strategy of The Republic of Poland}, Warsaw 2014.}, and literature\footnote{J. Zawiła-Niedźwiecki, \textit{Zarządzanie ryzykiem operacyjnym w zapewnieniu ciągłości działania organizacj}, edu-Libri, 2013.}. The nature of the technical infrastructure, which is a critical one, will change as a result of the profound transformation of the energy and fuel sectors and the development of technology. There is no doubt that the infrastructure will expand, which does not mean that it will require proportionally more attention when it comes to its protection.

As far as the management of the Critical Infrastructure is concerned, the technological development will have the following effects:

- \textbf{Development of the technical infrastructure of the energy and fuel sectors is not clearly associated with an increase in threats and the need for greater protection.}

  The intensity of the new infrastructure development is the consequence of the chosen technologies, not vice versa. The example of centralized technology (nuclear power plant) and small scale dispersed technologies (small photovoltaic installations) shows this clearly. The choice is not obvious because as has already been indicated, there are arguments in favour of both the concept of power plants (economies of scale, lower operational costs, disposability and stability) and the concept of distributed energy (local character, the accumulation of capital in place, modernity and independence). After all, the cost and the need for diversification seem to play a decisive role, which strategic documents demonstrate clearly.

- \textbf{The national energy policy itself is a huge challenge and the statements that document of this kind should be a general one are justified because the dynamics of energy technologies cannot be predicted.}

  Strategic documents can send general signals for stakeholders. However, legal regulations and stability either related to support schemes (renewable energy) or climate energy policy regulations and their related financial mechanisms

\begin{flushright}
\end{flushright}
(e.g. the Emission Trade Scheme for fossil fuel based technologies) are significantly more important.

- **The geopolitical situation can be a catalyst for change.**
  
The most common releases on serious risks, e.g. Islamic fundamentalism or the conflict in Ukraine, directly translate to the social awareness of the importance of energy security. Social acceptance for unpopular decisions is increasing. The currently observed decline in oil prices, which is explained in various ways, shows that the era of competition for access to energy resources may be coming to an end. In the near future, measured in decades, energy security will be determined with more advanced technologies which e.g. use renewable resources.

- **Research on modern energy technologies**
  
The described research areas are not in the vanguard of the world, they are rather focused on research and development. The appropriate field of technological competition, the outcome of which will determine the future shape of the energy and fuel sector, are at this point basic research and material laboratories that for instance deal with graphene, perovskite and electricity storage technologies and even simpler energy efficiency solutions for buildings. The research area includes technologies ranging from nuclear and coal gasification to improving efficiency and the cost of photovoltaic cells. Taking into account the national intellectual potential and the availability of energy resources, it is important to define national specialization and concentrate activities (Clean Coal Technologies is a relevant example).

- **The question of the time of investment - invest now or wait for the reduction of capital costs?**
  
The observed decrease in capital costs, decreasing demand for fuels and energy (due to energy efficiency) as well as the cost of research including incorrect concepts (e.g. CCS) make some potential investors wait until technologies are developed by other countries, companies and research institutions. Such an attitude is wrong because the expenses are postponed for the future when it will be necessary to buy some commercialized solutions. The Polish Nuclear Power Programme is a good example of that. The late implementation shows how much effort has to be taken even to educate the staff or to buy and implement the solutions that are considered to be declining (e.g. Germany, one of the most technologically advanced countries, is withdrawing power plants from exploitation). The suggested approach encourages companies and institutions to face the challenges that takes into account the strengths of the country and to concentrate resources on high-quality research. An example of that can be the programme Polish graphene and its application, even as a case concerning the challenge and taking an initiative.
• **Climate policy – global fake or a sophisticated business game in a new version**

The issue of climate change, especially warming that is explained as an increase in the average air temperature in the world, has become a subject of speculation whether the phenomena is taking place and if so whether the reasons are anthropogenic (whether humankind emitting pollutions is responsible for the changes). There is no possibility to answer such questions satisfactorily. It should be taken into consideration that not only Poland, as a member of the European Union, implements an energy and climate package but also that other countries take on the challenge and transform their traditional economy in the low-carbon economy. Some of them, traditionally sceptical of this issue like the United States and China, are changing their attitude. Moreover, many European countries have already formed some national specializations, e.g. Denmark - wind power, Germany – the European leader in renewable energy sources, United Kingdom – offshore wind, France - nuclear power and so on.

• **Changes, changes and changes again.**

Nowadays, change like risk, is the main feature for conducting all activities, either economic, administrative, educational or any other. The humorous saying that there is nothing more permanent than change should be a message for modern societies in the context of accelerating, ongoing changes in technological progress.

**Summary**

Energy was the basis of the famous industrial revolution that began in the nineteenth century. Consequently, energy made the functioning of our civilization dependent on it to an unprecedented degree. It is a drive for science and technologies development and evolves constantly. The challenges that energy has to face are continuously difficult and seemingly contradictory. On the one hand, the idea is to keep the model of a technically saturated civilization that is fully dependent on energy generated from the conversion of resources and forces of nature.

On the other hand, it is expected that harm to the natural environment will be limited. This expectation gap is a pro-innovative impulse. Practical access to energy is addictive to human civilization. Thus a stable access to energy is one of the values necessary to meet the most basic needs of modern man.

Yet conversely, it is a determinant of threats because of a domino effect touching all other types of infrastructure of modern civilization. Thus it is particularly appropriate and socially justified here to take into consideration the issue of the so-called problematic triad: the risk - resource security - business continuity, methodical procedure for: hazard identification, risk analysis and assessment, prevention plans and procedures for responding to disturbances in the form which they recommend: a crisis management theory within social logistics, an operational risk management theory and standards of established good practices.
13. Logistic Processes in the Light of the Competitiveness of SME

Introduction

Logistic tasks have been accompanying the human race since the beginning of mankind, but the way they are perceived is changing. In the conditions of the market economy, most enterprises face problems connected with competitiveness. Enterprises compete with each other for customers' favours, in order to maintain a dominant position on the market, achieve a better status and satisfactory profits. In the competitive struggle, an important role is played by logistic tools and techniques, which contribute to the improvement of an enterprise's competitive situation.

Competitiveness has always been an important condition for success of enterprises, but in the age of globalisation it is the categorical imperative for their existence. Uncompetitive enterprises are destined to collapse. The key task of an enterprise management is to ensure it is in an appropriate level of competitiveness. Processes leading to the achievement of the desired level have to be systematically planned, implemented and controlled.

Competitiveness should be understood as a system of states, objects, events, processes and actions through which an enterprise is striving to achieve its objectives in the market arena. The system of an enterprise's competitiveness is affected by its environment, i.e. all the events, objects, situations and entities that impact competitiveness but are not its components. It is true that there is no universal competitive strategy that would be good for each enterprise in all conditions. The same actions may ensure success in one economic entity, but lead to bankruptcy in the other. Enterprises achieve competitive advantage by taking various routes, often very different ones. It should be stressed that today,
logistics is perceived not as a chance but as a strategic opportunity. This is also heightened by the phenomenon of globalisation. Stephan Seeck noted that the increase in the worldwide focus on competitiveness through the globalisation phenomena makes logistics the natural space for looking for competitiveness, logical choices between the quality of products, quality of the customer service level, protection of one’s own outlets and the local production potential in relation to the global costs of logistic services.

Positive effects cannot be achieved without developing concepts and implementing logistic solutions. Logistics is the driving force of using new global opportunities and it is in logistics that the regulatory possibilities of globalisation processes are perceived.

**Coordination and Integration of Logistic Processes in the Aspect of Competition Strategies in the Light of a Survey**

The sphere of logistics is an important element of the competitive potential of enterprises. The increasing process of globalisation forces an enterprise to look for, and use, all available resources. One of such resources used by small and medium-sized enterprises in Germany is logistics. Empirical studies conducted from August to September 2014 used questionnaires addressed to employees of production enterprises responsible for logistics. The aim of these studies was to define the possibilities of increasing enterprises' ability to compete by improving logistic processes. The studies analysed and evaluated the use of logistics for increasing competitiveness of small and medium-sized production enterprises in Germany in order to identify specific features of logistics that have a key impact on the achievement of a competitive edge. They also identified the degree of coordination of logistic operations and their impact on the improvement of a logistic process. Furthermore, the studies discovered the impact of logistics on the elements of a competition strategy of small and medium-sized enterprises in Germany.

100 small and medium-sized enterprises in Germany from the area of Brandenburg, which used logistic solutions in practice, were selected for the studies. For the purpose of presenting the results of the studies, size of employment, market position and their organisational and legal form have been

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selected as characteristics differentiating enterprises. The tables below present the structure of the enterprises surveyed.

The table 13.1 presents the structure of surveyed companies by the number of employees. For the survey there were selected 53 enterprises employing fewer than 250 employees and 47 enterprises with fewer than 50 employees. The next table 13.2 shows the structure of enterprises by market position: leaders, top 3, average market position, below the average. In the aspect of organisational and legal form (table 13.3), 55 enterprises covered by the survey are joint stock companies, whereas 45 enterprises represent limited liability companies.

Tab. 13.1. The structure of enterprises surveyed by the size of employment

<table>
<thead>
<tr>
<th>Range</th>
<th>Number of enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fewer than 250 employees</td>
<td>53</td>
</tr>
<tr>
<td>Fewer than 50 employees</td>
<td>47</td>
</tr>
</tbody>
</table>

Source: own study

Tab. 13.2. The structure of enterprises surveyed by their market position

<table>
<thead>
<tr>
<th>Market position</th>
<th>Number of enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leaders</td>
<td>37</td>
</tr>
<tr>
<td>Top 3</td>
<td>23</td>
</tr>
<tr>
<td>Average</td>
<td>22</td>
</tr>
<tr>
<td>Below average</td>
<td>18</td>
</tr>
</tbody>
</table>

Source: own study

Tab. 13.3. The structure of the enterprises surveyed by their organisational and legal form

<table>
<thead>
<tr>
<th>Organisational and legal form</th>
<th>Number of enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public limited companies</td>
<td>55</td>
</tr>
<tr>
<td>Limited liability company</td>
<td>45</td>
</tr>
</tbody>
</table>

Source: own study

In enterprises, we can observe processes aimed at the integration of logistic operations through their coordination. Coordination of these operations conditions the use of logistics by enterprises to increase their competitiveness. Of the enterprises surveyed, 47.8% indicated the fact of coordination of logistic operations in them, which can mean that logistics is in many cases undervalued and not used, as most of the enterprises surveyed (52.2%) were characterised by the lack of coordination of logistic processes.

The results of the studies have shown that logistic processes proceeded in a different way in enterprises with different organisational and legal forms. In terms of coordination of logistic processes, limited liability companies dominated (61.2%). Of joint-stock companies, nearly 40% of the whole population indicated coordination of logistic processes.
Logistic processes also proceeded differently in enterprises with a different volume of employment. Coordination of logistic processes was the domain of enterprises employing fewer than 50 employees. 74.7% of enterprises from this group indicated coordination of logistic processes. Enterprises employing fewer than 250 employees had coordinated logistic processes in 25.3% of cases.

Logistic processes varied across enterprises with a different market position. Coordination of logistic processes was most popular among market leaders (78.5%). Its level was lower among enterprises from the Top 3 in terms of market position, as only 21.5% of enterprises from this group declared such coordination. It's worth noting that coordination of logistic processes did not occur at all in enterprises with an average market position. Generalising the results above, we should stress the relationship between then market position and coordination of logistic processes. It is thus justified to point at the existence of the relationship between the coordination of a logistic process and competitiveness of the enterprises surveyed.

83.2% of the enterprises surveyed were aware of the importance of the coordination of logistic processes for improvement of a logistic process. Among the enterprises with uncoordinated logistic processes, only a small part (12.3%) planned to perform coordination of logistic processes in the future. Despite a lack of declaration of the intention to coordinate logistic processes in the future, most enterprises exemplified the opinion that coordination contributes to the improvement of a logistic process. In most enterprises, people responsible for logistics knew the direction of desired changes in logistics regarding its coordination in the aspect of competitiveness.

Competitiveness of an enterprise is, among other things, an effect of an adopted competitive strategy. The strategy adopted by an enterprise results from the internal possibilities and capabilities of a company and the situation occurring in its environment. Companies can choose from among different competition strategies. While developing them, they should be guided mainly by their own possibilities and needs. We can distinguish a few main elements of strategies affected by logistics on which enterprises focus while formulating their strategy:

- Cost: aiming at cost minimisation in order to offer products at lower rates than competitors;
- Quality: focus on products of the best quality;
- Innovations: aiming at introducing new technological solutions, new products and organisational improvements;
- Customer orientation: focus on identification of customer needs and adapting to them;
- Time: elimination of waste of time.

The questionnaire survey contains the answers of respondents asked to define the impact of logistics on the above mentioned strategy elements. The relationship between logistics and elements of a strategy was evaluated based on subjective marks on a scale from 1 to 5 awarded by the representatives of enterprises specialising in logistics. The results have been presented in table 13.4.

**Tab. 13.4. Impact of logistics on the elements of a strategy depending on characteristics differentiating enterprises**

<table>
<thead>
<tr>
<th>Strategy elements</th>
<th>Organisational and legal form</th>
<th>Employment size</th>
<th>Position on the domestic market</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Joint-stock companies</td>
<td>Limited liability companies</td>
<td>Fewer than 50</td>
</tr>
<tr>
<td>Cost</td>
<td>4.71</td>
<td>4.79</td>
<td>4.70</td>
</tr>
<tr>
<td>Quality</td>
<td>2.74</td>
<td>3.21</td>
<td>2.90</td>
</tr>
<tr>
<td>Innovations</td>
<td>2.87</td>
<td>2.29</td>
<td>2.70</td>
</tr>
<tr>
<td>Customer orientation</td>
<td>3.67</td>
<td>4.63</td>
<td>4.50</td>
</tr>
<tr>
<td>Time</td>
<td>4.58</td>
<td>4.79</td>
<td>4.30</td>
</tr>
</tbody>
</table>

Source: own study based on a questionnaire survey.

According to the results of the survey, respondents indicated that logistics had the biggest impact on the element constituting the basis of the cost leadership strategy, i.e. cost. This element was followed by time and customer orientation. The weakest relationship, according to respondents, was between logistics and such strategic elements as quality and innovations.

The data contained in table 13.4 shows the difference in the answers of respondents in enterprises distinguished by the organisational and legal form. The impact of logistics on strategy elements, as evaluated by small and medium-sized enterprises in Germany, shows that they pay much more attention to logistics when defining their strategy or increasing competitiveness. It should also be noted that all elements of the strategy received high evaluations, and the differences in the evaluation of the impact of logistics on the individual elements are relatively small, which shows that logistics is perceived as important as a whole in developing a strategy of competition. Enterprises gave particularly high evaluations to the relationship between logistics and cost, as well as time. For the other elements of the strategy, the values of the impact of logistics, as defined by respondents, were much lower. Customer orientation was evaluated at the same level as innovations. The lowest position was occupied by quality.

In enterprises distinguished by employment size, the answers of the respondents also varied. Enterprises employing fewer than 250 employees declared that logistics had the biggest impact on cost. Time and innovations obtained high values. These enterprises evaluated the impact of logistics on customer orientation
and quality as very low. The results of the survey show that enterprises employing fewer than 250 employees mainly expect that logistic processes will be performed quickly, cheaply and innovatively. They think that logistics, through efficient performance of actions, may contribute to competitiveness. At the same time, they attach less importance to the impact of logistics on elements that are particularly important to customers, i.e. customer services and product quality. The other enterprises distinguished by the size of employment, employing fewer than 50 employees, gave much higher evaluations to such strategy elements as quality and customer orientation. This means that entities employing fewer than 50 employees use logistics to support their relations with customers. For such enterprises, the value of the respondent-defined impact was the biggest for time, cost and customer orientation. It should be stressed that in this group of enterprises time was evaluated higher than cost. The discussion above shows that the smaller the size of enterprises, the more important logistics is and the broader the range of elements that can be used to build a logistics-based competition strategy.

In enterprises distinguished by the market position, the answers of the respondents varied. According to leaders, logistics has the biggest impact on cost, but compared to the average value of the respondent-defined impact for the other enterprises distinguished by market position and calculated for the whole research sample, this evaluation was relatively low. The impact of logistics on time, as declared by the leaders, came second, but this value was also lower than for the whole research sample. These enterprises gave particularly high evaluations to innovations, at the same level as customer orientation. Last came quality, although the evaluation of the impact of logistics on this element of the strategy was much higher than for the whole of the population surveyed. It should be noted that leaders gave high evaluations to all the elements, and the differences in the evaluation of the impact of logistics on the individual elements are relatively small, which shows the awareness of the comprehensive importance of logistics in developing the strategy of competition and increasing enterprise, competitiveness. The responses of the Top 3 enterprises to a large extent corresponded with the evaluations of the impact of logistics on the elements of a strategy in the whole research sample. They evaluated the impact of logistics on innovations as the lowest. Compared with the other enterprises distinguished by the market position, they evaluated customer-orientation quite low. For enterprises with an average position, the value of the average, respondent-defined impact was at the highest level for such elements of the strategy, as cost and customer-orientation. These enterprises evaluated innovations higher than quality. Enterprises with positions below the average did not notice the impact of logistics on such elements of the strategy as customer-orientation and innovations. For this group, the value of the average, respondent-defined impact was the highest for time, whereas cost and quality were evaluated at the same level.
The results above show that small and medium-sized enterprises in Germany notice the impact of logistics on the elements of a strategy on which their competition strategy can be based. Enterprises that gave high evaluations to all the elements, i.e. the differences in the evaluation of the impact of logistics on the different elements of strategy were relatively small in each of the group analysed, they include: market leaders, limited liability companies and enterprises employing fewer than 50 employees. This may suggest their awareness of a comprehensive impact of logistics on such elements when developing competition strategies.

Identification of Interrelationships between Logistics and Competition Instruments

Enterprises use appropriately configured instruments, which should correspond with their strategy of competition. These instruments can be grouped into certain sets constituting the components of the enterprises’ competition. Thus the elements of a competitive strategy that are affected by logistics can be treated as sets of competition instruments. Their effectiveness, i.e. the competitive position achieved by an enterprise, depends on the competitive potential on which such instruments are based. Part of the competitive potential includes elements connected with logistics.

The questionnaire survey asked respondents to define the impact of logistics on the competition instruments used in enterprises. The top instruments of competition on which logistics has the biggest impact included: on-time delivery, speed of an order delivery, price, corporate image and product availability to the customer. The population surveyed consisted of small and medium-sized enterprises in Germany specialising in various industries. Specificity of their activity was often the cause of not using a specific instrument of competition at all. For that reason, with a so composed research population, the evaluation of the impact of logistics on competition instruments should be considered against the background of the use of specific competition instruments. As shown by survey results, low evaluation of the impact of logistics on a specific instrument of competition coincided with low evaluation of enterprises using it. Competition instruments which ranked very high were used by most enterprises. The lower the evaluation of the impact of logistics on a given instrument, the smaller the number of enterprises that used it.

A little less light on the survey results will be shed by comparing them with analyses concerning the impact of logistics on strategy elements. The above-mentioned elements of a strategy that are affected by logistics can be treated as

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sets of competition instruments. Respondents defined which elements of a strategy were most connected with logistics, which has been presented in table 13.5.

**Tab. 13.5. Impact of logistics on elements of a strategy and competition instruments**

<table>
<thead>
<tr>
<th>Strategy elements</th>
<th>Evaluation</th>
<th>Competition instruments</th>
</tr>
</thead>
</table>
| Cost              | 4.78       | – price
|                   |            | – payment terms                                             |
| Quality           | 2.84       | – quality of products
|                   |            | – product brand                                             |
| Innovations       | 2.69       | – adaptation of products to the needs of customers
|                   |            | – introduction of new products into the market              |
| Customer orientation | 4.10 | – product availability to the customer
|                   |            | – ensuring a convenient time and place for a product purchase |
| Time              | 4.60       | – on-time delivery                                          |
|                   |            | – speed of an order delivery                                |

Source: own study based on questionnaire survey

Evaluations of the different competition instruments confirm respondent-defined values of the impact of logistics on strategy elements. The highest evaluations were received by competition instruments connected with those strategy elements for which the highest value of impact was defined, namely: time (on-time delivery and speed of an order delivery) and cost (price). They were followed by instruments connected with customer orientation (product availability to the customer), quality (product quality, brand) and innovations (adaptation of products to the needs of customers, introduction of new products to the market).

It should be noted that cost, which is the element of a strategy that received the highest evaluations, does not create the highest ranking competition instrument, as the price comes only second. Apart from the price, the other instruments from this group received very low evaluations, which can mean that enterprises don’t necessarily want to translate the cost advantage achieved thanks to logistics directly to competition instruments. They prefer using their price advantage, i.e. financial surplus than to apply other competition instruments.

**Competition Instruments and the Characteristics Differentiating Enterprises**

The value of the impact of logistics on the different instruments of competition varied depending on the characteristic differentiating the research sample. Detailed values of the impact of logistics on instruments of competition reflecting the responses from the research sample are presented in table 13.6, which has been arranged according to the classification of the individual instruments of competition into a specific element of the strategy.
Tab. 13.6. Impact of logistics on the elements of a strategy and competition instruments depending on the characteristics differentiating enterprises - averages calculated for the different groups of instruments

<table>
<thead>
<tr>
<th>Strategy elements and competition instruments</th>
<th>Organisational and legal form</th>
<th>Size of employment</th>
<th>Position on the domestic market</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Joint-stock companies</td>
<td>Limited liability companies</td>
<td>Fewer than 50</td>
</tr>
<tr>
<td>Cost</td>
<td>0.92</td>
<td>1.43</td>
<td>1.57</td>
</tr>
<tr>
<td>- price</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- payment terms</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quality</td>
<td>0.98</td>
<td>1.52</td>
<td>3.10</td>
</tr>
<tr>
<td>- product quality</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- product brand</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Innovations</td>
<td>0.86</td>
<td>1.37</td>
<td>2.90</td>
</tr>
<tr>
<td>- adaptation of products to the needs of customers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- introduction of new products to the market</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer orientation</td>
<td>1.10</td>
<td>1.60</td>
<td>2.74</td>
</tr>
<tr>
<td>- product availability to the customer</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- ensuring a convenient time and place for product purchase</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Time</td>
<td>1.70</td>
<td>2.80</td>
<td>3.60</td>
</tr>
<tr>
<td>- on-time delivery</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- speed of an order delivery</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: own study based on questionnaire surveys.

In enterprises distinguished by the organisational and legal form, the answers of respondents varied. Limited liability companies evaluated the impact of logistics on almost all competition instruments higher than joint-stock companies. The exception was ensuring a convenient place for a product purchase, which was evaluated higher by joint-stock companies. Limited liability companies gave high
evaluations to the biggest number of competition instruments. As shown in table 13.6, the averages calculated for each group of competition instruments were the highest in the case of limited liability companies. This confirmed the earlier-formulated conclusions about awareness of the importance of logistics in developing a competition strategy and increasing the competitiveness of an enterprise. Joint-stock companies gave the highest evaluations to such instruments as: on-time delivery, speed of an order delivery, price, corporate image and product availability to the customer, i.e. mainly those based on time, cost and customer orientation. For these enterprises, the average calculated for the whole group of competition instruments connected with cost was not high due to low values ascribed to the other instruments, except for the price. The highest average values were received by groups of instruments connected with time and customer-orientation.

In enterprises distinguished by the size of employment the answers of the respondents varied. Enterprises employing fewer than 250 employees gave the highest evaluations to such competition instruments as: on-time delivery, price, ensuring a convenient place for product purchase, corporate image and speed of an order delivery. The evaluations of almost all instruments defined by these entities were lower compared to the evaluations of the other enterprises distinguished by the size of employment, except for a relatively high value ascribed to ensuring a convenient place for product purchase. Enterprises employing fewer than 50 employees gave the highest evaluations to such competition instruments as: on-time delivery, speed of an order delivery, price, corporate image, product availability to the customer, i.e. instruments mainly based on time, cost and customer-orientation. The number of time-related instruments that received high evaluations confirms that the highest value was defined for this element of strategy. The average calculated for the whole group of time-based instruments was the highest compared with the other groups of instruments evaluated by these enterprises. The results of the survey confirm high values received by the different elements of the strategy. High evaluations of the impact of logistics on the competition instruments based on all mentioned elements of the strategy show awareness of the importance of logistics in competing and increasing competitiveness.

The market position significantly differentiated the answers of respondents. Leaders gave the highest evaluations to the impact of logistics on such competition instruments as: on-time delivery, speed of an order delivery, and a product availability to the customer. The values given by leaders to the price and corporate image significantly differed from the evaluation by the other enterprises from this group. The particularly low evaluation received by the price and relatively high evaluation received by the biggest number of the other instruments of competition can be explained by leaders’ unwillingness to use the cost advantage that logistics gives them to create this instrument. Such enterprises may use their cost advantage to create other competition instruments, e.g. those connected with time. The Top 3
enterprises on the domestic market gave the highest evaluations to such instruments as: on-time delivery, price, speed of an order delivery, corporate image, ensuring a convenient time for product purchase, i.e. mainly the instruments based on time, cost and customer orientation, which corresponds with the earlier, particularly high evaluations for these elements of the strategy. Among cost-based instruments, all the values, apart from the high evaluation of the price, were low.

Enterprises with an average position on the market gave the highest evaluations to the following competition instruments: price, payment terms, on-time delivery, speed of an order delivery, and corporate image, i.e. mainly the instruments based on cost and time. On the other hand, these enterprises did not give high evaluations to the competition instruments based on customer-service although earlier they gave high value to this element. This shows that although enterprises with an average position on the market are aware of the big impact of logistics on this element of the strategy, it is not reflected in a specific instrument of competition connected with customer service. This can result from under-developed logistic processes in such enterprises, which was confirmed by the responses concerning the coordination of logistic processes, which indicated lack of coordination.

Enterprises with a position below the average not only did not base their competition instruments connected with innovations and customer-orientation on logistics, but did not use them at all, which corresponds with evaluations of these elements of the strategy. They indicated the highest impact of logistics on the price, speed of an order delivery and on-time delivery, i.e. the instruments based on cost and time. Enterprises with a position below the average created the fewest competition instruments compared with the other enterprises distinguished by the market position.

The results of the survey showed that the high evaluation of the impact of logistics on a specific instrument of competition was accompanied by a large number of enterprises using it. The lower the number of enterprises using specific instruments of competition, the lower the evaluation of the impact of logistics. This shows that when using specific instruments of competition the enterprises surveyed were aware of the impact of logistics on the development of such instruments and appreciated this importance, as when they used a given instrument of competition, they indicated its significant relationship with logistics. Low evaluations of the impact of logistics on competition instruments, as presented in the results of the survey, result, in some cases, from the small number of enterprises that used them.

The impact of logistics on competition instruments received the highest evaluations from limited liability companies, market leaders and enterprises employing fewer than 50 employees.
Summary

The survey designed to identify the elements of a strategy and competition instruments that can be affected by logistics enables analysis with the possibilities to increase the ability of small and medium-sized enterprises in Germany to compete by improving logistic processes.

The survey results show that logistics can have an influence on the competitiveness of enterprises. This is confirmed by the fact that logistics is used by enterprises with a high position on the German market. Leaders were characterised by a higher degree of integration and coordination of logistic processes compared to the other participants of the German market. It is worth noting that coordination of logistic processes was not present in enterprises with an average market position. We should thus point to the existence of a certain relationship between the market position and coordination and integration of logistic processes. It seems justified to claim that this phenomenon is an argument for the existence of the relationship between the coordination and integration of a logistic process on the one hand and competitiveness of the enterprises surveyed.

Management of logistic processes was also facilitated by the organisational solutions adopted by enterprises with a higher market position. In the light of modern views about the use of flat organisational solutions we can say that the situation of enterprises with a higher position on the domestic market was better, which is reflected in the increased importance of logistics in these enterprises and enables a more effective use of its potential. A higher position on the market was accompanied by a bigger number of introduced improvements. Leaders implemented the most improvements in this group. This may confirm the advantageous impact of the improvement of logistic processes on the competitiveness of enterprises, measured by their competitive position.

Enterprises distinguished by their position on the market were aware of the impact of logistics on the elements of a strategy on which their competition strategy can be based. Leaders gave high evaluations to all the elements of the strategy, and the differences in the evaluation of the impact of logistics on the individual elements were relatively small, which shows that the comprehensive importance of logistics is taken into account in the development of a competitive strategy.

