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## INTRODUCTION

Service sector, in a global and European aspect, as well as in Poland, constantly strengthens its position within the economy's structure. The natural cause of the phenomenon is a necessity of intensification of researches in that field. A dynamic development of the scientific researches (led by economic environments in Poland) in this sector have been noticed within the last few years. First scientific conference "Usługi 2008" ("Services 2008"), organized by two scientific environments of cities of Szczecin and Poznań, was dedicated to mentioned issues. Conference proceedings, published by the University of Szczecin in the two-volume publication, prove the variety of economic researches on the service sector. At this moment I would like to thank all the people involved in the conference organization, participants and authors of articles and especially panelists, for their effort put in the scientific meeting that integrated environments of scientists interested in the subject of services in Poland.

Second conference "Service organizations management. School of the new recognition." will be held in June 2009, this time organized by the Department of Services of the Faculty of Management, University of Economics in Poznań in the cooperation with the Faculty of Management and Economics of Services, Szczecin University. Therefore, the thematic range of the conference stays in accordance with the field of interests of the authors of articles in Scientific Journal "Service Management".

Fourth Scientific Journal "Service Management" is a continuation of issues taken up in the previous publications. Scientific articles (presented in the previous and already constant structure) were prepared by the authors representing universities which lead researches on the service sector and provide education in this field.

At the same time, I would like to invite to preparation of new scientific articles staying within the scope of interests of the Journal, for the Journal's next editions.

*Aleksander Panasiuk*



# *Chapter I*

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## *SOCIAL-ECONOMY POLICY IN SERVICES*



MAGDALENA MAJCHRZAK  
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## **PERSPECTIVES OF BUSINESS SERVICES DEVELOPMENT IN THE EUROPEAN UNION**

### **Introduction**

To a large extent the services conditioning economics, social and cultural progress are in a close relation with the social – economical transformations. “The development of services sphere is a certain correctness of economic development and the rate of the services development is one of the exponents of social and economic progress”<sup>1</sup>. Not only the service sector has more and more meaning in estimating the rate of country development but also some structural changes occurring around this sector. The indication of a high level of the social – economic development of a country is a gradual loss of meaning of some traditional branches of the services on one hand (e.g. vesicle services, saddler services, potter services and shoemaker services) and the growth of the roles of some modern branches on the other hand<sup>2</sup>. The development of the services sector is one of the tendencies existing in contemporary economies. The services sector is a huge area of human activity what can be proved by fulfilling its different functions. This area is increasing because of appearing of new sorts of services which were unknown or with a little accessibility. The biggest group of those new services are business services.

During the period of the central planned economy business services in Poland did not have the right to exist and the specialists from marketing branch, management and financial consulting and other modern branches did not get jobs. Free market economy forced many companies to be administrated more efficiently and that caused that companies were more interested in the specialists servicing business services. However, during this period Polish labor market had not been prepared to such types of activities and that is why national companies largely used advisors from other countries in Europe and the USA.

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<sup>1</sup> M. Rylke: *Organizacja usług w gospodarce narodowej*. PWE, Warszawa 1970, p. 26.

<sup>2</sup> More about transformations taking place in the service sector: L. Kulczewska: *Przeobrażenia zachodzące w usługach biznesowych w latach 1993–1996*. „Handel Wewnętrzny” 1998, No. 3.

### Definition and classification of business services

Business services (which at the beginning of twentieth century were defined as subgroup<sup>3</sup> among the circum business services) constitute very non – homogeneous group of activities. As a criterion defining the meaning is the type of clients to which such services are sent. They are the services directed not to final clients but rather to companies. They shape the competitiveness of enterprises e.g. due to profits connected with quality and innovation as well as consequent the interaction between a supplier, a client and a service. The characteristic feature of the business services is the fact that most of them may be fulfilled internally in the enterprise frames or commission (by *outsourcing*) to on external enterprise.

The business services is the group varied internally and it includes some professional service (for example in the range of accountancy and law), services with the high added value (e.g. advising in management), services referring to employees (e.g. recruitment, changing profession, temporary work) and services supporting initiative including services with the low added value (e.g. cleaning, guarding). An example which catches attention can be the division classification of business services used in the documents of European Union.

**Table 1.** Business services according to EUROSTAT classification

Classification of activities according to NACE	Defining a kind of activity	Basic sorts of activities
72.1-6	information technology service	consulting in the range of computer equipment, consulting in the range of software, data processing, activities connected date base
74.11, 74.12, 74.14	professional service	juridical activity, accountancy and bookkeeping activity tax advising, advising in the range of leading management and economy activity
74.13, 74..4	marketing service	market studying, advertising
74.2, 74.3	technical service	activity in the range of architecture, engineering studying and technical analyzes
71.1, 71.21-23, 71.31-33	rent service ( leasing hiring )	renting of transport and building equipment, hiring of machines and office facilities including computers
74.5	employment exchange services	staff recruitment and other
74.6, 74.7	service activity (operational)	investigation – detective and protection activity, cleaning and tiding objects
74.81-84	other activity (the rest of commercial services)	secretary's office, language translations photographing, packing fair and exhibition organizing

**Source:** A. Masłowski: *Usługi biznesowe w gospodarce krajów Unii Europejskiej*. „Handel Wewnętrzny” 2004, No. 2, p. 52.

<sup>3</sup> According to European Classification of Economic Activity NACE, p. 70–74, (see: European Economic and Social Committee, *Interactions between services and European manufacturing industries*, Brussels, September 13, 2006).

Heterogeneous character of the business services sector reflects itself in the functions fulfilled by these services in an enterprise. Each meaningful function has got own equivalent in a business service (compare table 2).

**Table 2.** The most important services for enterprises (functional approach)

Function in enterprises	Main business services
Administration	<ul style="list-style-type: none"> <li>– advising in the area of management,</li> <li>– law services,</li> <li>– audit and accountancy</li> </ul>
People resources	<ul style="list-style-type: none"> <li>– temporary work,</li> <li>– employees recruitment,</li> <li>– professional training</li> </ul>
Management of teleinformation systems	<ul style="list-style-type: none"> <li>– computers and information technology services</li> <li>– telecommunication</li> </ul>
Marketing and sales	<ul style="list-style-type: none"> <li>– advertisement</li> <li>– distribution</li> <li>– public relations</li> <li>– fairs and exhibition</li> <li>– after sales services</li> </ul>
Financial exchange	<ul style="list-style-type: none"> <li>– banking</li> <li>– insurance</li> <li>– hiring and leasing</li> </ul>
Production and technical function	<ul style="list-style-type: none"> <li>– engineering and technical services</li> <li>– quality inspection and tests</li> <li>– services in the range of B+R</li> <li>– industrial design</li> <li>– conservation and repair of appliances</li> </ul>
Transport and logistics	<ul style="list-style-type: none"> <li>– logistics</li> <li>– transport services</li> <li>– courier sending</li> </ul>
Ancillary – service activity	<ul style="list-style-type: none"> <li>– guarding service</li> <li>– cleaning</li> <li>– catering business</li> <li>– environment services</li> <li>– waste export</li> <li>– energy and water supply</li> <li>– real property ( warehouses)</li> </ul>

**Source:** The report of European Commission concerning competitiveness of circum business services and its contribution on results of European enterprises, COM (2003)747, Annex 1, [http://europa.eu.int/eur-lex/en/com/cnc/2003/com2003\\_0747en01.pdf](http://europa.eu.int/eur-lex/en/com/cnc/2003/com2003_0747en01.pdf).

In the table 2 classifications of business services are made according to functional approach. In one part of the mentioned services dominates product factor in other part information factor. Their common feature is the service of different kinds of economy activity.

### Place of business service in european economy

Business services constitute more and more meaningful part of the European market economy. The development of this sector results among others from employment migration from the rest two sectors of economy (mainly from industry sector) to service sector because of: outsourcing function of services, increasing competitiveness in the global markets and emerging

of new sorts of services. Participation of business services in creating new added value in the countries of UE is relatively high. In 2002 it oscillated in the range of 11,1% (constant prices of the year 2000) in the case of Germany and 24,7% in the case of France. This index in the case of Poland is forming at the level of 13,8%, Hungary 17,7% and Belgium 22,5%<sup>4</sup>.

In the last decades employment in the business services also increased very dynamically. In the years 1979- 2002 a yearly rate of the growth was about 4,5% exceeding in this way the level of growth in the other sectors of economy. In 2003 the participation of employment in business services was forming at the level of 9% in UE and 8,6% in the countries of UE (compare table 3).

**Table 3.** The yearly rates of growth of business services employment to ear 2002, in comparison with the whole economy

Country	Whole economy	Business services	Properties	Hiring	Specialists services	Contacts B+R	Teleinformation services	Operation services
Luxembourg	2,6	7,6	5,2	4,4	7,5	6,5	12,4	7,4
Portugal	0,4	6,9	6,5	5,5	6,7	7,7	8,1	7,0
Ireland	2,0	6,4	5,3	4,6	6,0	0,8	10,5	6,5
Italy	0,5	6,4	4,4	8,0	6,1	4,1	6,5	6,7
Germany	0,6	5,3	4,2	3,4	4,5	2,9	6,5	5,8
Finland	0,1	5,4	1,0	1,6	4,3	3,3	8,5	6,0
Spain	1,1	5,4	3,7	6,0	4,9	3,2	7,4	5,8
Holland	1,6	4,7	3,7	5,3	4,1	3,4	8,1	4,7
Austria	0,3	4,8	1,4	2,6	4,3	4,0	9,6	4,8
Sweden	0,2	4,7	1,2	2,7	4,3	4,2	6,1	4,7
Great Britain	0,8	4,6	5,9	3,4	4,2	4,0	8,1	4,8
Ukraine	0,4	3,3	4,8	2,2	2,8	0,4	6,9	3,5
France	0,5	3,2	1,3	4,1	2,5	1,7	4,7	3,8
Denmark	0,3	3,1	1,5	2,8	1,8	-0,8	5,8	4,3
Belgium	0,3	3,6	3,9	0,9	3,2	-1,7	5,0	4,0
UE15	0,6	4,4	3,3	3,3	3,9	1,7	6,4	4,7
US	1,4	4,7	1,6	3,5	3,5	2,9	8,8	5,3

**Source:** European Economic and Social Committee, *Interactions between services and European manufacturing industries*, Brussels, September 13, 2006.

Dynamic growth of employment in the group of business services is a feature of modern states. Employment in this sector using specialist knowledge will probably still rise and it can be expected that this growth will be the biggest in new member countries. This sub sector due to using teleinformation technology will gain a new form which will be the answer to growing requirements and expectation of clients. A pressure connected with raising the range of market and growing quality of served services may promote the selection of served services by electronics. Whereas the further willingness of limiting costs of delivered services will encourage other branches to serve business services by electronics. So far this field has been used by among others enterprises which serve services in the range of advising of different services in the range of advising of different kinds, exchanging jobs and software.

<sup>4</sup> Comp. K. Kłosiński, D. Mongiało: *Usługi biznesowe w Unii Europejskiej na przełomie wieków*. „Wiadomości Statystyczne” 2005, No. 12.

### **The directions of development of business services In the european union**

Business services constitute an important part of the European market economy. It happens so as a result of joining them to each stage of value chain, employment migration from manufacturing industry to services, functions outsourcing of services and also some changes in production systems, stronger competitiveness in the world markets and bigger role of knowledge, what promote creating new sorts of services. According to *Structural Business Statistics* in 2001 the participation of business services sector (including financial services) in total employment in market economy was 53%, while in production – 29%. The entire added value of circum business services in the same year was 54% while in case of production – 34%<sup>5</sup>.

In next years the further growth of this sector can be expected. It will happen as a result of undertaking business services by growing number of enterprises. They offer not only after sales services but they create added value by selling to other enterprises in the frame of their activity and knowledge of the engineering area and innovation processes. A new, hybrid model of the enterprise leading its own manufacture- service activity is arising. The ability of service of additional service often gives competitive advantage to an enterprise. Similar functions are fulfilled by innovations and they can be also stimulated by business services. In this place one must pay attention on a particular role of service engineering which concerns with the systematic developing and projecting services and also some different aspects of managing of service operation and problems connected with the services in the range of general management B+R and innovations. “Co- engineering” of goods, software and services may turn out a permanent feature of this sector. Moreover, following harmonization of standards dealing with the services will lead to specification improving and more effective developing of next new sorts of services.

The fact of the growth the meaning of the electronics business services seems to be essential. Thanks to using teleinformation technologies and coming on more intensive service providing by using the Internet, business services are taking a new shape nowadays. The services connected with the software researching- developing works, services in the ranges of human reserves and job exchange, and also all ranges of services are serviced using electronics. This effect arises from new requirements and needs of clients, from willingness to tighten constraints between them and also from possibility of limiting costs of activity due to cheaper service provision and using scale economy. There is a pressure on increasing the range of market and developing market. In spite of the fact that in the countries of UE most business services are serviced by national suppliers, the change of this tendency can be expected. The part of services can be entrusted to foreign service suppliers on widely comprehended rank including new member- countries and even standing- countries (*near- shoring*) and the part can be serviced on the global scale (*offshore outsourcing*). Europe can even get rational advantages in connection with off shoring on condition of a proper preparing for providing and exporting to other countries of the world high quality services. International *off* shoring of business services concentrates mainly on activities of a type *back - office* (that is teleinformation, financial accountancy - bookkeeping and *call – centres* services). Technology development, access of high – qualified employers *and* costs accompanying them on global market may cause that UE will not hold its position in the range of business services, particularly those of high added value (researches, analyses, IT engineering). That constitutes a serious challenge for European labor market which

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<sup>5</sup> Comp. European Economic and Social Committee, *Interaction between services and European manufacturing industries*, Brussels, September 13, 2006.

will have to provide more possibilities of employment on high – qualified positions, preventing the problem of unemployment in this way. The EU can expect strong competition in this range from the side of economies that have an advantage in the range of cost and to which European sector of business services has already lost a lot of labor places (e.g. India).

## **PERSPEKTYWY ROZWOJU USŁUG BIZNESOWYCH W UNII EUROPEJSKIEJ**

### **Streszczenie**

Usługi biznesowe stanowią ważną część europejskiej gospodarki rynkowej. Rozwój sektora usług biznesowych zwykle tłumaczy się migracją zatrudnienia z przemysłu wytwórczego do usług ze względu na *outsourcing* funkcji o charakterze usług. Niemniej jednak przyczyn tego wzrostu jest wiele. Istotnymi czynnikami wzrostu są również zmiany w systemach produkcyjnych, zwiększenie elastyczności, silniejsza konkurencja na rynkach światowych, coraz większa rola ICT oraz wiedzy, czy też powstawanie nowych rodzajów usług. Usługi biznesowe przybierają obecnie nowy kształt dzięki zastosowaniu technologii teleinformatycznych oraz przechodzeniu na bardziej intensywne świadczenie usług za pośrednictwem Internetu. Nacisk kładziony jest na usługi świadczone drogą elektroniczną, takie jak usługi związane z oprogramowaniem komputerowym, pracami badawczo-rozwojowymi i testami technicznymi, usługi doradcze oraz w zakresie rozwoju zasobów ludzkich i pośrednictwa pracy.

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## UNIVERSAL POSTAL SERVICE AND LIBERALIZATION OF THE EU AND CZECH POSTAL SECTOR

### Introduction

The Universal Service Obligation (USO), which means obligation of providing universal postal service, has been an integral feature of postal service for many years.

Its origin can be traced back to 1817 with the implementation of the reforms of Maxmilian of Ottenfeld, the director of the top court postal administration in Viena and next (in 1840) with the implementation of the reforms of Rowland Hill in the form of the Penny Post in the United Kingdom. One of the most important innovations from that time was a prepayment by means of a stamp. It had the benefit of dramatically reducing transactions costs since the price was collected up-front from the sender (by means of a prepaid stamp), rather than from the addressee on delivery. It made mail service affordable to the entire population. For the price of a stamp, delivery anywhere in the country was provided. Thus, the twin notions of ubiquitous delivery and uniform price inherent in the USO evolved, and these have remained an integral part of the USO ever since.

Liberalization of the postal sector means gradual reduction of the reserved area (traditionally defined in terms of weight or value thresholds) given to Universal Service Providers (USPs) as a compensation of providing universal postal service at uniform price and with ubiquitous delivery. Because the USPs revenues from services within the reserved area represent most of their total revenues, the reduction of the reserved area could be a threat to their financial viability.

In other words, the reserved area, given to USPs, prevents entrants from entering the low-cost markets (this is usually referred to as “cream skimming”), because the high-cost markets (delivery to rural area) will probably not be attractive for potential entrants. So the major concern of full postal market liberalization is: will creaming-skimming entry so undermine a USP’s ability to fund its USO that its financial viability is threatened?

This concern is more relevant in the case of states that are not adequately prepared for liberalization of postal market and in the case of states where the number of postal items delivered per inhabitant is low.

In the case of the Czech Republic both of these conditions are unfortunately fulfilled. According to the results of the PriceWaterhouseCoopers (consulting company) study from 2006 year, the Czech Republic is even the last but one state from EU-27 (ahead of the last Romania) concerning the preparation to full market opening of the postal market.

In order to ensure the maintenance of universal service, it is necessary to find adequate ways of USO funding in conditions of full postal market opening.

### **Legal framework of the postal services sector**

The most important rules of law within the EU postal services sector are following Directives and Notices:

- Directive 97/67/EC of the European Parliament and of the Council on common rules for the development of the internal market of Community postal services and the improvement of quality of service (next Postal Directive),
- Notice 98/C 39/02 from the Commission on the application of the competition rules to the postal sector and on the assessment of certain State measures relating to postal services,
- Directive 2002/39/EC of the European Parliament and of the Council of 10 June 2002 amending Directive 97/67/EC with regard to the further opening to competition of Community postal services.

The discussion on Community scale associated with the novel of Postal Directive, whose statutory text is valid until the end of 2008 year is in progress just at this time. This Postal Directive (the most important directive for the postal sector) establishes common rules concerning:

- the provision of a universal postal service within the Community,
- the criteria defining the services which may be reserved for USPs and the conditions governing the provision of non-reserved services,
- tariff principles and transparency of accounts for universal service provision,
- the setting of quality standards for universal service provision and the setting-up of a system to ensure compliance with those standards,
- the harmonization of technical standards,
- the creation of independent national regulatory authorities.

It is incumbent upon all Member States to transpose stipulations of these Directives to relevant national rules of law. The stipulations of Notices from the Commission are not obligatory for Member States regardless the Commission imposes considerable pressure upon Member States to respect them.

The most important rules of law within the postal services sector of the Czech Republic are following Acts and Government Orders:

- Act No. 29/2000 on Postal Services, as amended by Act No. 517/2002 Coll., Act No. 225/2003 Coll., Act No. 501/2004 Coll., Act No. 95/2005 Coll., Act No. 413/2005 Coll. and Act No. 444/2005 Coll.,
- Government Order No. 512/2005 Coll., on determination of the scope of postal authorization,
- Governmental Order No. 469/2000 laying down the content of individual trades, as amended by Government Decree No. 491/2004 Coll., Government Decree No. 100/2005 Coll. and Government Decree No. 324/2006 Coll.

Act on Postal Services is the most important for Czech postal services market. In compliance with the law of the Community this Act regulates the terms for providing and operating the postal services and the rights and obligations arising in providing and operating postal services, as well as special rights and special obligations of such postal service operators who shall have the obligation of providing the basic (universal) services.

### **Universal postal service**

All Member States are surely interested in providing universal postal service in their territory, because postal services are generally taken as the social services that should be accessible for all users without any discrimination. This is in compliance with clause 1, Article 3 of the Postal Directive, which sets that “Member States shall ensure that users enjoy the right to a universal service involving the permanent provision of a postal service of specified quality at all points in their territory at affordable prices for all users”<sup>6</sup>.