The analysis of the survey results highlighted a positive impact of logistics on the ability to compete. The comparison of logistics of enterprises with different positions on the German market shows that a higher position is accompanied by a bigger number of improvements in logistics, possession of organisational solutions

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facilitating management of logistic processes and greater use of logistics-based instruments of competition compared with the other enterprises.

The development of the concept of logistics is connected with the increasing integration of logistic operations, starting from the isolation of the elements of logistics in small and medium-sized enterprises, through partial integration of the logistics of procurement and distribution, comprehensive integration of logistic operations within an enterprise, to integration within the supply chain\textsuperscript{347}. It is justified to say that the integration of logistic operations is the direction of the development of logistics in enterprises. Rational integration of operations requires their coordination, which, according to most respondents, improves logistic processes, which can represent an opportunity for enterprises and an effective way to increase competitiveness.

MANAGEMENT IN PUBLIC ADMINISTRATION

PART 1
PUBLIC FINANCE SYSTEM AT EUROPEAN, NATIONAL AND REGIONAL LEVEL
14. EU State Aid Rules and Tax Policy Options for EU Member States

Introduction

State Aid is a typical incentive which is used by a State in order to obtain the compliance of beneficiaries to its short- and long-term economic policy objectives, through the granting of financial advantages. The specificity of state aid as an instrument of State economic interventionism (preventive and/or reformative) lies in its voluntary character; instead of threatening to penalize the infringers in order to oblige them to comply with classic legal provisions, state aid provides advantages. In this case, State promotes general interest and thus directs the economy by using harmonization methods. The use of state aid was substantially increased especially after the Second World War, due to the lack of capital for development. However, this trend was not compatible with the neoliberal market-based economy and the completion of the Common Market, and their control then became inevitable, as Article 3 paragraph 1g of the EC Treaty provided that the Community guarantees a level playing field within the Internal Market. In this framework the control of state aid of a fiscal nature becomes critical, as States often prefer the use of indirect tax incentives, instead of direct financing.

In this chapter, the author describes the general features of the fiscal sovereignty of EU Member States and then focuses on the EU state aid provisions which are applied in the area of direct taxation, thus influencing the design of tax incentives on a national level.

The Fiscal Sovereignty of EU Member States

The construction of the European Union has entailed the gradual erosion of the capacity of EU Member States to design and implement an autonomous economic, monetary and fiscal policy. On the other hand, EU law leaves EU Member States plenty of room for manoeuvre in the field of taxation. First of all, the power

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348 L.L.M. Public Law, University of Athens D.E.A. Droit Fiscal, Université de Paris I (Panthéon-Sorbonne), Greece.
to tax and the corresponding budgetary power is still in the hands of national governments and parliaments (notwithstanding the budgetary restrictions of the EMU). The fundamental decision whether or not an economic transaction is subject to tax lies within the scope of national sovereignty. The only exception is VAT: the Member States are bound to levy VAT within a certain corridor of tax rates in order to achieve a level playing field for goods and services and to contribute to the EU budget, the greater part of which is funded by the Member States' revenues from VAT. But for the rest of indirect taxes and (excise duties) and a large part of direct taxes (income tax, corporation tax, inheritance tax, wealth tax etc.) the Member States are free to decide whether to introduce or abolish tax burdens. The Treaty for the Functioning of the European Union (TFEU) stresses this national prerogative by prohibiting legislative action of the European Union in tax matters unless there is unanimity among all Member States.

Against this background, there can be no doubt that it is up to the Member States to decide whether to increase or decrease the overall tax burden within their jurisdiction. This is part of sound “fiscal federalism”, which gives economic subjects the free choice to move their activities to a jurisdiction with a high level of taxation (and a high quality of public services) or to move to a country with modest taxes and budgets. EU law also leaves it to the discretion of Member States whether to shift the tax burden from direct taxes to indirect taxes and vice versa (as long as the harmonization level of VAT is not affected) in order to change the tax conditions of investment and consumption respectively. Moreover, the Member States are not prevented from raising revenue by introducing special consumption taxes which will by their very nature function as a tax disincentive with respect to the taxable goods or services. Thus, each Member State is free to introduce or to increase tobacco taxes or mineral oil taxes in order to fight lung cancer or the ecologically harmful use of fossil energy sources.

However, the free exercise of national sovereignty faces restrictions, when a Member State wishes to implement tax measures stricto sensu, i.e. measures for the achievement of economic and social objectives. In the latter case, the design of tax incentives has to take into account EU law provisions as follows: (a) the rule established by the European Court of Justice that the sovereignty of EU Member States in tax matters does not justify national tax rules which result in the discrimination or unjustified restriction of cross-border activities covered by the

352 Case C-142, 143/80, Salengo; T-67/94, Landbroke Racing.
353 Articles 114 paragraph 2 and 115 TFEU.
356 See: Cases C-270/83, Commission v. France; C-330/91, Commerzbank; C-484/93, Svensson & Gustavsson; C-250/95, Futura Participations; C-118/96, Safir; C-311/97, Royal Bank of Scotland v. Elliniko Dimosio.
fundamental freedoms of the TFEU\textsuperscript{357}; (b) the general EU state aid rules as applied in taxation.

**The EU Provisions on Fiscal State Aid**

*The General EU Framework on State Aid*

The founders of the European Economic Community included in the Treaty of Rome specific provisions that were meant to provide both Community institutions and the Member States with effective legal tools to safeguard the correct functioning of the common market. One of the fundamental needs to be preserved was to ensure free competition amongst the enterprises engaged in the same business activity and to prevent Member States from distorting the market in any way.

The fundamental rules concerning the granting of State Aid within the European Union are contained in Articles 107 and 108 TFEU. The former encompasses the substantive legal principles, whereas the latter is a procedural provision. Neither provision is comprehensive: their interpretation and practical application has been clarified over the years through instruments of EU secondary law, European Commission documents, as well as through the case-law of the Court of Justice of the European Union.

Article 107 paragraph 1 TFEU (ex Article 87 paragraph 1 Treaty of the European Community, EC) declares incompatible with the Internal Market “any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods ..., in so far as it affects trade between Member States”. Article 107 paragraphs 2\textsuperscript{358} and 3\textsuperscript{359} TFEU contain certain exceptions from the rule of incompatibility.

\textsuperscript{357} The analysis of EU provisions on fundamental freedoms lies outside the scope of this chapter.

\textsuperscript{358} Article 107 paragraph 2 of TFEU declares as “compatible” with the Internal Market only the following categories of State Aid: (a) aid having a social character, granted to individual consumers, provided that such aid is granted without discrimination related to the origin of the products concerned; (b) aid to make good the damage caused by natural disasters or exceptional occurrences; (c) aid granted to the economy of certain areas of the Federal Republic of Germany affected by the division of Germany, in so far as such aid is required in order to compensate for the economic disadvantages caused by that division. Five years after the entry into force of the Treaty of Lisbon, the Council, acting on a proposal from the Commission, may adopt a decision repealing this point.

\textsuperscript{359} According to Article 107 paragraph 3 of TFEU “The following may be considered to be compatible with the internal market: (a) aid to promote the economic development of areas where the standard of living is abnormally low or where there is serious underemployment, and of the regions referred to in Article 349, in view of their structural, economic and social situation; (b) aid to promote the execution of an important project of common European interest or to remedy a serious disturbance in the economy of a Member State; (c) aid to facilitate the development of certain economic activities or of certain economic areas, where such aid does not adversely affect trading conditions to an extent contrary to the common interest; (d) aid to promote culture and heritage conservation where such aid does not affect trading conditions and
According to the Commission interpretation of Article 107 paragraph 1 TFEU, four criteria need to be met for a measure to be considered “State Aid”. These are: (a) advantage conferred to a firm or firms; (b) from state-originated resources; (c) distortion of competition and impact on intra-Community trade; and (d) specificity or selectivity (i.e. concerning certain undertakings or certain goods).

Pursuant to Article 108 paragraph 3 TFEU Member States shall inform the Commission, in sufficient time to enable it to submit its comments, of any plans to grant or alter aid. As per the ECJ case-law, this provision contains not only an obligation of notification, but the obligation of prior notification. The Member State concerned shall not put its proposed measures into effect until this procedure has resulted in a final decision. If the Commission considers that any such plan is not compatible with the internal market having regard to Article 107, or that this aid is misused, it shall decide that the State concerned shall abolish or alter such aid within a period of time to be determined by the Commission.

The Notion of “Fiscal State Aid”

As previously mentioned, the above EU provisions are applicable to any aid granted in any form whatsoever, thus also encompassing aid granted through tax measures, if the criteria of state aid are met. Both the European Commission and the Court of Justice of the European Union study the variations of fiscal state aid pursuant to Article 107 paragraph 1 TFEU, but its systematic interpretation has been intensified as of the mid-1990s. The European Commission became active in this field especially after the adoption of the Code of Conduct for business taxation. In this field, it undertook the engagement to provide for guidance on the application of EU State Aid provisions stemming from the EU primary law to direct business taxation in a Commission notice.

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360 Case C-120/73, France v. Commission.
362 Council Conclusions of Ecofin Council meeting of 1 December 1997, OJ C 98, p. 2. See also: Bolkestein F., “Taxation and competition: the realization of the Internal Market”, European Taxation 9/2000, pp. 401-406. The Commissioner for the Internal Market at the time notes (p. 405): “[...] We should bear in mind that while the control of state aids is a different instrument from the Code of Conduct, both instruments have the same objective – that of fighting against of harmful tax competition. Both instruments should therefore, be used in a consistent manner. The Commission has pointed this out in several occasions. But it is true that the procedural rules governing the carrying out and completion of state aid investigations are stricter than those which apply to investigations carried out in the Primarolo group.”
363 European Commission Notice, OJ C 384, 10 December 1998, p. 3-9. As to its legal nature, the Commission Notice forms part of Commissions acts sui generis or soft law containing policy statements. Therefore, it is not a piece of EU secondary legislation but it is nevertheless binding on the Commission in that it is able to create legitimate expectations for both EU Member States and interested parties.
Contrary to the Code of Conduct, which is a soft law instrument, the TFEU provisions grant the Commission with the power to prohibit tax measures which do not fulfill the conditions for the exceptions laid down by the Treaty provisions\textsuperscript{364}.

The Commission guidelines explain that a tax measure should meet a set of cumulative conditions in order to qualify as a “Fiscal State Aid” (a) advantage conferred on a recipient; (b) granted from the State or its resources; (c) measure affecting the competition or trade between Member States; and (d) specific or selective measure.

These conditions are analysed\textsuperscript{365} as follows:

As to the first condition\textsuperscript{366}, the advantage conferred upon recipients must consist of any alleviation of charges or any relief concerning the tax burden normally imposed on them. The Commission notice makes a reference to the mechanisms used for the granting of the following kinds of fiscal relief, which may have an impact on the taxable base (i.e. special deductions, accelerated depreciations, formation of tax-free provisions), the taxable amount (i.e. tax exemption and/or credit), and the collection of taxes due (i.e. deferment, cancellation or special rescheduling of tax debts).

The second condition\textsuperscript{367} requires the aid to be granted from the State or its resources. The notion of “State resources” refers not only to the State budget but to all State resources. The Notice interprets this criterion as the aid being financed through a “tax expenditure”, i.e. a special tax measure deviating from the benchmark tax system whose effect is to cause a reduction in the country’s tax revenue through measures such as reduced tax rates, tax holidays, investment allowances, investment credits and so on. According to the Commission, the budgetary restraint of the State to levy charges has the same result as direct funding. Such a special measure may be enacted through laws, regulations, or administrative practices of the tax authorities by either central or regional bodies provided with autonomous power\textsuperscript{368}.

\textsuperscript{364} Although the two procedures (i.e. Code of Conduct and state aid control) pursue, to a certain extent, the same goal of reducing distortions of competition within the Internal Market, they are not identical. The key target of the EU Code of Conduct is to, inter alia, prevent the tax base erosion between EU Member States. However, the purpose of the State Aid provisions is to prevent situations where competition and trade between companies in the EU Internal Market are affected. The two procedures rely on different criteria and it is, therefore, quite possible for a measure that does not constitute State Aid to be found harmful under the EU Code of Conduct and vice versa. For a detailed comparison between Code of Conduct and State Aid, See: B. Kiekebeld, \textit{Harmful tax competition in the European Union}, Kluwer, 2004, pp. 78-85.


\textsuperscript{366} See: Case C-156/98, Germany v. Commission.

\textsuperscript{367} See: Case C-83/98, France Ladbroke Racing Ltd and Commission.

\textsuperscript{368} This condition is closely linked to the specificity condition, because the main characteristic of tax expenditures is their special nature as opposed to the standard tax system.
Thirdly, the measure must affect competition and trade between Member States\(^{369}\). This criterion presupposes that the beneficiary of the measure exercises an economic activity, regardless of the beneficiary’s legal status or means of financing. Under settled case-law, for the purposes of this provision the criterion of trade being affected is met if the recipient firm carries on an economic activity involving trade between Member States. The mere fact that the aid strengthens the firm’s position compared with that of other firms which are competitors in intra-Community trade is enough to allow the conclusion to be drawn that intra-Community trade is affected. Neither the fact that the aid is relatively small in amount, nor the fact that the recipient is moderate in size or its share of the Community market is very small, nor indeed the fact that the recipient does not carry out exports or exports virtually all its production outside the Community do anything to alter this conclusion.

The final condition, “specificity” or “selectivity”, is analysed more by the Notice, which points out that a certain advantage must be granted by way of an “exception to the tax provisions of a legislative, regulatory or administrative nature or from the discretionary practice on the part of the tax authorities” The Notice specifies that the selective nature of a measure may be justified by the nature of the general scheme of the system, in which case it is not caught by the incompatibility principle laid down in Article 107 TFEU.

In order to clarify what is meant by “general” tax system as opposed to “specific” tax measures, the Notice refers to the availability of the latter to all of the firms carrying out an economic activity within a Member State on an equal, objective and non-discriminatory basis. Accordingly, it is affirmed that general measures are those having: (a) a technical nature, such as the ones concerning tax rates, depreciation schedules, period of loss carry-forward, or prevention of double taxation; and (b) and underlying the general economic policy objective to be achieved by way of an alleviation of part of the tax burden concerning certain firms’ production costs, such as R&D expenses, environment-friendly investments, and training and employment activities.

With regard to fiscal provisions falling into either category, however, the Notice makes it clear that they will be considered to form part of a country’s general system only as long as they do not have the effect of favouring certain taxpayers and/or sectors of the economy. The Commission clarifies that, in principle, tax measures which are open to all economic agents operating within a Member State are general measures and so that, although such measures result to a loss of tax revenue for the Member State and a benefit for the entities, they fall outside the scope of Article 107 paragraph 1 TFEU. Moreover, as to the above category (b) there must be a justification for the measure concerned consisting of an\(^{369}\) See: Cases C-278/92, 279/92, 280/92 Spain v. Commission; C-156/98, Germany v. Commission; C-102/87, France v. Commission; C-142/87, Belgium v. Commission; C-173/73, Italy v. Commission.
appreciable goal of domestic economic policy or another desirable social or economic goal. Fiscal measures that favour firms relying on a labour-intensive production process (with respect to R&D, training and employment incentives) or on a capital-intensive one (with respect to incentives for environment-friendly equipment), therefore, only escape the incompatibility principle if they are not likely to distort competition or if they can be justified.

According to the Notice, the first stage of investigation on the state aid nature of a fiscal measure within the meaning of Article 107 TFEU ends with the evidence that all these four conditions are met, and, in particular, that such a measure constitutes an exception to the general tax system. For this purpose, the Notice requires a determination of the general system of taxation of the Member State concerned and, subsequently, some evidence that the suspect measure is to be labelled as a specific measure, i.e. a deviation from it. If this is the case, the next stage of the investigation must focus on whether such a fiscal measure is justified by the “nature or general scheme of the tax system”, i.e. whether it stems “directly from the basic or guiding principles of the tax system in the Member State concerned”. This last analysis leads to the final decision by the Commission on the compatibility of the tax measure with the TFEU provisions on state aids.

The role of the Court of Justice of the European Union has always been critical in the establishment of the meaning and scope of the constitutive elements of the concept of “fiscal state aid”. Its abundant case-law clarified many grey areas of state aid elements. The selectivity criterion has been one of the main preoccupations of the Court of Justice. This criterion creates additional problems for those Member States in which sub-national authorities (regions or municipalities) have taxing powers. The problem lies in the fact that determining whether or not the geographical particularity of a tax incentive (i.e., the deviation from the tax system in one particular geographical area) is sufficient to qualify it as state aid. This is regardless of the fact that the incentive in question has been adopted by a regional or local body in application of its own competencies in tax matters and applies to all entities operating or with a domicile in the territory with no differential treatment in respect of one or more sectors of activity\footnote{S. Moreno-Gonzalez, \textit{Regional fiscal autonomy from a state aid perspective: the ECJ’s judgment in Portugal v. Commission}, „European Taxation“, Vol. 47, No. 7, 2007, p. 328 seq.}.

The Court of Justice analysed the notion of “fiscal autonomy” in three cases, as follows:

- Portugal v. Commission\footnote{Case C-88/03.}: In this case the “region” has been used as the benchmark in comparison with the “normal tax system” (i.e. the territory). Three cumulative criteria have been introduced in order to define the notion of fiscal autonomy, namely: i) political (or institutional)
autonomy\textsuperscript{372}; ii) procedural autonomy\textsuperscript{373}; and iii) financial or economic autonomy\textsuperscript{374}. In this case, the Court of Justice established general criteria for the resolution of the problem, by changing substantially the way in which “geographical selectivity” is understood by the Commission. It determined the “reference framework” from which to resolve the question of whether or not a tax measure is selective. However, this doctrine risks creating more interpretation problems due to lack of precision.

- Tax systems of Navarre and Basque Provinces\textsuperscript{375}: In these cases, the Commission had avoided entering into the selectivity analysis of the incentives on a territorial or geographical basis, preferring the criterion of “material selectivity”. The Court of First Instance emphasized the fact that a regional authority has an autonomy in tax matters recognized and protected by the Spanish Constitution does not exempt it from the obligation to comply with Treaty provisions on state aid.

- Commission and Spain v. Gibraltar and United Kingdom\textsuperscript{376}: In this case the Court of Justice examined the Gibraltar company tax legislation that sought to make the British protectorate a more attractive offshore location for mobile business activities. According to the Court, the fact that offshore companies were not taxed was not a random event, but the inevitable consequence of the criteria forming the basis of the system itself, i.e. the fact that the basis of assessment was specifically designed so that offshore companies, which by their nature have no employees and do not occupy business premises, had no tax base under the basis of assessment included in the Gibraltar tax system. State aid measures must be assessed according to their effects and independently of the techniques used to implement them. This means that, in order to classify a tax system as “selective”, it is not necessary that the selective

\textsuperscript{372} “Institutional autonomy” means that the decisions have been taken by a regional or local authority which has, from a constitutional point of view, a political or administrative status separate from that of the central government: C-88/03, paragraph 67.

\textsuperscript{373} “Procedural autonomy” means that the decisions must have been adopted without the central government being able to directly intervene as regards its content: C-88/03, paragraph 67.

\textsuperscript{374} “Economic or financial autonomy” means that the financial consequences of a reduction of the national tax rate for undertakings in the region must not be offset by aid or subsidies from other regions or central government: C-88/03, paragraph 67.


\textsuperscript{376} Joined Cases C-106/09 P and C-107/09 P.
advantage included in the system is identified as being the difference between the normal tax burden and the tax burden borne by those undertakings which benefit from the derogating provisions. A tax system may also be considered “selective” when a derogation from its general rules is made for certain undertakings by combining and adjusting those rules, so that the result is a different tax burden for different undertakings. In this case, the Court of Justice concluded that the Gibraltar tax reform was regionally selective and also materially selective as it is clear that the proposed legislation would confer selective advantages on offshore companies.

In all the above cases, the common element that the Court of Justice recognized is the “unjustified breach of tax neutrality within the geographical jurisdiction of reference”, thus seeking a functional approach concluding that what matters in the assessment of the tax measures in question is their effects, while the form and the objectives announced may be irrelevant.

Summary

According to the “State Aid Scoreboard 2014” published by the European Commission\(^377\), in 2013 only 23% of all state aid granted in the EU-28 is granted through tax measures; this figure was almost double in the beginning of the financial crisis in 2008 (i.e. 43%). This data shows that EU Member States facing important financial needs are reluctant to grant tax incentives, as these would lead to additional tax expenditures. However, the efficient design of tax incentives in compliance with the above-mentioned EU State aid rules might prove beneficial for Member States, which need to tackle the erosion of their tax bases due to the harmful tax competition in the international arena.

15. Methods of Planning a Budget in Chosen EU Member States

Introduction

A state budget planning procedure comprises actions aimed at preparing a document that would serve as a financial foundation for accomplishing the state’s tasks. On the grounds of that document it is possible to analyse the direction of the state authorities’ policy regarding the collection and disbursement of public funds\textsuperscript{379}. Drawing up the budget starts a series of actions constituting public fund management. Methods of budget planning are, in other words, methods of preparing and making decisions in the process. They comprise adequately organised measures of reasoning, consisting of simultaneous consideration of various factors impacting the conclusion-making process necessary in individual planning procedures. Planning procedures are correctly organised sets of actions focused on choosing the models for the actions, designing instruments for impacting the course of the economic processes in order to adjust them to chosen standards, and recognising the factors that should inevitably be taken into account when accomplishing the planned tasks. Planning techniques are the ways of processing information, and are necessary when starting and following individual procedures and applying adequate methods. They comprise a set of IT, statistical, accounting and other actions that form the basis for preparing and making decisions\textsuperscript{380}.

The chapter aims at presenting an idea of budget planning that not only incorporates the planning process itself, but also the study of social usefulness of public funds and monitoring the objectives and tasks that are being fulfilled. Budgeting is a process where the goals are determined, the possibilities of achieving the aims through an analysis of strengths and weaknesses of planned actions are explored, and the organisational units responsible for performing individual tasks are audited and supervised. The chapter discusses the most developed budget planning methods, together with the strengths and weaknesses of each of them and their influence on the budget planning quality:

- Planning-Programming-Budgeting System (PPBS);
- Cost-Benefit Analysis (CBA);
- Zero-Base Budgeting (ZBB).

\textsuperscript{378} Ph.D., University of Natural Sciences and Humanities in Siedlce, Poland.
\textsuperscript{379} S. Owsiak, Budżet władz lokalnych, PWE, Warsaw 2002, p. 38.
\textsuperscript{380} S. Franek, Wieloletnie planowanie budżetowe w podsektorze rządowym, Difin, Warsaw 2013, p. 106.
Planning-Programming-Budgeting System

The responsibility for using public funds and the specificity of obtaining them, mainly through the system of tax collection, result in the situation where the methods that are sought for are required to ensure a rational means from both an economic and social viewpoint. The crucial role of a budget in the system of public finance has forced the authorities to focus on looking for a means of a budget funds management. This especially refers to the planning demand for funds. The concept of a planning-programming-budgeting system plays an important role in the process.381

The implementation of the new system started from a pilot study in the U.S. Department of Defence in which the techniques used in the private sector were applied, after they had been relevantly modified and adjusted to the public sector. The Planning, Programming and Budgeting System (PPBS) started to be introduced in the Department of Defence with the assistance of computer software.382 PPBS comprised three stages: planning, programming and budgeting. The planning stage embraced determining whole lists of objectives the programmes had to attain. The programming stage covered compiling a list of programmes that needed to be developed in order to reach the goals set beforehand, taking into account the ongoing financial limitations. The third stage, i.e. budgeting, was focused on incorporating the implications obtained in the programming stage and its assessment into the budget and accounting framework. The last phase consisted of selecting the entities that should receive state’s funds and then allotting such to them. The PPBS procedure was repeated every year and resulted in drawing up a five-year rolling plan. The financial means for the first year of the scheme constituted a basis for allocating the budget for the following year.

The purpose of PPBS was to improve the decision-making process of the government and public administration and devising a system of programmes that would make it possible to achieve specific results. PPBS enriched the process of setting the budget with an analysis of the choice of long-term objectives and alternative ways of attaining the goals. Here, the budget composition was grounded on programmes with a specific number of determined goals. The selection of programmes comprised the optimisation between costs and effectiveness. The budgeting was based on programmes established for years, with a rolling planning horizon. Additionally, the system was supported with a programme updating tool and a quality control system.

The drawbacks of the method are said to be the high cost of drawing up the budget and difficulties with quantification of quality results of the public authorities’ operation. Problems related to applying PPBS have been divided into two groups: general and specific. The general ones are:

- Demand for services exceeds the financial means that can be allotted to their performance, but the necessary services prevail in the said demand;
- The degree of financing tasks does not correspond to the standards adopted within ppbs;
- Ineffective and expensive programmes need to be continued owing to political pressure and ethical issues; therefore, there is no need looking for less costly but more effective solutions using the ppbs methods;
- Evaluation and coordination of programmes is rather difficult to be performed;
- Methods of traditional planning do not cause such problems and lead to a better adjustment of long-term plans with the available reserves.

The specific problems comprise:

- The structure of programmes fails to sufficiently consider the criteria of quality and usefulness; in other words it does not take into account one of the major decision-impacting criteria and does not form the bases for a profound verification of programme contents and thus also for alternative manners of realising the tasks within;
- The declining effectiveness of traditional budget planning methods as a result of applying two methods at once (the traditional and ppbs). The two methods compete with each other in terms of providing separate planning results. Ppbs is based on developed paths of alternative projects and their budgeting, which may not be related to the findings obtained in traditional procedures. Taking into account the time limits and reduced analytical possibilities of staff, introducing ppbs decreases the effectiveness of the two methods;
- The principles of budget planning with the ppbs method were not always in fact made or transmitted to basic units, which interfered with the budget cycle. The principles were not specified according to the method either, and for that reason could only partly be taken into account;
- The financial programmes and plans comprised long wishful lists that had nothing to do with any real possibilities of financing them; they also made

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demands for treating tasks presented in them as the obligatory ones, which proved that the term “obligatory” was misunderstood;

- The memoranda of the programmes were too descriptive and not analytical enough. They assured that full finance would be received. The majority of the memoranda failed to define the main alternative paths or depict a programme for fulfilling the task in the long term.

The structural programmes comprised ordered types of activities performed by or within individual entities and focused on the accomplishment of strategic objectives: The purpose of the structural programmes was to establish auxiliary bases for analysing all types of activities and their costs. The principle of the process was to eliminate doubling activities in individual entities, determine the differences and similarities between the same activity types and complete the gaps. The most essential element in the method is a programme that can be realised by a number of entities. The programme is the reason for integrating the organisational units, verifying their activity and assessing the costs of programme realisation.

The budget principles present the guidelines drawn up as part of the arrangements made between the ministries and the Budget Office. Their purpose is to assess the volume of funds that can be allotted to solving problems. These suggestions let the units responsible for drawing up the budget focus on alternative paths of accomplishing the objectives, i.e. on evaluating the alternatives. That stage of the budget development precedes the detailed analysis.

The analytical studies comprise all analyses and research devoted to a given issue or task. They take into account both the ongoing situation and future budget years. In order to choose the best possible option, all available statistical data are collected, formalised models are constructed, profound analyses and economic studies are made, and the technical progress within a given field is considered, similarly to the latest analyses and programming techniques in that field. The programme memoranda take the form of formalised decisions made by individual departments and refer to issues connected with each of the programmes. They have grounds in the similarities between problems encountered in and between departments. The purpose of the memoranda is to ensure comprehensive communication between departments in terms of programmes under realisation.

The financial programmes and plans comprise detailed information about funds available in the future and planned for the future that are related to the effects of individual programmes. The financial programmes and plans take into consideration the ongoing obligations and liabilities that were incurred as a result of decisions made in the past. Therefore, the documents present budgets for two years in a developed form and comprise projects of funding for the next five years. The idea of budget programmes and plans is to construct a bridge between middle-term and ongoing planning in the scope of allocating budget funds, and especially

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384 Ibidem, p. 263.
to determine the extent to which today’s budget decisions will be vying for budget funds in the forthcoming years and also the consequences of the present decisions for the condition of relevant fields in the future.

**Cost-Benefit Analysis**

The next attempt at improving the quality of public fund management was focused on the adjustment of the public zone to the specificity of goods and service that are characterised by immeasurable effects, e.g. expertise or health condition. Therefore, it was suggested to apply the Cost-Benefit Analysis (CBA). The method encompasses three basic actions:

- Specifying project objectives and alternative possibilities of attaining the goals;
- Analysing individual solutions;
- Confronting the positive and negative consequences of applying the proposed solutions.