Other clauses of Article 3 of Postal Directive set that “Member States shall take steps to ensure that the density of the points of contact and of the access points takes account of the needs of users”<sup>7</sup> and “Member States shall take steps to ensure that the USPs guarantee every working day and not less than five days a week, save in circumstances or geographical conditions deemed exceptional by the national regulatory authorities, as a minimum: one clearance and one delivery to the home or premises of every natural or legal person or, by way of derogation, under conditions at the discretion of the national regulatory authority, one delivery to appropriate installations”<sup>8</sup>.

Clause 4 of Article 3 of Postal Directive next sets that universal service includes the following minimum facilities:

- the clearance, sorting, transport and distribution of postal items up to two kilograms,
- the clearance, sorting, transport and distribution of postal packages up to 10 kilograms (there is a possibility to increase the weight limit of universal service coverage for postal packages to any weight not exceeding 20 kilograms – Clause 5 of Article 3),
- services for registered items and insured items.

Next Member States obligations concerning the universal service are set for example in Article 5 of Postal Directive. Universal service has to meet next requirements:

- it shall offer a service guaranteeing compliance with the essential requirements,
- it shall offer an identical service to users under comparable conditions,
- it shall be made available without any form of discrimination whatsoever, especially without discrimination arising from political, religious or ideological considerations,
- it shall not be interrupted or stopped except in cases of force majeure,

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<sup>6</sup> Clause 1, Article 3, Directive 97/67/EC of the European Parliament and of the Council on common rules for the development of the internal market of Community postal services and the improvement of quality of service.

<sup>7</sup> Clause 2, Article 3, Directive 97/67/EC of the European Parliament and of the Council on common rules for the development of the internal market of Community postal services and the improvement of quality of service.

<sup>8</sup> Clause 3, Article 3, Directive 97/67/EC of the European Parliament and of the Council on common rules for the development of the internal market of Community postal services and the improvement of quality of service.

- it shall evolve in response to the technical, economic and social environment and to the needs of users.

### **Universal postal service in the Czech Republic**

Relevant Act on Postal services does not talk about universal service like Postal Directive but about so called basic service, which means according to letter j of Section 2 of Act on the Postal services “postal service and foreign postal service which due to public needs is under the protection of the state ensured in the manner as provided for in this Act”<sup>9</sup>.

Section 19 of this Act sets so called postal obligation to postal license holder (Česká pošta, s.p. is currently the postal license holder respectively USP), which means obligation to ensure universal accessibility of basic service throughout the Czech Republic’s territory. National Regulation Authority (next NRA) for postal services sector, which is according to Act on postal services Czech Telecommunication Office, set in “Postal Bulletin” 2005, No. 3 services, that are due to public needs basic services. At the concrete there are 16 domestic and foreign basic services.

So Community universal service and Czech basic service are nearly the same, but Czech basic services include in addition postal orders (universal services do not include postal orders) due to less developed money transfer market in the Czech Republic in time when Act on postal services was arising.

### **Community Universal Postal Providers**

USP is a public or private subject providing universal postal service or its part in the territory of Member State of the Community. The identity of this subject has to be announced to European Commission according to Article 4 of the Postal Directive. All Member States also have to set rights and obligations for their USPs and the conditions have to be subsequently released.

Table 1 represents list of USPs providing universal postal service in all Member States. Some of these USPs have legal status of state-owned enterprise however most of them have legal status of stock company or limited company. Czech USP (Česká pošta, s.p.) is still state enterprise, but Czech government set a date for its transformation to stock company by the half of 2009 year.

### **Liberalization of the postal services sector**

Quest to gradual market opening to competition of Community postal services sector was initiated at 80-ties especially by number of supranational postal operators. In the reduction of postal monopolies these operators felt the possibility to increase their fulfillment in the postal sector. In addition the requirements concerning the reduction of postal monopolies enforced and still enforce also World Trade Organization (WTO), which on principle refuse any monopoly.

As mentioned in the introduction of this paper the liberalization of the Community postal services sector is realized through the gradual reduction of the reserved area (defined in terms of

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<sup>9</sup> Letter j, Section 2 Act No. 29/2000 on Postal Services, as amended by Act No. 517/2002 Coll., Act No. 225/2003 Coll., Act No. 501/2004 Coll., Act No. 95/2005 Coll., Act No. 413/2005 Coll. and Act No. 444/2005 Coll.

weight or value thresholds) given to USPs as a compensation for providing universal postal service at uniform price and with ubiquitous delivery.

**Table 1.** List of Community USPs

Member State	USPs
<b>Austria</b>	Österreichische Post
<b>Belgium</b>	La Poste
<b>Bulgaria</b>	Bulgarian Posts
<b>Cyprus</b>	Cyprus Post
<b>Czech Republic</b>	Česká pošta
<b>Denmark</b>	Post Danmark
<b>Estonia</b>	Eesti Post
<b>Finland</b>	Posti
<b>France</b>	La Poste
<b>Germany</b>	Deutsche Post
<b>Great Britain</b>	Royal Mail
<b>Greece</b>	ELTA Hellenic Post
<b>Hungary</b>	Magyar Posta
<b>Ireland</b>	An Post
<b>Italy</b>	Poste Italiane
<b>Latvia</b>	Latvijas Pasts
<b>Lithuania</b>	Lietuvos Paegas
<b>Luxembourg</b>	P & T Luxembourg
<b>Malta</b>	Maltapost
<b>Nederland</b>	TNT
<b>Poland</b>	Poczta Polska
<b>Portugal</b>	CTT
<b>Romania</b>	Posta Romana
<b>Slovakia</b>	Slovenská pošta
<b>Slovenia</b>	Posta Slovenije
<b>Spain</b>	Correos
<b>Sweden</b>	Posten

**Source:** J.I. Campbell, (et al.): Main developments in the European postal sector (2004–2006) – Annexes. WikConsult 2006, (2007.11.22), available at: [http://ec.europa.eu/internal\\_market/post/doc/studies/2006-wik-final-appendices\\_en.pdf](http://ec.europa.eu/internal_market/post/doc/studies/2006-wik-final-appendices_en.pdf).

Basic milestones of the liberalization process within the Community postal services sector are following events:

- 1992 – Green paper on development of united postal sector.
- 1997 – Directive 97/67/EC – factual, weight and price limit of reserved area (items of domestic correspondence, whether by accelerated delivery or not, 350 g, five times the public tariff for an item of correspondence in the first weight step of the fastest standard category).
- 2002 – Directive 2002/39/EC – timetable for further opening to competition of the Community postal services sector (decreasing of above mentioned limits)
  - 1. 1. 2003 – Items of domestic correspondence and incoming cross-border correspondence, whether by accelerated delivery or not, 100 g, three times the public tariff for an item of correspondence in the first weight step of the fastest standard category.

- 1. 1. 2006 – Items of domestic correspondence and incoming cross-border correspondence, whether by accelerated delivery or not, 50 g, two and a half times the public tariff for an item of correspondence in the first weight step of the fastest standard category.
- 2009 – Supposed date for full accomplishment of the internal market for the postal services. Due to resolute negative attitude of some member states this date is now changed to 2011. In addition there is an exception for some Member States (LU, CZ, HU, SK, PL, LT, LV, CY, GR, MT, RO) in the form of possibility to postpone the date of full market opening to competition to 2013.

But this principle of liberalization of postal sector (gradual reduction of weight and price limit) is not the only one. In Great Britain there is another system of liberalization of postal sector lies in gradual opening of certain postal services to competition.

Concerning the Czech Republic basic milestones of the liberalization process are following events:

- Act No. 29/2000 Coll. And Government Order No. 112/2000 Coll. – factual, weight and price limit of reserved area (items of domestic correspondence, 350 g, 27 CZK or 45 CZK for cross-border letters).
- Government Order No. 305/2003 Coll. – decreasing of above mentioned limits (items of domestic correspondence, 100 g, 19 CZK, with effect from June the first 2004).
- Government Order No. 512/2005 Coll. further decreasing of above mentioned limits (items of domestic correspondence, 50 g, 18 CZK, with effect from January the first 2006 over the 25 % of items of correspondence market is now open to competition.

There is necessary to express that postal services sector of the Czech Republic due to already liberalized outbound and inbound cross-border mail and direct mail is in its liberalization process further than most of other Member states (except those who already completely opened the market to competition of course).

### **Postal services reserved to Universal Postal Providers**

Most of Member States respect weight and price limits set by the Postal Directive and its novel from 2002 year. However some of them opened their postal sectors more than Postal Directive and its novel ask.

Postal markets of Sweden (1993), Finland (1994), Great Britain (1.1.2006) and Germany (1.1.2008) have been already fully liberalized.

On the other side the Netherlands, whose postal market should also been liberalized towards January the first 2008, postponed its intent due to problems with relevant rule of law for now. Also the Estonia, whose postal market was already fully liberalized, has now (with effect from the date of validity of last novel of postal services act) reserved area (50g) again.

Concerning the Czech Republic there is necessary to express that postal services sector of the Czech Republic due to already liberalized outbound and inbound cross-border mail and direct mail is in its liberalization process further than most of other Member states (except those who already completely opened the market to competition of course).

### **Conclusion**

For USPs and universal postal service as such will be for immediate future crucial final version of Postal Directive novel. This is on discussion within the Community at the moment and it is supposed that universal postal service will still understood as a social service that have to be

accessible to everyone, at least at certain minimum level. But the fundamental problem connected to universal postal service, i.e. ensuring universal postal service funding is solved in current proposal of Postal Directive novel only very cursorily. There is only list of possible funding mechanisms (for example the compensation fund) but the decision which of these possibilities is the best and consequently how to apply this chosen solution in practice fall within the competence of individual Member State. So Member States are those who are responsible for the final decision related to universal postal service providing in fully liberalized postal market. The ubiquitous (costly) universal postal service providing will be more difficult for incumbent USPs because their great revenues result from reserved services will be in fully liberalized market display to competition and so threaten.

As mentioned in the introduction this problem will be more important in the case of USPs from the states that are not adequately prepared for liberalization of postal market and in the case of USPs from the states where the number of postal items delivered per inhabitant is low (including the Czech Republic).

Especially in these countries the possibility of potential reduction of universal postal service or various methods of its funding will be discuss very intensively. In case of the Czech Republic it is supposed that the problem of postal market liberalization and parallel ubiquitous universal postal service providing will be solved so, thus the condition for providing the currently reserved services will be their ubiquitous providing and it is not important if it would be incumbent USP or other private postal operator. Neither compensation fund nor state subvention will probably be applied. Concerning the compensation fund it is logical because there is practically no experience with its applying in practice (it is not possible to count the case of Italy because incomes of this compensation fund are not able to cover cost of ubiquitous universal postal service, so this compensation fund does not carry out its duty) and the administer of this fund is very complicated. Concerning the state subvention it is also logical because these subventions would be against the basic principle of self-financing USP and also there would be a problem with cross-subsidy between services with subvention and services without subvention

## **POWSZECHNE USŁUGI POCZTOWE I LIBERALIZACJA SEKTORA POCZTOWEGO UNII EUROPEJSKIEJ I CZECH**

### **Streszczenie**

Prezentowany artykuł dotyczy liberalizacji sektora pocztowego i jej wpływu na zapewnienie powszechnych usług pocztowych. Liberalizacja sektora pocztowego oznacza stopniowe zmniejszanie częściowego monopolu pocztowego na rzecz operatorów powszechnych usług pocztowych. Ponieważ przychody z usług operatorów świadczących usługi powszechne w obrębie obszaru zastrzeżonego stanowią większość ich całkowitych przychodów, redukcja zastrzeżonego obszaru może być zagrożeniem dla ich kondycji finansowej.



# *Chapter II*

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## *SERVICE ENTERPRISE ENVIRONMENT*



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## SMALL AND MEDIUM-SIZED ENTERPRISES IN THE UNITED KINGDOM – SHORT CHARACTERISTICS

### Introduction

Small and medium enterprises (SMEs) play a vital role in both developing and well-developed economies and are perceived as those creating new jobs and enhancing competition. They are recognized as an engine of economic growth and a source of sustainable development. Within this sector micro and small-enterprises are of special importance because they are considered as the cradle of entrepreneurship, particularly in environments facing high unemployment. SMEs form a large part of private sector in many developed and developing countries.

SMEs are more effective than big companies. The reason is that they are usually less costly, more economical, they use human resources efficiently. Therefore, in general they manage in a better way, fully manage the available resources and react on market changes in a flexible manner. In comparison with big companies, not only they reach higher level of productivity and profitability, but return on assets and return on investment as well. They enrich competition, enhance entrepreneurship and influence the overall economy of the country.

SMEs are a driving force of economies and they are often perceived as a „pillar” of the free market economy. Their most important feature is competitiveness<sup>10</sup>. Among the most important tasks realized by SMEs are: strengthening the competitiveness of country’s economy and job creation activities. SMEs are the only entities which are able to realize those two tasks effectively. Their underdevelopment causes an economic stagnation<sup>11</sup>.

Until late sixties, in most well-developed countries, the role of big companies in economic development was crucial. In seventies, there was a major change in perception of SMEs. At that time their role in building economy was appreciated. Companies of that size react on every change in market demand and they have the ability of fast accommodation to changing attitudes of consumers. In addition, they are able to eliminate gaps in demand in short time and make use

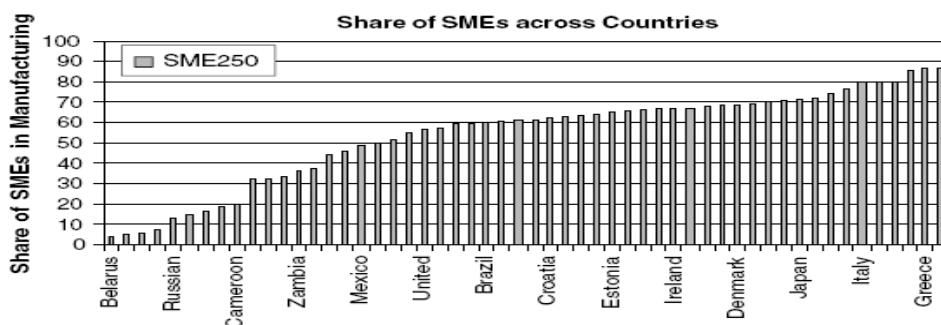
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<sup>10</sup> P.H. Admiral: *Small Business in the Modern Economy*. Blackwell Publishers, Oxford 1996.

<sup>11</sup> A. Bielawska: *Regionalne towarzystwa gwarancji kredytowych*. „Bank i Kredyt” 1996, No. 3.

of market niches, which are not available for large companies. The role of SMEs in free market economies is undoubtedly crucial<sup>12</sup>.

The growing importance of SMEs reflects their contribution to the job creation - high rate of employment in this sector, to the Gross Domestic Product, export and innovation. For instance, in the countries of the „old” European Union, SMEs account for some 99% of all companies, they employ about 75% of people and they create over 70% of GDP. The role of this sector is also important in particular countries<sup>13</sup>. According to the European office of statistics - EUROSTAT, in most EU countries the group of SMEs accounts for at least 90% of all enterprises and employs at least 45% of workforce. The statistics confirm high diversity in terms of their share in particular branches of economy. They are most active in trade and services<sup>14</sup> and the share of SMEs in manufacturing is becoming less important. The chart below exemplifies the importance of SMEs across countries.



**Figure 1.** The importance of SMEs across countries - 250 employees chosen as the cut-off to define a SME

**Source:** Graham Review of the Small Firms Loan Guarantee. Interim Report, 2004.

Among the most characteristic features of SMEs are the following:

- the appropriate skills in evaluating expenditures and effects,
- the ability of finding market niches,
- the independence and entrepreneurship,
- the willingness of taking risks,
- skills in managing small teams of employees (microscale managing),
- a good knowledge of the mechanism of generating income and wealth,
- the ability to identify and cope with market and administrative barriers.

<sup>12</sup> *Założenie i prowadzenie małego przedsiębiorstwa*. J. Sawicka (ed.). Wydawnictwo SGGW, Warszawa 2000, p. 11.

<sup>13</sup> M. Strużyński: *Zarządzanie małym i średnim przedsiębiorstwem*. Difin, Warszawa 2002, p. 27.

<sup>14</sup> *Enterprises in Europe*. Eurostat. Generaldirektion XXIII der EG-Kommission, Brussel 1995.

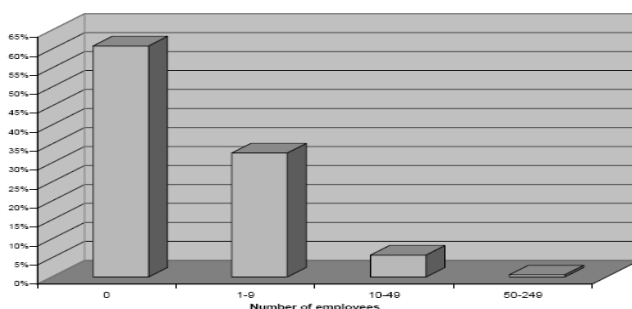
Innovation is considered as the most important factor that contributes to the growing role of SMEs<sup>15</sup>. The high importance of small business in developing economies of countries is reflected in<sup>16</sup>:

- versatility and flexibility,
- high level of effectiveness of business activities – thanks to the lower costs incurred,
- growing rate of employment – the ability to employ people during recession,
- ability to collaborate vertically with other SMEs as well as with large companies,
- positive influence on development of the region<sup>17</sup>.

## The United Kingdom small and medium enterprises characteristics

### I. Selected data

The United Kingdom SMEs account for 58% of private sector jobs and 52% of private-sector turnover<sup>18</sup>. This group of enterprises leads to higher rates of productivity growth and innovation<sup>19</sup>. The performance of this sector of the economy is therefore integral to the overall performance of the UK economy<sup>20</sup>. The data show that by size 2.200.000 businesses have no employees (61% of SMEs).



**Figure 2.** Business size distribution

**Source:** Fraser S. Centre for Small and Medium-Sized Enterprises, Warwick Business School, University of Warwick, 2004.

<sup>15</sup> B. Olszewska: *Źródła sukcesów i porażek przedsiębiorstw - aspekt strategiczny*. Wydawnictwo Akademii Ekonomicznej im. Oskara Langego we Wrocławiu, Wrocław 2000, p. 460.

<sup>16</sup> J. Baruk: *Dylematy rozwoju małych i średnich przedsiębiorstw*. „Gospodarka Narodowa” 2002, No. 3, p. 51.

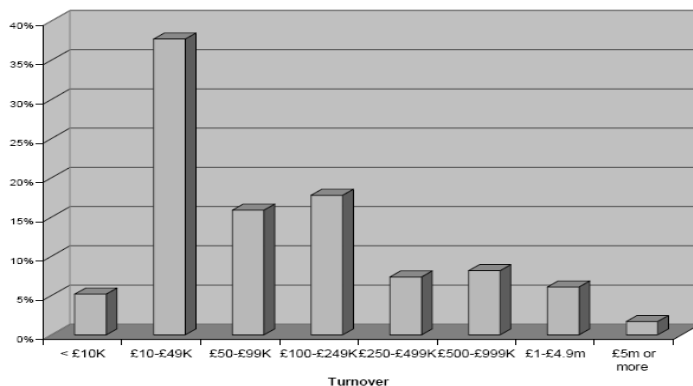
<sup>17</sup> Z. Dach: *Integracja Polski z Unią Europejską a sektor małych i średnich przedsiębiorstw*. Prace Naukowe 2001, No. 5. Wyższa Szkoła Przedsiębiorczości i Marketingu w Chrzanowie, pp. 7–8.

<sup>18</sup> SME Statistics for the UK.

<sup>19</sup> P.A. Geroski, R. Pomroy: *Innovation and the evolution of market structure*. “Journal of Industrial Economics” 1990, No. 38, pp. 299–314.

<sup>20</sup> A. Cosh, A. Hughes, E. Wood: *Innovation in UK SMEs: Causes and Consequences for Firm Failure and Acquisition*. In: *Entrepreneurship, Small and Medium-Sized Enterprises and the Macroeconomy*. Z.J. Acs and B. Carlsson (eds.). Cambridge University Press, Cambridge 1999.

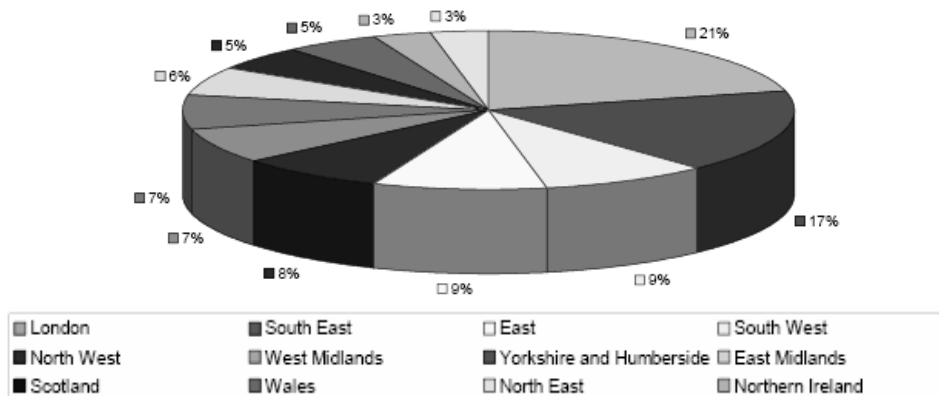
1.450.000 businesses have an annual turnover of less than 50.000GBP (40% of SMEs) and 1.350.000 businesses have less than 10.000GBP worth of assets. Only 5% are in manufacturing (180.000 companies).



**Figure 3.** Turnover of SMEs

**Source:** Fraser S. Centre for Small and Medium-Sized Enterprises, Warwick Business School, University of Warwick, 2004.

38% of SMEs are located in London and the South East (1.400.000 entities) and majority of enterprises - 87% are located in England (3.150.000). 5% are located in Scotland, 5% in Wales and 3% in Northern Ireland.

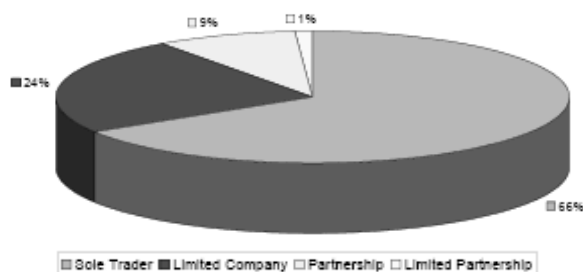


**Figure 4.** Distribution of SMEs by regions

**Source:** Fraser S. Centre for Small and Medium-Sized Enterprises, Warwick Business School, University of Warwick, 2004.

Regarding the legal form (Figure 5), nearly 2 in 3 companies are sole traders (2.400.000), less than 1 in 4 are limited liability companies (870.000 entities) and about 1 in 10 businesses are partnerships (including limited liability partnerships). About 7% of SMEs (250.000 businesses) are start-ups (aged less than 2 years). The sole trading preference may be a reflection of the

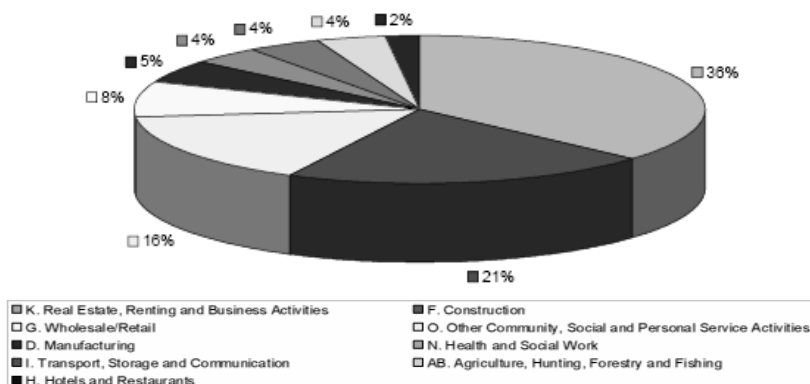
entrepreneurs' desire for independence and control over their business, but on the other hand, this it may simply reflect the ease of setting up as a sole trader, which is characteristic in case of this Anglo-Saxon country.



**Figure 5.** Distribution of SMEs legal forms

**Source:** Fraser S. Centre for Small and Medium-Sized Enterprises, Warwick Business School, University of Warwick, 2004.

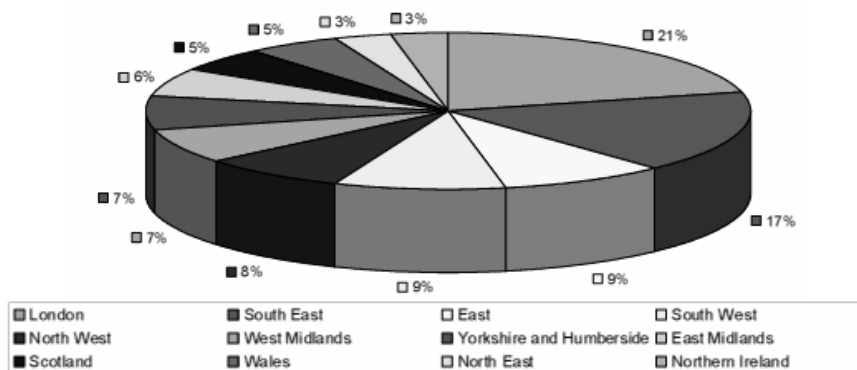
As it comes to the distribution of businesses by industry (Figure 6) more than one in three companies deals with Real Estate, Renting and Business Activities (that is about 1.300.000 enterprises) and only 5% are conducting business activity in manufacturing (180.000 businesses). The above distribution reflects the British SMEs comparative advantage in service-based industries.



**Figure 6.** Businesses by industry – distribution

**Source:** Fraser S. Centre for Small and Medium-Sized Enterprises, Warwick Business School, University of Warwick, 2004.

Regarding the distribution of businesses by regions (Figure 7), almost 40 % of them are located in London and the South East (that is 1.400.000 entities) and almost 90% businesses are located in England (3.150.000) while 5% are located in Scotland and in Wales and 3% in Northern Ireland.



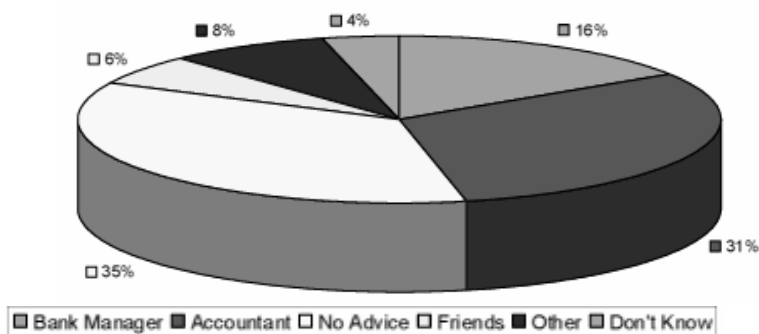
**Figure 7.** Businesses by Regions – distribution

**Source:** Fraser S. Centre for Small and Medium-Sized Enterprises, Warwick Business School, University of Warwick, 2004.

Almost 40% of SMEs are located in London and the South East (that is 1.400.000 entities) and almost 90% businesses are located in England (3.150.000). 5% are located in Scotland and in Wales and 3% in Northern Ireland.

## II. The small and medium enterprises external financing choices

Taking into consideration the fact that the majority of start-ups have to deal with financial constraints one has to recognize that established British companies have no major problems with gaining external financial capital. Some of the companies seek financial advice. The main source of support and advice used in financial decision making is presented on the Figure 8.

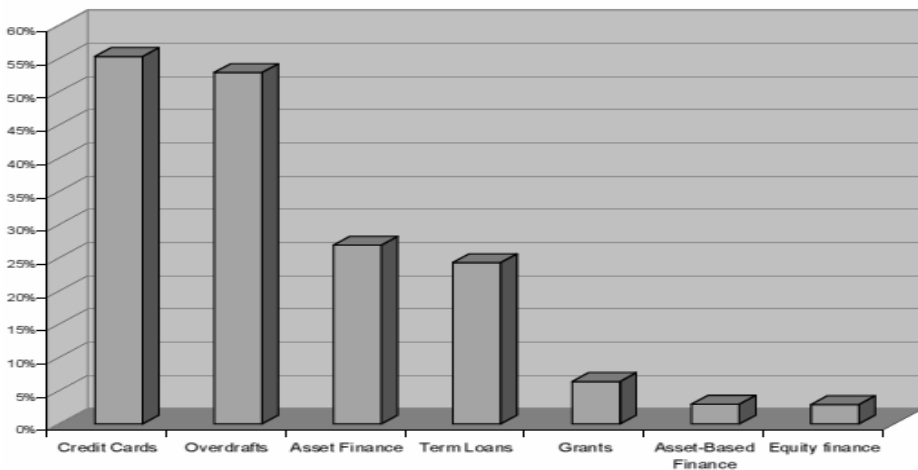


**Figure 8.** Financial advice – sources

**Source:** Fraser S. Centre for Small and Medium-Sized Enterprises, Warwick Business School, University of Warwick, 2004.

The above figure shows that the main source of help comes from both accountants (one third of the population) and bank managers. Nevertheless, the substantial number of enterprises does not use any external advisors.

Considering the use of financial products by SMEs (Figures 9 to 11), around 53% of entities use an overdraft, which accounts for 12 billion GBP. A similar number of companies use business as well as personal credit cards. Both aforementioned forms of financing are expensive relative to other types of loan.

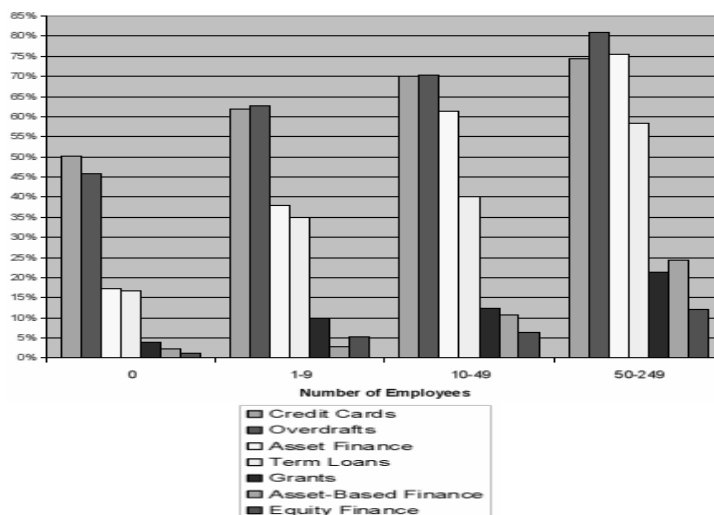


**Figure 9.** Enterprises using various types of financial products – percentage

**Source:** Fraser S. Centre for Small and Medium-Sized Enterprises, Warwick Business School, University of Warwick, 2004.

As it comes to the asset finance, 27% of enterprises use leasing and/or hire-purchase and about 24% businesses use term loans. These two ways of acquiring capital constitute about 66 billion GBP and are increasingly popular means of paying for tangible assets.

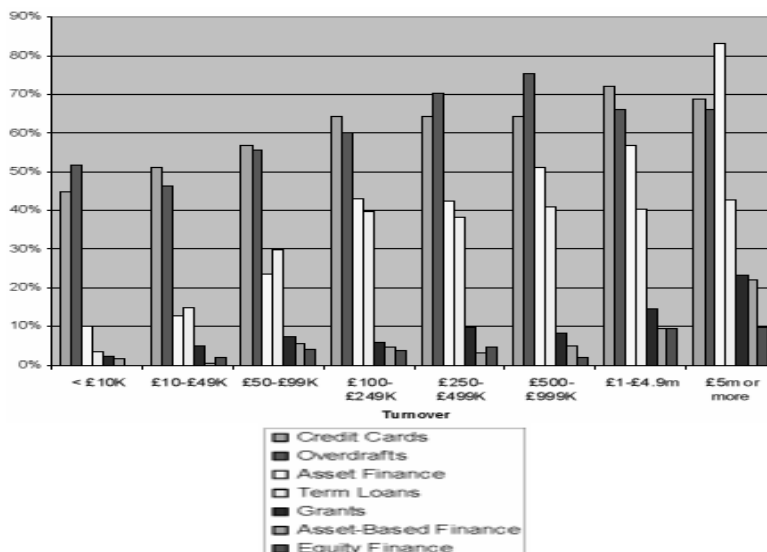
Grants, invoice finance and equity finance are the least used ways of financing companies' development and they represent 6%, 3% and 3% respectively.



**Figure 10.** Enterprises using various types of financial products – percentage (by number of employees)

**Source:** Fraser S. Centre for Small and Medium-Sized Enterprises, Warwick Business School, University of Warwick, 2004.

Overdrafts are prevailing form of financing in case of companies employing 1-249 employees, followed by credit cards. The overall conclusion is that the use of financial instruments increases with the number of employees.



**Figure 11.** Enterprises using various types of financial products – percentage (by turnover)

**Source:** Fraser S. Centre for Small and Medium-Sized Enterprises, Warwick Business School, University of Warwick, 2004.

Figure 11 indicates that credit cards are generally again the most popular financial product across turnover ranges though, for companies with a turnover of less than 10.000 GBP or between 250.000 and 999.999 GBP, overdrafts are the prevailing form of financial instrument. Asset finance is also commonly used but in case of enterprises with a turnover of 5 million or more. One may conclude that the use of external financing increases with the number of employees and turnover.

## **MAŁE I ŚREDNIE PRZEDSIĘBIORSTWA W WIELKIEJ BRYTANII - KRÓTKA CHARAKTERYSTYKA SEKTORA**

### **Streszczenie**

Niniejszy artykuł zawiera krótką charakterystykę sektora małych i średnich przedsiębiorstw (MŚP) w Wielkiej Brytanii. We wstępie nawiązano do roli, jaką odgrywa sektor małych i średnich podmiotów gospodarczych w krajach o gospodarce wolnorynkowej oraz przedstawiono cechy charakteryzujące ten sektor.

W drugiej części publikacji zawarto podstawowe dane dotyczące sektora MŚP w odniesieniu do Wielkiej Brytanii. Następnie poruszono kwestię korzystania z doradztwa finansowego oraz wykorzystania zewnętrznych źródeł finansowania przez omawianą grupę podmiotów gospodarczych.

Publikacja ta została w przeważającej mierze oparta na danych zawartych w raporcie dotyczącym finansowania sektora małych i średnich przedsiębiorstw w Wielkiej Brytanii, przygotowanym przez doktora Stuarta Fraser'a, Centre for Small and Medium-Sized Enterprises, Warwick Business School, University of Warwick.



# *Chapter III*

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## *FINANCE MANAGEMENT*



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## MEASUREMENT, STRATEGIES AND INSTRUMENTS OF SECURITY AGAINST RATE OF INTEREST RISK IN A COMPANY

### Introduction

Avoiding any risk cannot be the aim of a company activity. Aware and purposeful undertaking of risk is often more advantageous. Such an attitude forces the company management to actively manage the risk, which is not an easy task and thus it has been, until recently, the domain of banks only. Management of rate of interest risk is in Polish literature associated exclusively with management of risk.<sup>21</sup> The aims of this article are: presentation of the uniqueness of rate of interest risk in a company and theoretical presentation of the strategies and instruments of managing such a risk.

### 1. Rate of interest risk as part of financial risk of a company

Rate of interest risk and, more specifically, the changing rate of interest risk is an essential part of financial risk in a company. Managing the financial risk is an element of management strategy of the whole company. The aim of risk management is aware consideration of possible dysfunctions in the decision making process on the basis of constant consideration and assessment of risk factors. Managing the rate of interest risk must take place within the framework and according to risk management policy of the whole company activity. Efficient risk management in a company means consistent use of opportunities while actively controlling and steering the risk. It concerns not only the selected activities within a company, but a unity in risk management and all other company activities.

The stages of rate of interest risk management carried out within company strategy of risk management are presented in figure 1.

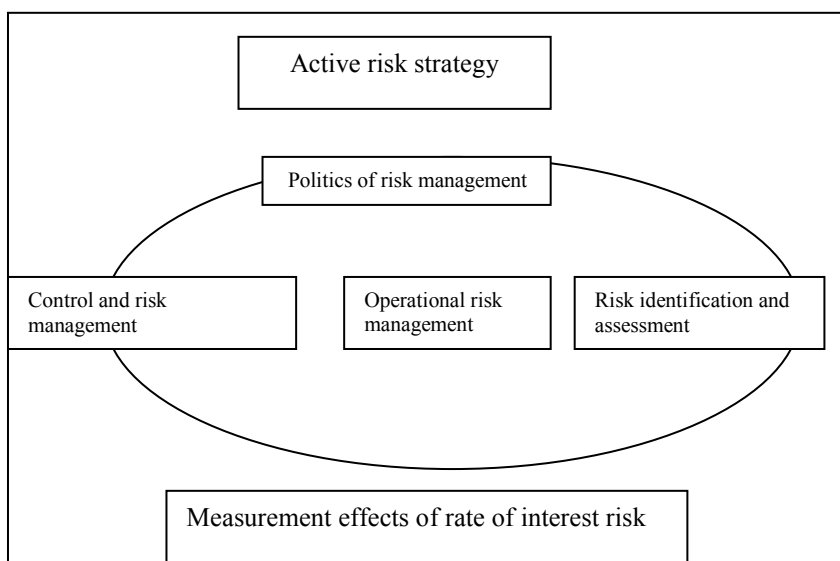
The causes of rate of interest risk in a company consist in:

- undertaking activities with financial implications to occur later in time;
- lack of flexibility to adjust items of changing rate of interest to changes on the side of assets and liabilities of market driven rates of interest.

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<sup>21</sup> Z. Zawadzka: *Ryzyko stopy procentowej*. In: *Bankowość. Podręcznik akademicki*. W.I. Jaworski and Z. Zawadzka (eds). Poltext, Warszawa 2001, pp. 743–785.

Before investing their own or foreign capital the owner (Board) of company should assess the value of the investment, the rate and time of return of the invested capital. While defining the value of capital flow in the future, methods using time of capital return are applied. Discount rate expresses the changing value of money in time and as such, depends, among other things, on market driven rate of interest.



**Figure 1.** Part of politics risk management in a company

**Source:** own elaboration based on: Die neue Unternehmensfinanzierung Strategisch finanzieren mit Bank- und Kapitalmarktorientierten Instrumenten. W. Stadler (ed.). Redline Wirtschaft, Frankfurt 2004, p. 278.

Although practically all finance researches emphasize that discount rate and arising from it current rate value of the future capital flow does not depend on capital cost and that is, broadly speaking, on credit rate of interest, however each economic category is directly depended on others. So it can generally be that the change of interest rate influences the expected value of receivables and liabilities which will occur in the future.

The risk of changing rate of interest is defined by the difference between the amount received or paid at the end of term of payment and the expected value (specified at the moment of making decision to invest) resulting from change of rate of interest.<sup>22</sup> Risk of rate of interest change – in the sense considered in this article – means a possibility of unfavorable influence of such change on the financial situation in a company.

In previous years the question of the risk of rate of interest was considered in relation to medium and long term finance, since it was possible to precisely define the expected movement of rate of interest. Starting from 1970s the changeability of rate of interest has definitely

<sup>22</sup> A. Bielawska: *Finanse zagraniczne MSP. Wybrane problemy*. PWN, Warszawa 2006, pp. 155–156.

increased, concerning also short-term transactions. In connection with it the company management faced a new challenge; how to secure company equity against effects of an increasing risk in both short and long-term. Each company has element of assets and liabilities sensitive to change of rate of interest. The strategy of security against such risk depends on expected direction (directions) of rate of interest change and the structure of elements of company equity sensitive to such changes.