The method consists of comparing costs that are usually presented in monetary units and the advantages of a new undertaking or of a significant development of activities already performed. The most comprehensive application of the Cost-Benefit Analysis can be observed in the fields in which the costs and benefits can be determined in detail with a uniform measure (money). If that is the case, one of the forms of the discussed technique is applied, i.e. the input-output method. The model is especially useful in those types of activity where it is possible to use money to compare input and output. Such an activity is called a commercial activity. It encompasses minimising the costs for a given output level or maximising the benefits for a given input level. CBA corresponds with people’s rational activity within the social, economic, and political sphere, making personal life decisions, etc. The method can be employed with limited scope, though. An example of that is when it is impossible to present the results with the use of a uniform measure, but still possible to determine the level of achieving the goal. The degree of attaining the objective does not have to be expressed in monetary units. When the CBA model is used, it is acceptable, and sometimes inevitable, to use indices and quantities expressed in physical units that are nothing else but the qualitative presentation of effects. Applied in such a form, the Cost-Benefit Analysis is especially useful in the public sector when there is a problem of measuring the effects of the input made. Improving that method should rely on improving the precision of determining the benefits, by applying both general measures and specialised measures tailored to the type of activity.

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Zero-Base Budgeting

One of the latest budget planning methods is the Zero-Base Budgeting (ZBB). The foundations of the method exclude the weaknesses of the above-described models, especially the problem with breaking away from the past. The ZBB method is believed to be a management tool that has also been employed in the private sector. In the case of planning the state budget, the ZBB process starts from the lowest-level units that have budget funds at their disposal and prepare their own plans by scheduling programmes pursuant to adequately selected criteria.

Applying ZBB at the federal level in the U.S. Department of Agriculture was not very successful. The problem there was the fact that the programmes which resulted from political regulations or statutory provisions previously adopted appeared in the budget every year. Regardless of an objective assessment of the need for their accomplishment, some of the funds had to be allotted pursuant to the commitments already taken on. Therefore, it was suggested that ZBB ought to be used only in chosen programmes in the federal budget or all programmes should be divided into two groups: the ones that were to be analysed every year, and the ones subject to evaluation every five years\(^\text{386}\).

The use of ZBB when setting the U.S. federal budget was to limit the excessive bureaucracy and let the authorities control administrative costs.

The ZBB method comprised two clearly separate phases:

I. A phase of preparing decision packages,
II. A phase comprising two types of activities:
   - Defining the hierarchy of decision packages on the basis of Cost-Benefit Analysis and other subjective reasons;
   - Deciding on the division of funds in a manner corresponding with these priorities.

So-called decision packages play an important role in Zero-Base Budgeting. The packages comprise elements that illustrate individual stages of making a decision. The most important decision package components are objectives for the accomplishment of which a given type of activity has been started, and the consequences of forgoing those objectives. Other elements of decision packages that are also found significant are the realisation variants and costs and effects of activities.

The second important stage in ZBB is the establishing of a hierarchy of programmes according to their importance, i.e. in the form of a ranking. The method of selecting the criteria according to which the ranking will be made is to be chosen in advance in order to avoid discussions and disputes prolonging the selection process. The compilation of the ranking and the resource allocation technique provide answers to the following questions:

- What tasks and objectives should a public authority body obtain in the first place?
- What funds are necessary in order to perform the tasks and attain the goals?
- How many tasks need to be completed in order to obtain the necessary funds?

The implementation of ZBB by Carter failed to bring significant success at the federal level, but at state and local levels there are examples of bodies applying that method.

Table 15.1 below illustrates a synthetic comparison of the pros and cons of the most developed budget planning methods.

**Tab. 15.1. Budget planning methods**

<table>
<thead>
<tr>
<th>No</th>
<th>Method</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Planning-Programming-Budgeting System (PPBS)</td>
<td>Determining the objective of each task and also the time, costs and quantitative effects of its realisation with the cooperation of various organisational units, which prevents doubling the competence and facilitates better coordination of actions.</td>
<td>A relatively complicated system, a lot of analytical techniques, high costs of preparing the budget related to the method, problems with constructing qualitative measures.</td>
</tr>
<tr>
<td>2</td>
<td>Cost-Benefit Analysis (CBA)</td>
<td>Stressing the effective performance of tasks when the task is decided to be continued or when there is a decision to forego it.</td>
<td>Problems with the quantification of some costs and benefits. There are a lot of benefits for local development, but they are the immeasurable ones.</td>
</tr>
<tr>
<td>3</td>
<td>Zero-Base Budgeting (ZBB)</td>
<td>The possibility of creating new tasks without the need to refer to the former composition of expenses.</td>
<td>The need for a yearly presentation of arguments supporting the continuation of some programmes that are being realised.</td>
</tr>
</tbody>
</table>


It has been widely criticised that drawing up a budget takes such a long time and the process of planning it is accompanied with excessive documentation. In the case of applying Zero-Base Budgeting it was rarely possible to exclude programmes that had been negatively assessed.
Revenue Budget vs. Expenditure Budget

In order to fulfil the tasks that the state has undertaken to perform within a given budget year, it is necessary to assess future revenue credibly and reliably. Nonetheless, planning public revenues are especially complicated tasks. Their complexity derives from the possibility of appearing factors that are independent of the state executive authorities and very difficult to control.\(^{387}\)

Cash collected as public funds takes the form of revenue. It is quite specific because its source is the income of other entities and its seizure by public authorities is final. The situation is similar with public expenses, the disposal of which is also definitive as long as it is done in conformity with the budget acts and not contrary to the law in force. Otherwise, public funds spent are subject to refunding, or constitute a basis for claims made by public sector entities. In some circumstances there can also be sources of finance that are not related to income, e.g. loans taken out by public authorities.

The list of state budget revenue sources is set forth in the Act on Public Finance. The sources are divided into tax-related and tax-unrelated. Here are a few positions from the list:\(^{388}\)

- The share of taxes and other payments that, pursuant to separate acts, does not constitute local government units’ revenue, the income of state special-purpose funds or other public finance sector units;
- Payments from the state-owned enterprises and companies fully owned by the state treasury;
- Payments of dividends;
- Payments from the profit generated by the national bank of poland;
- Payments of the surplus of the financial means of executive branches;
- Revenue collected by state budget units unless separate provisions state otherwise;
- Income from renting and leasing, and from other agreements of a similar nature relating to the state treasury’s assets unless separate provisions state otherwise;
- Interest on fixed-term deposit accounts transferred from funds collected on the central current account of the state budget;
- Interest on funds collected on bank accounts of state budget bodies or public authority units unless separate provisions state otherwise;
- Tickets, fines and other pecuniary penalties unless they constitute the revenue of other public finance sector entities pursuant to separate provisions;

\(^{387}\) Ibidem, p. 47.

• Interest on domestic and foreign loans made from the state budget;
• Legacies, bequests or gifts in a pecuniary form to the state treasury;
• Income from the sale of property, matters and rights that are not income in the meaning of article 1 point 1 item 4 (a) and (b) unless separate provisions state otherwise;
• Other income set forth in separate acts and international agreements;
• Interest on treasury bonds purchased by buyers or the surplus deriving from the discrepancy between the issue price and the face value of treasury bonds sold.

It is worth noting that the income from the State Treasury property privatization is not taken into account in such a concept of the state budget revenue. Customarily, such income constitutes state revenue because the financial means generated through privatisation are non-returnable, just like other types of budget revenues. The manner in which the privatisation income is treated is surely of no substantial importance from the point of view of the actual phenomena that in fact takes place, but it does impact the state budget result. Money from privatisation can be allotted to the financing of a budget deficit or other purposes, which will free financial means from the budget. There are reasonable and formal provisions for excluding the income from privatisation from the state budget revenue.

Properly arranged economic factors constitute one of the most important elements necessary to prepare a reliable budget project. Nonetheless, for example, studies completed showed that the discrepancies between the plans and actual values of ordinary people’s income were much smaller than the differences between the respective values of personal income tax. A lack of clear correlation of the two estimates resulted from the need of taking into account changes in the tax legislation that largely contributed to the preparation of income plans marked with a major error.

Among the premises influencing the volume of revenues, one can list:
• Tax rates depicted in other acts of law;
• Tax relief;
• Implementing new tax categories;
• Withdrawing operating tax categories;
• Effective tax collection.

It is possible to determine in detail the quantities in each of the income categories by basing the analysis on the forecast effectiveness of tax collection and the assumptions taken. The forecasts regarding the factors supporting the process of planning revenues can be made not only by the right department of the Ministry of Finance, but also by an independent entity or a group of experts on economy.

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389 S. Owsiak, Planowanie..., opus citatum, p. 47.
and finance. A comparison of two or more prognoses may allow the authorities develop a reliable plan of revenues. Apart from that, both the Sejm and the Senate should have their own team responsible for familiarising themselves with the prognoses from the Ministry of Finance and showing the strengths and weaknesses of each of them. When planning revenues, one needs to take into account both the external and internal factors that impact the volume of budget funds, such as the political and economic situation of the country, legal changes in taxes, social changes and independent factors, like changes in the weather and natural disasters. Not all of the enumerated factors can be appraised and predicted while drawing up the budget. Therefore, there are additional funds in the budget, the reserves.

Spending public funds is a complex process. It is a prerequisite to precisely determine the type of social and economic needs meeting which the state is materially responsible for and unchangeably having at its disposal limited financial means.

Budget expenses of the state are borne in the process of fulfilling the state’s functions. A detailed description of expenditure is presented in the budget acts adopted every year, in cross sections of budget classification. However, in order to prevent any possibilities of using the budget funds contrary to their purpose, the Public Finance Act defines the general framework and classification of budget expenses.

Budget expenses can be allotted to:

- The operation and maintenance of public authority bodies, control and protection of rights;
- The operation of courts and tribunals;
- Tasks realised by government administration;
- Subsidies for local government units;
- General subventions for local government units;
- Subventions for political parties;
- Funds paid from the European Union budget;
- Financing programmes and projects for the realisation of which financial means have been obtained from the eu budget;
- Public debt servicing;
- Pursuing the common agricultural policy;
- Grants for tasks set forth in separate provisions.

Separate current and capital revenue and expenditure budgets are not prepared in the Polish budget system. However, what is distinguished is:

- Property-related expenditure;
- Current expenditure;

390 Act of 27 August 2009 r. on Public Finance..., opus citatum.
Expenditure servicing the state treasury debt.

The classification of expenses, which are very diversified, gives rise to some difficulties. From the economic point of view, two categories of expenditure should be specified: final and transfer. The final expenditure is borne by all entities of the budget economy in relation to tasks performed by them, i.e. the activity which the society, as a whole, benefits from, and services that have the recipients determined. The accomplishment of tasks requires funds. Therefore, part of the expenditure is closely related to the productive activity understood in the aforementioned manner. Pursuant to the Act on Public Finance such expenditure comprises:

- Expenses for buying goods and services;
- Remunerations and compensations, and contributions calculated on their basis;
- Other expenses related to the operation of budget units or the realisation of their statutory tasks.

The second type of expenditure is called the transfer expenditure, but in this case half of the transfers are made within the state budget and the other half goes outside the state budget.

The following are deemed to be transfer expenses leaving the state budget:

- Subventions for political parties;
- General subventions for local government units;
- Other expenses than allowances and benefits for ordinary people (e.g. Old age pensions, disability allowances).

A special type of budget expense comprises subsidies and grants that can be divided into:

- Special-purpose subsidies for investment realisation;
- Subsidies for commissioned tasks, or statutorily defined tasks, that are realised by units other than local government units;
- Recipient-specific or general subsidies because they are granted for financing the ongoing operation to entities set forth in the act;
- Subsidies for the internal current tasks of local government units;
- Specific subsidies that are allotted for additional payments for certain types of goods and services, calculated according to unit rates;
- Subsidies for equipping with working capital newly-created budgetary entities and auxiliary enterprises of budget units;
- Subsidies for tasks commissioned for the realisation by units that do not belong to the public finance sector, including foundations and associations.\(^{391}\)

\(^{391}\) This is, for example, about entities operating on the basis of the Act of 24 April 2003 on Public Benefit and Volunteer Work, (Journal of Laws of 2003, No 96, item 873 with subsequent amendments).
Budget subsidies represent a crucial way of disposing of public means and are subject to special supervision as special duties are imposed on the holders of budget parts from which subsidies are granted. This restrictive manner of handling the grants derives from the obligation of determining a list of subsidies’ subjects, entities that are subsidised, calculations of specific rates of subsidies for goods or services and the rules of accounting for them in the budget act.

For the sake of functionalising public spending, especially in order to ensure the continuity of financing investments, multi-year programmes have been launched for investments where the performance costs exceed PLN 100 m\(^3\). The schemes can be drawn up in the fields that are crucial for society and the economy, such as: scientific development, environment protection, the country’s defence and security.

Optimisation of the budget fund spending requires taking various steps\(^3\): forecasting which serves as grounds for predictions regarding the economic and social situation of the country in the near future made on the basis of macroeconomic factors; planning in which, on the basis of the aforementioned assumptions, new rates directly related to individual categories of public expenditure that are next assigned adequate amounts are created; operations in which public funds between separate tasks are distributed; and control as after the end of the budget period, the course of spending the financial means is checked\(^4\).

### Tab. 15.2. Manner of spending public funds

<table>
<thead>
<tr>
<th>Manner of spending</th>
<th>Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economical</td>
<td>The best effect for a given input or minimal input for exerting a given effect</td>
</tr>
<tr>
<td>Effective</td>
<td>Results quoted in a quantitative and qualitative scope</td>
</tr>
<tr>
<td>Rational</td>
<td>Historical method, supply method, quasi-market method, demand method</td>
</tr>
</tbody>
</table>


Attaining revenue as a factor behind a private entity’s actions is not a significant element here. What is analysed in the case of public funds is the effectiveness and rationality of spending. Table 15.2 presents the process of planning public expenditure, a process that requires considering a large number of research tools\(^5\).

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\(^3\) S. Owsiak, *Finanse…, opus. citatum*, p. 424.
\(^3\) S. Owsiak, *Budżet…, opus citatum*, p. 51.
The measures are used to characterise tasks that should be accomplished within a given period. An adequately compiled group of indices for a given field forms an irreplaceable element of budget planning, thanks to which it is possible to answer such questions as: what the current condition is and what it should be like. Although the first question can be answered with the use of well-developed rates, the second one is not so easy. This is because in the second question it is necessary to prepare adequate models, or standards, that will clarify when the society’s needs are in fact met. The certain standards should be based on an objective assessment of social and economic situation. The next stage is the comparison between the adopted models and the actual situation, and the determination of the degree to which the current condition can be improved within the available financial possibilities of the state.

**Tab. 15.3. Measures allotted to tasks**

<table>
<thead>
<tr>
<th>Task</th>
<th>Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managing a school (primary school, lower secondary school, higher secondary school)</td>
<td>Numbers of students per teacher, Numbers of students per class, Numbers of students per PC, Pass rate in examinations at the end of primary school (lower secondary school).</td>
</tr>
<tr>
<td>Managing public administration offices</td>
<td>Accepted time for handling individual issues in the office (company registration, car registration, issuing a passport).</td>
</tr>
<tr>
<td>Managing hospitals and public health care centres</td>
<td>Number of hospital beds per 10 thousand residents, Number of general practitioners.</td>
</tr>
</tbody>
</table>


Auxiliary indices when planning budget expenditure comprise:

- Quantitative measures representing the attainable effects quoted in physical units, e.g. Number of medical staff, teachers, length of roads;
- Qualitative measures determining the degree of attaining given standards within the adopted limits.

The aforementioned methods have a few features in common, features that can be presented in the following way:

- Budgeting adjusted to the needs as a basis for programming expenditure,
- Service quality taken into account when measuring public expenditure effectiveness,

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- Quantifying the effects of public spending even if they are not expressed in a pecuniary form and need to be presented in physical units;
- Applying a variant analysis of attaining goals when allocating public spending. Such an analysis makes it possible to select the best path for accomplishing the objective with the use of a universal rule of rationality in action, i.e. Minimising the input for a given effect or maximising the effect for a given input;
- Implementing adequate flexibility as a component for making expenditure more rational during the process of budgeting the spending. That issue requires granting the heads of public sector units some additional entitlements and having highly qualified and responsible staff;
- Making budgeting a more social process by trying to involve local communities in the course of setting the objectives and co-deciding about the allotment of funds.

The literature on the topic mentions indices depicting the situation in a given country (table 15.3), e.g. GDP per capita, the number of hospital beds per ten thousand residents, the number of teachers per one thousand students. Nonetheless, the same rates are used to analyse the situation in a given region. The need for making regional comparisons is a consequence of the frequent lack of equality in the economic development level between different parts of one country, although the state aims at reducing disproportions present there.

Summary

The state is a compound institution. It is especially visible from the point of view of public finance. In the relevant context, the state consists of executive bodies, legislative bodies and entities responsible for the direct implementation of states’ tasks. The operation of the state as an institution is therefore a compound administrative mechanism within which the public finance allocation and collection processes take place. The functioning of the complicated public administration mechanism does not remain neutral towards the quality of the budgeting processes, both on the public revenue and expenditure side. A state budget revenue does not, and cannot take a directive form; it is always a prognosis. In the case of budget spending, it is the other way round. Owing to its importance for business entities and citizens, budget spending needs to be restricted. No limitations in the scope of expenditure could result in an uncontrollable rise in the burden imposed by public levies or higher and higher public debt, which could lead to a financial crisis in the economy.

16. Activity-Based Budget – an Instrument of Public Finance Management in Poland

Introduction

Budget reforms are specific to each country, owing to the diversity of systems and economic and social determinants. The new activity-based management (ABM) poses a challenge that has been taken on by the Central Eastern European countries. Expenditure has become an especially powerful instrument of social and economic policy in the integrated European Union. The common currency limits an array of tools of the monetary and fiscal policy to interest rates, public expenditure, taxes, public deficit and public debt. Taxes are subject to the process of harmonisation; public deficit and public debt are restricted by the Maastricht Treaty.

For the past dozen years or so many changes translating into new public management have been observed in the global milieu. Among them one can enumerate: a change in the nature of the citizen-state relationship, an increase in competitiveness between countries, alteration of the attitude towards the system of economic and financial measurements, a change in employees’ status, and transformation of mechanisms coordinating actions within individual state institutions. Instead of passive administration, what is necessary is active management in which the actions are predominantly aimed at the market phenomena. More or less developed result-focused management has been implemented in practically all countries. Three main points can be listed in relation to the new approach to public expenditure management, i.e.: focusing attention on outcomes, formulating objectives and their measures clearly, and providing flexible forms of employment and organisation. Managing through effect is a tool for planning and control, in which it is inevitable to establish goals that are to be attained. On the other hand, implementing a system of measuring the effects constitutes a substantial support to effective communication within a given level of public authorities and between them. Together with changes in the state-citizen relationship, new management also raises issues related to the administration of public funds. In Poland, reforms in this area include, first of all, rational restrictions on spending public money, at both state and local level, as well as a change in the

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400 Ph.D., University of Natural Sciences and Humanities in Siedlce, Poland.
approach to the system of economic-financial measurement. For the financial management of the state, this means ensuring a conscious decision making process connected with state expenditure.\(^{401}\)

**A Budget as an Instrument of Financial Management**

A state budget system determines the terms and conditions of a budget economy operation referring to all legal norms and procedures regarding planning and implementing a state budget and specifying income and expenditure. A budget is the most important public fund that is used for financing a state’s tasks and collating government income and spending for a given budget year. Therefore, it is an instrument precisely conditioned by the accomplishment of a state’s functions that enables the government to impact the economy.\(^{402}\)

A state budget is drawn up and passed as a legislative act in a budget act for the period of one year. A budget act determines the income to and spending from the state budget, a budget deficit and sources of financing it, and also constitutes the foundation for a state’s financial management.\(^{403}\) Additionally, it specifies the financial schemes of the state’s special purpose funds, comprises a list of multiyear programmes and investments, and sets the state administration employment thresholds. A state budget can be also analysed from the political angle: state’s authorities are subjects of the political and social-economic system of the state, they use the budget as an instrument for realising a specific social and economic policy. From an economic viewpoint, a budget is a centralised source of non-returnable public funds, collected and distributed during the year, and a record of financial transactions with repayable and emergency funds allotted to financing the country’s economic development and all the society’s needs, although it is also identified as a form of creating and dividing those financial means.

In Poland, a budget is defined as a financial plan of the state that compares the income and expenditure made within one calendar year. Both income and spending found in it reflect the direction of the social and economic policy of the government. A budget is: passed in the form of a statute determining the sources of income and types of expenditure, drawn up by a Council of Ministers on the dates set forth in the act and implemented under the Council’s direction through the Minister of Finance.

A state budget is a fund of a centralised financial means, collected and distributed by the state in relation to the realisation of the state’s tasks. A budget income is generated by the state in the course of its definite non-returnable


amassing from various entities. The processes of collecting and dividing income by the means of a budget are implied by the political system and constitutional principles that are of an economic and social nature. The scope of legislative and executive authority relating to defining the sources, value and division of income and directions of spending requires granting a normative form to the state budget so that it is passed as a so-called high-rank law, i.e. a legislative act.

Allocating financial means in a state budget always produces economic and social effects. It is reflected in taking over part of the social income and distributing it, which impacts the income and social status of individuals and social groups. The following two issues condition it:

- The volume of fiscal burden imposed on citizens and the method of its division;
- The criteria of distributing funds between various objectives and tasks.

A state budget impacts the operation of state bodies and entities in the future. Thus it is always a plan of the state’s income and spending during a period set in advance; it is a “seasonal” fund.\(^{404}\)

The characteristic feature of a budget as a fund is its specialisation, pursuant to which budget spending is subject to legal discipline.\(^{405}\) The features of a state budget fully confirm the complexity of this institution and reflect the essence of the state budget well. They also make it possible to isolate the functions of a state budget within which the processes of collecting and distributing financial means are realised.

Owing to the affluence of budget functions, it seems just to divide them into three groups: economic, control, and political. The economic functions comprise: redistributive, stabilizing, and allocative. They are fulfilled by the state budget within the general functions of public finance. Due to the volume of monetary resources it collects and distributes, a state budget constitutes the key element and basic tool of public finance. Some of its functions are on the edge of economic and political scope, for example the controlling function, which uses the collection and spending of financial means for the purpose of auditing the appropriateness, efficiency and legality of a budget economy. The utilization of financial processes and phenomena in order to observe and analyse the material phenomena and processes constitutes the core of a state budget’s controlling function.

The political functions of the state budget are also vital. Among them there are: the function of the political system, and the democratic and legal function. The relationship between the legislative and executive power (between the parliament and government) lies at the heart of the political function of a state budget. The political function is also revealed while drawing up the budget, when a political conflict between budget fund administrators can be witnessed in


the course of preparing the budget bill. The democratic function of the state budget is one of the most crucial political functions. It refers to society’s interest in, and impact on, drawing up and performing the budget, i.e. to the citizens’ and representatives’ direct participation in the parliament. Residents’ partaking in budget work is acquired through the open nature of the report on the budget implementation and publishing the budget act. The political-system function is related to the parliament and the political system of the state that is determined in the Constitution and other legislative acts. Specifying the scope of rights enjoyed by the legislative and executive powers in relation to the state budget embodies the essence of that function.

The functions of the state budget are beyond the political system; a budget is neither capitalist nor fundamental. Two conditions need to be met for a state budget to exist: the state needs to exist as an institution and the monetary economy needs to operate there. Owing to such an objective nature of the budget, functions played by it are also objective.

The State Budget Procedure

The mode of work on the budget act is definite and is called the budget procedure. The budget procedure comprises rules of public sector entities’ conduct in the course of drawing up and passing the state budget and rules and method of executing the budget act. The rules refer to the actions whose aim is to draw up the budget and determine the manner in which the budget is performed. The budget procedure comprises four stages:

- Preparing a budget bill;
- Passing a budget act;
- Implementing, i.e. Executing the budget act;
- Reporting and controlling the execution of the budget act.

The individual stages of the procedure are set forth in the law governing the competence of specific bodies of the state authorities and administration.

The process of working out the bill starts by adopting a macroeconomic forecast of the economic development, a so-called rolling forecast, that is made by, among others, the Ministry of the Economy, the Ministry of Labour and Social Policy and the Ministry of Finance.

The Minister of Finance plays the key role in the process of drawing up a state budget; he determines specific rules, the modes and deadlines of preparing materials for the budget act. The information is referred, by way of Regulation of the Minister of Finance, i.e. a budget note, to administrators of the budget.

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406 M. Podstawka, *Podstawy finansów. Teoria i praktyka*, Szkoła Główna Gospodarstwa Wiejskiego, Warsaw 2005, p. 120.

components whose task is to prepare materials for the budget bill within 21 days. The regulation should be submitted to the Minister of Finance for signature in May of the year preceding the budget year and ought to contain, among others, specimens for presenting the necessary numerical data. Then the Minister of Finance analyses the plans put forward to him, mainly in the context of awarded expenditure limits. The plans should comprise, without negotiation, the income and spending of the principal state and administrative bodies, that is the Chancellery of the President of the Republic of Poland, the Sejm and Senate, the National Labour Inspectorate, the Supreme Audit Office, etc. Next, the Minister of Finance hands the budget bill to the Council of Ministers and the government can introduce some changes to it and then adopt it in the form of an act. The Council of Ministers passes the budget bill and presents it to the Sejm by 30 September of the year preceding the budget year. That is the deadline for putting the budget bill forward to the Sejm.

Passing the budget act is subject to a parliamentary mode of the project work. The stage of specifying the budget act is conditional on some time restrictions deriving from constitutional provisions and restrictions regarding the Sejm’s intervention in the submitted bill. The parliament should pass the budget act within 4 months of the day the bill was submitted to the Sejm. Failure to put forward an adopted budget bill to the President of the Republic of Poland for signing within the specified time may lead to the President announcing within 14 days the shortening of the term of the Sejm. Here, it should be stressed that the right of legislative initiative in the scope of the budget act (and also the act on the provisional budget and an amendment to the budget act) is only enjoyed by the Council of Ministers pursuant to the Constitution of the Republic of Poland. The Rules of Procedure of the Sejm and Senate determine the mode of work on the budget. According to constitutional principles, the work on the budget bill in the Sejm comprises three stages, so-called readings.

The first reading in the Sejm is held 7 days after delivering the bill. During it the Minister of Finance or the Prime Minister delivers a budget policy statement (the presentation of the budget bill) in which the representatives of parliamentary groupings express their opinions. At the end of the reading, the bill is handed over to the Sejm branch committees. The Sejm Public Finance Committee is responsible for coordinating and organizing work in individual committees. Branch committees prepare opinions that they submit to the Public Finance Committee. The latter refers the final budget bill to the Sejm. The second reading refers to the committees’ work that engages nearly all committees, but still the main role is played by the Public Finance Committee. Proposals of amendments made by other

committees must be presented to the Public Finance Committee. The amendments to the bill tabled at this stage are limited. Reducing income or increasing income planned by the Council of Ministers cannot result in the deficit growing beyond the level set forth in the budget act. The committees’ work lasts for a few weeks, and is crowned by a joint debate of the Finance Committee and the representatives of other committees. A list of amendments that are to be put forward at the plenary sitting of the Sejm is made and a parliamentary commentator is chosen. His task is to present the list of amendments together with the general assessment of the budget bill. There is a compromise reached regarding some amendments, others are approved by the Minister of Finance. It happens that some amendments are disputable, hence they are eventually settled by the Sejm at a plenary session during the second and third reading. In the final reading, the committee presents its report one more time. The third reading ends with a motion for passing the budget act. This takes place in an analogical manner as in the case of ordinary statutes, namely by a majority of votes.

The act adopted by the Sejm is passed by the Marshal of the Sejm to the Senate that should make a resolution about approving the budget within 20 days of the receipt of the budget act. A lack of Senate resolution within the specified time is equal to adopting the resolution without any amendments. The work on the budget in the Senate is similar to the process in the Sejm. After hearings within the Senate’s committees, the Senate can take a decision to approve the act without any changes or to refer it back to the Sejm with the proposals. The amendments put forward by the Senate are deemed to be adopted if the Sejm does not reject them with a vast majority of votes in the presence of at least half of the statutory number of members. The voting on the Senate’s amendments in the Sejm ends the parliamentary procedure.