Rates of interest change can bring a company to a loss, but it can also, in case of favorable direction of changes, bring benefits to a company.

## 2. Measurement of rate of interest risk

Company exposition to a rate of interest risk lies in the size of liabilities or receivables depended on the unfavorable change connected with their movement. Since the level of such a risk depends both on the impact of such an exposition as well as the level of possible rate of interest changes, each company should take care to define both these factors.

In order to define the influence of changing rates of interest on company equity it is absolutely necessary to assess the size of the risk. The influence of changed rates of interest risk should be defined for assets and liabilities. The analysis of rate of interest risk should be separately defined and assessed for the element of company equity connected with fixed rates of interests and for company equity connected with changing rates of interest.

There are many methods of assessment of company exposition to changing rates of interest risk, but the **gap method** is recognized as the most useful.

**Gap method** is referred to as a **gap method** or a **balanced sheet incompatibility**. It is one of the simplest concepts of measurement and management of rate of interest risk; it consists in the analysis of the incompatibility of assets and liabilities sensitive to interest rate change in a chosen period.

The application of this method requires defining items of assets and liabilities sensitive to rates of interest risk and their division into:

- Items of fixed rates of interest in a defined period; it means insensitive to change of market rates of interest during period under analysis because of signed agreements defining rates of interest for a specified period.
- Items of changing rates of interest in a defined period, sensitive to rate of interest change.

On the basis of detailed calculations, the incompatibility balance sheet is constructed, it means a balance sheet of assets and liabilities of fixed rate of interest given in a specific periods; that is depending on terms when changes of rates of interest may occur.

On the basis of incompatibility balance sheet one can calculate:

- the gap, which is a difference between assets and liabilities in a given chosen moment in a future;
- accumulated gap, being sum total of gaps in particular periods chosen for the analysis.

The absolute volume of the gap for a given period does not allow anticipating the kind of danger changing rate of interest may cause for the financial standing of the company.

If the value of liabilities of fixed rate of interest is bigger than the value of assets defined according to the same principles, it means that the company has an open passive position of fixed rate of interest, which is a passive surplus of fixed rate of interest, balanced only by assets of fixed rate of interest. The equity of such a company is endangered with active rate of interest risk.

Risk for the company will occur at the moment of lowered rates of interest; the company liabilities will have to be paid according to fixed (higher) rates of interest while the receivables will be paid according to changing (lower) rates of interest.

**Passive rate of interest risk** means an opposite situation, called **assets open position of fixed rate of interest**, demanding particular attention of the company board. Assets – for instance receivables – of fixed rates of interest are counterbalanced by liabilities of changing rate of interest. The risk arises from the fact that in case of raised rates of interest the company has to *pay more* to its creditors, while it will receive unchanged amount of receivables. However, lowered rates of interest, in this case, will bring additional income to the company.

It should be noted that both **active** and **passive rate of interest risk** may occur in situations of equal value of assets and liabilities, if the time of agreements concluded is different.

In company practice there are different periods and conditions concerning rates of interest, thus there is a necessity of detailed analysis of active and passive risk of rates of interest.

Items reacting to market driven rates of interest, that is items of changing rates of interest, are elements of company equity (i.e. receivables and liabilities), which have no fixed rates of interest during the whole time of analysis or only periodically. Because of different level of compatibility of rates of interest to chosen elements of assets and liabilities together with the change of rates of interest there may appear a risk of not achieving the financial results. If changes of interest rates have bigger influence on the average rate of interest of the assets than the average rate of interest of liabilities, a negative result of rate of interests occurs: a limited flexibility of rates of interest of liabilities causes *active change of interest rates risk*. In opposite situation *passive change of interest rates* occurs. A situation of no risk occurs in case of equal flexibility of compatible rates of interest applied to assets and liabilities.

Concerning the elements of company equity sensitive to rates of interest change it is recommended to calculate the so called border rates of interest.<sup>23</sup> Border rates of interest mean the maximum value of rate of interest to which in case of surplus on the side of the assets the financial sources can be acquired to finance such surplus to avoid the company loss. Such rate corresponds to the average rate of interests of the assets.

Border rate of interest is also a minimal rate of interest, as in the case of surplus on the side of liabilities, should be reached on the side of assets to avoid the company loss in case of rate of interest change.

### 3. Possibility of forecasting rate of interest change

Quantification of the risk demands not only to define the size of the risk exposure, but also the assessment of forecasted change of rate of interest. It is important to foresee possible changes of rates of interest as well as to define time in which the company will experience the impact of such changes; it is the only way to define the real volume of rate of interest risk to which a company is exposed.

To assess this volume it is necessary to forecast the rate of interest level. While assessing rates of interest similar methods are used as applied in forecasting exchange rates of foreign currencies. It is justified, only because of the facet that according to parity theory of rates of interest changing rates of interest cause the change of currency rates. This way rates of interest risk are translated directly to rates of currency risk. The same applies to rates of inflation, which

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<sup>23</sup> Z. Zawadzka: *Ryzyko stopy procentowej... op.cit.*, pp. 743–785.

influence the change of exchange rates, being at the same time interconnected with interest rates. The influence of many factors on shaping the rates of interest causes the difficulty to make the forecast of movements of rates of interest; it is done by specialized institutions (consultancies, banks, investment funds, scientific institutes) in disposal of proper instruments. Entrepreneurs are interested, first of all, in forecasted future inflation rate of interest as well as current *rate of return of financial investments*. That is why company boards taking active strategy of reassurance against rate of interest risk and, having established the volume and kind of rate of exposure to risk, should make use of the worked out and accessible forecasts.

#### **4. Strategies and instruments of security against rate of interest risk**

The strategy adopted against the effects of rate of interest risk depends on many factors; first of all on the influence of anticipated rate of interest changes on the price of financial assets of a company.

There are many security strategies against risk both in theory and practice. It can be roughly summarized to three possibilities:

- the defensive strategy (it means complete security of equity against risk); adopting such a strategy one has to take actions to establish a fixed rate of interest to as many elements of company equity as possible. Adopting such a strategy will secure the company equity against loss in case of unfavorable changes of rates of interest, but at the same time eliminating a possibility of financial improvement in case of favorable changes.
- the passive strategy (it means complete resignation from security of equity against any risk). Such a strategy may be adopted in case of anticipating positive changes or if exposure to risk is so small that negative changes endangering company will make a smaller loss than the costs of security.
- the active strategy – adopting this strategy means active risk management by the company. Adopting active strategy has a favorable influence on company rating; it improves its value on financial market bringing many benefits for a company.

While adopting active strategy of risk management the company management may adopt actions to:

- avoid effects of rate of interest risk or
- compensate loss resulting from unfavorable change of interest rates by profits from other operations.

#### **A. Techniques and instruments enabling to avoid rate of interest risk**

There is an opinion presented in the theory that rate of interest risk may be eliminated by creating items of the same value on the side of assets and those of liabilities of the same rate of interest applicable for the same periods of time. There are direct causes that make it possible to apply in practice. There are therefore open positions in companies. They are endangered to risk when the rates of interest are unfavorable; therefore efforts should be made to create an opposite position.

A widely used instrument making possible to avoid the effects of changing rate of interest are transactions swap, interest rate swap – IRS, also called *rate of interest swap*. They consist in a swap of periodical payment of interest rates in one currency of a financial liability of a specific volume. The subjects of the exchange are only rates of interest from specific sum, not the full value of the contract.

Swap transaction are made between parties of opposite preferences concerning the way of repaying the rate of interest (fixed or changing interest rate), but of financial liabilities of equal value. A specific feature of swap transactions is that their making that is exchange of liabilities consisting in payment of the interest rate is in general profitable to both parties of the contract. Its weakness is a big minimal contract value.

Swap contracts are instruments of outside stock exchange market. Agreement conditions may be individually established, which constitutes strength of such instruments. The disadvantage of such agreements is a difficulty in finding a partner with equal, but opposing preferences. This feature of swap transactions causes involvement of a dealer. Their role eliminates the necessity of matching financial needs for parties themselves.

Concluding swap agreement may completely protect the company from unfavorable influence of interest rates, but it brings a new kind of risk – insolvency and even bankruptcy of a partner which may result in their incapacity to pay liabilities. Since in case of rate of interest swap the full sum of the contract is not exchanged between parties, the risk lies only in loss of interest rate payment.

## **B. Techniques and instruments enabling compensation of rate and interest risk**

Compensation of rate of interest risk consists in creating, for a definite item of liabilities, an opposite position sensitive to rate of interest. Opposite, means that losses from the secured item will be fully or partly compensated with profits from items created in order to compensate the loss; moreover both terms should be negatively correlated.

The basic groups of instruments used to compensate the rate of interest risk are created by: forward rate agreement – FRA, interest rate futures – FF and interest rate options - IRO.

Forward rate agreement is a security agreement in which parties i.e. a company and a bank, establish a fixed rate of interest for a future credit or deposit.

Such an agreement can be made for any period of time or any sum; however it is not allowed to change during the time of its validity. A company making a FRA protects itself from the risk of raising interest rates of e.g. future credits that means increasing costs of covering the debt due to rates of interest raise. A bank can protect itself from the fall of rates interests. The *buyer* of a FRA contract is a party aiming at protecting itself from the increasing interest rates; the *seller* is a party which protects itself from the fall of interest rates. FRA is an agreement binding both parties, any changes demand mutual agreement of both parties. FRA is an unreal contract requiring neither taking credit nor making a deposit, the capital constituting the basis of a transaction is only used to make calculations or as a basis of settlement account.

In a FRA contract the top limit of loss is not defined. Each party accepts the other party's risk of credit consisting in paying the required sum on the specified date. Making FRA agreement secures a specified level of interest rates in the future. It eliminates, however, the opportunity of making use of favorable levels of interest rates available on the market.

Interest rates futures is an agreement between parties to buy and sell a financial instrument specified in the contract for a definite period of time in the future and specifying the rate in a given term or a settlement making up for differences in prices.

Concluding agreements of interest rates futures can secure current and future levels of items of assets and liabilities against the rate of interest risk.

Advantages and disadvantages of the above contract consist, first of all, in their standardization. Their advantage is liquidity. In case of changed financial situation the effects of which do not require such provisions. Such a contract can be sold on the stock exchange.

## **5. Interest rate options**

Other instruments of protection against rate of interest risk are interest rate options, protecting against unfavorable changes of interest rates; however enabling the use of favorable rates of interest.

An option is a contract which enables the buyer – in exchange of bonus paid – the right, but not a duty to buy (call option) or sell (put option) a particular financial instrument at an agreed price, called a basic price, realized in a defined period of time. If such a transaction should not be beneficial, the owner of the option may allow the contract to terminate. The seller of the option is obliged to buy or sell a financial instrument to the owner, if they want to make use of such a right.

Options have a function of provisions, they allow for the fixed (at a certain level) rate of interests. The optional contracts can be concluded individually, they are noted on the stock exchange as over the counter (OTC) options or/and they may be exchange traded. OTC options for the rate of interest are sold, first of all by banks, as an instrument of hedging. Since they are bilateral agreements, there is a possibility of their adjustment or tailoring to investor's needs. Being exchange traded they are highly standardized.

Concluding an option contract is beneficial for providing cash flow for a company in situation when getting receivables is not certain.

The most important advantage of interest rate option over the instruments discussed before consists in a principle that the buyer has right, but not duty to make use of them. At any time the buyer is entitled not to make use of the contract, if such behavior brings more advantage.

The disadvantage of options is a necessity to pay the option bonus. There are many models used to calculate it, for example Black-Scholes model, requiring a use of computer programs. In practice the bonus is defined according to demand and supply on the market.

## **Conclusion**

The influence of rates of interests on financial results of a company makes the companies to manage the risk. However, there are no strategies, nor there are any financial instruments, applicable to all companies. The strategy and instruments of risk management should be adapted to a company profile, its size, exposure of risk, anticipated changes of interest rates, experience of the board to manage the risk, rating evaluation etc.

## **POMIAR, STRATEGIE I INSTRUMENTY ASEKURACJI RYZYKA STOPY PROCENTOWEJ W PRZEDSIĘBIORSTWIE**

### **Streszczenie**

Ryzyko stopy procentowej to istotny składnik ryzyka finansowego każdego przedsiębiorstwa. W artykule wyjaśniono istotę tego ryzyka i wskazano przyczyny jego występowania. Wskazano metody pomiaru ryzyka stóp procentowych i omówiono strategie, instrumenty i techniki zabezpieczenia majątku przedsiębiorstwa przed skutkami ziszczenia się omawianego rodzaju ryzyka.

# *Chapter IV*

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## *MARKETING MANAGEMENT*



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## SKIMMING THE MARKET OF ON-BOARD ADVERTISING

### Introduction

Public transport is generally considered to be very valuable marketplace for advertising. In big cities, there are thousands of people using public transport services every day. In London, over 3 million passenger journeys are made across the underground network every day and London Tube earns billions of Euros every year from its advertising space<sup>24</sup>.

Commercial advertising is an indispensable source of revenue for many coach and railway operators, providing services on the regional, national, and international level. In the field of passenger transportation, advertising becomes a very efficient tool for being competitive.

Compared to other means of transport, air transport seems to be behind in the on-board advertising development. Many airlines have already started to use the advertising space in aircraft cabins for the promotion of hotel chains or car rental companies but the market is by far untapped. Moreover, the development in the field of on-board services and on-board entertainment will definitely lead to an increase of the on-board commercial advertising potential.

The main aim of this article is to perform an analysis of the on-board advertising potential and find out if further development in this field can provide airlines with sufficient financial resources and thus lead to deployment of the no-fare business model. In our opinion, a good concept of on-board advertising can bring a significant competitive advantage for many airlines regardless of their business model. The advertising revenues can partly compensate growing fuel prices, and traditional airlines do not need to collect fuel surcharges. On-board advertising in combination with latest on-board technologies could also lead to transformation of low-fare airlines to no-fare airlines. Currently, no-fare flights are used as very efficient marketing tool, but in the future the on-board marketing and advertising may be used for reducing or covering the cost of travel.

The possibilities of on-board marketing and advertising are almost unlimited. It does not need to be used only for the promotion of hotel chains or car rental firms. The whole air transportation process provides a great resource of advertising channels and opportunities. The following list presents a fraction of possible advertising and marketing spots which are not exclusively on-board the aircraft:

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<sup>24</sup> [www.tfl.gov.uk](http://www.tfl.gov.uk).

- Menu card;
- Window application;
- In-flight announcements;
- Headrest covers;
- Product sampling;
- Air sickness bag;
- In-flight magazine;
- Exterior aircraft branding;
- Meal tray table back;
- Overhead bins;
- Cabin crew uniforms;
- Boarding pass;
- Promotional leaflets;
- Happy Snack Bags;
- Drink Tumblers;
- Napkins;
- On-board testing (e.g. wine, perfumes);
- In-flight entertainment (IFE) systems.

### **1. Psychology of on-board advertising**

In general, passengers perceiving advertisements on-board an aircraft are considered to be a good target for marketers. The reason is simple. The aircraft cabin is a closed space restricting the movement of passengers. Remaining seated for several hours at one particular place a passenger would start reading an in-flight magazine, pay attention to headrest covers and read all the booklets. Another reason that marketers are interested in the passenger is free time that he/she has to perceive an advertising message.

Psychological condition of passenger plays an important role. As passenger does not assume huge advertising campaigns as it is seen on TV he will perceive messages from in-flight magazine more quietly. Moreover, there is an opportunity of repeated contact with the advertising message. Having looked through all products offered the passenger may turn once again to the booklet or journal which was liked. According to statistics, 20% of air passengers take a magazine with them after the flight<sup>25</sup>. Although in-flight magazines can be found in each aircraft (no matter of what kind of airline an aircraft belongs to) the concept of magazine as well as whole on-board marketing and advertising needs to be different for each airline, depending on its business model and taking into account requirements and needs of its passengers, considering that the passengers' needs and requirements can be specific regarding particular city pairs.

It is also necessary to point out that current marketing and advertising opportunities will multiply once the passenger is connected to Internet or is allowed to use his/her Blackberries or phones during the flight.

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<sup>25</sup> [http://www.spblp.ru/publicity\\_eng.shtml](http://www.spblp.ru/publicity_eng.shtml).

## **2. Different business models**

### **A. Traditional Airlines**

The operational model of most traditional airlines is based on hub-and-spoke operations. Their networks usually consist of short-haul and long-haul routes. The flight schedule is set in order to offer passengers the most attractive times and to ensure the connectivity between short-haul and long-haul flights. In other words, during the day there is a time when short-haul flights feed the long-haul flights and there is also a time when long-haul flights feed short-haul connecting flights.

Thanks to this feature, the operation of traditional airlines at major airports form typical arrival and departure peaks.

Traditional airlines form alliances (e.g. Star Alliance, One World, and Sky Team). Thanks to membership in alliances, the traditional air carriers are able to take passengers seamlessly from anywhere to everywhere.

Nowadays, the traditional airlines have a monopoly in the long-haul market. Long-haul operation generates an indispensable number of passengers for connecting short-haul flights.

Advertising in the cabin of long-haul aircraft can have disadvantages due to several reasons. Although long-haul aircraft have huge seat capacity, these are able to carry only limited passengers per day. Due to long legs, the aircraft can be operated only on one or two flights per day. It means that only a limited number of people will see the advertisement. Moreover, taking into account a flight lasting 10 – 15 hours the cabin full of posters could be disturbing and could reduce the level of passenger's comfort.

On the other hand, the cabin of long-haul aircraft could be a great place for on-board marketing (e.g. tasting of wine). Wide-body aircraft are also usually equipped with excellent in-flight entertainment systems. Once the in-flight connectivity is introduced, these systems will become a virtual store of unlimited possibilities.

Considering the short-haul flights operated by traditional airlines, these provide more space for on-board advertising. The requirements posed on the level of comfort in the cabins of short-haul aircraft are much less demanding compared to long-haul aircraft. Although daily utilizations of these aircraft are significantly lower, they are able to fly about 6 legs per day. As a result of this, more passengers could be carried during each day.

### **B. Charter airlines**

The charter airline business model is based on selling whole seat capacity of the aircraft to tour operators. Once the contract between airline and tour operator is signed, marketing and consequently the load factor is tour operator's responsibility.

The charter airline operation and business model is currently the most efficient in the market as all flights are profitable for the air carrier. The tour operator bears the risk of financial loss.

Charter airlines usually have very high fleet utilization. The fleet utilization can reach as much as 17 hours per day. These carriers operate short- to medium- haul point-to-point flights. Their flights are not scheduled. Time and destination of each flight depends on the requirements of the tour operator.

These airlines usually operate single aisle aircraft, with high density seating configuration. Depending on route lengths, the aircraft can fly 6 to 8 legs per day. Moreover, most of their passengers are holidaymakers. Charter airlines are therefore a huge and very specific market that is considerably easy to address by properly selected advertisement.

### **C. Low-fare airlines**

The low-fare business model is based on reducing operating costs with a view to offer passengers a very competitive fare. The air ticket price usually include only air transportation and all additional services like airport check-in, priority boarding and on-board services are charged extra.

Low-fare airlines operate scheduled, short-haul, point-to-point passenger services serving usually regional or secondary airports. In order to reduce operating costs, these carriers operate single type fleet and cabins of their aircraft have very high density seating configuration. Average fleet utilization usually reaches more than 12 hours per day and each aircraft flies about 8 legs per day.

As these airlines usually offer the lowest possible fare, they are able to achieve average load factor of more than 80%. Thanks to these features, the aircraft operated by low-fare airline can carry more than 1,200 passengers per day. It means that low-fare market has very good potential regarding on-board marketing and advertising as it hits relatively high number of potential customers.

It is also possible that growing revenues from advertising will sooner or later lead some low-fare carriers to introducing no-fare business model. Advertising and additional services will become primary source of profit for such airlines and air transportation will be provided to passengers for free. Of course, the transformation from low-fare to no-fare business model will be feasible only for the biggest in the market (e.g. Ryanair). The advertising revenues directly relate to fleet size, aircraft utilization and load factors. Taking into account Ryanair's performance in recent years, its aircraft are very attractive and very efficient advertising channels.

For our further analysis, we have selected low-fare business and operational model as it seems that high aircraft utilization and high load factors make low-fare airlines be a good marketplace for on-board advertising and its further development. Moreover, thanks to low operating costs these airlines are very close to deploy no-fare business model.

### **3. Analysis of low-fare airlines ancillary revenues**

Revenues from non-ticket sources (ancillary revenues) are of vital importance for many airlines worldwide, especially for those running low-fare business models. These revenues are generated mostly by the services that passengers are to buy before or during their travel experience. Legacy airlines bundle these services into the price of air ticket while low-fare airlines charge them extra. Table 1 shows potential sources of non-ticket revenues for airlines.

Some legacy carriers use other sources of non-ticket revenues. For example: miles or points sold to banks issuing co-branded credit cards, travel partners such as hotel chains and car rental companies and other partners such as online malls, retailers and communication services. These services refer to frequent flyer ancillary revenues and we will exclude them from our analysis as we are focusing on low-fare airlines' business model.

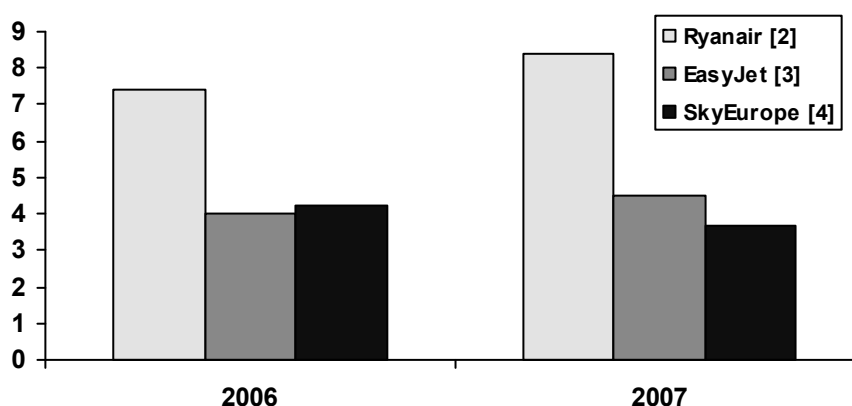
**Table 1.** Potential source of ancillary revenues for airlines

<b>Ancillary Revenues</b>	On-board sales of food and beverages
	Baggage check-in charges
	Excess baggage charges
	Seat assignments charges
	Fee charged for purchases made with credit cards
	Commissions from the sales performed via airline website (e.g. hotels, car rentals, transportation from/to airport)
	Commissions from the sale of travel insurance
	Commissions from the sale of airport lounge access
	On-board advertising

**Source:** *A radical fix for airlines: Make flying free.* “Business 2.0 Magazine”, March 31, 2006.

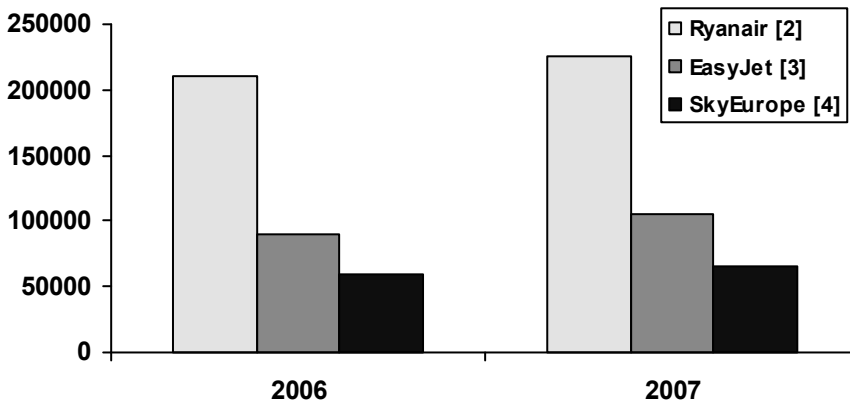
To introduce no-fare operational model, low-fare airlines will rely strongly on ancillary revenues and on-board advertising revenues. Even now, many airlines try to attract their passengers to buy as many non-ticket services as possible. Aircraft cabins full of on-board advertisements can be widely seen as well.

This is happening because non-ticket services and on-board advertising revenues are becoming of high value for low-fare airlines. Considering major European low-fare airline Ryanair, its non-ticket services and on-board advertising generated as much as € 8.5 per passenger in 2007<sup>26</sup>. Other examples of specific ancillary revenue amounts including on-board advertising revenues can be seen on the following figures. Figure 1 shows ancillary revenue amounts per passenger for three well-known European low-fare airlines in 2006 and 2007. Figure 2 shows ancillary revenues per aircraft per month for the same carriers.

**Figure 1.** Per passenger ancillary revenues (€)<sup>a</sup>

**Source:** Ryanair Holdings plc, Annual Report & Financial Statement 2006, 2007, EasyJet plc Annual reports and account 2006, 2007, SkyEurope Holding AG Annual Report 2006, 2007.

<sup>26</sup> Ryanair Holdings plc Annual Report & Financial Statement 2006, 2007.



a. Aircraft types and numbers used for the analysis:

Ryanair: 2006 120 B 737-800 (189 seats)

2007: 133 B 737-800 (189 seats)

EasyJet: 2006: 87 A 319 (156 seats)

32 B 737 – 700 (149 seats)

3 B 737 – 300 (149 seats)

2007: 107 A 319 (156 seats)

30 B 737 – 700 (149 seats)

SkyEurope: 2006: 14 B 737-700 (149 seats)

2007: 14 B 737-700 (149 seats)

**Figure 2.** Ancillary revenues per aircraft per month (€)<sup>a</sup>

**Source:** Ryanair Holdings plc, Annual Report & Financial Statement 2006, 2007, EasyJet plc Annual reports and account 2006, 2007, SkyEurope Holding AG Annual Report 2006, 2007.

Ryanair and other carriers offer many of their flights for less than € 10 (when booked in advance). It is interesting that (according to the Fig. I) ancillary revenues per passenger collected by Ryanair in 2007 are almost the same (€ 8.52)<sup>27</sup>. Average annual growth (2005-2007) of ancillary revenues (15% for Ryanair and more than 20% for EasyJet) shows potential of further increase in number of air tickets given to passengers for free. Although the annual growth in the case of SkyEurope was not so significant, results of our consultations with SkyEurope representatives indicates that this trend will change in near future and SkyEurope will follow its competitors.

#### 4. On-board advertising revenues as a significant source of airlines' profit

Some airlines provide exact figures regarding on-board advertising revenues in their annual reports. For example Air Berlin generated revenue of €1,500,000 (€ 0.11 per passenger) from advertising in its in-flight magazine in 2005. This revenue was slightly less than revenues from trip-insurance (€ 0.12 per passenger) and pre-assigned seats (€ 0.12 per passenger)<sup>28</sup>.

<sup>27</sup> *Ibidem.*

<sup>28</sup> Europe's Top 4 Low Cost Carriers Generated 470 Million Euros issued by Idea Works, October 10, 2006, p. 7.

EasyJet quantified its on-board advertising revenues up to € 55 million last year<sup>29</sup>. The revenue of € 1.43 per passenger from on-board advertising makes this airline 13 times more successful than Air Berlin. These figures give EasyJet a potential for further development and reflect the fact that airline's high revenues from on-board advertising and non-ticket services are not a utopia. However, there is still the question if Ryanair and other low-fare carriers will be able to introduce no-fare business model in near future.

It is clear that Air Berlin, EasyJet and Ryanair already offer free fares to its customers. One quarter of Ryanair's passengers travel "for free". It is marketing policy that says: "We are offering you the lowest possible fare and you don't need to look for better value for your money".

But Ryanair's chief executive officer Michael O'Leary goes even further and promises making all the flights free by 2010. He might be slightly optimistic because his company generated the biggest ancillary revenues per passenger in the market (as for 2007)<sup>30</sup> although it currently uses only four on-board advertising channels. As shown in table 3, there are some other channels (including prices) that are not used by Ryanair but remain interesting for other carriers.

## 5. Operating costs per aircraft per month

For further analysis we had to estimate monthly operating costs of aircraft operated by low-cost carrier. As our further analysis is focused mainly on SkyEurope's and Ryanair's business models, our estimation of operating costs is based on SkyEurope's and Ryanair's annual costs breakdowns and considers both B737-700 and B737-800 aircraft.

In our calculation, we assume that proportion of particular cost items in single year time horizon (as published in airlines' annual reports) is same as the proportion of particular cost items per block hour. If we know the proportion of particular cost items and value of at least one cost item, we are able to calculate other cost items (see table 2). In our calculation, the fuel costs were used as a baseline, as we were able to calculate these for each aircraft type using Eurocontrol BADA's Aircraft Performance Summary Tables<sup>31</sup>. Needless to point out, that both airlines Ryanair and SkyEurope use single type fleets.

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<sup>29</sup> EasyJet plc Annual reports and account 2006, 2007.

<sup>30</sup> Ryanair Holdings plc Annual Report & Financial Statement 2006, 2007.

<sup>31</sup> Aircraft performance summary tables for the base of Aircraft data (BADA), rev. 3.6, issued by Eurocontrol Experimental Centre (pages A 25–A 26), September 2004.

**Table 2.** Annual costs proportions [in thousands of €]

Operating costs	Ryanair [2]		SkyEurope [4]	
	Costs	Proportion	Costs	Proportion
Aircraft fuel	693331	39.28%	57892	22.60%
Sales and marketing	23795	1.35%	13231	5.16%
Maintenance, material and repairs	42046	2.38%	19405	7.57%
Staff costs	226580	12.84%	25832	10.08%
Navigation charges	199240	11.29%	23522	9.18%
Airport and handling charges	273613	15.50%	70477	27.51%
Depreciation and amortisation	104859	5.94%	15304	5.97%
Aircraft rental	143503	8.13%	1488	0.58%
Other	58183	3.30%	29029	11.33%
Total	1765150	100.00%	256180	100.00%

**Source:** own calculations according to Ryanair Holdings plc, Annual Report & Financial Statement 2006, 2007, SkyEurope Holding AG Annual Report 2006, 2007

**Table 3.** On-board advertising revenues according to channels used by different low-fare airlines in 2007 (€)

Channel	RYR [6] <sup>b</sup>	GWJ [7] <sup>b</sup>	WZZ [8] <sup>b</sup>	ESK [9] <sup>b</sup>	Generic Airline
Menu card				360	360
Window application				1,500	1,500
In-flight announcements		29,900			29,900
Headrest covers		29,900	7,200		29,900
Product sampling		4,000		570	4,000
Air sickness bag				2,750	2,750
In-flight magazine	Ink Publishing <sup>c</sup>	UHURA <sup>c</sup>	Ink Publishing <sup>c</sup>	Ink Publishing <sup>c</sup>	n/a
Exterior aircraft branding	16,700	12,500		15,000	16,700
Meal tray table back	13,700	12,600	5,000	3,500	13,700
Overhead bins	19,500		8,000	3,500	19,500
Cabin crew uniforms			880	350	880
Boarding pass		24,900			24,900
Promotional leaflets		1,750		430	1,750
Happy Snack Bags		6,250			6,250
Drink Tumblers		6,250			6,250
Napkins		6,300			6,300
E-ticket banner <sup>d</sup>				8,000	8,000
Newsletter banner <sup>d</sup>		1,100		40,000	40,000
Booking engine banner <sup>d</sup>		280			280
Booking confirmation banner <sup>d</sup>		1,080			1,080
Potential advertising revenue per aircraft per month	49,900	136,810	21,080	75,960	191,300

b. Acronyms (according to ICAO): RYR – Ryanair; GWJ – Germanwings; WZZ – Wizz Air; ESK – SkyEurope

c. Airlines usually use services of specialized publishers to produce their in-flight magazines. The very competitive business of these specialized publishers (e.g. Ink Publishing, UHURA) is based on production of in-flight magazines for airlines all over the world. Both production costs and profit of the publisher are covered by advertising in these magazines. Each airline has its own in-flight magazine which is adapted to its specific needs and requirements. Magazines are provided to airlines for free and usually do not generate air carriers any direct revenues. The main purpose of in-flight magazines from airlines' point of view is promotion of airlines' services and destinations. The articles in these magazines should motivate passengers to travel with a particular airline. Production of in-flight magazines is based on „Reason to fly“ policy.

The advertising revenues of in-flight magazines relates to number of passengers that can potentially read the magazines. Therefore the in-flight magazines are provided to airlines for free but airlines have to guarantee certain fleet size, aircraft utilization and load factors. In the case when airlines have operational or financial problems leading to reduction of fleet size or significant decrease of load factor, the publishers can withdraw the contract.

d. These channels are not considered to be on-board advertising channels however they directly relate to flying passengers. Passengers receive their e-tickets and booking confirmations after the online booking reservation (using booking engine) of their flights have been made. Newsletter is also of wide passengers' attention. Electronic newsletter is distributed to more than 3 million e-mail addresses (case of SkyEurope).

**Source:** own consultations with SkyEurope's marketing manager, [www.ryanair.com](http://www.ryanair.com), [www.germanwings.com](http://www.germanwings.com), [www.wizzair.com](http://www.wizzair.com).

According to last Ryanair's annual report<sup>32</sup>, average daily utilization of its aircraft in 2007 was 13.56 block hours. Assuming that an average month has 30 days, the average monthly utilization of one aircraft is 406.8 block hours.

According to last SkyEurope's annual report<sup>33</sup>, average daily utilization of its aircraft in 2007 was 10.75 block hours. Assuming that an average month has 30 days, the average monthly utilization of one aircraft is 322.5 block hours.

Using Eurocontrol BADA's Aircraft Performance Summary Tables<sup>34</sup>, we have estimated an average fuel consumption of both aircraft types considered. According to our estimations, fuel consumption of B737-700 is 680 US gallons per block hour and fuel consumption of B737-800 is 690 US gallons per block hour. According to IATA Fuel Monitor website<sup>35</sup>, the average fuel price in 2007 was € 1.56 per US gallon.

It means that monthly fuel costs per SkyEurope's B737-700 are € 342,108 and monthly fuel costs per Ryanair's B737-800 are € 437,880.

Further calculations are based on operating cost breakdown as stated in the latest Ryanair's<sup>36</sup> and SkyEurope's<sup>37</sup> annual reports. Other operation costs were calculated considering the ratio of fuel costs and particular operating cost items.

Following table 4 shows SkyEurope's and Ryanair's monthly operating costs per one aircraft.

**Table 4.** Calculation of monthly operating costs per aircraft in 2007 (€)

Operating costs	Ryanair [2]	SkyEurope [4]
Aircraft fuel	437,880	342,108
Sales and marketing	15,028	78,188
Maintenance, material and repairs	26,555	114,672
Staff costs	143,099	152,652
Navigation charges	125,832	139,001
Airport and handling charges	172,803	416,478
Depreciation and amortisation	90,631	8,793
Aircraft rental	36,746	171,544
Other	66,225	90,438
Total	1,114,797	1,513,875

**Source:** own calculations according to Ryanair Holdings plc, Annual Report & Financial Statement 2006, 2007, SkyEurope Holding AG Annual Report 2006, 2007.

According to figures from the latest annual reports<sup>38</sup>, Ryanair carried 42,500,000 passengers and SkyEurope carried 3,312,443 passengers in 2007. Considering these figures, one SkyEurope's aircraft carried 19717 passengers in an average per month and one Ryanair's aircraft

<sup>32</sup> Ryanair Holdings plc Annual Report & Financial Statement 2006, 2007.

<sup>33</sup> SkyEurope Holding AG Annual Report 2006, 2007.

<sup>34</sup> Aircraft performance summary tables for the base of Aircraft data (BADA), rev. 3.6, issued by Eurocontrol Experimental Centre (pages A 25–A 26), September 2004.

<sup>35</sup> IATA, Jet Fuel Price Monitor website.

<sup>36</sup> Ryanair Holdings plc Annual Report & Financial Statement 2006, 2007.

<sup>37</sup> SkyEurope Holding AG Annual Report 2006, 2007.

<sup>38</sup> Ryanair Holdings plc Annual Report & Financial Statement 2006, 2007, SkyEurope Holding AG Annual Report 2006, 2007.

carried 26629 passengers in an average per month. It means that operating costs per passenger amount € 76.78 in case of SkyEurope and € 41.86 in case of Ryanair.

The following table 5. shows potential advertising revenues per passenger calculated according to number of passengers carried by particular airlines in 2007. Analysis in table 5. refers to maximum potential of on-board advertising revenues but does not reflect current figures of advertising revenues.

As shown in the table, there are big differences between potential advertising revenues per passenger as they are directly connected to number of passengers carried, fleet size and daily utilization. Germanwings seems to be the most effective compared to its competitors however it carried almost 6 times fewer passengers than Ryanair. This results from the fact that the number of aircraft used by Ryanair is almost 5 times higher than number of aircraft used by Germanwings as well as from the fact that there is strong imbalance in number of on-board advertising channels used by these airlines.

SkyEurope has started to work on identifying on-board advertising opportunities 6–9 months ago. Currently it offers several advertising channels not only on board of its aircraft, but on company's website as well. It is anticipated that in near future the advertising will generate a significant portion of its revenues.

There are still some advertising channels that are not used by particular airlines but remain interesting for others. In order to achieve the maximum potential of on-board advertising; revenue airlines could preferably use all the available advertising channels. This is met in our model of Generic Airline that virtually uses all the above listed channels. We have defined Generic Airline with a view to analyze the maximum potential of all currently known advertising channels taking into account that these would be used by one airline. As channels are considered to be sold at their maximum market prices (according to the analyzed air carriers' price lists), the highest possible advertising revenues can be achieved.

Taking into account the available data, number of passengers per month per aircraft for the Generic Airline was calculated as an average of Ryanair's, SkyEurope's, Wizz Air's and Germanwing's figures.

**Table 5.** Estimation of potential advertising revenues per passenger (€)

	<b>RYR [2]</b>	<b>GWI [7]</b>	<b>WZZ [8]</b>	<b>ESK [4]</b>	<b>Generic Airline</b>
Number of passengers in 2007	42,500000	7,090000	3,000000	3,312443	n/a
Fleet (number of aircraft) in 2007	133	27	15	14	n/a
Number of passengers per aircraft per month	26,629	21,883	16,667	19,717	21,224
Potential advertising revenue per aircraft per month	49,900	136,810	21,080	75,960	191,300
Potential advertising revenue per passenger	1.87	6.25	1.27	3.85	9.01

**Source:** own calculations according to Ryanair Holdings plc, Annual Report & Financial Statement 2006, 2007, SkyEurope Holding AG Annual Report 2006, 2007, airlines' web sites.

## **6. Conclusions and observations**

### **A. Generic airline potential**

The aim of our analysis was to assess current situation in advertising revenues that are generated by airlines. We also put emphasis on potential advertising revenues estimation.

Based on our calculations (see table 2), operating costs per passenger amount € 76.78 in case of SkyEurope and € 41.86 in case of Ryanair. Table 4 shows that our Generic Airline (using all advertising channels sold for the maximum market prices) generates slightly more than € 9 potential revenue per passenger. This means that advertising revenues of Generic Airline could possibly cover up to 12% of current SkyEurope's operating costs per passenger (as referred in table 2) respectively up to 22% of current Ryanair's operating costs per passenger (as referred in table 2).

Although it seems that our Generic Airline does not have a potential to generate advertising revenues big enough to cover the total operating costs of typical low-fare airline, there are at least two more sources of airlines' revenues. These sources relate to on-board marketing and airlines qualify them as listing and marketing fees for goods sold on-board aircraft (in case of SkyEurope listing fees are € 2,000 per product per year and marketing fees € 5,000 per product per year). In case of SkyEurope, on-board marketing generates considerable revenues. There are also some airlines selling their flight timetables for advertising purposes.