Signing the budget act by the President of the Republic of Poland is the final stage of work on the budget and should be done within 7 days. The President has no right to veto the act, contrary to other statutes. Nonetheless, if there are doubts regarding the compliance of the budget act with the Constitution, the President of the Republic of Poland has the right to refer it to the Constitutional Tribunal that adjudicates not later than two months after receiving the motion.

Publication in the Journal of Laws ends the procedure of passing the budget act. In the case of a failure to adopt the budget act before the beginning of the budget year, a provisional budget, i.e. the budget bill, constitutes the basis of a budget economy by the time of passing the act.

The next stage of the budget procedure is the budget implementation that comprises: preparation of the budget execution system, introduction of changes in the budget, processes of collecting and spending budget funds pursuant to

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412 M. Podstawka, Podstawy finansów..., opus citatum, p. 125.
the provisions of the budget act, analysis and audit of the implemented financial management.

The Public Finance Act\textsuperscript{413} sets forth the procedure of creating financial plans of individual financial units. Administrators of budget funds are obliged to submit a detailed plan of income and spending to the Minister of Finance within 21 days of the announcement of the budget act. At the same time the administrators provide units with information about the income and spending, including remunerations that constitute the basis of their financial plans.

The implementation of the state budget involves elaborating the tasks and spending and collecting the income within the state budget. An effective and efficient budget implementation is accomplished pursuant to the principles of the financial economy, i.e.:

- Determining, collecting and allotting the income of the state budget takes place pursuant to rules and within terms deriving from the regulations in force;
- Comprehensive realisation of tasks is accomplished within deadlines set forth in regulations and the budget implementation schedule;
- Expenditure is made within the amounts determined in the financial plan, taking into account the properly made transfers and according to the planned purpose, in a purposeful and economical manner, keeping to the principle of attaining the best effects from the outlays made.

The following are the bodies implementing the budget:

- Bodies determining the legal rules of the budget implementation (the Sejm, the Senate, the Council of Ministers, the Minister of Finance, departmental ministers);
- Bodies supervising the budget implementation, i.e. Bodies directly implementing the budget (e.g. The Council of Ministers);
- State bodies and budget units subordinate to them that collect income for the state budget on their own (customs bureaus, tax offices) and spend the budget funds by providing free incorporeal services, i.e. Bodies directly implementing the budget;
- Bodies responsible for the cash service of the budget (the National Bank of Poland or Bank Gospodarstwa Krajowego).

The Council of Ministers is in charge of the budget implementation. At the same time, a lot of responsibility rests with managers of the public finance sector units. The duties and responsibilities in the scope of keeping the unit’s books

\textsuperscript{413} Article 146 of the Public Finance Act of 27 August 2009 (Journal of Laws 2009, No 157, item 1240 with subsequent amendments).
and disposing of the financial means\textsuperscript{414} are entrusted to the chief accountant by the manager.

The last stage of the budget procedure is the control of the state budget, being an element of the procedure of ending the budget year. Approving the report on the implementation of the budget act by the Sejm is the basis of the audit system. At the same time, a discussion on the report on implementing the budget act is a debate about granting the Council of Ministers a vote of approval.

The budget implementation is subject to a parliamentary and administrative audit. The right of parliamentary control is exercised by the Sejm and the Supreme Audit Office, and the administrative control by the Minister of Finance. The results of the administrative audit made by the Minister of Finance are presented to the Council of Ministers and the Supreme Audit Office in periodical reports. The audit starts while the budget year still remains because the Minister of Finance is obliged to present information about the course of the budget implementation for the first half of the year to the Sejm Public Finance Committee and the Supreme Audit Office by 10 September. By 31 May of the year following the budget year, the Council of Ministers is obliged by the Constitution and relevant statutes to present a yearly report on the state budget performance, together with the required complementary documents, to the Sejm and the Supreme Audit Office. Having analysed the yearly report on the state budget implementation and having assessed the results of the audits made during the budget year, the Supreme Audit Office issues an opinion on granting a vote of approval to the Council of Ministers. Within 90 days of the day of filing the report, the Sejm makes the decision about granting or refusing to grant a vote of approval to the council of Ministers. That action ends the procedural cycle related to the state budget\textsuperscript{415}.

The budget procedure applied in Poland does not differ much from the procedures used in other European Union member states. Similarly to other countries, the planning limit is also being extended in Poland. Having started work on implementing an activity-based budget it is based on middle-term planning, limiting the possibilities of proposing amendments to the budget bill by the parliament and adopting it before the beginning of the budget year.

**An Activity-Based Budget as an Instrument of Finance Management**

Poland being a European Union member state is connected with a constant adjustment of various fields of the Polish economy, including public finance. The changes largely consist of implementing modern methods in the scope of public

\textsuperscript{414} Articles 53-54 of the Public Finance Act of 27 August 2009 (Journal of Laws 2009, No 157, item 1240 with subsequent amendments).

fund management. The management refers to spending public funds and modern planning. The method that occurred to be effective in managing the public financial means not only in the European Union but also in other economic systems all over the world, mainly in the USA, is the concept of an activity-based management (ABM). The essence of an activity-based budget is the implementation of a fund management via correctly hierarchized and specified objectives aimed at producing identified effects of tasks assessed with a set system of measures. Not only is the activity-based budget model successfully implemented at the level of the state budget, but also in local communities, at the commune level.

Changes taking place in the world economy and the financial crisis of the past few years necessitate taking a stance, one different than the contemporary, on managing public funds. It is inevitable to adopt modern management instruments that will enable the authorities to increase the efficiency and effectiveness of public tasks under way and rationalise public spending.

One of the main aspects of public finance is the issue of effective management of generating and spending public funds. In the 1980s the concept of the New Public Management was especially popularized as an alternative to the traditional approach to the question of financial economy of the public finance sector. The novel approach introduces a managerial model in the place of the classical (bureaucratic) model of public administration. The new concept is aimed at applying the methods and solutions used to date in the private sector, i.e. result-focused, to the public one. A model like that emphasises professional management and effectiveness, including the possibility of assessing the performance and operation of public sector units on the basis of correctly defined assessable measures designed for that purpose.

Modern management methods, such as, among others: risk management, quality management systems, management control, internal audit, multiyear financial planning, costs accounting and activity-based budgeting, have started to be introduced into the public sector. They provide higher standards of services rendered by public institutions as they focus on the accomplishment of tasks and treating a citizen as a client. Changes in the mode of budgeting public funds focused on improving clarity, ensuring easier monitoring of the efficiency and effectiveness of public spending and prolonging the planning period are recommended by various international institutions and organisations: the European Commission, the World Bank, the Organisation for Economic Cooperation and Development, and the International Monetary Fund.

One of the main elements of the New Public Management is the concept of an activity-based budget, i.e. the method of planning based on managing public

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finance through the perspective of results. The core of the idea lies with using, in the budget procedure, information about the results attained in relation to the spending made. This is usually connected with making some effort in order to improve control of the public fund expenditure and increase the effectiveness of the public sector operation thanks to a better allocation of means and more efficient use of them.\textsuperscript{418}

A lot of countries have made their budget planning system more efficient. The process has been noticed in over 50 countries; in some of them the existing model was substituted with the activity-based model, in others only a few elements of the novel system were introduced into the traditional system. The transfer of the foreign patterns of activity-based budget construction directly into the ground of the Polish public finance sector is limited owing to the diverse conditions of other countries’ public finance system operation. All possible social, economic and political circumstances should be considered in the process. Owing to the diversity of the manner of implementing an activity-based budget worldwide, it is impossible to define it unambiguously. Domestic definitions are given in table 16.1. The most important component of an activity-based budget concept is a task. The Public Finance Act governs some issues related to the notion of a task, but does not define it. A task forms a fundamental unit of budget classification and arranges expenses according to specific objectives.

When defining a task as an all-important component of an activity-based budget concept, one ought to pay attention to the feature of homogeneity. It indicates the need for possibly more specific determination of a tasks scope so that each task constitutes a separate, uniform category. It may be necessary to distinguish sub-tasks within tasks in order to attain clarity of an activity-based system.

Such a structuralization of the system of tasks makes it possible to manage the budget better and avoid allotting too many tasks to one administrator. There is the possibility of distinguishing another level within the sub-tasks, namely actions. It should be kept in mind that the activity-based budget concept does not come down to an excessively complicated specification of various executive procedures within the tasks. Subsequent hierarchization within a uniform category, which a task is designed to be, cannot result in including operational or technical tasks in the budget act.\textsuperscript{419}

\begin{footnotesize}
\begin{itemize}
\item 418 A. Jachowicz, \textit{Budżet zadaniowy – szansa efektywnego zarządzania finansami publicznymi w świetle członkostwa w Unii Europejskiej i w drodze do strefy euro}, „Zeszyty Naukowe, Polskie Towarzystwo Ekonomiczne” No. 10, 2011, p. 46.
\item 419 S. Owsiak, K. Stabryła-Chudziło, Budżet zadaniowy jako narzędzie poprawy alokacji środków publicznych, [in:] \textit{Budżet zadaniowy w administracji publicznej}, [ed.] M. Postuła i P. Pereczyński, Ministerstwo Finansów, Warsaw 2010, s. 47.
\end{itemize}
\end{footnotesize}
Tab. 16.1. Definitions of activity-based budget

<table>
<thead>
<tr>
<th>Author</th>
<th>Definition</th>
</tr>
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<tbody>
<tr>
<td>S. Owsiak</td>
<td>The financial plan of a public entity (...) in which specific tasks characterised by diversity are recorded regardless of the adopted classification of the budget income and spending. A task is specified (in terms of quantity and quality) with what the cost, purpose and effectiveness rate are; additionally, the person responsible for its completion is also appointed.</td>
</tr>
<tr>
<td>T. Lubińska, A. Lozano-Platonoff, T. Strąk</td>
<td>The essence of an activity-based budget is the implementation of public spending management through adequately specified and hierarchized objectives aimed at attaining specific effects assessed with a determined set of a system of measures.</td>
</tr>
<tr>
<td>A. Wernik</td>
<td>The essence of an activity-based budget lies with the precise determination of tasks that are to be financed with public funds and the application of adequate measures that would enable an assessment of effects attained as a result of budget spending made.</td>
</tr>
<tr>
<td>M. Postuła, P. Perczyński</td>
<td>The method of public fund management defined as a consolidated plan of the public finance sector units’ expenditure made for more than one year, taking into account the state functions, budget tasks and sub-tasks, and measurements determining the objective fulfilment level.</td>
</tr>
<tr>
<td>B. Pietrzak, Z. Polański, B. Woźniak</td>
<td>The essence of an activity-based budget is the management of public funds through objectives. The objectives are specified and their accomplishment takes place according to an agreed hierarchy. The effectiveness of the tasks is checked with adequate measures at each stage of a tasks fulfilment within a given objective. An activity-based budget makes it possible to assess which tasks are most important for a given objective and measure how they were established.</td>
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The Public Finance Act introduces the definition of a so-called activity-based system, in which the state budget spending or public finance sector unit’s costs worked out according to a state’s functions corresponding with individual areas of the state’s operation are compared to:

- Budget tasks categorising expenditure by objectives;
- Budget sub-tasks categorising actions that enable the accomplishment of the objectives of the task within which sub-tasks have been identified and described in terms of the objectives of the task and sub-tasks, and also target the base measures of the level of the state operational objective fulfilment, indicating the quantity, quality or descriptive title of the target and the base effect level related to the outlays made.

The functions comprise expenditure connected with one of the spheres of (broadly-perceived) the state operation. The tasks indicate the fundamental areas of operation within a distinguished sphere of the state operation (function). Sub-
tasks determine in detail the purpose of spending within a given task. The category of “actions” can be created both within tasks and sub-tasks.

The Chancellery of the President of Poland can serve as an example of the hierarchical structure of budget classification. Pursuant to Article 139 point 2 of the Public Finance Act, the Minister of Finance includes, among others, the expenses of the Chancellery of the President of the Republic of Poland into the budget act. The administrator of the budget part in this case is the head of the Chancellery of the President of the Republic of Poland. A list of planned budget spending of the Chancellery of the President in the activity-based layout comprises 1. State management, as one of the functions. In this case the task is: 1.1. Factual, technical and office service of the President of the Republic of Poland. The subtask relating to the aforementioned task is 1.1.1. Service and coordination of the work of the Chancellery of the President of the Republic of Poland.420

The next important element constituting the activity-based budget is an objective. According to the most common definition, an objective is “a desired future state of affairs that a person or an organisation wants to attain”421. Determination of objectives in the scope of an activity-based budget needs to be strictly coordinated with the established tasks. The objective should be an element that can be assessed with some measures, i.e. the third element constituting the activity-based budget idea. Specifying the time necessary to achieve the objective in the case of the activity-based budget is a complex issue. The budget act is passed for one budget year which coincides with the calendar year422. Considering the activity-based budget concept, it is unrealistic to present all tasks and accomplish them within one year. An instrument that makes it possible to realise postulates of planning tasks and hence, also those related to executing long-term spending is the Multiyear State Financial Plan governed by Articles 103 and 104 of the Public Finance Act. The Multiyear State Financial Plan lays the foundation for preparing the budget bill for the following budget year. It takes the form of a rolling plan: the first adopted Multiyear State Financial Plan will be updated each year by the Council of Ministers within two months of announcing the budget act for a given year, and is to take into account the forecast for the next three years423. Considering such a solution when specifying the state budget makes it possible to

use the concept of an activity-based system adequately and takes into account the above-depicted criteria of specifying a time for the purpose of attaining the intended objective. The third base concept related to the activity-based budget project is a measure, i.e. a tool for studying and assessing the level of accomplishment of individual public tasks that derive from the objectives set. Measures should be created in such a manner that they make it possible to check the above-mentioned elements in relation to the current needs and resources possessed\textsuperscript{424}. Information obtained with the measures is aimed at maximizing the public finance management system and increasing its effectiveness. Defining the measure and also determining the initial value constitute grounds for agreeing on an expected value. The process is a very important component of constructing an activity-based budget. It permits one to assess the effectiveness of the task performed.

Budget principles serve as an instruction for budgeting, both in the activity-based and traditional scheme. They are simply treated as the desirable features of the budget and budget economy. The fundamental principles of the public finance sector in the activity-based budget methodology are efficiency and effectiveness. They are to be ensured by the transparency and consolidation of expenditure and multiyear planning.

An activity-based budget reform is built on four principles\textsuperscript{425}:

- Multiyear planning, i.e. a multiyear (three-year) projection of spending on tasks. In well-founded cases, some budget tasks can be planned for more than three years, e.g. operational programmes co-financed with funds from the European Union budget;
- Transparency, i.e. implementing an activity-based classification of a task-subject nature. Transparency of expenditure of public funds is the point of departure for efficiency and effectiveness;
- Public expenditure consolidation consists in multiyear consolidation of the state budget spending with expenses (costs) of government subsector units and chosen public funds;
- Effectiveness and efficiency, i.e. determining measures and objectives, and also comparing the effects with public fund spending. These principles determine operational ability. Measures essential here are those referring to effectiveness and efficiency. The efficiency measures assess the relation between the outlays and the effects attained, the effectiveness measures, on the other hand, the level of attaining intended objectives.


An activity-based budget has been operating (since the middle of the 1990s) at local government level in ca. 30 communes of various types and sizes. Additionally, some elements of activity-based budgeting have been implemented in a number of self-governing units, mainly in local community governments (according to various sources – from 200 to over 300). Substantial support has been obtained from the Local Government Partnership Programme (LGPP) sponsored by the United States Agency for International Development (USAID). Despite a lack of legislative regulations in that range, the number of local governments taking advantage of the activity-based budgeting is on the increase. The range of application is diverse, though: it is found either in single areas of local government unit operations or in all of them. The city of Cracow was an innovator in that scope. It was followed by such cities as Poznań, Szczecin, and Lublin, among others. The reform of the Polish public finance was adopted in 2006 in relation to implementing the activity-based budget in the government sector. The legal basis at that time was subject to the Public Finance Act of 30 June 2005\textsuperscript{426}. It comprised provisions that indicated a different (than applied) attitude towards planning public tasks. Pursuant to Article 35 point 3 item 1 expenditure should be incurred in an economical and appropriate manner, keeping to the principle of attaining the possibly best effects with the given outlays. Adequate instructions regarding the activity-based budget were set forth in the Convergence Programme of 2006 and the Implantation Document of the National Reform Programme for 2005-2008 adopted by the Council of Ministers on 17 October 2006 constituting part of programme documentation drawn up on the basis of the National Development Programme for 2007-2013. It was also necessary to introduce amendments to the binding Public Finance Act. Administrators of public funds became obliged to prepare lists of tasks referring to the planned amounts of spending, including an explanation of performance measures, objectives of subject tasks and expected multiyear financial costs connected with their accomplishment. The list was to be included in the wording of the justification of the budget bill (Article 124 point 9). In order to illustrate spending in the activity-based system, instructions for preparing financial and material plans referring to planning the activity-based budget were given in an annex to the regulation and the following specimens were introduced there\textsuperscript{427}:

- BZ-1 – a list of the most important tasks, together with a description of the objectives of those tasks, entities responsible for their accomplishment and performance measures for the period 2008-2010;
- BZ-2 – a list of expenditure planned for each of the budget tasks in the next budget year, together with information about the source of the funds;

\textsuperscript{426} Act of 30 June 2005 on Public Finance, (Journal of Laws No 249, item 2104, with subsequent amendments)

\textsuperscript{427} Regulation of the Minister of Finance of 18 May 2007 on the detailed manner, mode and time of preparing materials for 2008 budget bill (Journal of Laws No 249, item 2104, with subsequent amendments)
- BZ-3 – a list of planned expenditure in the activity-based system for the next year, and also the expenditure planned in the subsequent two years, together with objectives of the tasks, the title of their measures and quoting their target value.

Table 16.2 presents the schedule of work prepared by the Ministry of Finance (so-called milestones) connected with the implementation of the activity-based budget into the Polish public finance system.

Tab. 16.2. The schedule of work connected with the activity-based budget implementation in Poland

<table>
<thead>
<tr>
<th>Year</th>
<th>Scope of work</th>
</tr>
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</table>
| 2008 | – Preparing the methodological foundation for a multiyear activity-based planning,  
– Analysing legislative acts for the purpose of implementing an activity-based budget,  
– Preparing projects co-financed with EU funds, aimed at co-financing the work on the activity-based budget implementation,  
– Preparing the guidelines for legislative bills regulating the activity-based budget operation, including multiyear planning; |
| 2009 | – Drawing up the methodology of an activity-based budget,  
– Preparing guidelines for reports on the performance of the activity-based budget in a functional system,  
– Preparing guidelines for a software project serving the activity-based budget; |
| 2010 | – Preparing the concept of monitoring the budget realisation in the new functional system,  
– Finishing stage 1 of the work on the reporting system for monitoring public spending according to the new functional layout; |
| 2011 | – Preparing the measure base for all state functions,  
– Finishing stage 2 of the work on the reporting system for monitoring public spending according to the activity-based layout;  
– Carrying out the first monitoring and reporting of the activity-based budget; |
| 2012 | – Drawing up a project of the first – parallel to the classical – activity-based state budget for 2013,  
– Implementing the methodology of effective public finance management at central level, using a multiyear activity-based plan and the whole measure base; |
| 2013 | – Preparing guidelines for the activity-based budget evaluation system,  
– Implementing the IT system serving the activity-based budget; |
| 2014 | – Preparing a report on the state budget implementation, comprising the performance of the activity-based budget for 2013 set forth for the first time in the budget act,  
– Drawing up an ex-post evaluation document from the activity-based budget implementation for the year 2013 as a tool supporting the process of working out the state budget for 2014; |
| 2015 | – Preparing a report on the evaluation of the activity-based budget impact on public finance,  
– Settling projects realised as a part of the European Social Fund. |

The first years can be described as an informative stage. They comprised legislative work that constituted the basis for later actions aimed at comprehensive activity-based budget implementation. In 2009 and 2010 the spending was prepared in an activity-based system, following the 22 state functions. Budget spending, objectives and measures for three years were presented for the first time in the justification of the budget act for 2010 according to functions, tasks, and subtasks. In 2011 work on the activity-based reporting system was completed and the measure base for the identified state functions drawn up. Since 2012, units implementing the budget have been obliged to account for the public money spent, both in the activity-based and traditional systems. Since 2013, the budget in the activity-based layout has been obligatory. Tasks planned for the year 2015 complete the schedule.

Summary

The activity-based budget is a method of public finance management focused on attaining a higher effectiveness, efficiency and clarity of public fund spending. While assessing the quality of budget planning, we encounter a substantial difficulty related to applying the assessment criterion of the process. In the most profound sense, the criterion should refer to the adequacy of the state budget funds to citizens’ needs fulfilled with budget spending. Unlimited public needs and limited public funds result in the situation where a comprehensive assessment of the quality of budget planning is very difficult. It is impossible to assess the quality of budget planning and its impact on the effective use of public funds in an objective manner without considering the conditions in which the state, its bodies and budget process subjects operate in.

The novice expenditure planning methods relate to the budget programming that, contrary to the traditional, presents expenses by allotting them to the state’s tasks. Tasks have their objectives specified that are in conformity with the objectives determined in government strategic documents and measures for the assessment of the objective completion level. Owing to that and due to connecting the budget with multiyear financial planning, it is possible to take into account the perspective longer than a year. Additionally, as a consequence of spending and cost consolidation, an activity-based budget presents how much of the funds is allotted in total to a given type of the state’s activity by a large part of the public finance sector units.

As the international experience shows, the implementation of an activity-based budget is a complex and multi-stage process whose final shape depends on a number of factors: the specificity of the national public finance and social and economic conditions in the state. The current activity-based budget constitutes

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an important completion of the traditional budget presentation and does not require relinquishing the budget in the traditional form. The next stages of the implementation work will comprise actions aimed at popularizing information on efficiency as another factor complementing the traditional presentation. Therefore, it is impossible to say when exactly a total transition to the activity-based budget will take place.
17. Participatory Budgeting – a New Method of Budget Planning and the Involvement of Citizens in Budgeting in Poland

Introduction

The financial management of the municipality can be defined as a complex process that involves different decisions made by local government and actions interconnected with those decisions reflected in the financial resources of local government units. Such actions are intended to maximize the economic and social effects in accordance with the objectives. This decision-making process is in subordination to government goals making use of certain instruments, rules and criteria. It controls the course of the phenomena associated with the accumulation and disbursement of funds in order to enable the most rational use of these funds\(^{430}\). The basic tool of financial management in local government is the budget - the primary source of knowledge on how much money, for what purpose, and in what amounts a local government has gathered funds.

In Poland, the basic form of budgeting is a tabular method that uses sections, chapters and paragraphs. The task or participatory planning is a facultative method. In order to meet citizens’ expectations, local governments have for some time applied the method of participation in budget planning. This method is a new trend in fiscal planning in the local government sector and is used more and more by local governments.

Participatory Budgeting – Basic Assumptions

Participation is an ambiguous concept because it is used in many areas of the economy. The term participation is widely understood to be partnering, joining in, directly joining, cooperating\(^ {431}\). Forms of participation in particular include\(^ {432}\):

- Communications (petitions, consultation, opinions);
- Collaborative decision making (participatory democracy, participatory budgeting);
- Government (territorial, professional, personnel).

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Other types of participation that are also distinguished are:

- Reactive – involves making judgments and advising;
- Active – leads to active participation in the decision-making process;
- Obligatory – required by law (paying taxes, charging for the use of public facilities, jurors);
- Facultative – not required by law.

Participation has three basic meanings. First, it is distinguished as social participation, also referred to as horizontal participation (or community). In this sense, the term refers to the participation of individuals in collective activities undertaken in the community (or communities) to which those individuals belong or in which they live daily. In particular, this involves their active presence in the formation and functioning of (local) civic groups and NGOs. For this kind of participation, an appropriate reference point is the idea of a civic society. The impression is given that such an understanding of participation most commonly, in fact, is held in discussions on the civic activity of Polish subjects and Polish society.

The second meaning of participation is public participation. It concerns the involvement of individuals in the activities of the structures and institutions of a democratic state, that institution of public authority or public sector organization that is managed by them or subject to them. Other terms used are "civic participation", "vertical participation", and "participatory management". In Polish literature, the term "public participation" is rare; instead, the term "civic participation" or "social participation" is used. Public participation may manifest itself in many ways. It might include the following examples: participation in elections or in consultations conducted by public authorities, or communication of the local community expectations to public authorities. Public participation includes four categories of citizen participation in political community life: public activity, citizen involvement, electoral participation and mandatory participation.

The third meaning of participation - individual participation - includes daily choices and actions taken by the individual expressing his expectations as to the nature and type of society in which he wants to live. This type of participation includes, e.g., the application of the principles of socially responsible consumption, financial support of charitable activities and participation in social movements. With regards to the management of an enterprise, there is also organizational...
Participation - understood as the participation of workers in the life of the company as well as participation in the decision making process.

Participation at local government is considered as budget planning with the conscious participation of the local community. Participatory budgeting is a decision-making process through which citizens shall discuss and negotiate the distribution of public resources. Therefore, it is a decision-making process by the residents and local authorities deciding toward what projects and in what amount funds will be allocated. Society is then consulted and involved in a series of planned, annual meetings with representatives of the city/municipality. A civic budget is a tool that builds residents’ confidence in local government, and most of all the residents’ trust in relation to other residents which is the essence of a local community functioning well. Participatory budgeting is an instrument that empowers residents in the decision-making process to satisfy their needs financed by public money. This is not a financial instrument, but a form of consultation with local residents to discover what they need. Participatory budgeting that is at their disposal puts pressure on the local government authority to implement a given idea.

Participatory budgeting, also known as civic, has undergone significant evolution. Its origins date back to the 90s in Brazil. Since then, this idea has reached every continent and many institutions functioning in the sphere of public administration. The use of participatory budgeting mechanisms differ, adapting to the local context and functioning of the public administration in a given country.

The origins of participatory budgeting in Poland took place in Sopot; since then, the idea has gained popularity in other local government units in the country.

There are three pairs of models of participatory budgeting:

1. The European version of the Porto Alegre model
   - Participation of organized interest groups

2. A local community fund at the local and municipal level
   - Public-private negotiations

3. Neighborhood participation
   - Public finance consultation

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The characteristics of the European model of Porto Alegre are as follows:

- addressed to residents;
- focused primarily on specific investments and projects;
- residents have real power, which means that local authorities abide by the decisions of citizens and apply the solutions proposed by them.

This model first used in Brazil was the template for the budget in the Spanish city of Cordoba, considered to be the European version of the model of Porto Alegre. It has been in operation since 2001\(^444\).

The second type of citizen participation in budget planning associated with the aforementioned is a model of participation of organized interest groups. Its characteristics include\(^445\):

- it is addressed to the inhabitants of organized groups (associations, NGOs, trade unions);
- its aim is to formulate general guidelines for local policies, e.g., housing, education, the environment and transport;
- its procedure resembles a public consultation (less restrictive rules of conduct regarding citizens’ proposals than the Porto Alegre model).

This model is most commonly developed in cities where traditionally the public is asked to speak before policy-making. The advantage to both solutions is the creation of a space for public debate and resident discussion (during large public gatherings, neighbourhood groups, committees or meetings of representatives of neighbourhood groups), which allows for a presentation of different points of view.

Models of local community funding at the local and municipal level as well as public-private negotiations are used in Bradford, UK (a local community fund) as well as in Plock, Poland (public-private negotiations).

The characteristics of these models are that\(^446\):

- they are addressed to organized groups (neighborhood associations, local NGOs);
- they have special funds earmarked for public investments and projects (social, cultural, etc.);
- they have relative independence from the municipal budget;
- and the allocation of funds for the selected destination is determined by a committee, commission or an assembly of delegates.

Among these models, there are some differences that show their divisions. Public-private negotiations assume a broad involvement of business. The role of residents becomes secondary. In fact, the residents (budget makers) budget comes not from their paid taxes but from a private company. This solution gives investors


\(^{446}\) Ibidem.
an impact in proportion to their financial contribution. On the other hand, the local community fund completely rules out the involvement of business, but instead puts at the disposition of residents part of the current municipal programmes, e.g., the repair of transport infrastructures. This model creates favourable conditions for reducing the impact of social stratification.

Neighbourhood participation and public finance consultation are recent models. They feature:

- A consultation form;
- A limited influence of the residents on decision-making (consultative role);
- Proposals that are largely considered on the basis of recognition;
- An inflexible procedure, lack of open voting;
- A lack of criteria according to which resources are allocated;
- In contrast to previous models, resolving the community’s priority matters is not the primary objective.