## **B. Risk analysis**

From our point of view we have identified two main risks resulting from airline's business being dependant on revenues from advertising. Once the model of no-fare airline is introduced airline may possibly face the rapidly changing demographic and social structure of its passengers. This can lead to the fact that price sensitive airline customers will no more be attractive market for advertisers.

There is one more risk that we have identified. Once the airline is dependent on revenues from on-board advertising the airline has to guarantee certain fleet utilization as well as certain load factors. If there is a crisis in the air transport market (as the one after September 2001), the airline won't be able to fulfill the above mentioned conditions that are usually specified in the contract between carrier and advertisers. This can finally lead to loss of advertising revenues and consequently to worse airline's financial situation.

## **7. Future of on-board advertising**

If 12% of SkyEurope's operating costs per passenger respectively up to 22% of Ryanair's operating costs per passenger can be covered by existing advertising channels imagine that airlines used more channels of advertising and revenues in near future?

One channel which could help airlines to cover the operating costs from the advertising revenues is the in-flight entertainment (IFE) system. IFE is considered to be the future channel for advertising. IFE with personal LCD screens at every seat has always been a domain of long-haul wide-body aircraft. The passengers on single-aisle aircraft had to be satisfied with drop-down LCD screens or ceiling mounted CRT (Cathode Ray Tube) screens. However, the development of IFE systems goes further and some airlines, such as West Jet and Delta Airlines have already equipped their narrow body aircraft with personal screens on every seat. It is anticipated that development of new technologies like Electronic Paper Display (very light, very thin, flexible paper-like display with ultra-low power consumption) will make personal IFE systems very attractive for single-aisle aircraft<sup>39</sup>.

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<sup>39</sup> <http://www.eink.com/technology/>.

Finally, it can be admitted that transformation of low-fare airlines to the no-fare business model is possible; partly thanks to on-board advertising revenues as well as increased prices of non-ticket services (including e.g. checked baggage fees, check-in fees and priority boarding fees). Such kind of transformation can only be expected in case of having a large fleet airline with sufficient aircraft utilization and load factor. On the other hand, we are aware that utilization of all the available ancillary revenues sources would generate significant investment costs as well as would lead to an increase of the operating costs. However, we anticipate that investments in future advertising channels will bring airlines continuous income.

Nevertheless, the introduction of the no-fare business model can lead to a significant change in airlines passenger demographic mix, which can potentially have a very negative impact on airlines attractiveness for the advertising market.

There are certainly many different scenarios how the LCC market strategy will evolve. We don't pretend that on-board advertisement will turn round the market and bring free flying. However, the income from on-board advertisement can be a contribution to further reduction of cost of travel and can expand the air travel market to new potential passenger who would not fly at all.

As already mentioned till this time the airline companies focused on additional financial sources closely related to the air travel (insurance, car rental, hotel accommodation etc.). The reason why the income from adverts was not used in larger extent yet is that it is completely different business and airlines don't have necessary know – how. With respect to this most airlines can sell the on-board advert capacity to specialized companies. However, to be able to maximize their profit they must be able to specify the advertising potential. Our paper could contribute to this.

## **8. Future work**

Our initial research revealed both, the great potential of on-board advertising and several issues that will be addressed in our future research.

To be able to proceed further we will develop economical model that should allow us to perform demand sensitivity analysis as well as detailed what-if analysis. Our current work is focusing on various simulation scenarios that define various levels of airline's business dependency on on-board advertising revenues. The main aim of our research is to find ideal equilibrium between on-board advertising revenues and other sources of income considering various airline business models.

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## **STRATEGIA SKIMMING W REKLAMIE NA POKŁADZIE SAMOLOTÓW**

### **Streszczenie**

Zainspirowani transportem naziemnym operatorzy lotniczy rozpoczęli próby wykorzystywania dużego potencjału marketingu i reklamy na pokładzie. Reklama na pokładzie dostarcza lepszego i efektywnego kosztowo sposobu komunikacji z klientem. Głównym celem artykułu jest analiza rzeczywistego potencjału reklamy na pokładzie samolotów. Badania zostały głównie oparte na tanich liniach lotniczych, jako że te osiągają zarówno wysoki stopień wykorzystania floty, jak i wysoki współczynnik ilości zarezerwowanych miejsc. Poprzez zrealizowane badania autorzy zamierzają znaleźć odpowiedź na pytanie, czy marzenie Michael O'Leary'ego o linii lotniczej bez biletów może się ziścić, czy jest to wyłącznie utopia.



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## MAIN METHODS AND AREAS OF INTERNET MARKETING IN SERVICES

### Introduction

The development and constantly growing popularity of internet influence the operations of enterprises, organizations and institutions. The properties of the global network<sup>40</sup> create new opportunities for market entities. It is especially true for the enterprises, as the general movement towards operations in internet can be observed. Enterprises either operate fully in the network or (more often) utilize the network as a new, complementary form of operations. In practice and theory the realizing of some actions or tasks in the internet is called “e-action”, “electronic action” or “internet action”; therefore there can be distinguished, for instance: “e-business” or “internet business”<sup>41</sup>, “e-commerce” or “electronic commerce”<sup>42</sup>, etc. Analogically running marketing actions in the internet is called “e-marketing” or “internet marketing”<sup>43</sup>.

It should be stressed that running marketing activities (e-marketing) in the internet does not change the general rules of marketing science. The customer, his needs and wants, should still be in the center of any marketer’s mind; there is a constant need for gathering and managing information; adjusted and integrated marketing instruments should be implemented, etc. Although the general rules remain the same, there are some dramatic changes in internet marketing as well, which are, among others: the available tools, ways of competing, management of relations with

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<sup>40</sup> For more information about internet properties see e.g.: A. Afuah, Ch.L. Tucci: *Biznes internetowy – strategie i modele*. Oficyna Ekonomiczna, Kraków 2003, p. 32; L. Windham, K. Orton: *Dead ahead: the dilemma and the new rules of business*, Hardcover 2001, p. 289 and others.

<sup>41</sup> See e.g.: W. Cellary: *Techniki Internetowe*. Wyd. Akademii Ekonomicznej w Poznaniu, Poznań 2003, p. 47; A. Hartman, J. Sifons, J. Kador: *E-biznes, strategie sukcesu w gospodarce internetowej*. LIBER, Warszawa 2001, p. III.

<sup>42</sup> See e.g.: S. Collin: *Marketing w sieci*. FELBERG SJA, Warszawa 2002, pp. 14–15; B. Bishop: *Marketing Globalny Ery Cyfrowej*. PWE, Warszawa 2001. pp. 48–62.

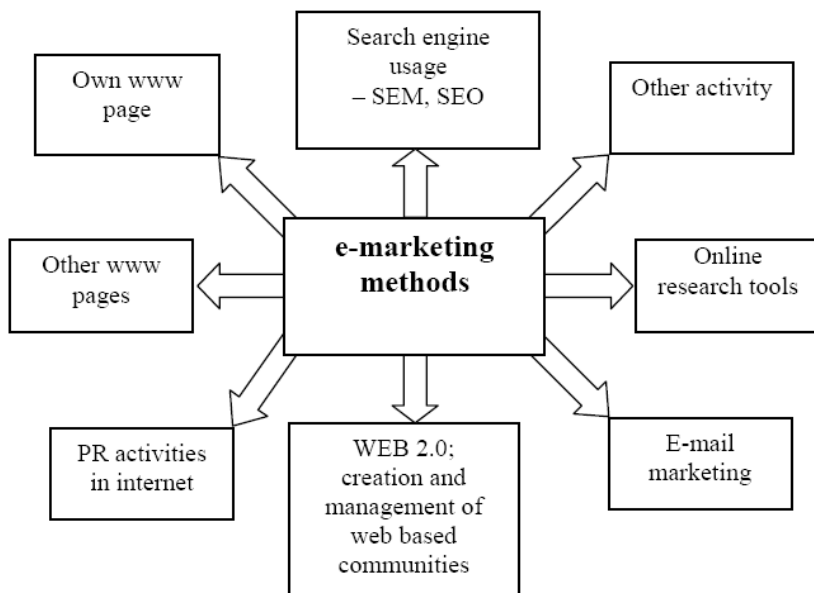
<sup>43</sup> E. Frąckiewicz: *Marketing internetowy*. Wydawnictwo Naukowe PWE, Warszawa 2006, p. 16.

new e-customers, the approach to business and its strategy. In other words **internet marketing offers new methods and new areas of operations.**

Another issue is adjustment of these new methods and new areas of operations to the service enterprises. According to literature there is a significant difference between the marketing of tangible products and the marketing of services<sup>44</sup>. This is the basis for the objective of this paper, which is **examination of internet marketing methods and areas in the context of services.** After the presentation of author's point of view for the internet marketing methods and areas, the attempt to adjusting them to services will be made.

### Review of typical e-marketing methods

In the dynamic environment of internet marketing the actions (methods) are subject to a constant change<sup>45</sup>. Therefore one clear and full list of all methods is very difficult (or even impossible in a longer term) to prepare. Having this in mind, an attempt to clarify at least some basic actions has been made by the author. According to author's observation of enterprises' behavior there are some general e-marketing methods implemented in virtual reality, which are presented on figure 1.



**Figure 1.** Main internet marketing methods

**Source:** own elaboration.

<sup>44</sup> Comp. Polish authors: K. Rogoziński: *Usługi rynkowe*. Wydawnictwo Akademii Ekonomicznej w Poznaniu, Poznań 1993, p. 14; M. Daszkowska: *Usługi. Produkcja, rynek, marketing*. Wydawnictwo Naukowe PWN, Warszawa 1998, p. 17; A. Payne: *Marketing usług*. PWE, Warszawa 1996, p. 159; *Marketing usług*, A. Styś (ed.). PWE, Warszawa 2003, p. 16; M. Pluta-Olearnik: *Strategie marketingowe przedsiębiorstw usługowych*. Wydawnictwo Akademii Ekonomicznej w Katowicach, Katowice 1992; and others.

<sup>45</sup> Ph. Kotler: *Marketing*. Rebis, Poznań 2005, pp. 35–56.

Methods presented on figure 1 probably do not create the full list of internet marketing methods but in the author's opinion are sufficient enough to cover most of e-marketing actions.

The starting point for internet marketing is own **www page**. Sometimes it is even perceived as the synonym of existing in internet. There are many guidelines, norms and standards of how a correctly prepared www page should look like<sup>46</sup>, so this matter will not be discussed in the paper, beside one important issue: the domain name. Although after the collapse of internet market in 2000 the prices of domains fell down, nowadays the prices of addresses are rising again. For instance, on February 7 2008 there was a new record transaction on the British market of domain names: the domain "cruises.co.uk" was sold for 560 000 pounds (approximately 1 million dollars). The UE, perceiving the matter of domains, introduced the new domain name ".eu". So, a very important matter in marketing is a good domain name.

Besides own www pages, enterprises can also use **other www pages** for marketing activities. This form of internet marketing is similar (to a certain extend) to the promotion in other media, such as television, radio or newspapers. The share of internet in advertisement market is still rather low (for instance in Poland it was 4,7% in 2007) but considering the fact of the size of this market, even 4,7% is a considerable value.

One of the clearest trends in internet marketing is the growing importance of **Search Engine Marketing (SEM)**. SEM seeks to promote websites by increasing their visibility in search engine result pages (SERPs). SEM methods include: Search Engine Optimization (SEO), Paid Placement, and Paid Inclusion. The growing popularity of SEM is caused by several reasons:

- SEM is relatively low aggressive: the user decides whether to click a link or not;
- the message is adjusted to the needs of users (appears usually only if a certain phrase has been typed in the search engine);
- there is relatively high level of acceptance of this form of advertising among users – according to the Gemius research<sup>47</sup> 55% of internet users perceived the sponsored links as "useful";
- SEM is available both for big companies and for the SME sector – even the smallest enterprises, which do not possess huge funds, can use this form of advertising;
- the expenditures for SEM are easy to control (widely implemented PPC – pay per click way of payment);
- advanced methods of efficiency management of SEM.

Still new and not fully described in the scientific literature part of internet marketing is so called **Web 2.0**. This term become popular in 2004, after the conferences organized by O'Reilly Media and MediaLive International<sup>48</sup>. The name Web 2.0 is used for defining the internet services, where the majority of the content is generated by the users of the service. Such service is called "community service". The importance of this approach to internet was noticed by the Times that granted the title "man of the year 2006" to "You", meaning the internet users. The Web 2.0, as an important trend, should be noticed by marketing in order to find ways of utilize this phenomena into marketing actions and objectives.

Another form of internet marketing, **e-mail marketing**, despite criticism, is still a widely used method. The advantages of e-mails, such as short time of delivery, multimedia capacities,

<sup>46</sup> See e.g.: A. Sznajder: *Marketing wirtualny*. Oficyna Ekonomiczna, Kraków 2002, pp. 66–77.

<sup>47</sup> Gemius research: *Internet 2006*, December 2006, p. 38.

<sup>48</sup> *Wiele hałasu o... WEB2.0*, <http://www.wirtualnemedia.pl/article/> (2008.04.03).

high possibilities of targeting, easy personalization and very low cost causes the constant popularity of this method.

### Typical usage of Internet in marketing

The above mentioned methods of internet marketing are used in several areas of marketing operations. These areas are presented on figure 2.



**Figure 2.** Main internet marketing areas

**Source:** own elaboration.

Internet marketing can be used for **promotion** – in this case it offers a great number of possibilities, such as: communication via own www page and other www pages (mostly in the forms of banners and links), e-mailing, search engine positioning, and others. In some cases (like creating www pages, hosting services, e-learning, etc.) the **production** or the **product** itself happens in internet. Global network is also a good place of trade – it can be used for **negotiation, sales and gaining clients**. In this case, it is the transaction that takes place in internet; the product distribution or service rendering can happen either in internet or in the real world. Despite of sales, internet is a good place for **customer service**: it can be complementary or even subsidiary to, for instance, call centers. So the internet customers have easier access to communication with an enterprise in cases such as: warranty, getting information, adjusting the service to the particular needs, etc. The electronic **distribution**, understood as the way a product goes from the manufacturer to the customer, for some products, like e-books, happens mainly in the internet. Internet has also become an important platform for **marketing research**, including both primary research: on-line questionnaires, mystery shopping in internet, e-focus groups, gathering information about internet users (cookies technology) and secondary research (lots of large

available databases). Not only external actions are possible in internet: another area is **internal marketing**: e-trainings for personnel, communication with employees, etc.

### Adoption of internet marketing areas of in service sector

The above mentioned methods of internet marketing (own www page, other www pages, SEM, e-mailing, online PR activities, marketing research, WEB 2.0 and others) **can all be adopted by service companies**. In other words in this case the difference of service and tangible goods appears in the way of using, not in the fact of using methods.

Different situation appears in internet marketing areas: in different services only some of the areas can be implemented. From the above mentioned areas of internet marketing the following can be implemented in all the kinds of services: **promotion, internal marketing** and conducting **marketing research and information management**. Other internet marketing areas, such as: production (in this case: **service rendering**), **distribution, sales** and **customer service** can be implemented only to a limited extend. It is mainly caused by the features of service that distinguish them from tangible goods<sup>49</sup>:

- intangible,
- heterogeneous,
- simultaneous production and consumption,
- perishable.

Especially simultaneous production and consumption causes, in some cases, that service rendering or distributing via internet is impossible. This is the case of, for instance: repairs services, transportation services, restaurants, haircuts, etc. However, in some of these cases it is possible to sell the services via internet (although the service is rendered in the real world). The example of this can be those airlines, where tickets can be bought only on internet. There are however such services that can actually be rendered via internet, such as e-learning and online banking. In these cases the services are rendered and distributed via internet.

Other services, such as health care services, cannot be rendered, distributed nor even sold in internet and the customer service via internet is very limited.

### Conclusion

The wide scope of both internet marketing methods and areas can be used in service sector. As for the **internet marketing methods: any of them can be implemented by the service entities**. Different situation is in the case of internet marketing areas: according to the type of service only some of them can be implemented. The **areas that can be implemented by any service entity are**: promotion, internal marketing and conducting marketing research and information management. The **areas that can be implemented only in certain kinds of services entities are**: service rendering, distribution, sales and customer service.

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<sup>49</sup> See e.g.: A. Zeithaml, A. Parasuraman and Leonard L. Berry: *Problems and Strategies in Services Marketing*. "Journal of Marketing" 1985, No. 49, pp. 33–46; A. Gilmore: *Usługi. Zarządzanie i Marketing*. PWE, Warszawa 2006, pp. 17–18; K. Rogoziński: *Nowy marketing usług*. Wydawnictwo Akademii Ekonomicznej w Poznaniu, Poznań 2000, p. 20; M. Pluta-Olearnik: *Marketing usług. Idee. Zastosowania*. PWE, Warszawa 1993, p. 21.

## **GLÓWNE METODY I OBSZARY MARKETINGU INTERNETOWEGO W USŁUGACH**

### **Streszczenie**

Artykuł prezentuje możliwości aplikacyjne metod i obszarów marketingu internetowego w usługach. Po zaprezentowaniu głównych metod marketingu internetowego (własna strona www, inne strony www, SEM, e-mailing, PR on-line, badania marketingowe, WEB 2.0 i inne) oraz głównych obszarów marketingu internetowego (promocja, marketing wewnętrzny, prowadzenie badań marketingowych i zarządzanie informacją, świadczenie usług, dystrybucja, sprzedaż, obsługa klienta i inne) przeprowadzona została dyskusja o ich użyciu w różnych rodzajach usług.

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## CHANGES IN PERCEIVING THE MARKET BY POLISH FARMERS

### Introduction

In spite of fact that the presence and need of marketing operations in farming were accepted, there is a big differential in opinions related to the nature of marketing in farming aspect. There is an opinion that farming has a special position (in context of marketing), which is related to huge amount of small farms that have no or limited control of markets, which provides products. The consequence of this is wide range of opinions related to elements being marketing in farming and small proofs to confirm the farming marketing definition.

The purpose of this paper is to prove that in the case of Polish farmers it is possible to see a modern farmer who, besides growing the quality and quantity of production, can choose positive decisions based on the market observation. That farmer can also use marketing rules and tools. The paper is a theoretical and empiric analysis of marketing possibilities based on 526 West Pomeranian farmers. Research was done in years 2005-2006.

In theoretical part of paper there is the estimation of level of implementation of the marketing rules. In empiric part, based on statistical probe, there is analysis of farmers in aspect of similar behavior in using tools and marketing actions. For this purpose there is used a taxonomical method – the method of k-average, which is detailed described in paper *Metody Taksonomiczne*<sup>50</sup>.

### 1. Theory of farms and the essence of marketing

In the literature we can see two ways of understanding marketing: traditional and modern one. First bases on the idea, that marketing is a necessary element of every company. This understanding was fine when companies were directed to production or sometimes selling. Modern understanding of marketing is much more difficult. In 1985 American Marketing Association (AMA) said that marketing is process of planning and making real the ideas, prices, promotions and distributions, goods and services to provide rewarding exchange. The others accept marketing as many actions like planning, coordination and control of the company. These

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<sup>50</sup> *Metody taksonomiczne w badaniach społeczno-ekonomicznych*. J. Pociecha, J. Podolec, A. Sokołowski, K. Zajac (eds). PWN, Warszawa 1988.

actions should point to actual and potential markets<sup>51</sup>. The direction of all mentioned actions is exchange partner, meaning customer, consumer, and user. The most important factor is strict definition that marketing shouldn't be neutral factor for farmers. Of course they can choose method of management in which they will take small decision but the production will still be running. Changes in marketing system have influence on particular persons, so it is in good that farmers are well informed about all aspects of farming marketing.