There are several main, foundational directly-related criteria that distinguish participatory budgeting from other practices involving residents:

- A fundamental part of participatory budgeting is public discussion among residents. In specially held meetings and forums, residents gather for discussion. In this case, participatory budgeting is not based solely on the functioning of political bodies and uses instruments to allow residents to exchange views. Conversation, dialogue among residents is essential for their future cooperation with officials;
- Interviews, discussions in the context of participatory budgeting concern clearly laid out, limited financial resources;
- Participatory budgeting is not limited to the level of the district, neighborhood, or institution (at least one of the stages also applies to local government level); projects operating at the local level can too easily be dominated by the particular vested interests of individual social groups or policy options; in a few cases, they manage to provide and meet the common needs of residents and show their rational arguments instead of focusing on general requests or protests;
- Investment proposals selected by the residents are being met; residents receive a message about the projects under discussion that are either selected or denied; the implementation of projects under the participatory budget is monitored;
- The participatory budget process is not a one-time event, but a long-term process.

In cities in Poland, much discussion on the subject of participatory budgets is being held, but much less attention is paid to their rural counterparts, i.e., village funds. Since 2009, in accordance with the law on village funding (Journal of Law, 2009, No. 52, item. 420), as amended in February, 2014 (JoL 2014 pos. 301), financial resources can be separated in municipal budgets about whose spending residents can decide. The Act also defines the algorithm by which the amount of funds for each village council, or community, that exist as parts of a municipality is calculated. The money is earmarked for the implementation of projects located in the community's own tasks, used to improve living conditions, and consistent with local development strategy. In order to obtain a grant, the village must submit an application to the village-mayor (the mayor or city president) during work on the budget work. It can be said that the budget, which includes a village fund (i.e., including expenditures from a village fund) is a participatory budget, as it motivates the citizens to be active in spending public money.

The village fund, however, has a specific dimension. It enables the meeting of important and often overlooked needs of residents, such as sidewalk renovation, equipment of rural common areas, or placement of street lamps. The municipality (rural) also draws specific benefits from the passing of the fund and collects 20, 30 or 40 percent reimbursement (depending on the level of affluence) from the state budget for expenditures incurred under the auspices of the village fund (poorest municipalities being eligible for a maximum return). Despite the tangible benefits that entail the use of village funds, many municipalities decide not to implement this solution. Of the 2,175 municipalities that have villages (CSO 2011), 57% isolate a village fund; since the Act was ratified in 2009, this percent has remained at a similar level (for example, 54% in 2009, although according to data of the Minister of Administration and Digitization, that percentage is set at about 65% in 2014).

**Formulating a Participatory Budget in Polish Cities**

The introduction of participatory budgeting is in accordance with applicable law in Poland. It falls into the category of "social contract" concluded between residents and councilors, so it can be legally implemented in municipalities, districts and other local government units. Showing a little bit of good will, the councillors can stipulate a decreed amount from the general budget that will be used in accordance with the will of the people expressed in an open vote. The decision-making procedure can be flexibly adapted to local conditions, so that the residents’ proposals that have the greatest social support can emerge and be included in the budget.

Civil budgets are introduced on the basis of Article 5a of the Local Government Act, under which anticipated cases as well as other matters of

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importance to the municipality in its territory may call for the organization of consultations with residents. The rules and procedures for conducting these consultations defines a relevant resolution of the municipal council. It should be emphasized that the civic budget is not identical to the public consultations which are not binding for authorities. In the case of the civil budget, residents must be guaranteed that they will be respected and that their selected projects will be funded in the next financial year. It is accepted, therefore, that in the process of participatory budgeting, municipal authorities declare that the residents’ decisions will be considered binding. This solution is purely a social contract concluded between the authorities and residents.451

This approach is criticized by K. Bandarzewski, in the opinion conducted by the Stefan Batory Foundation entitled, Your Vote, Your Choice: "Such agreements entered into are invalid and not binding for either party. In particular, even if such a 'social contract' is agreed upon, councilors not in compliance with its provisions face no consequences. Such an agreement would only make sense if the council incurred penalties for failure (e.g., for a failure to promote residents’ bids introducing budget proposals consistent with the contract before the Municipal Council). But the council mandate is a free mandate and it is impossible to conclude an agreement on how the council will carry out the mandate."452 Thus, residents have no legal means to enforce the fulfillment of the promises made by the authorities not following through on tasks chosen by the people. The only sanction that residents have for the failure of projects identified in the civil budget is not voting for those authorities in local elections or organizing an appeal referendum.

In view of the many models of participatory budgeting, the Ministry of Administration and Digitization in Poland (MAC) provides standards that should be observed when creating participatory budgeting.453 They are formulated in form of the following recommendations:

- The choice of investments being prepared for implementation within the budget should include the maximum level near residents (e.g., the district);
- The participatory budget preparation process should be carefully planned and begun well in advance so as not to cause undue pressure;
- Local group representatives must be cared for in the civil budget preparation process;
- It is necessary to systematically monitor the representation of groups in local government units involved in the implementation of a civil budget. If there

is an over-representation or under-representation of some groups, this should be taken care of;

- It is necessary to take into account the substantive parts of preparation of the budget so as to provide the person who will take part in the decision an optimal amount of knowledge about the financial realities of local government units;
- Councillors and officials should be involved from the outset in the preparation of the budget to begin civil work plan preparation;
- The project's success largely depends on the involvement of councillors, which is why it is important that they be personally involved as debate moderators within the districts or neighbourhoods;
- Any decision relating to the civil budget preparation must be made public along with the reasons. In particular, justification is necessary if there is a change made to earlier decisions. Transparency in decision-making is a prerequisite for trust and cooperation in the framework of the project; the prepared materials intended for residents should be in simple language and avoid specialist terminology that causes difficulty in understanding;
- Members of the team engaged in preparing the civil budget, the description of task allocation, as well as a database of contact information should be publicized so that stakeholders can communicate comments/suggestions about the project on a regular basis;
- Any dispute or disputes relating to the determination of realized investments/priorities should be made public;
- From the outset the time scheduled to make a decision must be determined as well as the resources that will be used to prepare the draft budget;
- From the very beginning of working on the civil budget, a project evaluation should be developed in order to make a summary in the end and make use of the application in subsequent editions.

Based on the above information, some important elements become necessary for success in implementing the civil budget. These are454:

- Commitment to the local community - taking the time to exchange ideas, willingness to cooperate are essential to the success of the project;
- Leadership - action must be taken by representatives of local government, but also by councillors who participate as moderators and informants in the process of budget preparation;
- A preparatory action plan;
- Communication between all the players involved in the project. Due to the large number of individuals involved, their different levels of

knowledge and aspirations are particularly important elements crucial for achieving ultimate success;

- Appointment of a team that will coordinate the work preparing the civil budget.

The introduction of participatory budgeting in local government can be divided into several steps. The Ministry of Administration and Digitization (MAC) lists eight steps leading to the implementation of a new form of the budget.

The various phases of the introduction of participatory budgeting according to MAC are presented in figure 17.1 below.

![Fig. 17.1. Steps in introducing a participatory budget according to MAC](https://mac.gov.pl/aktualnosci/jak-wprowadzic-budzet-partycypacyjny (1.04.2015))

According to Kębłowski, the most important actions that should be taken for the effective introduction of participatory budgeting are:

1. Diagnosing the environment, local resources, determining who in a particular city, district, or neighbourhood might be interested in the introduction of participatory budgeting.
2. Mobilizing residents and other stakeholders and convincing them of the benefits of cooperation.
3. Establishing a team to coordinate and implement participatory budgeting (its composition should include representatives of the city government, city council, public institutions, NGOs, researchers, and citizens).
4. Developing a precise methodology for the participatory budget, creating a space for dialogue in the framework; encouraging participation of the residents

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in this process as fundamental. At this stage, the team makes decisions on the following issues:

- The territorial division of the city as part of the civil budget;
- The right to participate in the participatory budget;
- Coordination of participatory budgeting;
- Investment priorities and selection of investment proposals;
- The financial scope of participatory budgeting;
- Schedule;

5) Conducting participatory budgeting and monitoring.

6) Assessing the strengths and weaknesses of the process, its successes and failures, which allows for a proposal of changes in the following year.

Despite the differences in approach to the formulation of participatory budgeting, it should be based on the experience and tradition of social activism, as well as on earlier participatory instruments (e.g., public consultation). Optimal implementation of participatory budgeting requires the right conditions in a mature political and social context. It should be emphasized that the participatory budget should enable debate and public dialogue. It is also important that the introduction of participatory budgeting is precluded by a broad information campaign.

Unfortunately, participatory budgeting is not a simple tool to use. On the basis of international experience and a few examples of Polish cities, the following barriers to the implementation of the project are revealed:

1) A wide participation of the local community or region must be ensured; proper implementation of the participatory budget must be based on the consideration of the voice of all social groups interested in the project. Exclusion of some social group, or domination of the public debate by one or more groups must be prohibited;

2) Implementation of participatory budgeting requires the involvement of local politicians, government officials, and the local/regional community. Different perspectives, differing levels of knowledge about the financial possibilities of local government units require negotiating skills and good will on all sides;

3) Fear of politicians of losing influence over shaping the budget stems from the belief that councillors lose their monopoly on decision-making in the local government budget. Note, however, that one of the duties of a councillor is keeping in touch with the local community/region he represents. Therefore, his role should not be seen only as a councillor making decisions, but also as a local moderator of public debate on the priorities of the local government;


4) A plan to prepare the local government budget at an earlier stage than has been done in the case of "traditional" budgeting must be activated. Therefore, it is necessary to prepare informative materials for residents, provide public consultations, and organize elections based on decision-making regarding expenditure;

5) Expectations of the local community are growing, which may be difficult for local authorities to fulfill.

In 2013, the total amount of money for civil budgets in 62 cities in Poland was more than 150 million PLN (not including participatory budgeting in Warsaw). The highest sum of PLN for civil budgets were from the following cities:

1. Łódź – 20 mln PLN
2. Białystok – 10 mln PLN
3. Poznań – 10 mln PLN
4. Toruń – 6.4 mln PLN
5. Zielona Góra – 6 mln PLN.

The largest share of the civil budget in relation to the previous year was observed in the municipality of Kęty, where the participatory budget was 3.96% of the total budget. In Kraśnik, it was 2.51%, in Świdnica 2.25%, and in Sopot 1.35% of the total budget. In most cities in Poland, the share of the participatory budget in relation to the total budget for the year 2012 did not exceed 1%, and in fact, the percentage in over 30 cities was less than 0.5% of the budget. It is worth noting that the decision to allocate a larger amount toward participatory budgeting is, on the one hand, a sign of confidence in residents, but on the other requires particular planning and informing residents well. The whole process should be transparent and designed to provide the possibility for correcting assumptions for many years.458

Thus, the budget planning with the element of civil participation may become a very useful tool for finance management in public sector.

**Participatory Budgeting 2015 in Warsaw – Case-Study459**

Warsaw is the capital of Poland and has 1 721 000 residents living in 18 districts. The income and expenditures of each of the districts make up the district budget, which is part of Warsaw’s total budget.

The participatory budget planned for 2015 was the first such large project focusing on the capital city of Warsaw. Its primary goal was to increase the residents’ part (social participation) in decision-making in the public sphere and to raise awareness in the local sphere. The total amount available to residents was

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26 237 268 PLN. These resources were derived from each individual district budget that determined the amount available to residents. It was 0.5 - 1.2% of the district budget, which in practice meant from between 271 000 and 3 million PLN per district. The projects were to address the problems in a given district.

Regulations and deadlines of participatory budgeting for 2015 were the same throughout Warsaw. In order for the work on participatory budgeting to function well, a designated coordinator who dealt with the implementation of the budget was appointed to each district. Teams were also established for participatory budgeting. These included representatives of the residents, NGOs, the District Council, Government Council and Residential Council. The City of Warsaw Council was established for participatory budgeting, which served as an advisory body to the president of the city. Its tasks were assessing the implementation of participatory budgeting in the individual districts of Warsaw, reviewing prepared solutions, promoting the idea of participatory budgeting and developing the direction of its development.

The process of implementing participatory budgeting was divided into several stages:

Stage I – information campaign:
- Introduction of Warsaw residents to the idea of participatory budgeting and informing them of community consultations – December 2013;
- Encouragement of project proposals submissions – January-March 2014;
- Presentation of positively verified projects submitted to the participatory budget and encouragement of participation in the vote - May-June 2014;
- Information on the progress and results of the participatory budget for 2015 - July 2014.

Stage II – submitting proposals and projects (20 January - 10 March 2014). This proposal had to describe and justify the project and provide a cost estimate; it also had to include a list of supporters signed by at least 15 people living in Warsaw. Each project had to meet several requirements: must be possible to complete within one year (in 2015), must be located within the city’s public premises (unless any of the districts decided otherwise, in which case consent of the land holder had to be attached) and it had to fit into the specified tasks of the city of Warsaw assigned to neighbourhoods to implement. Completed and signed forms could be submitted in person, or sent electronically or by mail to each office district.

Stage III – verification and evaluation of formally submitted financial projects (till May 5, 2014). Each project was subject to formal appraisal and was checked for feasibility. Projects that had been positively verified were presented at one of the 72 special meetings organized in every district and area in which proposals could be submitted.

Stage IV – selection of projects subject to vote – pre-selection (May 12 - May 22, 2014). Pre-selection took place when the number of projects assessed positively in the district exceeded 50. This phase consisted of reducing the number of projects.
Stage V – public discussion by the residents (25 May - 18 June 2014). Discussion meetings were open to all residents, and their purpose was to present and discuss all projects (that were positively evaluated).

Stage VI – residents vote on the projects (June 20 - June 30, 2014). Voting was open and required giving personal data. The vote could be made via the internet or by paper ballot either submitted to the district office in person or mailed in by post. In a pre-determined area, each Warsaw resident could vote on 5 general district projects and 5 local area projects (if such a division was available). The vote was for all residents of Warsaw, regardless of place of residence and regardless of age (for minors a legal guardian’s consent was necessary). On the basis of the residents’ votes cast, a ranking list of the projects was created. Most of the projects were implemented in the Mokotów district (57) and the least number of projects was in the district of Ursynów (1). The project which won the largest number of votes (6,534) was a project for the district of Ursynów: "Creating a support center as the first module of the integration activity centre." Most of the selected projects concerned animals (44), and the most amount of money was earmarked for investment in public utilities.

Resident’s needs most frequently cited were walkways and bicycle paths, playgrounds, development of land for sport and recreation, and greenery.

Stage VII – publication of the list of projects to be implemented (till 15 July 2014). On July 11, a list of projects that won the most votes and would be completed in 2015 was announced.

Stage VIII – evaluation. During this step, whether or not the goals of the participatory budgeting process are achieved was examined (Objective 1: inclusion of citizens in co-deciding about their surroundings; Objective 2: education of residents about public spending). Benchmarks were created which measured the achievement of the objectives and evaluation surveys were conducted.

In a summary, over 26 million PLN, 98.65% was used. 2,200 projects were submitted; 1,390 of these projects concerning 18 districts of Warsaw qualified for a vote; and 336 of these projects were selected for implementation.

More detailed information on participatory budgeting in Warsaw is available on the City of Warsaw web page, as well as on the Zielone Mazowsze website under the title „Statystyka budżetu partycypacyjnego w Warszawie” (Statistics of participatory budgeting in Warsaw).

Summary

In Poland, there is no single model of participatory budgeting. Its forms and diversity depend on local conditions and the involvement of residents. Thus, it should be open to an annual assessment and the solutions implemented by local governments should be subject to change and improvement. It is rare that the planned process runs smoothly and is perfectly formed. Some obstacles and difficulties are always encountered. It is important that along with executing the
civil budget, the right tools are provided to evaluate it. Results of the evaluation process should be used to create better policies and to better implement the civil budget in coming years.

Although considerable work and commitment must be put into the introduction of participatory budgeting, it has many advantages and many local governments are implementing it.

The advantages of participatory budgeting are that:

- It is an effective engagement of residents in managing the municipality;
- The flexible, politically neutral tool based on a number of open meetings with residents effectively increases the efficiency of urban policy;
- It promotes innovation and entrepreneurship;
- It undertakes, together with the main stakeholders (residents), important and difficult decisions;
- It allows for much information to be obtained from residents about how the city works;
- It is a key element of the decentralization of power;
- It addresses the current gap between those in authority and those under that authority;
- It builds citizens’ trust in government and its representatives;
- It has a significant impact on the construction of civil society;
- It ensures the transparency of the process of management of public resources and tackles corruption;
- And it determines the democratization of the decision-making process.

The use of participatory budgeting in Poland is still growing. Participatory budgeting is an initiative with huge potential and an excellent tool for the public to influence its surroundings. It should be noted, however, that the essence of functional participatory budgeting is not only a properly operating local government, but also the involvement of people and an appropriate promotion of this form of empowering residents in the planning process of public spending.

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18. Task Reporting as a Basis for Making Decisions in Units of Territorial Government

Introduction

Making good and quick economic decisions requires permanent access to complex and credible economic information. It is the basis for taking both strategic decisions determining basic parameters of the economic system and tactic as well as operational decisions concerning the current activity of a unit of territorial government.

The information, used in decision-making processes, may be synthetic or analytic in nature. The synthetic data is processed based on available calculative and analytic instruments. Analytic data is used to explain the causes of changes, results and factors shaping the results of the activity of units of territorial government.

The aim of the chapter is an attempt to show the importance of the reporting of a unit of territorial government in the process of making decisions. Particular attention will be paid to one of the new directions in reporting which is financial reporting.

Basis for Making Decisions in Units of Territorial Government

In economic units, managers of all entity levels have to solve various problems and make many decisions which not only influences the quality of managing a business entity but also the effectiveness of its functioning. Solving these problems and making decisions is becoming more and more difficult and complex. It results from the increase of complexity and importance of problems, decision-making situations and ways of solving them. It influences the need for continuous improvement of the decision-making process of each manager, thus thinking over a problem and making decisions.

A decision is an act of a free choice of one of many possible future behaviours. It is also determined as a choice of one activity out of a number of possible options in a given moment or a conscious restraint from the choice. Each decision should fulfil its assumptions, namely, efficiently and effectively guarantee a stable position on the market for a unit of territorial government, have its time

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determined to synchronise itself with other factors taking place in the surroundings in order to ensure optimal economic effect.

The procedure for making decisions consists of the following stages:

- Problem diagnosis;
- Problem formulation;
- Model construction;
- Model analysis;
- Results implementation.

Units of territorial government require making various types of decisions, which depending on the complexity of the problem and the situation of their solution differ in many aspects from one another. There are decisions which concern only the process of collecting, allocating and managing public resources. They are called financial decisions and are made by bodies of territorial government units and by employees over short- and long-term periods\textsuperscript{464}. The decisions are a part of the process of management. It results from the fact that they execute the right of the manager to make or influence decisions concerning strategic directions and main goals of a given unit of local government. It can be stated that financial decisions are a constituent of financial management and part of the general process of management which consists of regulating and raising financial sources for current and investment activity.

Making good financial decisions in units of territorial government is conditioned by knowledge of the system and financial mechanism as well as by applying proper economic instruments such as analytic and prognostic instruments. It is also important to analyse the influence of the decisions made concerning various scopes of the activity and to indicate mutual connections between them and their effect on local and regional communities.

The most important types of financial decisions in local government activities include\textsuperscript{465}:

- Operational decisions – both current and short-term, concentrating on the following aspects: determining a programme of public goods and services, purchase of the factors of the production of public goods and services offered;
- Investment decisions – consist of decisions concerning allocation involving financial resources to investment tasks of recreating, increasing resources and innovative character;
- Divestment decisions – concern the disposal of assets in the long and short period. The decisions are made in a situation of a significant burden by


unnecessary assets both in the form of goods and finances or in the case of loss of financial liquidity.

The process of making decisions in a unit of local government is characterised by increasing complexity and gradually requires more specialised instruments. A decision-maker has a more and more difficult task to do: how to make decisions concerning business with repeatedly insufficient knowledge about a given problem.

Available data is the basis of the functioning of each business entity. It constitutes a buffer joining the business entity with the environment. It involves resources increasing managers’ knowledge about the functioning of a given economic unit and existing dependences. As emphasised above, the data may come from internal or external sources. The measure of usability and information usefulness influence the effectiveness of making decisions. Knowing the data should allow one to decrease the level of uncertainty, limit the risk and evaluate the activity of a business unit.

Management information, prepared focusing on management functions, allows one to make decisions at various levels of management. It creates characteristic loops: information and its analysis – making decision about an activity – the activity – analysis of the activity – information.

Resulting data from one loop may constitute initial information for another loop. The information process is continuous, ensuring a proper flow of information. As far as managing a business entity is concerned, lack of such flow means that there is no functional information system supporting the decision-making processes.

An increasing need for information led to the development of technologies and techniques of acquiring, gathering and processing data into useful information. The demand for data has become a common feature of each management style. One of the proven sources of information in units of local government used in decision-making processes is the system of accounting. Its core is the reflection of material and financial situation of units and recording all economic events in a concise and versatile way with the use of particular methods, forms as well as organisational and technical solutions. One of the functions of the system is to juxtapose information concerning material and financial condition in obligatory and facultative statements. A properly parameterized system of accounting records is the basis for preparing financial statements and budget reporting.

**The Core, Meaning and Rules of Making Financial and Budgetary Statements in Municipalities**

Financial reporting “consists of systematised collections of selected information, made by both accounting and beyond, characterizing the past and
present financial and material situation of an economic entity as well as the size of the achieved financial result as a consequence of the activity of the entity.”

K. Sawicki defines financial reporting as general financial statements that economic entities are obliged to make at particular times in accordance with binding provisions of law. J. Samelak suggests that financial reporting should be understood as a systematised collection of “selected and synthetic information that has adominant financial character, produced mainly by accounting and partly beyond, referring to the future and present financial and material situation as well as to financial result of an enterprise allowing the drawing of conclusions concerning the future.”

The above-mentioned definitions allow us to draw the following conclusion: financial reporting is a collection of various numerical statements presenting mainly financial data, both from the present and the previous reporting term, made due to external or internal needs of an economic entity. Presenting the reporting data from the current year with comparative statements made on the last day of the previous financial year increases the cognitive value of the information included in financial reports, makes it possible to conduct a detailed analysis and as a result allows the evaluation of the total activity of an economic entity and its developmental tendencies.

A basic function of financial reporting is to provide numerical data necessary to conduct monitoring, control and auditor’s processes concerning a unit of territorial government as well as its public resources. The data allows the conducting analysis of the financial situation of local governments, which may be used while determining the future budget as well as in the processes of standardising the financial system.

Financial reports should be intelligible, useful, credible and comparable in order to present the financial situation in a thorough way.

Intelligibility requires from the users of reporting data to have particular knowledge, mainly from the field of accounting, finance and economic law as well as perceptiveness, attention and to colligate facts while reading the information.

Usefulness is connected with the information utility that has to facilitate making decisions by the users, helping to evaluate past, present and future events by confirming or correcting their previous evaluations.

Credibility means that the data shouldn’t contain significant mistakes, but be neutral and accurately reflect economic reality. Comparability is particularly significant while conducting financial analysis over time, i.e. setting trends in the activity of an economic entity.

468 J. Samelak, Zintegrowane sprawozdanie przedsiębiorstwa społecznie odpowiedzialnego, UE w Poznaniu, Poznań 2013, p. 79.
A basic source of information constituting a base for making decisions is data included in financial statements. Year-on-year, the following financial statements are made in units of local governments: loss and profit accounts and a statement of changes in the fund of a unit. They constitute the basis for a static and dynamic evaluation of a financial condition of a local government unit.

Budget reporting is a very useful source of information. It comprises a systematised collection of data concerning the results of activities conducted by various entities from the zone of public finances achieved during a particular period of time. Budget reporting is conducted on the basis of accounting ledgers according to the norms in force, once-only or periodically for statistical or control purposes. They do not only include data concerning budget implementation as a cash basis method of budgeting but also as an accrual data. It results mainly from valid prudence procedures concerning the debt of local government units.

Budget reporting data is presented in a special form according to divisions or chapters of budgetary classification (divisions, chapters, paragraphs) in increasing sums from the beginning to the end of the reporting period.

**Reporting as the Main Source of Information About a Unit of Local Government**

The aim of the reporting of a unit of territorial government is to provide information concerning the situation of the unit and its results and changes in the financial situation necessary for external users as well as the business entity itself.

The demand for analytic data is enormous. It is impossible to make decisions concerning the further functioning of an economic entity, managing it, adapting to both internal and external changing conditions without the data included in financial and budgetary reports.

The reports go to numerous recipients including:

- Purveyors of the resources – taxpayers, lenders, purveyors of non-financial resources, employees, members;
- Users of products provided by a given unit;
- Control bodies.

A very significant group of recipients are inhabitants of a given unit of territorial government, who are (due to a natural monopoly) forced to use the services provided by a given unit.

One of the basic financial reports providing important data for making decisions is the balance. It includes the value statement of assets and liabilities of a

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unit of territorial government on a given day called the balance sheet date\textsuperscript{472}. A basic meaning of a balance sheet in the management approach to a unit of territorial government is presented in table 18.1.

Assets in the balance sheet include information concerning funds, receivables, settlements and other assets. Funds are the means obtained due to collecting income as well as means from EU programmes. Receivables are referred to as long-term and short-term and as budget receivables. The budget receivables are presented as a status of settlement of budget income made by Inland Revenues to the benefit of units of local government as well as the amount of income due for a share in personal income tax\textsuperscript{473}.

Tab. 18.1. The specificity of a balance sheet from the budget implementation of a unit of territorial government

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Funds</strong></td>
<td><strong>1. Commitments</strong></td>
</tr>
<tr>
<td>1.1. Cash in bank</td>
<td>1.1. Financial commitments</td>
</tr>
<tr>
<td>1.2. Budget funds</td>
<td>1.2. Short-term commitments</td>
</tr>
<tr>
<td>1.3. Other funds</td>
<td>1.3. Long-term commitments (more than 12 months)</td>
</tr>
<tr>
<td></td>
<td>1.4. Liabilities towards the budget</td>
</tr>
<tr>
<td></td>
<td>1.5. Other commitments</td>
</tr>
<tr>
<td><strong>2. Receivables and claims</strong></td>
<td><strong>2. Budget net assets</strong></td>
</tr>
<tr>
<td>2.1. Financial receivables</td>
<td>2.1. Surplus (+) or deficit (−) of the budget implementation</td>
</tr>
<tr>
<td>a. Short-term</td>
<td>2.2. Non-cash operation results</td>
</tr>
<tr>
<td>b. Long-term</td>
<td>2.3. Reserve fund for permanent expenses</td>
</tr>
<tr>
<td>2.2. Budget receivables</td>
<td>2.4. Aid funds</td>
</tr>
<tr>
<td>2.3. Other receivables and claims</td>
<td>2.5. Privatisation revenues</td>
</tr>
<tr>
<td></td>
<td>2.6. Cumulative surplus and deficit on the budget resources</td>
</tr>
<tr>
<td><strong>3. Other assets</strong></td>
<td><strong>3. Other liabilities</strong></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Assets in total</strong></td>
<td><strong>Liabilities in total</strong></td>
</tr>
</tbody>
</table>


The liabilities of the balance sheet show information about the amount of commitments, budget net assets and other liabilities. The balance sheet presents the status of particular items, assets and liabilities at the beginning and end of the year. It enables to determine and evaluate the dynamics of change of assets and sources for financing them. The data of particular balance sheet items should be verified, taking into account the results of stocktaking and should be brought into compliance with the real state.

As emphasised above, information provided by reports should be made in a solid and credible way. It greatly influences the validity of the decisions made, and

\textsuperscript{472} T. Waśniewski, T. Skoczylas, Teoria i praktyka analizy finansowej w przedsiębiorstwie, Fundacja Rozwoju Rachunkowości w Polsce, Warsaw 2004, p. 86.

consequently the development of a given unit. Proper decision-making in units of territorial government would not be possible without the information concerning the financial and economic situation of organisational units of the local government. Thus, it is justified to pay attention to the importance of the consolidated balance sheet. It is a balance sheet of a group of units connected with a unit of territorial government, settles in such a way in which the unit of territorial government and the group of units connected to it constitute one entity.

The consolidation of balance sheets consists of connecting balance sheets making up a corporate group of a unit of territorial government by adding associated items of the balance sheet of a parent company to the balance sheets of subsidiaries. According to the Act of Accounting, there are three methods of consolidation:

- The acquisition accounting method;
- Proportionate consolidation method;
- The equity method.

The choice of a given method is arbitrary and wholly dependent on the choices of decision-makers in a given unit, particularly on the type of information that is to be obtained.

Consolidated balance sheets should be prepared within 3 months from the day of delivery of the last report subject to consolidation submitted to the Regional Chamber of Accounts.

Since 2006, there has been an obligation to make statements by units of territorial government. Since then, the obligation to prepare statements has been an element helping to manage a given unit, not only to administer it. It presents a full image of the functioning of a particular unit taking into account its organisational units.

Taking into consideration the management of a unit of territorial government, the information concerning the costs of its functioning is the most significant. The costs constitute the main criterion for the choice, as it is not possible to conduct any activity without bearing any costs.

The profit and loss account is a component of the financial statement of a unit of territorial government providing information about the deliberate use of production factors and some expenses that do not constitute the use of factors of production.

The profit and loss account in units of local governments may be prepared only with classification of expenses by type. It results from the fact that the effect of the basic activity is established using costs of the nature of the expense. It should be emphasised that by 2010 the following terms “costs by type” and “depreciation” had been used in the system. A full breakdown of costs by type was introduced by A Minister of Finance Regulation of 5th July 2010. The basic groups of the system of costs allow us to obtain information about the size of the summarised use of production factors in a given period as simple, homogenous and undividable
components of costs\textsuperscript{474}. It should be noted that the structure of costs by type is detailed sufficiently for the needs of external reporting. To make efficient decisions, taken by external users of economic information, it is too aggregated. It may cause an increase in the likelihood of making a mistake while budgeting costs and leads to a decrease in the effectiveness of the system of providing information.

A significant component of an annual financial statement is to compare changes in the unit fund. It presents the state as well as increases and decreases in the individual fund of a unit in a financial year pointing at the causes of the changes.

The analysis of financial statements has the following practical functions:

- Provides necessary materials for financial management;
- Allows detecting irregularities during the execution of financial plans within: income realisation, making expenses, bearing costs for performing subject tasks, managing funds and fixed assets;
- Provides figures and conclusions necessary for making the budget for the following year;
- Provides data used to control finances in organisational sectors of the units of territorial government.

The annual financial statements presented above provide a large quota of useful information concerning all the aspects of unit activity, however, they are not sufficient for people managing a unit who care for the effectiveness of its activity. The level of detail of both a balance sheet and the profit and loss account do not provide enough data for the information needs of the executive. Information presenting the structure of expenses and realised income including data concerning the general functioning of a given unit is very significant. Another factor confirming the inadequate usefulness of financial statements is their annual character. Making managerial decisions on the basis of statement analysis only once a year may lead to omitting many negative facts which may be a threat to the functioning of a unit of territorial government. Therefore, for decision-making purposes, it is justified to prepare mid-year reports.

Budget reporting is a very significant source of information used in making decisions in units of territorial government.

Pursuant to Art. 18 section 1 of the Public Finance Law, units of the sector of public finances make reports on the execution of processes connected with collecting public income and expenditure. The processes concern in particular:\textsuperscript{475}

\begin{itemize}
  \item Accumulation of income and public revenues;
  \item Spending public funds;
\end{itemize}

\begin{footnotes}

\textsuperscript{475} Act of 27 August 2009 on Public Finance, (Journal of Laws 2009 No 157, item 1240, with subsequent amendments), Rozporządzenie Ministra Finansów z dnia 23 stycznia 2014 r. w sprawie szczegółowych zasad rachunkowości oraz planów kont dla budżetu pastwa, budżetów jednostek samorządu terytorialnego oraz niektórych jednostek sektora finansów publicznych. Dz. U. Nr 142, poz. 1020;
\end{footnotes}
• Financing the loan needs of the state budget;
• Financing the loan needs of the budget of a unit of territorial government;
• Drawing commitments that involve public funds;
• Managing public funds;
• Managing public debt;
• Settlements with the eu budget.

The following entities are entitled to prepare and submit reports:
• Controllers of budgetary resources at all levels;
• Economic entities within performed budgetary tasks;
• Executive bodies of units of territorial government;
• Revenue offices and tax chambers;
• Statistical offices;
• Ministry of finance.

It should be emphasised that the system of budgetary reporting is suited to the organisational structure of the budget. There is a valid rule that controllers at the lower level submit reports to controllers at the higher level. The sum of all data items included in reports of units and other organizational units financed with public funds in whole or in part is included in collective reports on the execution of a budget of a unit of territorial government.

Units of territorial government and their organisational units are obliged to prepare the following types of reports:
• Rb 27 S – monthly / annual report on the execution of the budget revenue plan of territorial government units;
• Rb 27 ZZ – quarterly report on the execution of the plan of income connected with performing tasks within the government administration and other tasks set to units of territorial government;
• Rb PDP – mid-year / annual report on the execution of the taxable income of a commune;
• Rb 28S – monthly / annual report on the execution of the budget expenses plan of territorial government units;
• Rb NDS – quarterly report on the surplus/deficit of a unit of territorial government;
• Rb N – quarterly report on receivables;
• Rb Z – quarterly report on receivables.

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It should be noted that the budgetary reports presented above are not flawless. Thus the decision-making processes may be disturbed. The main dysfunctions of current budgetary reports include:

- Reports concern only the budget in general, they do not reflect the task execution by units of territorial government;
- Frequent changes concerning rules of preparing budgetary reports preclude continuity which would make it possible to compare the information in the following years;
- Copying the same information in several budgetary reports concerning, for example, income and expenses (Rb27 S, Rb28 S and Rb-Nds);
- Inconsistent rules of presenting data concerning receivables and liabilities;
- Presented data makes it impossible to evaluate the legitimacy and effectiveness of engaging external sources of financing in the unit of territorial government.

The flaws of budgetary reporting presented above influence making inappropriate decisions in local government. Thus, it would be justified, for managerial purposes, to elaborate a new tool which would provide full and reliable information. One of the tools supporting the decision-making processes could be reporting in performance-oriented layout.

**Reporting in a Performance-Oriented Layout**

Functioning of units of territorial government differs from the activity of typical economic entities whose aim is to maximise profit. One significant task of the activity of communes, districts and provinces is to maximise the usefulness of the resources spent as they are very limited. Therefore, taking into account the units, particular attention should be paid to the information supporting decision-making processes. One of the sources of obtaining it may be performance-oriented reporting applied by units of the central administration. Introducing the procedure to units of territorial government could bring numerous benefits in a form of complex information concerning the effectiveness of its functioning.

In performance-oriented reports, financial information derived from accounting reports should be accompanied by data on effectiveness. For particular indicators which are related to goals in the same way as in the plan, performed values of the indicators should be pointed out. The source of information on the value of indicators may be for example the administrators' informative systems, and resources of public statistics. Data included in performance-oriented reporting

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should allow the possibility to relate the values of funds used during the reporting period to the level of the achieved values of the indicators. A complex analysis of a performance-oriented report should allow us to re-analyse it qualitatively and to look through the expenditures as well as to evaluate the legitimacy of assumptions and determine the level of the realisation of the set goals. On the basis of the performance-oriented reports, it will be possible to verify the correctness and usefulness of a given indicator.

Summary

Functioning of units of territorial government in conditions of great variability of the environment imposes the necessity to use full and credible information by people managing units. Managers of economic entities use various decision data, coming both from the external environment and from the unit of territorial government itself. The information derived from the external environment is mainly based on various indicators, established thanks to data included in the reports of a unit. Aiming at the increase of economic rationality requires focusing on task and analytic information instead of sibling information. The basic flaw of the system of financial reporting is the fact that it is made, taking into account only one financial year. It is too long a period of time to make proper decisions. Additionally, reports made with greater frequency are not flawless, either. One of their dysfunctions is that they concern the budget in general terms and do not show task realisation by local governments. Thus, it would be justified to prepare a report which would provide appropriate information for managerial purposes. The reports could be performance-oriented. Then, they would create the possibility to relate allocated funds to the level of the achieved values of the indicators.

PART 2
REGIONAL DEVELOPMENT CHALLENGES
AND SOLUTIONS
Iwona Koza

19. Contemporary Regional Development Challenges and the Socio-Economic Potential of Town Districts of the Central Macro-Region of Poland

Introduction

Both in the context of identification of opportunities and threats to contemporary functioning organizations, and determining changes occurring in the management of any organization, capital, apart from land and work, is one of the three fundamental factors. During the evolution of this concept, the concept of social capital originated. It stressed the role of individuals and social ties. Today, however, the concept of capital strongly focuses on intellectual capital, understood as the current or potential creative resource, or the increase in the wealth of an enterprise, community, or nation.

The issue of intellectual capital, as well as the issue of the development of local communities, are relatively young fields in economics and spatial management, which do not yet have their own autonomous theory. Nonetheless, local communities play a crucial role in the economic and social system of the country. They are the places of concentration of the essential economic activity, initiating the potential associated with economic development, employment, and consumption patterns and all other aspects of specific economic reality.

Economic development, which is a part of the process of economic evolution means going higher and higher, on more diverse and more complex levels. It is the result of quantitative and qualitative progress and changes in the economic, social and natural systems. It is based in the space formed by political, economic, social

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479 Ph.D., State School of Higher Education in Chelm, Poland.
and demographic events and processes, and phenomena concerning population are a special factor in economic transition because the population is the principal means and the ultimate goal of economic activity. As a result, human resources play a fundamental role in economic development. A special role in this field is played by human capital, which is the potential of knowledge, skills, health and vitality in the community. It is the knowledge and skills acquired by individuals as a consequence of investments in education and training affecting the quality of human resources, and the costs spent on the protection of health, the environment, development of culture, etc. Therefore, human capital consists of all the efforts and all the achievements of current and past generations of a given area. Thus, human capital development is a key explanatory variable in relation to competitiveness and regional differentials. At the same time, there is a feedback loop between human capital and the level of socio-economic development.

Evaluation of the role of human capital (both social and intellectual) in the development of the region, can be done by means of two types of circumstances: demographic factors and social determinants. Demographic determinants relate to population structure, diversification of capital resource and its development. Social conditions refer to the overall social infrastructure and living conditions of the population, forming a material basis for the services to meet the social, educational and cultural needs of the population.

Understanding the development of local communities, therefore, requires the analysis of all reciprocal characteristics.

In turn, the notion of the region in economic sciences is seen in a triple sense: an important subject of research, object of cognition and object of action. The involvement of researchers in this complex area has created the theory of the region, which is assigned cognitive research and application functions. Within the research function a methodical basis for multidisciplinary research in regions and economic regional studies is created. Cognitive function deals with co-operation in

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the perception of the surrounding reality, in particular, individual regions. Finally, the application function concerns important strategic projects, that is making adjustments and proposals for a regional policy, as well as procedures for its correction. The subject of the chapter is based on the above classification. First, an appropriate research tool will be chosen, consisting of a set of statistical indexes. By using it we can prepare the characteristics of towns in the Central macro-region. For the purposes of analysis, the national average size of indexes will also be set. However, the data relating to Warsaw were omitted, due to its specifics as the capital of Poland. The conclusion of the chapter will be the applications, which can be further used in regional policy of the studied communities.

The test period includes the past 10 years of the functioning of Polish local authorities, i.e. the years 2004-2013. For the chapter subject structured in this way, the thesis is stated about the expansive reality of Polish district communities. However, over the past 10 years, largely thanks to funds from the EU, there has been a significant improvement in the values of characteristics relating to intellectual capital.

Research Area

Activities in the programming of the Polish economic development policy for the period 2007-2013 and 2014-2020 have been oriented in such a way that the majority of priorities was and still is associated directly with the influence on the various dimensions of intellectual capital, and the other, indirectly to create favourable conditions for its accumulation. Noteworthy is the fact that the activities revolve around the dimensions that are particularly important in the relationship between intellectual capital and competitiveness. They concern human and structural capital, but also care about the development of social capital. It is proved by the priorities concerning the innovation and growth of the economy, the efficient use of human resources and building social capital. What is more, these initiatives for the period 2007-2013 were the activities carried out within the framework of the two operational programmes: innovative economy and human resources.

491 Ibidem, p. 13 and subsequent.
492 The data from the Central Statistical Office for Plock is incomplete, hence omitted information relating to this town.
493 The value of statistical indexes achieved by Warsaw, in each year, and in all respects, far exceed the index values by other cities. Their omission raises the readability of both analytical comparisons and charts.
495 For some indexes it was possible to get the data from shorter time periods.
capital, directly addressing the human and structural dimension of intellectual capital. In the period 2014-2020 a new instrument of European cohesion policy will be also used, which is local development led by the community.

However, compared to other developed countries, Poland belongs to the countries with the lowest level of GDP per capita and the lowest values of the KI index (Knowledge Index), which can be treated as an approximate to intellectual capital\(^{499}\). It is commented that the reasons are excessively slow dynamics of making technological upgrading, but also an overly slow process of change on the institutional, social and cultural level of the Polish economy. The current level and structure of intellectual capital are a significant barrier to development.

When it comes to the Polish government structure, based on the concept of self-government contained in the European Charter of local self-government\(^{500}\), at the local level there are three types of communities: land districts, town districts and municipalities\(^{501}\). The results of the statistical analysis of the situation of Polish local communities show their insignificant optimistic financial situation\(^{504}\). However, town districts (i.e. the districts formed by big cities) display a very pro-development approach. This is the reason why these organisms will be subjected to further analysis in the following chapter. It is worth considering what factors have an impact on this state of affairs\(^{505}\).

The test area of this chapter will be the Central macro-region of our country. It includes Łódź and Mazovia provinces. The macro-region, due to its location, performed functions, unique development potential, spatial and functional links, plays a crucial role in Poland and Europe. Due to great dynamics of development in recent years, new needs and new market segments, it provides a stimulating space for development processes and becomes a concentration area for Polish businesses that are competitive at an international scale\(^{506}\).

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\(^{499}\) More information can be obtained on the web portal: [http://www.oecd.org/poland/](http://www.oecd.org/poland/)


\(^{506}\) Compare with: Z. Strzelecki [ed.], *Gospodarka regionalna..., opus citatum*, p. 222.

\(^{506}\) For more information: [http://www.mazovia.pl/wyszukiwarka-google/#gsc.tab=0 & gsc.q=2020strategii%20rozwoju%20makroregionu%20concept%20polsk%20centralnej [04.12.2014]].
Research Tool

Local and regional development is a relatively young field of economics and spatial management, which does not yet have its own autonomous theory. This specific type of activity, serving to develop and improve the organization of activities for spatial development as well as the structure and functioning of local government and social system, is based in the sphere of the theoretical considerations on a general theory of economic development or economic theory and the theory of spatial management\(^{507}\).

Research on the regularities occurring in mass phenomena and processes is done, in particular, with the use of taxonomic methods.

The taxonomic method was first taken from the field of anthropological research to zone farming systems by J. Fierich.\(^{508}\) The first successful attempt to zone agricultural production by means of the taxonomic method became the impulse for the creation of many studies of this type. The most popular, taxonomic method of averages differences (named after its creator, Czekanowski) is based on connecting the elements of a larger part into groups. The elements that are connected, in comparison with other elements, are characterized by smaller average differences in terms of the number of simultaneously included features. In other words, it is a classification of units (spatial in this case) of a group due to several intentionally selected characteristics\(^{509}\).

Taxonomy\(^{510}\) is a discipline dealing with the rules and procedures of organization and classification. The taxonomic method is to group a set of elements of any nature into more statistically homogenous\(^{511}\).

In order to be able to use the taxonomic method, two conditions must be met: first, the phenomenon chosen as a feature must be quantitatively measurable, secondly, reliable statistical data must be guaranteed that represent the values in the appropriate territorial section.

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\(^{507}\) More broadly: Gospodarka regionalna w teorii i praktyce, Prace naukowe Akademii Ekonomicznej we Wrocławiu, No. 734, 1996, p. 10 and subsequent.

\(^{508}\) Compare with: J. Fierich, Metody taksonomiczne rejonizacji rolnictwa na przykładzie województwa krakowskiego, „Myśl Gospodarcza”, No. 1, 1957, pp. 73-100.


\(^{510}\) The term “taxonomy” is derived from two Greek words: taksis-“cleanings” + nomos, “law”, “rule”; M.G. Kendall, W.R. Buckland, Słownik terminów statystycznych, PWE, Warsaw 1986, p. 194.

To assess the specificity of the intellectual capital of the local communities, based on data from the Central Statistical Office\textsuperscript{512}, the following characteristics grouped into subsets, will be applied:

1. Economic development:
   - Investment in enterprises (current prices; without entities with fewer than 9 employees) per capita in the working age population;
   - Entities of the national economy newly registered in REGON per 10 thousand inhabitants of the working-age population;
   - The value of companies with foreign capital per capita of the working age population.

2. Employment:
   - Ordinary people running their own business per 100 people of working age.

3. Consumption Patterns:
   - The number of passenger cars per 1000 inhabitants.

4. Social inclusion:
   - The average gross monthly salary (entities of more than 9 employees);
   - Share of long-term unemployed (more than 1 year) of the total number of registered unemployed people;
   - Registered unemployment rate;
   - Graduates share (not working yet) in the total number of the unemployed.

5. Demographics:
   - Birth rate per 1,000 population;
   - The balance of migration for permanent residence of people of working age to 10 thousand inhabitants of working age.

6. The adequacy of income during old age:
   - Share of long-term unemployed (more than 1 year) in the 55-64 age group of the total number of all unemployed people aged 55-64.

7. Health factors:
   - Clinics per 10 thousand inhabitants.

8. Climate change and energy:
   - Electricity consumption per capita.

9. Transport:
   - Length of public roads with hard surface per 100 sq. km;
   - The length of cycle paths.

10. Openness and participation:
    - The number of registered foundations, social associations and organizations per 10 thousand inhabitants;
    - Turnout in the local elections.

11. Economic instruments:

- Funds from the European Union for the funding of programmes and projects of the EU obtained by municipalities and districts per capita;
- Expenditure budgets of municipalities and districts for public debt to 1,000 PLN of total revenue budgets of municipalities and districts;
- Share of capital expenditure of municipalities and districts in the total expenditure.

These characteristics allow estimation of the level of socio-economic development of local communities. To describe the statistical structure of the above characteristics of local communities such measures as the arithmetic mean of the values achieved in individual years, dynamics chain indices, counted annually, and geometric mean presenting the increase in the values in the last year compared to the first year will be used.

Selected analytical methods allow a reliable insight into development processes. The above measurements, understood statistically, are relative numbers characterizing the alterations in the level of the phenomena occurring in a given time, i.e. indexes. Taking into account the time, which will apply to the analysis, it will be a retrospective analysis (ex post), containing an assessment of the results of the actions taken in the past, which is the starting point for current and future objectives.

Due to the established test method, the author has chosen an analysis based on the comprehensive evaluation of reality from the point of view of the connections and dependencies between economic phenomena. It contains a comprehensive look at the activities of an enterprise and is a tool for the understanding and evaluation of economic phenomena. It provides a structured observation, expressed in terms of points, along with the cause and effect relationships between these phenomena.


515 Z. Strzelecki [ed.], Gospodarka regionalna... opus citatum, p. 15, 39.


Analytical research will end with the presentation of results, in numerical, graphic and descriptive forms. The numeric form will help sort out the information about the investigated phenomena in time and in space. The graphic form will show the changes observed in the studied characteristics by means of radar charts. Finally, the descriptive form will serve to express assessments and opinions and formulate diagnoses and proposals.

**Socio-Economic Development**

The level of development of the local community is the starting point to the characteristics of the factors supporting the construction of sustainable development. Development is a fundamental concept in the functioning of economies. A high level of economic development usually creates the conditions to ensure a higher level of life of the inhabitants, understood as the degree to which the needs of all kinds are satisfied with goods, including material ones, cultural, educational, related to health and security. At the same time, economic development may be accompanied by a range of negative effects, such as environmental degradation, high levels of pollution. In addition, one of the key tasks of sustainable development is smooth economic development of all regions.

In the Central macro-region during the period of research when it comes to investment per capita in the working age population, after the initial decline, there was an annual growing trend, which was visible especially in Ostrołęka, Piotrków Trybunalski and Siedlce.

When it comes to the number of entities of the national economy registered in REGON, in most cities there was a growing trend. Similarly, the value of companies with foreign capital, calculated per capita in the working age population, every year was getting higher. In this context, outstanding results were achieved by Łódź and Skierniewice.

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519 Because of the editorial requirements, the figures will not be presented in the body of the chapter.
520 In the body of the chapter will be placed only the most Fis.
Fig. 19.1. Investment in companies per capita of the working age population

Fig. 19.2. The value of foreign capital companies per capita of the working-age population

Employment

An important factor in the development of the regions are labour resources and related human capital. In sustainable development it is one of the elements of interrelated conditions for wealth creation, alongside traditional resources such as land and capital, as well as factors, such as, the level of resources and the
environment. One of the objectives of sustainable economics is employment for all people of working age\textsuperscript{522}.

Employment in each of the cities of the Central macro-region, is annually increasing. This was especially visible in Piotrków Trybunalski, Warsaw and Łódź.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{image.png}
\caption{Ordinary people running their own business per 100 inhabitants of working age}
\footnotesize{Source: own study based on data from the local data bank of the main statistical office, http://stat.gov.pl/bdl/app/wskazniki_zr}
\end{figure}

Sustainable Consumption and Production

Changing production and consumption patterns towards sustainable, as well as the promotion of such behaviour is one of the key challenges of the modern world. Separating economic growth from environmental degradation is a condition for sustainable development\textsuperscript{523}.

The determinant of the above changes is the number of passenger cars per 1000 inhabitants. In the Central macro-region, this quantifier is higher every year. It took place especially in Ostrołęka.

Social Inclusion

Exclusion and social inequality is a situation that prevents, or at least makes it difficult, for an individual or group from performing social roles (family, professional,


civil, social), making use of public goods and social infrastructure, collecting resources and earning an income in a worthy manner. The problem of social exclusion is a major barrier to economic growth and sustainable development. On the contrary, the concept of social inclusion implies the creation of a society based on social inclusion, taking into account the solidarity between the generations and within the generations, as well as to ensure the improvement of the quality of life of citizens, which is the basis of social welfare\(^\text{524}\).

The index that provides statistical information in this field is the average gross monthly salary. As far as the cities of the Central macro-region are concerned, in the last decade, as in all Polish cities, every year there was an increase in this value.

\[\text{Fig. 19.4. The average gross monthly salary (entities of more than 9 people)}\]


Access to the labour market in the context of social inclusion also means that every citizen showing a willingness to work should be able to find a job corresponding to his/her professional qualifications. The place occupied on the labour market decides not only about material, but also social status\(^\text{525}\).

In the macro-region, the number of long-term unemployed increases every year, although to a lesser extent than in other town districts in our country. Similarly, the registered unemployment rate increased every year. A positive sign


is that the amount of unemployed graduates in general was decreasing over time but that was the effect of the high rate of migration of young people abroad.

![Figure 19.5. Share of long-term unemployed (more than 1 year) in the total registered unemployed](http://stat.gov.pl/bdl/app/wskazniki_zr)

**Fig. 19.5. Share of long-term unemployed (more than 1 year) in the total registered unemployed**


**Demographic Changes**

In Poland there is further intensification of the process of aging of the population. This situation may result from more conscious family planning, improved availability and quality of medical services, improvement of the material situation of the population and the pursuit of a healthier lifestyle. The progressive aging process requires planning and organizing such activities of social welfare which will meet a variety of needs of people belonging to the older age group and provide them with adequate health care and access to the labour market. It is a big challenge for the social policy of the state in maintaining a sustainable level of public finances. Demographic changes are therefore of vital importance for economic and social development. At the same time, a fair distribution of income, solidarity between generations, as well as an increase in the level of lifestyle, reduction of poverty and social exclusion among older people are classified as priority objectives of sustainable development. The primary gauge group of demographic changes are those indicators that serve to diagnose the situation and the trends of aging in the population, which is influenced by many factors including,

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among others, the level of total fertility rate, life expectancy, the phenomenon of migration.

In the Central macro-region during the period considered, the birth rate was definitely decreasing and there was a positive balance of migration. At the same time, the share of long-term unemployed in the 55-64 age group in the total number of unemployed people aged 55-64 increased.

Fig. 19.6. Birth rate per 1,000 population

Fig. 19.7. The balance of migration for permanent residence of people of working age to 10 thousand inhabitants of working age
Public Health

Access to health care and the health status of the population are included in the basic quality of life factors, apart from, among others, material resources, a feeling of security, recreational activities, etc. Links between health and the concept of sustainable development are multidimensional and manifest themselves in many ways, among which may be mentioned, in addition to improving the quality of life, the effectiveness and the costs of the functioning of the economy and the impact of the environment on the health of the public. Health factors were taken into account by the impact of the environment and the environment on the health status of the population and access to health care. Even low levels of long-term exposure to complex mixtures of pollutants in the air, water, soil, consumer products and buildings can have a significant impact on health. The factors that affect health are also working conditions associated with: the working environment, discomfort and mechanical factors.528

The number of clinics per 10 thousand residents was nearly constant in the cities of the Central macro-region.

Energy Demand

Limiting climate change, the cost of these changes and the negative effects on the environment and society is the primary determining factor for preserving our planet for future generations.

The demand for energy, growing with the development of civilization, which is running out of its traditional resources, mainly fossil fuels (coal, oil, natural gas), accompanied by environmental pollution, increases consumption, resulting in increased interest in the use of energy from renewable sources.529

Electricity consumption per capita in the Central macro-region was the largest in Łódź, but in all cities during the period a slightly declining trend could be observed.

528 For more on this topic: M. Pasowicz [ed.], Zdrowie i medycyna - wyzwania przyszłości, Krakowskie Towarzystwo Edukacyjne - Oficyna Wydawnicza AFM, Cracow 2013, pp. 15-84.
Transport

Transport is a key sector for sustainable development due to the social and economic benefits that can be achieved while minimizing its adverse effects on society, the economy and the environment. Sustainable transport takes into account the criterion of access to transport services in accordance with the requirements of health and ecological safety (influence on ecosystems), taking into consideration the principle of inter-generation fairness, the criterion of cost-effectiveness and the criterion of control over the impact on the environment (negative external effects) and usage of space (land). In today's world, ensuring sustainable mobility and access to public goods and services is one of the key challenges to the achievement of the objectives of development. A sustainable transport system is the determining factor of the attractiveness of the location for its residents, but also for people visiting\textsuperscript{530}.

In the Central macro-region, both the length of local public roads, as well as the length of cycle paths, increased annually. It was visible especially in Siedlce, Ostrołęka and Skierniewice.

\textsuperscript{530} Compare with: Grzega U., op. cit., p. 7-158.
The Quality of Governance / Openness and Participation

One of the primary goals in the pursuit of sustainable development is to achieve political and institutional order, known as good government—seen in terms of the economy, politics or the environment. Its manifestation is, among other things, the involvement of citizens in resolving social problems, prevention by self-government from excessive exploitation of the environment and the effective financial management of local government units\footnote{More about the above issues: J Wilkin [ed.], \textit{Jakość rządzenia w Polsce: jak ją badać, monitorować i poprawiać?}, SCHOLAR, Warsaw 2013, p. 11 and subsequent; Ministerstwo Rozwoju Regionalnego, \textit{Strategicznie dla rozwoju: polityka rozwoju w zintegrowanym podejściu}, Warsaw 2011, p. 2 and subsequent.}. Moreover, good governance is characterized by such features as openness, access to public institutions and decision-making processes and participation, leading to an increase in social trust in institutions and public participation in political processes. The participation of local communities in solving social problems (socialization of the decision-making process) is the determinant of a civil society\footnote{For more on this topic: P. Gliński, I. Sadowski, A. Zawistowska[ed.], \textit{Kulturowe aspekty struktury społecznej}, Wydawnictwo Instytutu Filozofii i Socjologii PAN, Warsaw; Wydział Historyczno-Socjologiczny Uniwersytetu Białostockiego, Białystok 2010, p. 23 and subsequent.}.

In the macro-region, the number of registered foundations, social associations and organizations annually increased, especially in Łódź, Siedlce and Ostrołęka but the turnout in local elections unfortunately decreased, especially in the second rounds.
Fig. 19.10. The number of registered foundations, social associations and organizations per 10 thousand inhabitants

Economic Instruments

Among the tools used to support sustainable development there are such that aim at preventing excessive exploitation of the environment and exerting influence on local government to stabilise finances. Very important in this respect is the rational management of funds by government entities, as well as using environmental and operational charges.\(^{533}\)

Funds from the European Union for the funding of programmes and projects of the EU were acquired by town districts of the Central macro-region in increasing amounts annually, as in the rest of the country. In relation to the national average, the results achieved by the Central macro-region were rather low. At the same time, the expenditure for public debt in the budgets of cities and share of investment expenditure in total budgets of cities increased.