Based on a farm, marketing can be defined as every activity, purposely chosen by a farmer, who offers his products to previously chosen markets. This must maximize or at least optimize the profit<sup>52</sup>. There is no clearly defined definition of marketing. It is related to continuous evolution of the definition of a company (in a wide meaning of this word), as well as market definition and its relationship.

Based on the above a farmer (as every businessman that works in the market economy) must be able to answer the following questions: what to produce, how to produce and amount of production, where to buy necessary base products, where to sell the products. Farmers must be able to buy all necessary products that will support realization of chosen technologies. Weight is also important from the point of view of transport. Additionally farmers must think about possible markets. It's important to sell products with the best price and in the proper time (to avoid product's corruption). As it can be seen there is a necessity to find a merchant, negotiate prices and properly present the product. Currently there is an opinion that in the market economy the most important factor becomes the answer to the question: for whom to produce<sup>53</sup>. This pushes farmers to continuous observation of environment and economy, to recognize chances and dangers for production. These observations should base on changes on local, country and world market. Based on this it's obvious that the farmer should become manager of his farm as he would be a manager of big company.

## 2. Results and discussion

### 2.1 Farming in the aspect of used marketing rules and tools

In the market economy the main task of a producer is to get and keep good position in market. This can be done by going forward to consumer demands. It is necessary to use general marketing rules<sup>54</sup>. The test was based on this, to move five marketing rules to farms. Research based on marketing behavior of 526 farmers allowed defining theoretical thoughts mentioned below. This task wasn't easy, especially in context of farmer's work character. The one can not be considered only as a job but also as his life style.

The first rule of marketing (planned choice and forming the market) says that every producer or farmer, before he takes the decision or activity must make detailed analysis of the part of economy in which he wants to action. Choice and definition of market in which he wants to operate gives chance to get the success and it should be main point of long term strategic decision. Farmers must meet the basic relationships in market, chances to get into market and

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<sup>51</sup> H. Meffert: *Marketing. Grundlagen der Absatzpolitik*. Gabler, Wiesbaden 1986 and R. Nieschlag, E. Dichtl and H. Hörschgen: *Marketing*. Duncker und Humboldt, Berlin 1988.

<sup>52</sup> J. Barker: *Marketing rolniczy*. AR, Poznań 1993.

<sup>53</sup> B. Klepacki: *Ekonomika i Organizacja Rolnictwa*. WSiP, Warszawa 1999.

<sup>54</sup> *Podstawy marketingu*. J. Altkorn (ed). Instytut Marketingu, Kraków 1995.

dangers that comes with it. This is typical marketing action. For example a farmer who starts plant farming should check before:

- what can he farm- what kind of plants can give the best results determined by class of ground owned by him and climate?
- what cost it will be- check what kind of planting gives the highest profit?
- what kind of competitors will emerge- check amount of producers in nearest neighborhood
- how many delivery points he can find in nearest location and if there is need of such production
- what kind of plant is expected to be produced, what feature and quality it should have?
- what technical equipment is necessary to make the production?
- what kind of dangers can he meet during producing?

Such questions are nothing more but first marketing rule called **purposely chosen market**. To get detailed answers to these questions there is a necessity to make deep analysis of market. It can be done personally by the farmer, his family, coworkers or it can be done by outsourcing company. Basically personal research of the market is not the one which big companies both private and national choose. Usually a farmer during own research reads newspapers, uses help from decision delivery organization and neighbors. All he does is just to meet the prices and moved of prices to planned productions. Big companies usually hire a standalone worker, who is assigned only to perform research. He is responsible to communicate with consulting companies which helps to take decision how to use situation in market to proper existing<sup>55</sup>. Describing the needs and wishes allows to know market behaviors of potential consumers as well as it allows to suit specific marketing tools to market need.

Not easy step in producing is the usage of the second marketing rule- **integrated influence on market**. For farmers, integrated influence on market is exceptionally hard. This comes from the fact that currently farmers are to far away from purpose market. Additionally the problem is very strongly monopolized environment of farmers, when in the same time they are not integrated group. Based on this they have not sufficient knowledge of how and when to use basic marketing tools and, what is more, how to use them to get the effect of synergy. The first planned marketing actions are decisions related to product (for example: extending the basic properties of product, using more economic products, making own brand, making relation between product and service). Realization of product politics in addition to traditional rural products is as harder as there are no standard stages of life (as it is with other products in market). First of all it is quite hard to define growth or declining of a product because only those rural products that are planned for consumption are continuously searched by consumers. Secondly- season for some products makes it harder to get better conditions for selling. During the season there are plenty of them and they need less time to get bad. Speaking about prices farmers can choose one of possible methods of choosing prices. They can accept constant, market, contract or negotiated prices. This decision depends on the economy position of a company, possibilities of distributions, and uniqueness of offered products. In each production possibilities decision of setting the prices for standalone farmer are rather limited. The biggest chances for making better the price and have influence on it have only farmers organized in bigger groups and cooperating with one another. The basic rule of

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<sup>55</sup> J. Kondratowicz-Pozorska: Powiązania gospodarczo-informacyjne pomiędzy rolnikami a organizacjami i podmiotami istotnymi dla gospodarki żywnościowej. *Studia i Materiały Polskiego Stowarzyszenia Zarządzania Wiedzą*, No. 5, Bydgoszcz 2006.

business is: when company increases participation in market, its influence on market grows as well.

The price relation have influence on profitability of particular products or parts of productions, level of income for farmers and amount of consumption, production, invests, grow of accumulation, etc. Some authors believe that farmers who want to get better economic effects should have bigger initiative and should join the processes of preparation of the final product<sup>56</sup>. Unfortunately it is not possible to perform this in scope of a small company. It is highly advised to use such actions in groups. They should understand that creation of prices is not coming from small company but from wide markets like country of world one.

Another marketing tool, which allows strengthening positions during price negotiation, is knowledge in using the distribution politics. It is not necessary to convince anybody how important is the correct scheme of distribution channels and practical logistic solution. Farmers, who were excluded from market for longer time, now see how important tool it is. Producers have three distribution channels to choose:

- Direct – sell the products directly to consumer;
- Indirect- sell product to merchant and he provides product by distribution channels to consumer. This is convectional model of distribution channel.
- cooperation between producer, merchant and seller in one producers group that has one common purpose about consumer- system of vertical integration.

Not every product is ready to be sold directly to customer especially if it is not processed in special way (for example from grain of wheat to flour). That is why there comes additional part of chain- food processing.

Farmer, merchant, food processor are one group that by own representatives gets directly to consumer or retailer.

As long the distribution channel is as small is a customer's knowledge about the producer of a product. Influence of farmer on such a product is smaller. Promotion like direct selling, advertisement, public relation isn't very often phenomenon in farming. It comes from the fact that rural production is characterized by mass production, term of validity, season in which product occurs, further processing, etc. To strengthen the position of a farmer and allow him active promotion of his product it is necessary to adjust proper strategy for his company. It is not possible to perform these actions without a specific **action plan**. To provide retail market for his production, the modern farmer must see the future needs of market. After decision what to produce but before starting production he must:

- sign contracts with food processing companies,
- sign contracts with merchants, retailers,
- prepare possibility of direct selling to retailers without merchants,
- organize common marketing producer groups just to protect his business.

Such actions mean gathering in one all plans, wishes, information and market analysis. This will help to prepare action plan and planned results. In small farms or family firms all these job are maintained by one person - usually the owner. Often it happens that such plan stays only in his head. Bigger companies prepare wide documentation of plans and effects. This documentation

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<sup>56</sup> S. Makarski: Przedsiębiorczość w agrobiznesie. PAN, IRWiR. AR, Kraków-Warszawa 2000.

allows later make comparison of plans and reality. This **control of actions** allows making analysis of result or allows searching for possible reasons of failure.

Next tool in mix-marketing model is promotion- active communication between all parts interested in the product. Promotion is known also as communication politics or communication between market and producers. It consists of group of actions and tools, by which customer receives information about product. It creates and stimulates consumer needs, creates directions and lowers the flexibility of demand. A company communicates with market to create specific reactions from consumers. Consumers communicate with companies by accepting or rejecting their marketing politics. Promotion means dialogue between consumer and customer. This dialogue is done by information actions.

Using marketing rules in any economical activity lowers the possibility of failure and strengthens competitive position. However observation of marketing behavior proved that not all marketing tools are used in the daily production. Usually farmers don't use at all so called marketing-mix. Their actions are focused mostly on product, with which they want to get to market. Based on above they do research of market to find some missing areas of productions and products. They build action plan, realize the purpose, and develop methods of production and product itself. Even they do such actions that could help them using other marketing tools (like price, promotion or distribution). In Poland, similar to whole West Europe it is possible only by creation of producer groups. In farmers environment this way of behavior is not very popular.

## **2.2. Material and results of research**

The main source of information about farmers and their activities was information gathered in questionnaires research. There was a big statistical probe built, which reflects the structure of farmers in whole region (taken factors: age, education and amount of owned ground). The amount of respondents was 526. From all factors of marketing activities to research the following variables were chosen:

- X1 - amount of education which extended economic knowledge of farmer.
- X2 - participation of production after usage of new production technologies, new production in relation to general production of company [%],
- X3 - participation of ecological production in relation to general production of company [%],
- X4 - participation of processed products in all production [%]
- X5 - amount of production, that is sold in packages or is put into trade marks in relation to general production of company [%],
- X6 - amount of contracts for which prices were negotiated
- X7 - amount of new contractors in last two years
- X8 - amount of distribution channels for products and services
- X9 - possibility of own storage or processing [Yes/No]
- X10 - using specialized consulting companies [amount of visits to such company]
- X11 - possibility of providing information about own products [Yes/No]
- X12 - possibility of promotion of own products [Yes/No]

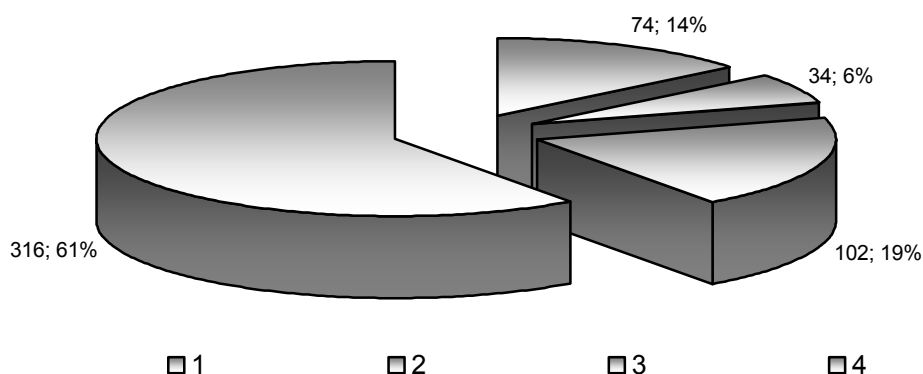
Gathered data can be sorted in four groups:

- actions for product (X1-X5 and X10)
- price (X6)
- promotion(X11-X12)

- distribution (X7-X9)

Use of method k-average allowed- based on those factors- to group farmers in four groups (compare figure 1).

First group, which consist of 74 farmers shows high level of refine and processed production in relation to whole production, possibility of price negotiation and promotion of product. These are companies with big amount of ground, with young management (below 40 years) with high or academic degree. They use pro-marketing actions. They want to direct action on market and consumer. They create own storage places, sorters, refiners- all to make shorter distribution channel from producer to consumer.



**Figure 1.** Use of method k-average grouped farmers into groups

**Source:** own research.

Second group are companies specialized or making production basing on new technologies. They want to sell products with high quality and own packages- that are well known on market. Usually they are managed by people with rural or economy academic degree. Amount of ground makes this group differentiate. This group consists of 6 companies what is 6% of research probe.

Farmers, who belong to these two groups, can be called modern ones. They understood that success depends on the consumer. Economy orientation is related with the need of using marketing tools. That was also thought of Benetta B.D., Nieschlag R., Dichtl E. and Hörschgen H. and Meffert H.

Third group consists of 102 farms, usually with average or small amount of ground. Their production is not processed before selling. Owners usually use other distribution channels. Good factor which shows coming changes is fact that farmers are going for educations, use consulting companies, they learn how to change production to the one which is wanted by consumers. In this group it is clearly seen that they are part changes from farmer producer to farmer-businessman. Education process and visible tendency to getting marketing knowledge allows saying that this group will join in nearest future to previously mentioned groups.

Fourth, unfortunately the biggest one (316) is the group with companies which doesn't use marketing tools. Farmers farm what they can, but not what is needed. They don't try to educate and change marketing orientation. As the effect there are visible problems with selling products and low prices for product. Farmer must accept what the market offers. Quantity of this group makes that observations of marketing behaviors are seen in negative way. However, research proved that even these farmers are changing, but this is a very slow process.

## Conclusions

Change in seeing market and usage of all marketing tools in Polish farming is difficult for many reasons. It is described in papers of Woś, Przygodzka or Spychalski<sup>57</sup>.

In West Pomeranian region there is a visible change in mentality of farmers and the way they see changes in market. These changes are not dynamic, but farmers don't want to be only static observers of changes. They want to be active market players.

They wish to take actions in that way, to have properly chosen production actions, to direct their products on previously chosen parts of market and to maximize the profit. The big problem of farmers is the fact of limited finances but due to EU this situation is also getting better<sup>58</sup>.

According to definition of Barker, active farmers are the one who follows direction to use marketing tools. These kinds of farmers in the research probe of 526 constitute only 20%. In spite of this, very important factor that shows some changes is the next group of 102 farmers (around 20%). This group is willing learn how to change way of management of their farms and how to change their behavior to become active participants in the market. These changes, however they don't cover even half of researched farmers (around 40%) are very important signal that positive changes in farmers' minds have already begun.

As shown in analysis in first part of this paper, full and aware participation in market as well as using marketing tools is hard to perform. It comes from fact that farmers were used to specific product orientation for many years as well as they were protected by the state (intervention politics). There must be a hope, that growing competition and more demanding consumers will push farmers to new, more active operations.

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<sup>57</sup> R. Przygodzka: *Instrumenty wsparcia finansowego i ich wpływ na konkurencyjność gospodarstw rolnych*. In: *Agrobiznes 2006*. S. Urban (ed.). Wyd. AE, Wrocław 2006 and G. Spychalski: *Regionalny model rozwoju obszarów wiejskich*. In: *Rolnictwo a rozwój obszarów wiejskich*. M. Kłodzińskiego and W. Dzuna (eds). IRWiR, PAN, Warszawa 2006 as well as A. Woś: *Konkurencyjność potencjalna polskiego sektora rolnego*. IRWiR, Warszawa 2001.

<sup>58</sup> D. Sikorka, I. Wielewska: *Fundusze unijne jako szansa wzrostu konkurencyjności przedsiębiorstw w agrobiznesie*. In: *Agrobiznes 2006*. S. Urban (ed.). Wyd. AE, Wrocław 2006.

**ZMIANY W POSTRZEGANIU RYNKU  
PRZEZ POLSKICH ROLNIKÓW  
(NA PRZYKŁADZIE WOJEWÓDZTWA  
ZACHODNIOPOMORSKIEGO)**

**Streszczenie**

Praca jest teoretyczno-empiryczną analizą możliwości marketingowych zachodniopomorskich rolników, których reprezentuje 526 gospodarzy poddanych badaniom w latach 2005–2006. Wraz z oceną możliwości marketingowych rolników można było także podjąć czynności służące analizie sposobu postrzegania rynku i zachodzących na nim zmian.

W teoretycznej części pracy podjęto próbę oceny zasad marketingowych w działalności rolniczej, natomiast w części empirycznej – na podstawie wyłonionej próby statystycznej – zbadano, czy rolnicy różnią się między sobą ze względu na stosowane instrumenty i działania marketingowe. W tym celu posłużono się jedną z wielu metod taksonomicznych, tj. metodą k-średnich.

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## **PARTNERING AS THE CORE MARKETING STRATEGY COMPONENT**

### **Introduction**

Today's market, being the collection of many parts from the sides of demand as well as supply, undergo occurrences of huge pressure not only from the side of competing companies but also, in the larger scale, from the side of customers. Client as the priority power indicates the firm's success and if his expectations are negative he changes his source of purchase without long consideration about it.

Partnering, which means the new quality in customer's service, is heading to full personalization. It means adjusting the products and service process to individual needs of particular receiver. Focusing on core competences, where partnering (with the goods' quality of course) plays the basic role, should be one of the most important marketing tool in long term company's strategy.

### **Focusing on core competences**

The business environment today is ever changing and needs a fast reaction. This situation forces all economical entities to adapt to the new conditions constantly.

Modern marketing should begin with the potential customer's needs, as well as the partnering which formula leans on making the highest quality in customer's service field. This quality means something really special for buyer's needs.

A successful competitive strategy is built on the firm's core competitions and competitive advantage. The core competences management attends to the main important problem of this crowded and full of world wide brand names labels market. This problem is named; „what kind of quality should we offer?”<sup>59</sup>.

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<sup>59</sup> M. Javidan: *Core Competence – what does it mean in practice*. “Long Range Planning”, vol. 31, No. 1, Great Britain 1998, p. 66.

### Partnering role within the firm

Partnering, which means a new thinking way is very useful marketing tool at the moment. Partnering is heading to full personalization. It means adjusting products to individual needs of particular receiver. This idea of individual approach towards clients (treated as partners) is the only one measure of the partner marketing. The care of creating feeling should be the overriding value for the prospective company. To manage core competency called partnering, obligates the managers to present the special satisfaction to the buyers.

Meanwhile many companies complain that their offer is closely similar to their rivals' one and that is why it is harder for them to distinguish themselves from other ones.

Today's free market realities are bringing in the more and more interdisciplinary character and require from producers and salesmen to understand that customer buys not just a product but something else also. First of all he buys an imagination and so the favor feelings. The key issue in partnering competences is the concern of portfolio of competences instead of a portfolio of business. Prahalad and Hamel discovered the organizational competences that permit to fill the following gaps and dominate in the market<sup>60</sup>:

- understanding how the competitors will look like in the future,
- creating a partnering process, how to find the market gaps,
- finding the ways to motivate employees,
- developing ability to beat the competitors in customer's service field (invisible to competitors and difficult to imitate).

These dimensions complete themselves. Competitiveness derives from an ability of building the core competences at lower cost and faster than competitors. Prahalad and Hamel proved that understanding processes should generate intelligence that can be used to create added value from resources.

This added value can make some extra invisible values, like: customer's service, system of guarantee, care of environment, etc.

Marketers, who are responsible for the long term marketing strategy, should even stroke their clients, psychically of course - this is the requirements of partnering.

The most important in fulfilling partnering intentions is the proper personnel selection. The main role belongs to entrepreneurs and salesmen, whose task is to create the right relationship with clients.

The most important resource in company should be its staff. People are the basic part of any organizations existence and they are placed before such elements like product and profit. Each reasonable boss knows that if he does not have good working employees to his disposal then any other part of the company's assets will not be as valuable as people.

The marketing department's role is to facilitate good marketing. Practicing marketing is everyone's (who serves the customer) responsibility. On a services company, everybody is responsible for the customer. Services marketing managers not only must persuade customers to buy invisible product they must also persuade and help employees to perform<sup>61</sup>.

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<sup>60</sup> J. L. Thompson: *Strategic Management*, 4th edition. Thompson Learning, London 2001, p. 60.

<sup>61</sup> Based on: J. Otto: *Marketing bezpośredni*. Businessman Book, Warszawa 1994, pp. 92–94.

This kind of resources is dependent on strategic architecture, which describes the main aim of an organization.

Customers always want high quality products. To build a good relationship each side should be satisfied and actively participate in cooperation.