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Fig. 19.11. Funds from the European Union for the funding of programmes and projects of the EU acquired by the cities per capita

Summary

To sum up, over the past 10 years, in the Central macro-region, after an initial decrease in the values of the differential characteristics relating to intellectual capital, a significant improvement can be seen. At the same time, gross domestic product per capita in the macro-region annually increased its value\(^{534}\). In addition, analyses prove positive forecasts for the values of the above characteristics\(^ {535}\).

In the Central macro-region, during the period under study, investment per capita in the working age population, after the initial decline, is annually increasing, which was visible especially in Piotrków Trybunalski, Ostrołęka and Siedlce.

When it comes to the number of entities of the national economy registered in REGON, in most cities there was a growing trend. Similarly, the value of

\(^{534}\) Compare with: http://stat.gov.pl/bdl/app/dane_podgrup.dims?p_id=114370&p_token=0.771679934688904

\(^{535}\) Development strategies macro-region, provinces and towns:
http://www.mazovia.pl/wyszukiwarka-google/#gsc. tab = 0 & gsc. q = 20strategii% 20rozwoju 20makroregionu% concept% 20polski% 20centralnej,
companies with foreign capital, calculated per capita of the working age population, every year was getting higher.

Employment in each of the cities of the Central macro-region, is increasing year after year. This was especially visible in Piotrków Trybunalski and Siedlce. The determinant of the above changes is the number of passenger cars per 1000 inhabitants. In the Central macro-region this quantifier is higher every year. It was especially noticed in Ostrółęka.

The index providing statistical information in this field is the average gross monthly salary. As far as the cities of the Central macro-region are concerned, in the last decade, as in all Polish cities, every year there was an increase in this value.

In the macro-region, the number of long-term unemployed increases every year, even though to a lesser extent than in other town districts in our country. Similarly, the registered unemployment rate increased every year. A positive sign is that the share of unemployed graduates in general was decreasing over time but that was the effect of the high rate of migration of young people abroad.

In the Central macro-region during the period considered, the birth rate was definitely decreasing and there was a positive balance of migration. At the same time, the share of long-term unemployed in the 55-64 age group in the total number of unemployed people aged 55-64 increased.

The number of clinics for 10 thousand residents was nearly constant in the cities of the Central macro-region. Electricity consumption per capita in the Northwest macro-region was the largest in Łódź, but in all cities during the period a slightly declining trend could be observed.

In the Central macro-region, both the length of local public roads, as well as the length of cycle paths, increased annually.

In the macro-region, the number of registered foundations, social associations and organizations annually increased but the turnout in local elections unfortunately decreased, especially in the second rounds.

Funds from the European Union for the funding of programmes and projects of the EU were acquired by town districts of the Central macro-region in increasing amounts annually, as in the rest of the country. At the same time, the expenditure for public debt in the budgets of cities and share of investment expenditure in total budgets of cities increased.

All realize the clauses of the Treaty of Lisbon, in which the matter of territorial dimension is of particular importance to the EU cohesion policy. As a consequence, intervention is to a greater extent adjusted to the needs of different types of territories.

In addition, a characteristic feature of the modern market economy, which determines all the activities and relationships within it, is competitiveness. One of the most important ways to increase this competitiveness is to create, and then

consistently implement, a promotional strategy\textsuperscript{538}. Nowadays, I attach particular importance to the process of innovation, which is crowd sourcing, and drawing on the expertise and capacities of a given community\textsuperscript{539}.

It seems that the best summary for this chapter, will be encouragement to maintain and increase the momentum of the described changes, as well as relying on coherent, harmonious and innovative development strategies and evaluating the intellectual potential of their communities\textsuperscript{540}.


\textsuperscript{539} More broadly: M.A. Gollin, \textit{Driving...}, \textit{opus citatum}, pp. 115-128.

20. Modern Management Concepts Implemented in Public Organizations

Introduction

Management is an essential component of community life. Concepts change as a reality that is still evolving. Management is not just issuing commands and reporting the voice of people who are able to carry out your request at a very fast pace to become the coveted right hand man. Management is a very complex phenomenon, which does not apply to one person, but an entire organization. This is an interdisciplinary science, so it consists of the knowledge and experience of many generations and the analysis of various areas of life.

Modern idea of management is the result of globalization - that is, the spatial expansion of the market and computerization – it is a new situation when it comes to management. The market is a factor changing global vision of the company, there are more opportunities and a lot more competition.

The modern world is rich in a number of changes, both socially and economically. They are dictated primarily by the occurring process of globalization, as well as a result of the evolution of civilization and its consequences, which is for example, technological development. All these measures are aimed at improving conditions for the functioning and existence of societies. However, to make any change, and the possibility has been well used, it is necessary to adequately manage that in a dynamically changing environment, which is the situation we are facing now, and it is very difficult. The essence of management is a set of activities including planning, organizing, leadership and control. All these activities are undertaken in order to effectively and efficiently dispose resources. Currently the management process should be very flexible and alert to the changes. Therefore, different types of companies should look for different solutions to be able to fully respond to arising conditions. This is a particularly difficult task for public organizations that primarily serve the public, as their actions depend on the satisfaction of citizens, as well as the development of the country. That is why, proper management in this situation is paramount, as it determines the success of the organization.
In recent times, we can observe a significant intensification of various management concepts, due to the dynamism that is present in the market, as well as strong competition between different entities or authorities. Modern management concepts are aimed primarily at improved performance and easier implementation of tasks.

To create a new management concept, three elements should be reconciled: the owners of the institution, employees and companies operating in the environment (and these components should be balanced). It is very difficult due to the fact that the basic element is the people, and therefore the factor most susceptible to environmental influences, changeable, and whose behaviour is difficult to predict.

**Origin of Outsourcing**

One of the most recent popular management concepts is outsourcing. This contemporary idea has been used in many companies, both public and private. Practice shows that thanks to outsourcing companies gain noticeable synergy, which translates into profits. "If there is something you cannot do better, cheaper and better than the competitors, there is no point in doing it. We should employ someone at the implementation of the work who will do it better". The words spoken by a well-known management theorist Henry Ford fully reflect the meaning of this form of management.

Considering the etymology of the concept of outsourcing it should be noted that the word is derived from two words: outside, which means outer, exterior; and resource – a source of resources. Outsourcing is the separation of the organizational structure of certain functions and transferring them to implement by external entities. There is no doubt that the development and popularity of outsourcing started at the beginning of the XXI century. However, the seeds of outsourcing should be seen to have begun earlier, reaching back even to the eighteenth century. It turns out that the artisans had not been able to work independently, but had to use the help of external resources. Due to the fact that this work required a lot of effort, skills and appropriate materials, craftsmen were forced to use external resources - those whom they themselves were not able to produce.

However, significant development and the emergence of huge companies made rational management turn out to be very complicated and almost impossible. In the course of the search for new solutions, in the early eighties of the twentieth century outsourcing began as a new management concept. One of the first companies in which used this modern strategy was General Motors, which provided auto parts to other companies. The initial objective of outsourcing was primarily due to the cost reduction of unnecessary or inefficient organs. Subsequently, however, it increased its role by not taking risky action associated

with changes in technology or refocusing on core activities. Today, outsourcing is a concept that has a significant impact on the functioning of the organization\(^{544}\). The advent of outsourcing was in a sense the revolution of management and a completely new look at its management. So far all attempts failed to implement processes and tasks within the company, and to prevent the dissemination of information in the environment. It was, in a sense a security measure ahead of the competition.

**Most Important Advantages and Main Principles of Outsourcing**

Today, enterprises are systems increasingly open and because of the constantly evolving environment, they must work with others to be able to operate more efficiently. The huge increase in the use of outsourcing can provide data that show that the value of outsourcing services in the early nineties increased by $44 billion in just two years. Generally speaking the essence of outsourcing is to separate from the organization tasks, which are not its core business\(^{545}\). Thanks to this, the company will be able to focus their attention on the activities that are the subject of the core business. The prerequisites for outsourcing are not limited to\(^{546}\):

- Reduction and greater control of operating expenditure;
- Increase quality through access to better production technology;
- Use their own resources for other tasks;
- Access to resources that are not owned by the organization\(^{547}\);
- Cope with the task, which it is not possible to perform through lack of knowledge or resources.

The use of the concept of outsourcing in an enterprise requires taking a number of measures and analyzes that are intended to verify whether the use of external services will be profitable for the company. Therefore, the use of outsourcing in public administration requires the following actions:

- Decide which type of business will be separated or commissioned externally by a more specialized entity;
- Insertion of a larger effort in the core business of the company;
- Building loyal and strategic relationships with service partner;
- Formation of a written agreement with an external company who assumes responsibility for the commissioned work\(^{548}\).

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• Attitude for a long period of collaboration;
• Rational distribution of both benefits and risks between the parent company;
• And outsourcing;
• Decide on a mutual exchange of information, coordination, and mutual trust between the partners.

Fulfilling these conditions that characterize the process of outsourcing will not only reduce costs, but also increase the effectiveness of core business. Furthermore improving the management process, covering both the planning, organizing, coordinating, and control, in a situation of effective cooperation, may also strengthen the competitive advantage.

One of the management theorists K. Zimniewicz assumes that the concept of outsourcing can include both supply-related activities and services carried out by a competent company. Therefore, in the public sector outsourcing may be subject to such activities as:

• Product materials, raw materials, necessary semi-finished products or components;
• Human resource management;
• Services;
• Other services, such as transport, logistics, financial, marketing, accounting, legal, administrative;
• Customer service.

As you can see the use of outsourcing can have a very wide range. It can apply to both individual tasks, activities, but also the whole complex of processes that have so far been carried out by the parent company. Enterprises, however, need to remember primary and parent activities, where the responsibility, and other activities that are carried out by external entities are only an added strength and supplement.

**Basis for the Use of Outsourcing in Public Administration**

Public administration bodies have certain characteristics, which distinguishes them from private companies. First of all, these are the entities that have been established by law or their activities according to some agreements, and the effects of their activities are administrative decisions. In addition, public administration and social services, and their actions must be guided for the benefit of society. Moreover, public sector entities operate in accordance with the principles of law and cannot take individual decisions.

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The use of the concept of outsourcing in public administration requires attention to some very important aspects. First of all, the public sector provides services free or paid, but the cost is a prerequisite for the provision of services for the entire society, not just a select group provided with the appropriate level of funding. Another kind of barrier to the use of outsourcing is the responsibilities arising from legislation. A whole range of public administration has been specified in the applicable legislation, to which they must adapt. It follows that no public entity has the right to extend or reduce its tasks, which somewhat limits flexibility. In addition, in public administration there is also an issue related with responsibility, this means that the operator may decide to extend certain functions to implement an external entity, but the entire responsibility and risk rests with the appropriate government entity. Transferability of liability due to the course of law is somewhat asymmetric compared with the activity of private sector.

An increase in the efficiency of the entire public administration by delegating part of the services provided to private operators through outsourcing was recently noted. Therefore, it is not a negative thing to commission ancillary activity or subsidiary entities outside public administration. An example of the admission of outsourcing can be art. Paragraph 26. 1 of the Act on public finances, which allows for the existence of auxiliary for the budget unit. At that farm can be an organizational unit which is separate from the entity budget, both in terms of financial and organizational and will carry out some basic or helping business. It is also important Act “Public Procurement Law”, which specifies which procedures should be used by the public administration services during the isolation and selection of an external partner. This law also indicates that the public sector should not provide services if private firms do it better and cheaper.

To sum up, the application of the concept of outsourcing in public administration is related to the fulfillment of many requirements and adaptation to legal requirements. Not every function or task of public administration can be outsourced, if only because of the protection of personal data or the risk of revealing sensitive information to the outside. Therefore, at the present time, within public administration mostly ancillary or complementary action shall be outsourced. First of all, they are related to the protection of facilities, service spot, logistic services, or issues related to security and occupational health. More and more, separates the tasks related to IT services, hardware and appropriate software, it is also associated with the development of the concept of e-government.

Lean Management as a Way to Streamline Operations

Another modern management concept, wide-spread over the last few years in enterprises, is lean management. Although this concept comes from the Japanese company Toyota, the name was introduced by Jon Krafcik, who was a

participant in a research project the International Motor Vehicle Programme. This project was conducted at the end of the twentieth century and was designed to investigate the sources of the success of Japanese companies. For the first time the term "lean" has been used in relation to the small amount of resources used in Toyota. It is noted that in contrast to the American and European corporations, Toyota conserves resources by referring to the better performance of the market. Therefore, the lean management concept called for both the management of the organization, as well as a set of instruments to ensure greater management efficiency. This idea has been applied not only in Japan but also in the United States and Europe. In addition, lean management also began to be used in manufacturing companies, the government, banks or even the police. This concept implies the effective and rational functioning of the organization. Trying to translate the name into the polish language, use terms or lean management. But it is not about reducing costs or personnel. This concept is to create a system that is devoid of any unnecessary components do not add to the company, both from the point of view of the customer, as well as individual employees and organizational units. In very general terms it is a management system that eliminates all the waste. Looking from the client, this concept is to provide his desired values using the least amount of resources. The introduction of this concept to a company requires not only changing tools, but also changes the way of thinking and innovation in organizational culture. This concept with its range should cover the entire enterprise, not just individual departments.

Examples of the Application of Lean Management

The advantages of implementing lean management include primarily:
- Improving the quality of services and products, which in turn will translate into increased customer satisfaction;
- Increasing efficiency and effectiveness;
- Rational and productive use of resources;
- Reduced operating costs;
- A greater level of flexibility, allowing you to adapt to the changing business environment;
- Raising the level of employee motivation.

Lean Management is used in a growing number of enterprises not only private but also in public institutions. Experience shows that this vision improves operational efficiency in many areas. At local government level, Lean management contributes to the acquisition of new investments, which translates into the creation of new jobs. Furthermore, this concept helps to reduce the time for

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decision-making and starting all kinds of projects. In view of the fact that local government is responsible for numerous companies that provide services even of a communal nature. Lean management allows the introduction of many improvements and get savings.

The experience of countries such as the United States, United Kingdom and Australia indicate that the concept of lean management is also perfect for any level of government. In the UK, the report was conducted by Peter Gershon, who proved that the rational management at the central level raised the efficiency, quality of service, and brought more than 20 billion pounds of savings\textsuperscript{553}.

Another area where there is a possibility of introducing the modern concept of the military and national defense. The army of the United States, despite the status of the most effective combat formations in the world and holds very modern technological equipment to a certain point had a huge backlog in terms of administrative structures. Therefore, since 2005, almost all types of armed forces in the United States have introduced the Lean Six Sigma program, which employs almost 2 million people, both soldiers and civilians. Currently, the Department of Defense (United States Department of Defense) is one of the largest organizations in the world that uses lean management. It turns out that such action creates a lot of savings, which, among other things reflected in the level of American soldiers led by military operations beyond the borders of the United States.

\textbf{Basis for the Use of Lean Management in Public Administration}

It should be noted that this modern way of management, although in private enterprises has already been adopted, the level of public administration lacks more practical solutions in this regard. Despite the desire to improve the processes of acquiring savings, productivity gains are still missing systematic solutions that would improve the functioning of public administration. In Poland, there is a need for a strategy which, thanks to real and measurable objectives would increase the efficiency of public administration. Poland has a huge potential that should be exploited to make our country one of the most developed countries in the world. This is possible through the use of even some elements of lean management such as:

- The introduction of new forms of work, such as teleworking or task time;
- The introduction of cost sharing and the creation of shared resources between the various agencies and institutions.

As it turns out, a better quality does not have to cost more. The use of rational solutions can be much cheaper than traditional methods, and in addition can bring many more benefits. Getting rid of unnecessary resources, the introduction of simple solutions, simplifying the process can mean that public

administration will address the expectations of society, and in addition will generate savings that will contribute to the development of the country.

The Essence of Benchmarking

Something worth mentioning is the concept of modern management called benchmarking. At the time of the meeting with the same name as this concept you may feel resigned to discover its essence, and it is because of the strange sound. However, wanting to know the basic elements and methods of management of the XXI century, it is advisable to explore the secrets of this assumption. The idea of benchmarking is hidden in the simple act - imitation. For some, it is a positive action, for others, quite undesirable and demonstrating a lack of creativity. Benchmarking is so extreme a method, which is based on implementing someone else’s ideas into your business.

Perceiving imitation through the prism of economic activity, it should be considered that it is the foundation to compete, a development of creativity and the desire to achieve a competitive advantage. Benchmarking through imitation gives you the opportunity to learn from the best, to converge with them. The essence of this concept boils down to the claim that almost every organization operating on the market has weaknesses, and being aware of that strive to ensure, through various solutions, to alleviate these shortcomings. At this stage, there is a problem, both organizational and financial. You should therefore consider what changes should be made to improve the organization. You may wait for creativity, innovation, allowing for the creation of a new system, a new strategy, etc. You can also follow the best companies and systematize your business and through observation, adapt it to the standards that are seen in a company of similar specificity. Each of these methods has advantages and disadvantages, you cannot clearly determine which is more convenient.

Benchmarking has been defined by many theorists of management, but each definition focuses on the elementary aspects of this trend.

Z. Martyniak considered benchmarking in the following categories:

- Comparing the number of processes, services and products of your company to the competition;
- Use the experience of other companies;
- Learning from the best companies and comparing them under selected aspects.

Benchmarking signifies selecting by the company unbeatable patterns to which it compares its business. This "standard competitor" should have a market share of no less than ours and be faster growing; have better financial performance,

higher quality, more advanced technology, efficient marketing and management. This vision is therefore to learn from the best of our competitors. That science is not, however, copying ready-made solutions but duplicating ways to reach them. It is therefore important that measures under this concept were creative and innovative.

**Classification of Benchmarking**

The objective of benchmarking is to identify elementary strategic success factors reached by the companies that are leaders in the market. The benchmarking process involves the identification, characterization and comparison to the many aspects of key business processes. In benchmarking, which refers to the products at issue, are all the positives that the company generates, and it is necessary to compare them in terms of usefulness, performance, technology, quality and value that a particular product has. Benchmarking methods of management refer to the comparative styles and forms of governance in the organization, and usually focus on how to perform basic management functions, that is planning, organizing, motivating, controlling.

With regard to the subjective criterion one can distinguish internal, external and functional benchmarking. The first of these relates to the use of this concept within one company. In this case, the comparison depends on the needs, subsidiaries, divisions or plants. This type of benchmarking is considered to be one the simplest forms, because access to information and the flow of information between the compared components do not encounter much difficulty. The advantages of such a concept include easy access to data, as well as spontaneous reporting, for example, branch to this process. One very important drawback is the isolation of the company, which separates an internal benchmarking from external practices. Comparing internal components is repeatedly applied by Xerox. Indeed this company has subsidiaries in three countries: the Netherlands, the UK and France.

The most difficult type of benchmarking is external benchmarking. Here, the comparison is done in two different companies that operate in the same sector services. The big barrier to the practice of external benchmarking becomes the negligible amount of information between the components of the process, due to the fact that they are strangers and guard their competitiveness. In addition, the firm can fail when applying benchmarking in relation to a foreign company can fail, which is the result of misinterpretation of a product or innovation system, which in effect does not produce income, benefits, and does not lead to development.

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The optimal type of benchmarking is functional benchmarking, which consists of comparing companies with selected companies outside the industry\textsuperscript{558}. The advantage is evident in the lack of competition in the market comparing two companies, due to the variety of products and services. In this type of benchmarking, comparatives are subject to management practices, manufacturing processes, customer approach etc. However, finding the right partner to whom we would like to compare our company could pose the greatest difficulty.

\textbf{Several Disadvantages of the Concept}

Despite the many positive aspects discussed in the concept of management, we should also reflect on its disadvantages. After reading the above information, it would seem that it is a simple method of improving the company, however, it has a number of limitations, which attention to should be paid. The first of the drawbacks lies in the mentality of people using benchmarking as those looking for the ideal solution, and as is well known, so it is hard to find these imitating someone or something else. On the other hand, a given company may be specific in terms of even the organizational culture, which will make it hard to implement some solutions resulting from a different culture. Another barrier is the choice of the perfect partner and its analysis. As already mentioned, it does not exist, because anyone can function properly in various areas of their business. The paradox becomes a desire to compare the companies holding first place in the rankings in terms of productivity, competitiveness and earnings. However, these factors do not testify to the fact that the company is close to ideal. Sometimes the smaller companies that do not straddle the top ten rankings can offer more knowledge and experience than the "lions of business." The next problem is to obtain information about the partner. If you get them indirectly, with all kinds of websites, brochures, articles, we meet mostly with flattering opinions. Only at the time of direct contact during a conversation with employees of the company, its customers or internal observation of the company, one can asses the real business and realize whether they want to have a partner like that. The last of the drawbacks which is worth noting, is that sometimes introducing significant changes that would bring an increase in competitiveness and quality of services becomes difficult because the company cannot cope with the costs, a new system of action and resistant workers.

The concept of benchmarking is not simple to use, because it consists of several of the aforementioned steps, providing its complexity\textsuperscript{559}. However, with proper preparation for the implementation of this idea, your company can certainly achieve the desired success. Essential to this is primarily an analysis of your company and specifically the agent that is to be subjected to comparison and

\textsuperscript{558} T. Bendell, L. Boulter, Benchmarking, Krakow 2000, p. 85.
\textsuperscript{559} K. Obloj, Strategia organizacji, PWE, Warsaw 2001, p. 69.
change for the better the partner and analysis of information obtained\textsuperscript{560}. Management theorists and practitioners claim that benchmarking can be appropriately applied at a time when business owners and those responsible for the most important processes in the organization will have the ability for to good governance.

**The Essence of Competence Management**

Another modern management concept has become competence management which is related to human resource management. As is generally known human resources are one of the most important features of management, allowing for proper realization its basic functions: planning, organizing, motivating and control. Peter Drucker in his definition of management in a meaningful way emphasizes the importance of human resources\textsuperscript{561}. According to him, management is the cooperation of all units that makes up the company in a way that is geared to the greatest possible use of the talents and abilities of each worker and minimize all the weaknesses. The management features, which Drucker presents, largely relate to human resources\textsuperscript{562}. First of all, the management as such, is about people and is firmly embedded in the culture we create. It should lead towards a learning organization, which will be achieved primarily thanks to the creativity and ability of employees. Aspects that contribute to the increase in the efficiency of such management include an adequate flow of information in the company, which leads to non reprehensible communication between levels in the company; an evaluation system adapted to the responsibilities and capabilities of employees and the objectives of the organization clearly defined and made available to all interested parties. A contemporary look at the management of the organization is focused on treating people as a strategic resource, it is a recognized fact that people support the organization in achieving competitive advantage in the market and achieving above-average performance in the profession. Recognizing that human resources consist of the knowledge and skills of employees, indicates the essence of the concept of competence management.

Talent management is a way of conducting a personnel policy in the company, which combines the activities of different ranges, e.g. sourcing employees, creating career paths, development of employees, motivating employees\textsuperscript{563}. This term can also be understood as a dynamic and participatory process of shaping and using the competencies of employees, aimed at the effective achievement of current and future goals of the organization. In a simple

sense, competence management should be understood as a process consisting of practical action, which is to determine competence, and determine the selection of employees to create the established model or the improvement of personnel for the desired competencies. Talent management should take place both for the individual and the whole company.

The essence of competence management is included in determining the competence gap, which allows you to take further action in respect of a particular employee or group of employees. A competency gap is the difference between a desired pre-defined model, required competence, and the competence, which a person currently has.

**Competence Management Challenges**

The main tasks of competence management must be first to identify which is focused on the use according to specific companies, as well as the transfer and development of skills. This is to permanently increase the economic strength of the entire organization. In addition, the rest of the tasks may include:

- Design competency profiles;
- Identify competencies in selected position;
- Exploration of the needs of employees;
- Motivating people to develop.

Modern companies have been obliged to focus their attention on attracting staff, assessment of its operations and quality, and most importantly - the development of its potential. That development is related to the identification of, and expanding skills. Knowledgeable human capital means the competitiveness of the organization in its advertising, an opportunity to develop and increase the quality of work, as well as a buffer between the interior organization and the outside environment.

The concept of competence management is closely related to human resource management and it happened after twenty years experience as a key conviction used to describe the behaviour of people in different types of organizations, directly related to the main provisions of human resource management - acquisition and improvement of highly competent people who have predispositions, can easily identify and outline your goals, and to a large extent have become compatible with the objectives of the enterprise.

The dictionary defines competence as a range of one's knowledge, skills and responsibility. In turn, a modified version of the Dictionary of Polish Language from 2005 defines competence as a range of powers of attorney and power, scope of the authority or entity; the scope of one's powers, skills and responsibility.

Competency management, as has been scientifically accepted is a very important part of human capital management. Certainly, this process has more advantages than disadvantages. The former include, first of all, targeting future or
current employees on development and improvement; demonstrating their strengths; adjusting the unit to a suitable workplace, where people will be more efficient and, perhaps, will carry out their task with passions; increasing employee satisfaction and identification with the company. The benefits are also evident for an organization that creates competency requirements (competency profiles); gaining staff prepared and properly matched to the tasks at certain positions; obtaining the apparent optimization of costs in relation to the development of the individual, and its effects, which translate into the value of the organization.

It is more and more obvious that paying attention to the employees, their skills, knowledge and attitudes should be a priority because you cannot undermine the argument that skilled staff together with its intellectual resource and a just attitude to work, to a large extent influence the results that can be achieved by the organization and create its image to the outside.

Summary

In summary, the modern management concepts have substantial impact on the functioning of public organizations. Although changes in such institutions seem to be a very difficult and risky task, the challenges of the modern world society require significant improvements of the processes. Therefore, the use of modern management methods allows the organization to adapt to the requirements of the environment, and thus contributes to a significant improvement in the quality of services.

Elementary concepts of management are very important because they are the foundation for creating modern ideas. However, the entire process of managing public organizations is essential to good qualities characterized by:

- Expressiveness, that is available to the public institutions and decision making processes;
- Participation, that is to increase public confidence in institutions and increase public participation in the political process;
- Simplicity, that is transparency roles and relationships of institutions in the legislative process
- And regulations;
- Harmony, that is compliance policies and measures, the involvement of political leadership, ensuring consistency and logic;
- Efficiency, that is the effective implementation of the objectives on the basis of past experience and forecasts of future events.
21. The Organizational Culture of City Offices in Poland

Introduction

The past 25 years in Poland was a period of profound change. Leaving the command economy system behind and the necessity to adjust legal regulations to EU requirements has left its mark on every social and economic sphere. The business sector’s peculiarity has meant that it adjusted to the new conditions very quickly. Managers of business organizations did not have any doubts that either they will adapt themselves to it, or their businesses will not survive confrontation with the free market. Since the beginning of the political transformation process, entrepreneurs have been rapidly implementing the latest management solutions. The process has been really painful and often connected with social anxiety. The wave of revolutionary changes has also left its mark on the public sphere. The most important impulse was the act of 24 July 1998 on implementing a three-tier division of the Polish country, indicating three fundamental organizational units, that is: gmina, powiat, województwo (commune, district, province). The development of new media, growing expectations and requirements of residents, but also the growth of officials’ aspiration indicated that the previous public administration management model ceased to be sufficient. Weber’s traditional set of rules does not fit the reality of the 21st century. More and more theorists, and particularly practitioners, pay close attention to the necessity of reaching for and copying typical business solutions to the public sphere.

In the context of the subject literature and survey-based researches were done, the main aim was to figure out among others the cultural awareness of managers in city offices in Poland and the solutions they use in managing their organizations. The research included city offices in Polish cities, in which the number of citizens were not greater than twenty thousand. Collectively, 522 correctly filled surveys from 174 offices were collected. The period when the research was held was between 2012-2013. The presented research was held within our own grant No. N N115 153239 called: „The formation of organizational culture in local government on the example of city offices”, funded by the National Science Centre.

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**564** Phd, University of Warmia and Mazury in Olsztyn, Poland.

**565** MA, University of Warmia and Mazury in Olsztyn, Poland.
Public Management in the Matter of Organizational Culture

The first elements of an organized administration are associated with ancient Egypt and China. However, we should look for the real beginning of public management in the 17th century, since the signing of peace in Westphalia, which ended the 30 Years War. Creating centralized organizations for performing professional services in the public sector took place in 1648. The next stages of traditional public management development are, among others, the Napoleonic Code, the Rechtsstaat but, above all, Weber’s ideal type of bureaucracy. M. Weber associates a public organization’s efficiency (first of all) with administrative rationality. These are its key indications: specialized administrative functions, assigning every function to a certain official, defining the scope of duties and responsibilities of every office, hierarchical organization, clearly stated career path of every official, written form of any certificate, decision, order, decree, separating workers from the means of production. As far back as the 1970’s, the Weber’s concept of bureaucracy had become insufficient in places where the economy had been developed to the highest level. While aiming to increase its efficiency, attempts to redefine it were undertaken. Two basic models were distinguished: administrative and public management - their most important distinguishing features are presented in table 21.1. Public management demands the implementation of a managerial approach, copying typical business solutions to the public sphere. In this model, one uses clearly stated criteria for evaluating the efficiency and effectiveness of an activity.

The factor that differentiates business sphere management and public administration is the difficulty in applying economic criteria for measuring results in the latter. However, the notion of justice becomes greatly important. Moreover, public sector institutions have limitations in the form of lower autonomy and flexibility because of the greater market complexity and problems they must solve. If one wants to increase the chance of success of the process of adaptation and implementation of solutions, one should follow these five main rules:

1. Concentrate on a mission and the scope of fulfilling the tasks.
2. Win over the stakeholders.

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3. Create a road map.
4. Accept the comprehensive approach.
5. Be a leader, not a bureaucrat.

Tab. 21.1. Administrative and public management model – comparison

<table>
<thead>
<tr>
<th>Features</th>
<th>Administrative model</th>
<th>Public management model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fundamental assumptions</td>
<td>Political science theory, popular social and political interpretations of the role of public organizations</td>
<td>Economic theory, the justification of the role of public organizations on the ground of positive social sciences theories</td>
</tr>
<tr>
<td>Managing style</td>
<td>Bureaucratic</td>
<td>Managerial</td>
</tr>
<tr>
<td>Organizational structures</td>
<td>Hierarchical, inflexible, centralized diversified</td>
<td>Flexible, organized around certain services</td>
</tr>
<tr>
<td>Directing the actions</td>
<td>Internally and into procedures, emphasis on the ethics of conduct</td>
<td>On the outside and the needs of stakeholders</td>
</tr>
<tr>
<td>Control</td>
<td>Mainly internal, focused on the procedures and regulations connected to spending money</td>
<td>Mainly external, focused on results control</td>
</tr>
<tr>
<td>Perspective of the measures</td>
<td>Short-term</td>
<td>Long-term</td>
</tr>
<tr>
<td>Aims of the measures taken</td>
<td>Consolidating law and order</td>
<td>Bringing about changes</td>
</tr>
<tr>
<td>The rule of managing</td>
<td>Imperative</td>
<td>Interactive</td>
</tr>
<tr>
<td>Mechanism of achieving the objectives</td>
<td>Administrating the programmes through existing government agencies</td>
<td>Creating mechanisms and structures for achieving set goals with the help of private and social agencies</td>
</tr>
<tr>
<td>Decision-making powers</td>
<td>Limited, given at a superior level</td>
<td>Great freedom in achieving business goals</td>
</tr>
<tr>
<td>Cooperating with the organizations from other sectors</td>
<td>Isolation</td>
<td>Partnership</td>
</tr>
<tr>
<td>State organization</td>
<td>Dominance of monocentric and departmental arrangements</td>
<td>Dominance of self-government and autonomous arrangements</td>
</tr>
</tbody>
</table>


Experiences from all over the world indicate that implementing the latest solutions in the field of management, can end up in success and can greatly raise the efficiency of public organizations. However, in order to fully use the potential they have, it is necessary not only to support the formal law machinery but, first of all, the organizational culture on the level of values and norms, which are actually
Researchers from the New Public Management indicate the element of growth of public administration efficiency, while the organizational culture is actively forming.

Forming the organizational culture actively and consciously in common business awareness functions at least from the mid-1980's. Wide research has shown that its key role was to make organizations function efficiently and properly. Introducing organizational changes without knowing it, vastly increases the chance of failure. In spite of a wide range of literature, one did not manage to create one, accepted definition of organizational culture, or its range of possible modifications. It is mainly because of the multidisciplinary character of research. In this chapter, the definition proposed by E.H Schein was used, who wrote: „The culture of a group can now be defined as a pattern of shared Basic assumptions that was learned by a group as it solved its problems of external adaptation and internal integration, that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems”.

**Cultural Profile of City Offices in Poland**

Organizational culture determines and defines the ability and the way every organization functions, including public organizations. Conscious and active forming of the desired model of values and norms becomes the key management ability. The specification of the public administration sector, including city offices, leads to the necessity of modification and adaptation of solutions used in business entities. In the research undertaken within our own grant No. N N115 153239, the organizational culture of city offices in Poland has been analyzed. The process of its formation has also been researched.

In the culture of the offices researched, two fundamental trends of values and norms were diagnosed. The first one is connected to the office ethics,

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572 In his classic model of organisational culture, E.H. Schein distinguished three levels, i.e.: assumptions, espoused values and norms, and artifacts. Assumptions constitute the deepest level of organisational culture. This level is not perceivable for the members of the organisation, is the most durable and most resistant to change. In the authors’ opinion, assumptions are impossible to change at organisation’s level. They define the fundamental aspect of culture and constitute its core. They are a set of axioms you cannot discuss with and you cannot judge. Espoused values mean something that, in its absolute sense or in the light of a certain set of values is precious and that constitutes (or shall constitute) an object of particular care and the aim of human efforts, as well as a criterion of evaluating human behaviour. A norm refers to a certain value that determines its limits. Norms are rules of conduct that are established and binding in a given society. Artefacts are artificial products of culture. All that can be seen, heard and felt when we enter the organisation. They are made on purpose and in the most obvious way allow for the identification of the members of the organisation or of particular subcultures.


574 More results are discussed in M. Siemiński, K. Krukowski, P. Szamrowski, *Kształtowanie kultury organizacyjnej w administracji publicznej na przykładzie urzędów miast*, UWM Olsztyn, Olsztyn 2014.
concentrating on professionalism, predictability and a continuation of previous solutions. The following values occur widely and have a high influence strength: honesty, punctuality, courteousness, ethics of conduct, equality, loyalty. Long years of operating in Weber's model is still visible. The given values have a positive nature, and as the research has shown, the evolutionary nature of changes creates an actual possibility of keeping these values. The dynamics of the surrounding changes means that the features like: flexibility, development, chasing new challenges become more and more meaningful, just as in the business entities. The second sector of identified values was called "the market's philosophy." The research results allow one to conclude that the process of developing pro-market attitudes in offices continues to exist. The following values are characterized by a high level of indications and a considerable level of influence: respect for a customer, willingness to expand one's knowledge, tendency to develop oneself continually (41,2%; 3,3), the ability to work in a group and set goals (41,6%; 3,4), adaptability (49%; 3,4) or autonomy (46%; 3,3). Among the people questioned, there is a conviction that the customer and the act of fulfilling his needs are the most important aims of the actions taken. Treating the customer like someone who disrupts the official's peace is unacceptable. It is expected from the official that he will be the initiator in his actions.

Tab. 21.2. Key values and norms identified in the researched offices

<table>
<thead>
<tr>
<th>Item</th>
<th>Specification</th>
<th>The level of influence</th>
<th>The frequency of indications</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Honesty</td>
<td>3,9</td>
<td>68,4%</td>
</tr>
<tr>
<td>2</td>
<td>Respect for the customer</td>
<td>3,9</td>
<td>65,9%</td>
</tr>
<tr>
<td>3</td>
<td>Punctuality</td>
<td>3,8</td>
<td>68,4%</td>
</tr>
<tr>
<td>4</td>
<td>Courteousness</td>
<td>3,7</td>
<td>56,3%</td>
</tr>
<tr>
<td>5</td>
<td>Ethics of conduct</td>
<td>3,7</td>
<td>60,5%</td>
</tr>
<tr>
<td>6</td>
<td>Respect for natural environment</td>
<td>3,7</td>
<td>58,6%</td>
</tr>
<tr>
<td>7</td>
<td>Equality</td>
<td>3,6</td>
<td>52,3%</td>
</tr>
<tr>
<td>8</td>
<td>Responsibility</td>
<td>3,6</td>
<td>45,0%</td>
</tr>
<tr>
<td>9</td>
<td>Professionalism</td>
<td>3,6</td>
<td>52,7%</td>
</tr>
<tr>
<td>10</td>
<td>Thriftiness</td>
<td>3,6</td>
<td>53,6%</td>
</tr>
<tr>
<td>11</td>
<td>Willingness to expand one's knowledge</td>
<td>3,5</td>
<td>53,6%</td>
</tr>
<tr>
<td>12</td>
<td>Consistency and perseverance</td>
<td>3,5</td>
<td>44,3%</td>
</tr>
<tr>
<td>13</td>
<td>The ability to work in a group</td>
<td>3,5</td>
<td>48,3%</td>
</tr>
</tbody>
</table>

Source: own study
* The following evaluation scale of the influence strength has been applied: 1 - unnoticeable influence, 5 - key influence

While planning the research, a hypothesis has been assumed that the factor, which increases the meaning of "market philosophy", will be the efficiency in raising
UE funds. The analysis of the results obtained, proved that there are no significant diversification in this field among city offices.

The identified characteristics of cultural standards in the researched offices indicate a broad convergence with the wide described determinant, found in literature, of organizational systems of business entities' values. To the greatest extent, the organizational culture, as viewed by the respondents, is formed by the president's (mayor's) personality. Later on, such factors were given: workers, citizen's expectations (customers), regulations, law, etc. What certainly is the diversifying factor, is the respondents' indication to the principle of rotation in office. Its influence has a dual character: it increases the pressure on the president (mayor) to increase the effort in taking actions towards the local community and gives rise to the risk of revolution within the values that are being promoted, in the case when change takes place of a key position. Legal conditions are the second element which decides about the peculiarity of cultural administration. The regulations in force - first of all - define the aims and tasks, that individual institutions have to face, and define their standards while prohibiting selective limitation of access to services because of the earning capacity. Secondly, they do not allow to fully make use of the capabilities of tools in the field of human resource management, for forming the desired cultural model.

Tab. 21.3. The most important determinants of the current cultural profile in the researched offices

<table>
<thead>
<tr>
<th>Item</th>
<th>Line labels</th>
<th>Influence strength*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The president's/mayor's personality</td>
<td>3,9</td>
</tr>
<tr>
<td>2</td>
<td>Legal conditions</td>
<td>3,8</td>
</tr>
<tr>
<td>3</td>
<td>Worker's level of education</td>
<td>3,7</td>
</tr>
<tr>
<td>4</td>
<td>Citizen's expectations</td>
<td>3,6</td>
</tr>
<tr>
<td>5</td>
<td>Current regulations and law</td>
<td>3,6</td>
</tr>
<tr>
<td>6</td>
<td>The mission, the office's ideas</td>
<td>3,5</td>
</tr>
<tr>
<td>7</td>
<td>Existing codes of ethics</td>
<td>3,5</td>
</tr>
<tr>
<td>8</td>
<td>The principle of rotation in office</td>
<td>3,4</td>
</tr>
<tr>
<td>9</td>
<td>City size</td>
<td>3,4</td>
</tr>
<tr>
<td>10</td>
<td>The feeling of pride in the work</td>
<td>3,4</td>
</tr>
</tbody>
</table>

Source: own study

The following evaluation scale of the influence strength has been applied: 1 - unnoticeable influence, 5 - key influence

The research results indicate that in the nearest future the values which strengthen the pro-market philosophy will be promoted. The most important ones are: responsibility (97,31%; 4,7), professionalism (98,5%; 4,7), thriftiness (97,3%; 4,7), respect for the customer (99,2%; 4,9), caring about his satisfaction level (3,3%; 4,7) and expanding the employee's knowledge (97,5%; 4,7). City offices' managers
notice the necessity and the inevitability of change and are able to determine the direction of change. The research results indicate that in the researched offices a favourable atmosphere has been created, for the process of preparing employees to the market.

A high level of awareness has been diagnosed among public managers regarding the meaning and role of the organizational culture for offices to function. A good knowledge in the field of influence of the organizational systems of values and norms on the functioning of individual units is particularly visible in the context of similar researches conducted among managers of big manufacturing companies from Warmia and Mazury (cf. Siemiński, 2008). The wide-ranging changes implemented in the city offices throughout Poland mean that the public managers have participated in many training programmes. Many of them focused on the organizational culture as the element of a permanent increase in the efficiency of organizations and as change of the negative behaviour of employees. Public managers understand that every change means interacting with the system of values. They are aware of the fact that the cultural factors have to be taken into account as early as the planning stage. Abandoning it, increases the risk level of the implemented changes.

**The Desired Cultural Model in the Researched City Offices**

The reasons for the implementation of changes in the researched offices mainly have an external nature. The most important reason was connected to the implementation of IT management systems (about 55% of indications). Undoubtedly the change has affected every office, and the range of the digitization of life, including the functioning of offices, will progress. The factor that was significant in the implementation of changes in Polish city office culture were the EU funds, and particularly the way of applying for these funds. Undergoing the competition procedure, fighting for non-refundable (in most cases) funds meant that it was not enough to have a good idea, but this idea had to be well prepared, described and "sold". Complicated analyses, particularly economic-financial, were often the reason to ask for the support of consulting companies. In the process of acquiring, realization and accounting of projects, the officials took part in many training courses. Municipalities seeking good practices were opening to the environment. Consequently, the process of "developing pro-market attitudes" started to concern the units and employees, which were directly engaged in raising the EU funds, but the investment scale, the range and diversity, caused that the positive effects have spread to other departments.

The factor that initiated the changes, specific to the cultural environment of the researched offices, is the change of ideas (27,8%), the change of strategy (33,5%) of operation after the municipal election. The principle of rotation in office meant that in the case of an unfavourable settling which would be disadvantageous
for the current president (mayor), most often the changes are far-reaching. There are two key consequences of this change, from the cultural point of view: a new vision, concept of the municipality development and how the office will function, and most often it is replacing a part of the key personnel in the office.

According to the respondents, implementing modern management systems (including quality standardization [27,2%]) was the important factor that initiated the process of cultural changes. An innovative approach to quality matters, from the point of view of the experience acquired by officials, indicating the key role of a customer - citizen to fulfill the tasks properly, were the impulse factors for change. Moreover, numerous training courses effectively popularized the knowledge of cultural factors regarding the way the offices function.

The research indicates that the process of forming the market philosophy of a public organization, based on knowledge, continues to exist. Actions undertaken by the public managers constitute the proof of this, among others. Among the most important values that are implemented, respondents indicated the promotion of autonomy, initiative, entrepreneurship, time management abilities, the ability to set goals and the ability to work in a group of people. These actions stem from the diagnosed direction of change in the entourage and from predicted challenges. Creativity and openness to new challenges - these are the features which are expected from an official of the 21st century. The current model, which consists of undertaking procedures faithfully, passively waiting for commands from a superior, is becoming outdated.

**Tab. 21.4. Key values and norms being implemented in the researched offices**

<table>
<thead>
<tr>
<th>Item</th>
<th>Line labels</th>
<th>Success in implementing</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Risk taking</td>
<td>40,6%</td>
</tr>
<tr>
<td>2</td>
<td>Autonomy</td>
<td>39,7%</td>
</tr>
<tr>
<td>3</td>
<td>Assertiveness</td>
<td>39,3%</td>
</tr>
<tr>
<td>4</td>
<td>Adaptability</td>
<td>39,0%</td>
</tr>
<tr>
<td>5</td>
<td>Delegating tasks</td>
<td>38,9%</td>
</tr>
<tr>
<td>6</td>
<td>Openness</td>
<td>38,5%</td>
</tr>
<tr>
<td>7</td>
<td>Ambition</td>
<td>38,4%</td>
</tr>
<tr>
<td>8</td>
<td>Emphaty</td>
<td>38,3%</td>
</tr>
<tr>
<td>9</td>
<td>Cross-cultural abilities</td>
<td>37,8%</td>
</tr>
<tr>
<td>10</td>
<td>Thriftiness</td>
<td>37,8%</td>
</tr>
</tbody>
</table>

Source: own study

Long years of operating in the Weber's system of office management concedes that the employees do not always openly talk about their opinions, judgments and evaluations. While building a public organization based on knowledge, the process of the change of behaviour in this field has been initiated.
in the offices. In order to strengthen the message, efforts were made to instill self-esteem and confidence in the employees.

In the researched offices, in the process of modification of the current systems and norms and values, a range of 29 instruments were used. The solutions directed straight to the employees were characterized by the highest effectiveness. Informal meetings, social consultations, increasing the intensity of using the internal channels of communication allowed the employees to familiarize themselves with the needs, scope and aims of the proposed transformations. Public managers supported them in this difficult period of preparation and implementation of changes. On the other hand, strengthening discipline and imposing one's will, turned out to be effective. This is a sign of strong habits, resulting from long years of functioning according to Weber's concept of office operation, where the employees had to follow their superior's orders; and being critical or their own initiative were unwelcome.

**Tab. 21.5. The most important methods and techniques used in the process of implementing changes in the researched offices**

<table>
<thead>
<tr>
<th>Item</th>
<th>Line labels</th>
<th>The frequency of indications</th>
<th>Effectiveness of actions*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Employees' evaluation system</td>
<td>74,1%</td>
<td>3,7</td>
</tr>
<tr>
<td>2</td>
<td>Actions that promote the selected norms and values</td>
<td>67,0%</td>
<td>3,8</td>
</tr>
<tr>
<td>3</td>
<td>Changes in the organizational structure</td>
<td>64,2%</td>
<td>3,9</td>
</tr>
<tr>
<td>4</td>
<td>Using an internal network of communication</td>
<td>63,4%</td>
<td>3,9</td>
</tr>
<tr>
<td>5</td>
<td>Formalizing the socialization</td>
<td>60,9%</td>
<td>3,8</td>
</tr>
<tr>
<td>6</td>
<td>Remuneration system</td>
<td>60,0%</td>
<td>3,8</td>
</tr>
<tr>
<td>7</td>
<td>Increasing the range of information being passed on</td>
<td>58,6%</td>
<td>3,7</td>
</tr>
<tr>
<td>8</td>
<td>Informal meetings</td>
<td>57,9%</td>
<td>4,0</td>
</tr>
<tr>
<td>9</td>
<td>Strengthening discipline</td>
<td>57,1%</td>
<td>3,9</td>
</tr>
</tbody>
</table>

Source: own study

* The following evaluation scale of the influence strength has been applied: 1 - insignificant factor, 5 - key factor

The respondents' opinion is that a well prepared preparatory process and the implementation of employees in that process were the main factors, which led to the success of the implemented changes. In order to make use of the officials' potential, the managers were passing on information to them, about the causes and aims of changes, therefore building an atmosphere of trust and mutual respect. The employees knew and understood the tasks they had to face and their meaning in the process, and in case of any doubts, they could obtain first hand information. Respondents emphasize that the meaning of training courses was vital and helped them to dispel the employees' fears regarding the ability to face new challenges. Public managers emphasize the benefits of presenting proven solutions in partner cities.
Tab. 21.6. Success factors in the process of implementing changes in the researched offices

<table>
<thead>
<tr>
<th>Item</th>
<th>Specification</th>
<th>The level of influence*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>A well prepared change</td>
<td>4,0</td>
</tr>
<tr>
<td>2</td>
<td>Bringing employees into the process of designing and implementing changes</td>
<td>4,0</td>
</tr>
<tr>
<td>3</td>
<td>Passing on all information to the employees about the causes and aims of actions</td>
<td>3,9</td>
</tr>
<tr>
<td>4</td>
<td>A wide range of training courses for employees</td>
<td>3,9</td>
</tr>
<tr>
<td>5</td>
<td>Determination in the implementation of changes</td>
<td>3,9</td>
</tr>
<tr>
<td>6</td>
<td>Showing the employees the actual benefits of implemented changes</td>
<td>3,8</td>
</tr>
<tr>
<td>7</td>
<td>Remuneration for those, who were engaged (to the greatest extent) in the process of implementation of changes</td>
<td>3,8</td>
</tr>
<tr>
<td>8</td>
<td>Creating an atmosphere of trust between the decision-makers and employees</td>
<td>3,8</td>
</tr>
<tr>
<td>9</td>
<td>Bringing informal leaders into the process of designing and implementing changes</td>
<td>3,7</td>
</tr>
<tr>
<td>10</td>
<td>Creating an atmosphere of openness, mutual trust, favourable, authentic exchange of thoughts, ideas, and solutions</td>
<td>3,7</td>
</tr>
<tr>
<td>11</td>
<td>Entrusting the authoritative people with the implementation of changes</td>
<td>3,7</td>
</tr>
</tbody>
</table>

Source: own study

*The following evaluation scale of the influence strength has been applied: 1 - insignificant factor, 5 - key factor

The resistance during the implementation of changes has occurred in no more than one in four cases and had a relatively low strength of influence. Collectively, eighteen reasons were diagnosed, from which three had a common character, that is: fear of the unknown, preferring the current system and aversion to change.

Tab. 21.7. Signs of resistance in the researched offices

<table>
<thead>
<tr>
<th>Item</th>
<th>Specification</th>
<th>Key factor, important</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>&quot;Waiting for the end of it&quot;</td>
<td>47,9%</td>
</tr>
<tr>
<td>2</td>
<td>Not following the new procedures</td>
<td>46,0%</td>
</tr>
<tr>
<td>3</td>
<td>Decrease in discipline</td>
<td>44,2%</td>
</tr>
<tr>
<td>4</td>
<td>Lack of work involvement</td>
<td>43,6%</td>
</tr>
<tr>
<td>5</td>
<td>Withdrawing into oneself</td>
<td>41,7%</td>
</tr>
<tr>
<td>6</td>
<td>Spreading gossip</td>
<td>41,7%</td>
</tr>
<tr>
<td>7</td>
<td>Searching for problems</td>
<td>41,1%</td>
</tr>
<tr>
<td>8</td>
<td>Increased number of days on sick leave</td>
<td>33,1%</td>
</tr>
<tr>
<td>9</td>
<td>Debating the point of changes, their usefulness</td>
<td>30,1%</td>
</tr>
<tr>
<td>10</td>
<td>Work-to-rule action</td>
<td>19,6%</td>
</tr>
</tbody>
</table>

Source: own study
Signs of organizational resistance were typical for this kind of situation. Mostly, denying actions, decreasing discipline and lack of involvement in the work. Employees, who learned from their experiences think that it is better not to reveal their true emotions. Despite the fact that the declarations were made regarding the intensification of training courses, everyday support for those who will benefit from the changes, such behaviour as withdrawal or spreading gossips was also observed. Such behaviour is most of the time the consequence of excessive concentration of the promoter of changes on procedures, tasks and not noticing the people and their problems.

**Tab. 21.8. Tools for breaking organizational resistance in the researched offices**

<table>
<thead>
<tr>
<th>Item</th>
<th>Line labels</th>
<th>The frequency of indications</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Explaining the causes and aims of transformations</td>
<td>91,2%</td>
</tr>
<tr>
<td>2</td>
<td>Creating an atmosphere of openness, trust</td>
<td>86,0%</td>
</tr>
<tr>
<td>3</td>
<td>Modifying the employees' evaluation system</td>
<td>85,4%</td>
</tr>
<tr>
<td>4</td>
<td>Direct conversation with employees</td>
<td>83,2%</td>
</tr>
<tr>
<td>5</td>
<td>Showing the employees the actual benefits</td>
<td>82,0%</td>
</tr>
<tr>
<td>6</td>
<td>Increasing the number of training courses</td>
<td>82,0%</td>
</tr>
<tr>
<td>7</td>
<td>Employees' involvement in the changes</td>
<td>81,7%</td>
</tr>
<tr>
<td>8</td>
<td>Changes in the organizational structure</td>
<td>81,1%</td>
</tr>
<tr>
<td>9</td>
<td>Re-organizing the organizational cells</td>
<td>79,6%</td>
</tr>
<tr>
<td>10</td>
<td>Spreading information about success</td>
<td>78,7%</td>
</tr>
<tr>
<td>11</td>
<td>Remuneration for those who were involved in the changes</td>
<td>78,4%</td>
</tr>
</tbody>
</table>

Source: own study

It turned out that the most effective actions in breaking the resistance were directed at the intensification of the amount of information passed on to the employees about changes, at every stage of the implementation. The actions taken were directly connected to the diagnosed reasons for resistance. Respondents emphasized that the key role was: creating an atmosphere of trust and cooperation in order for the employees to be able to express their opinions. Comments expressed by the beneficiaries of changes were the cause of their modification in the middle of attempts taken, which indicates the actual, non-declaratory character of this cooperation. The feeling of having an actual influence on the implemented solutions, awareness of being an entity strengthens the atmosphere of trust. Public managers indicated a high effectiveness of strengthening discipline, supervision and consistency in actions regarding breaking the resistance. On the one hand, it can result from a bigger influence of Weber’s model than diagnosed, in which discipline and control take place on a daily basis. On the other hand, the effectiveness of these methods in a longer perspective can be questionable.
because implementing new values by force is more expensive to keep, especially if the implemented changes are not coherent with the current culture.

Summary

The research results indicate that public managers have a wide knowledge about the role and meaning of organizational culture for the efficiency, as well as for the quality of the office's functions. The diagnosis of an existing cultural profile indicates that two main trends can be differentiated: connected to the so called officials' ethics and to the "market philosophy". The analysis of key values and norms indicated by the respondents allows one to state that, in the nearest future, the process of developing pro-market attitudes will continue to exist. Speeding up the process of changes in the entourage, new and continually changing challenges, permanently increasing customer expectations result in the fact that the process cannot be ceased. An official from the 21st century is expected to be creative, entrepreneurial, autonomous, willing to develop himself continually but also be able to work with a group of people.

Managers very carefully prepare themselves for the process of forming organizational systems of values. The changes are rather more evolutionary in nature than revolutionary. A low level of organizational resistance, in terms of scale and range, is a consequence of using the full spectrum of tools, especially those connected with passing on full and reliable information regarding the need, aim and scope of changes. The authors believe that, still, the key element is bringing the beneficiaries actively into the whole process of changes, from the planning stage, by implementation and further consolidation. Without a full and reliable communication process and an atmosphere of trust, cooperation and self-consciousness, and without the officials' will to strengthen their knowledge and abilities, it would not be possible.

To sum up, the process of implementing business solutions into Polish city offices continues to exist. Public managers are characterized by a high level of knowledge regarding the scope and role that the organizational culture plays in the success of a certain unit. Changes in the system of values and norms are being made, promoting more and more individual officials, responsibility for actions and the desire to fulfill customers' needs. The process of implementing pro-market culture into the city offices is definitely not an easy process and will take many years. However, taking into account the process of changes in the entourage, it is the point of no return.
Summary

Although management issues of both the private and public sectors are very comprehensive, determination of their trends and directions are extremely important. Selected topics of the monograph, "Current Trends in Management - Business and Public Administration" are assessed as being extremely vital and constitute the steady present current of research. Processes of globalization, capital flow and increased levels of competition make necessary the search for new, more efficient management methods and tools.

Today's organizations are looking for effective management measures that will guarantee not only their survival but also their progressive development in conditions of a dynamically changing environment. Organizations that closely follow fluctuations in the environment and adapt to those shifting conditions will be able to adequately take advantage of emerging opportunities and ultimately achieve success.

The book presents specific issues concerning directions and trends in management. Proper tools that will help improve long-term management are presented. These principles apply both to private companies as well as to agencies in the public sector.

New trends that have emerged in management sciences, which are presented in the book, relate primarily to increasing productivity, competitiveness and management efficiency. The two main parts of the book, 1) Management in Business and 2) Management in Public Administration, observe trends in management in both of these sectors. Business management focuses on developing methods and trends that empower an increased level of competitiveness and ensure long-term growth. On the other hand, trends of change in public administration management focus primarily on the use of tools that will increase financial productivity.

Parts of the book:
- Management in Science and Business Practice
- Modern Trends in Management
- Challenges for Business -- Research Results
- Public Finance Systems at the European, National and Regional Level
- Regional Development Challenges and Solutions

provide the reader with interdisciplinary knowledge of emerging trends in management and allow for an in-depth interpretation of the issues contained in individual studies in the chapters.

Changes in the economic environment demand adjustments in systems of organization management in both the private and public sectors. Therefore, identifying trends and courses of action is an extremely vital task for management science and should be utilized in practical ways for effective management.
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