The consumer's satisfaction according to the partnering depends on;

- company's reputation. The company which is well known of its reliability and advertises in luxury magazines what also raises the prestige of product's users,
- service quality. Personnel who is well informed about product advantages and enrich the value of offered goods and sale services by their highly cultural customer service makes in this way a client trustful towards the company,
- post selling service like: sustaining promotion, warranties, product maintenance, trainings for long term buyers,
- sensitivity towards natural environment. Today, the most important thing is no understanding of ecological matters. It is the result of the fact that ecological investments are expensive and people also suffer lack of reason. The partnering aspect of additional value considers the usage of ecological components or packages that are friendly towards natural environment,
- keeping the stable and high quality products;
- ability to offer clients more then they expect.

These kinds of resources are dependent on strategic architecture. The strong personnel competences simplify forming a successful target. Through core competences one can build competitive advantage. It's partnering which based on well educated and motivated salesmen. Service system is hard to competitors to imitate, because it concerns a lot of different invisible details, like for example: complaint department, letters and calls to main customers and special gifts for them.

In this place I would like to recommend to Polish businessmen and trades the acting principle of Japanese managers. Well according to them, the client's trust is the most valuable for the company – that is why the main impact should be directed for making our clients satisfied by producing modern and required goods and not by profits only.

Japanese directors, who were interviewed, claimed that the approach towards customer service in Japan and in Western Europe differs significantly. European person who has worked either for American and Japanese company gave an example: „the first that draw my American boss's attention was the financial results of company. My Japanese boss first of all wanted to visit the shops, their personnel and customers”<sup>62</sup>.

Americans like to act in accordance with the principle of 'hit and run' mentality, while Japanese treat client like as the cultivation, so they celebrate contacts with him counting on stable effects of such way of thinking. A professional trade says that sellers and buyers must be partners. This is the basic way of thinking in the scope of partnering – ability to offer a client – partner more then he expects.

### **Marketing managers market policy**

Managers can reflect on, then is a possibility to create a new quality with our clients. This problem is concerning the answer „why do our customers buy?” „How to be competitively

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<sup>62</sup> S.P. Robbins, D.A. DeCenzo: *Fundamentals of Management, Essential Concepts and Applications*, 4th edition. Prentice Hall Inc., New Jersey 2004, p. 89 .

unique?” The aspect of identifying core competences, like partnering consists in putting questions and looking for the answer in a company (staff experience, marketing know-how). There may be a situation that a company can lose its core competences, but not necessarily. It depends on the top board policy. It has already passed nearly twenty years since the moment when we started to create a free market economy in Poland. Despite, there are still many companies that focus on selling their products then fulfilling client's needs. Fulfilling client's needs as itself is a basic of today's consumer's market and in its scope the demand creation determines all actions.

A corporate can itself conduce to its failure. It comes off lack of stability in a term or shortsighted costs policy. Nowadays more and more companies are obliged to cut costs. They have to delimit production costs, administration costs, etc. Reducing costs is concern with make or buy decision. The make or buy decision is strategic and one of the most essential decision. It determines and defines an organization's core competences.

The partner marketing using a partnering conception of today's marketing creates an effect of mutual benefits by receiving satisfaction and loyalty of seller and buyer as well.

In partnering the most important is concentration on selling subject which includes a necessity to constantly motivate clients when they make their purchases. The reason is that as long as they are not countenanced they will buy much less articles or they will not buy at all.

This is why the fast changes postulate of still prevailing in our country way of thinking and acting on the market which is described as traditional marketing or product aimed marketing should be considered as the one that is necessary<sup>63</sup>.

Through core competences can a corporate gain an access to variety of markets fulfill customer's expectations and the most important thing: properly identified core competences, like partnering. They are difficult to imitate, because for example customer's service quality is invisible.

A need of change is the way of thinking about how to treat a company's partner. Client becomes an urgent necessity nowadays.

In our country, what should be stressed, there are still too few marketing managers, who can see the need to look onto the market with client's eyes.

The partnering leans on keeping constantly the word about supplying products of promised high quality as well as additional advantages like: perfect service, ethical approach towards user. These elements enrich “the bare products” and make them more attractive in crowded branding market. It is very important because the natural element of market consumers' behavior is searching for new impressions and experiences by less and less consumers' loyalty.

Among sources of company's core successes according to managers' experience are: the useful way of service (third place), attractive assortment (the second position) and price policy (the first).

Apart from above, the most important mistakes of Polish traders which show their unacquaintance of buyers' expectations include:

- not following the needs and tastes of clients,
- lack of sustaining sincere contacts with clients,

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<sup>63</sup> A. Campbell, L. Sommers: *Core Competence-Based Strategy*, 1st. edition. International Thompson Publishing Inc., United Kingdom 1997, p. 55.

- neglecting conversations with clients (90% of Polish companies do not ask their clients about their existence on the market). In this way these companies freely bereave themselves a possibility to get free information and opinion about their products,
- they cannot remember about the fact that success in marketing starts from the good acquaintance of client.

Companies that use strategy of adjusting to client's need must always create and modify their products in order to fulfill needs of particular clients in the best way. The main value of the company is ability to solve specific problems of clients.

Complexity and variability of the economical environment causes that managers have to face new requirements. An organization has to build up an ability to operate flexibly.

One possibility is using core competences as a strategy. There are the most important characteristic of this strategy:

- concentration on determining client's needs,
- implementing optimal client- aimed solutions,
- building the ties between companies and clients,
- aiming for creation of original quality solutions which are addressed to the particular clients (partnering).

Developing core competences is essential for management of any size business. Managers should take care of them. If an organization wants to use unique skills as a strategy, it has to be managed by opened mind management, who can flexible operate in the market. A company focuses on its core competences and uses them in strategies and practice. It's a suitable example to present how closely is vision and partnering.

The consumer's habit has deciding influence on creating consumer's satisfaction that is why it should be considered in the scope of knowledge about attitudes and the consumer's expectations of our receivers. It should be remembered that market actions of competitors should be considered as a necessary minimum below of which level the company cannot bring its actions granting that the particular company wants to stay in the market.

Relationship between needs and behavior of satisfied client is presented in the learning model elaborated by J.Howard and J.Sheth<sup>64</sup>.

Needs → Desire → Action → Satisfaction → Reputation

Seeing that the new era client more and more does not buy product that is threaten by him as empty thing but he purchases the additional value which this product brings into his life, like prestige and safety of possessing and that is why because of the appropriate marketing measures products should be equipped with a symbolic that is expected by consumers.

As can be seen presently, that most imported in core marketing strategy is client and his still changing needs. Appropriately to the consumer's expectations and needs analysis it is possible for the producer and seller to prepare for creating a client's satisfaction. With the market philosophy understood in this way, a company has to adjust all new conceptions and strategies to a client using a communication net to talk to him.

A company improves cooperation with clients thanks to partnering that is treating client as an equal partner in business to whom is able to offer a new special quality.

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<sup>64</sup> J.St. Ławicki: *Marketing sukcesu*. Difin, Warszawa 2005, p. 48.

This kind of action is used to build the prosument customers who will exert of fundamental influence on the existence of the company in the market.

This group of consumers is very interested in participation in possibilities of receiving an extraordinary satisfaction. This more and more common occurrence of world economy hyper-competition in which each competitive superiority of one company is immediately copied by others, maximizes efforts in battle to get a new client and keep a present one.

Company's marketing focuses on its core competitions and presents them in strategic. It's a suitable example to show how closely are: mission, vision and strategy linked which each other.

There are innovation and partnering on the top. The marketing of customer's relation is more and more aimed for possibilities of collecting clients using trademark creation and building on this basis relationships with customers.

At present one of the more efficient marketing instruments is so called cross-selling that is mutual recommending to client's services of other companies. No understanding of market realities and a simple professional jealousy makes that a minor percentage of Polish companies use this long time ago tested of mutual receivers' collection. This mutual receiver's collection strengthens the confidence towards recommending company and it contributes to receive a gratefulness of permanent clients.<sup>65</sup>

Appreciated client, according to the mutual principle of Richard Cialdini, wants to give something back even though to pass his friends positive information about the company that distinguished it with its care and it applies for his satisfaction.

These kinds of measures are the part of confidence goodwill capital which pays in market fall time.<sup>66</sup>

Focusing on the core competences as a strategy is a very good concept in business management. It gives great opportunities in coming future market. This approach is like a fight among companies to show, what they do the best. Therefore every firm wants to win; it uses all marketing tools, what it has got.

This is a clue of core competences: using and exploiting company's resources, capabilities and knowledge as well as management can.

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<sup>65</sup> J.St. Ławicki: *Partnering-new quality of customers' service*. International Conference on Mass Customization in Central Europe, Rzeszów, May 24–25, 2006.

<sup>66</sup> J.St. Ławicki: *Partnering...*, *op.cit.*, p. 9.

## **PARTNERING JAKO BAZOWY SKŁADNIK W STRATEGII MARKETINGOWEJ FIRMY**

### **Streszczenie**

Naczelną zasadą partneringu jest tworzenie nowej jakości obsługi partnerów firmy. Wysokowartościowy system obsługi stanowi swoisty mechanizm napędzający rozwój firmy, w której obsługę klienta traktuje się jako sedno w instrumentarium zarządzania.

Dobre kontakty z klientami rozumianymi jako partnerzy przyczyniają się nie tylko do umocnienia pozycji firmy na coraz bardziej globalizującym się rynku, ale poprawiają także komunikację wewnętrzną organizacji tworząc poczucie własnej wartości kadry, budując tym samym lojalność wobec pracodawcy.

W ten sposób powstaje układ obopólnych korzyści – pracowników i klientów, którzy widząc w jaki sposób odbywa się zaspokajanie ich potrzeb, wiążą się z daną firmą długoterminowymi relacjami, przyczyniając się do pomnażania jej zasobów finansowych.

Wysoka pozycja rynkowa to wynik dobrej reputacji firmy, którą trzeba hołubić dbając zarówno o inwestowanie w markę, jak i tworząc te wartości, które są oczekiwane przez klienta XXI wieku.



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## RESEARCHING SERVICES USING THE CRITICAL INCIDENT TECHNIQUE

### Introduction

Since the 1970s a growing number of researchers have focused on the issues involved in the management and marketing of services. A number of journals have been established, and countless conferences and symposiums have been held. One of the on-going research questions has been examination of the differences/similarities between goods and services. An equally important research question has concerned how can or should services be researched. Many services management researchers have emphasised the role of qualitative research in providing insights into services and their management. This paper examines some of the reasons why qualitative research has been found to be so attractive by services management researchers. In particular, the paper examines the Critical Incident Technique (CIT), which is one of the most frequently used approaches to investigate service research issues.

### Service research and the qualitative tradition

Qualitative research has been defined as “techniques of data collection and analysis that rely on non-numerical data”<sup>67</sup>. Qualitative data is rich and diverse; it can include sounds, pictures, videos, music, songs, and poetry. Qualitative research is often described in contrast to quantitative. Research students sometimes ask which is better, but that is the wrong question. Qualitative research and quantitative research should be seen as complementary rather than competitive. Often it is a question of which is more suited to the research task, or of using both. Indeed, as Labuschagne<sup>68</sup> points out, quantitative research focuses on “the degree in which phenomena possess certain properties, states and characters”, whereas the focus of qualitative research is on “the properties, the state and the character (i.e., the nature of phenomena)”.

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<sup>67</sup> C. Cassell, A. Buehring, G. Symon and P. Johnson: *Qualitative methods in management research: an introduction to the themed issue*. “Management Decision” 2006, No. 44 (2), p. 162.

<sup>68</sup> A. Labuschagne: *Qualitative Research – Airy Fairy or Fundamental?* “The Qualitative Report” 2003, No. 8 (1), p. 100.

Whilst quantitative investigation is often described as the dominant research approach, qualitative research has long tradition in social science, especially in sociology<sup>69</sup>. Qualitative methods have been employed to investigate a diverse range of subject areas in management research, including, for example, the nature of managerial work; relations with employees; the everyday experience of work; and understanding entrepreneurship. One of the areas of management research which has most embraced qualitative methods is services management.

Qualitative methods have been found particularly useful in services management research for a number of reasons. Services management is a relatively young research area, and many concepts are fairly new and still being developed, for example: emotional labour; service recovery; customer-to-customer interaction; and customer co-creation. Accordingly there is a strong emphasis on the generation of theory and thus a greater need for a qualitative approach.

Service encounters occur as sequences, so they need to be captured as episodes. The order and unfolding of events is relevant to understanding service experiences. For gaining understanding into consumers' evaluation of goods an attribute by attribute approach is often employed. In services, however, an attribute-by-attribute approach has serious limitations, and tends to become meaningless. Service consumers are more likely to remember a whole episode. Furthermore, it is essential to understand the service experience as seen by the respondent, and not as contained in the researcher's pre-conceptions. Finally, qualitative research methods are far more agile at detecting the complexity of human interaction in services. For example, it is extremely useful for the researcher to have some understanding of the customer's level of emotion; thoughts at different consumption stages (pre, during, and after); and experiences.

A wide range of qualitative research methods have been used by service researchers. Indeed, in the words of Gremler<sup>70</sup>:

*"The amount of service research has exploded in the past three decades, and a variety of methods and techniques have been employed to study marketing and management issues in service contexts"*

The following are examples of methods used by services management researchers. Participant observation is a method which involves the researcher becoming part of the service social context, either as an employee or a customer. Non-participant observation entails the unobtrusive watching of service encounters. Conversation analysis involves the analysis of talk as it occurs in naturally occurring service situations. It includes analysis both of what is said and how it is said. Diary studies, usually requesting respondents to note particular aspects of service encounters, have also been found to be useful in service research. One of the most used (primarily) qualitative methods is the Critical Incidents Technique; this is presented in the next section.

There have been a wide range of applications of qualitative methods in the field of services management. Here are some illustrations. Gustafsson, Ekdahl and Edvardsson<sup>71</sup> used video

<sup>69</sup> Readers may be interested to note that an early example of the use of qualitative research in Poland was the holding of a biography competition in 1921 by the Institute of Sociology in Poznan under the auspices of F. Znaniecki. See: K. Konecki, A. Kacperczyk and L. Marciniak: *Polish Qualitative Sociology: The General Features and Development*. "Forum: Qualitative Social Research" 2005, No. 6 (3), article 27.

<sup>70</sup> D.D. Gremler: *The Critical Incident Technique in Service Research*. "Journal of Service Research" 2004, No. 7 (1), p. 65.

technology to observe via film how air passengers spent their time during the travel process. Radford<sup>72</sup> used unobtrusive observation to gain insights into how academic library users are influenced by the nonverbal communication of librarians. Arnould and Price<sup>73</sup> utilized participant observation to study the evolution of human interaction in the extended service encounter of river rafting trips. Otnes, McGrath and Lowrey<sup>74</sup> employed the shopping-with-consumers method where the researcher actually accompanies consumers into retail settings and examines shopping behaviour from the consumer's perspective. Harris and Baron<sup>75</sup> analysed conversations between train passengers to produce various propositions about passenger interaction. Dirk vom Lehn<sup>76</sup> used a combination of video data and direct human observation to assess the role of other visitors in shaping the experience of museum visits. Reynolds and Harris<sup>77</sup> used in-depth interviews to investigate the range of tactics used by frontline employees in dealing with customer misbehaviour.

The above illustrations show the variety of qualitative research in services management. Moreover, the future for qualitative research looks encouraging. There has been a rapid expansion in numbers of qualitative methodological texts<sup>78</sup>. Qualitative-type studies are increasingly being accepted for publication in journals. Indeed, there is already an international journal dedicated to qualitative research: *Qualitative Research in Organizations and Management*. Moreover, there is a growing qualitative researcher community which is addressing some of the key issues facing the qualitative researcher, such as training, assessing research and overcoming barriers to dissemination.

### The Critical Incident Technique – an introduction

This section introduces the CIT and the subsequent section describes the various stages in using the technique. Space limitations necessitate that only selected key issues are discussed. Far more detailed accounts of using the CIT can be found elsewhere<sup>79</sup>.

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<sup>71</sup> A. Gustafsson, F. Ekdahl, and B. Edvardsson: *Customer focused service development in practice: A case study at Scandinavian Airline System (SAS)*. "International Journal of Service Industry Management" 1999, No. 10 (4), pp. 344–358.

<sup>72</sup> M.L. Radford: *Approach or avoidance? The role of nonverbal communication in the academic library user's decision to initiate a reference encounter*. "Library Trends" 1998, Spring.

<sup>73</sup> E.J. Arnould and L.L. Price: *River Magic: Extraordinary Experience and the Extended Service Encounter*. "Journal of Consumer Research" 1993, No. 20 (June), pp. 24–45.

<sup>74</sup> C. Otnes, M.A. McGrath and T.M. Lowrey: *Shopping with Consumers: Usage as Past, Present, and Future Research Technique*. "Journal of Retailing and Consumer Service" 1995, No. 2 (2), pp. 97–110.

<sup>75</sup> K. Harris and S. Baron: *Consumer-to-Consumer Conversations in Service Settings*. "Journal of Service Research" 2004, No. 6 (3), pp. 287–303.

<sup>76</sup> D. vom Lehn: *Embodying experience: A video-based examination of visitors' conduct and interaction in museums*. "European Journal of Marketing" 2006, No. 40 (11/12), pp. 1340–1359.

<sup>77</sup> K. Reynolds and L. Harris: *Deviant Customer Behavior: An Exploration of Frontline Employee Tactics*. "Journal of Marketing Theory and Practice" 2006, 14 (2), pp. 101–118.

<sup>78</sup> G. Gobo: *The Renaissance of Qualitative Methods*. "Forum: Qualitative Social Research" 2005, No. 6 (3), article 42.

<sup>79</sup> J.C. Flanagan: *The critical incident technique*. "Psychological Bulletin" 1954, No. 51 (July), pp. 327–359; D.D. Gremler: *The Critical Incident Technique in Service Research*. "Journal

*What is the CIT?*

Put forward in 1954 by Flanagan<sup>80</sup>, the CIT is basically a set of procedures designed to collect, content analyse and classify observations of human behaviour, in a way that assists in addressing practical problems. The technique, employing either recalled self-reported information collected from interviews or direct observation, enables researchers to gather authentic information from an employee or customer perspective. Such data is capable of providing both an abundance of detail and the authenticity of personal experience from those closest to the activity under investigation. Flanagan defined an incident as:

*any observable human activity that is sufficiently complete in itself to permit inferences and predictions to be made about the person performing the act.*

Flanagan considered critical incident as consisting of extreme behaviour which was “either outstandingly effective or ineffective” in terms of the general aims of the activity.

At the core of incidents are detailed accounts of specific occurrences that affected customers’ (or employees’) evaluation of a phenomenon. The CIT depends on carefully structured data collection and data classification procedures to produce detailed information. Through inductive grouping procedures, a specific set of data is analysed to generate categories. This is extremely useful in situations where classification categories do not exist.

*Why to use the CIT?*

The CIT has been applied extensively over the last half century. Critical incident studies have been conducted in an extensive range of social science research, including: education; human resources; management; and occupational psychology. Since the 1980s the CIT has been increasingly adopted by service management researchers<sup>81</sup>. Indeed, Gremler<sup>82</sup> found 141 CIT studies in service marketing and management publications.

The frequent use of CIT is not without reason. In researching service experiences it is very important to employ a methodology which can deal with the subjective nature of service quality and describe the service production process<sup>83</sup>. The researcher must get close to the service experience, not only to view everything that happens in the interaction but also to understand the traces of human understanding or misunderstanding, of motivation, or emotion contained in the interaction.

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of Service Research” 2004, No. 7 (1), pp. 65–89; R. Nicholls: *Interactions between Service Customers: Managing On-site Customer-to-Customer Interactions for Service Advantage*. The Poznan University of Economics Publishing House, Poznan 2005.

<sup>80</sup> J.C. Flanagan: *The critical...*, *op.cit.*

<sup>81</sup> For example: M.J. Bitner, B.H. Booms and M.S. Tetreault: *The Service Encounter: Diagnosing Favorable and Unfavorable Incidents*. “Journal of Marketing” 1990, No. 54 (January), pp. 71–84; S.J. Grove and R.P. Fisk: *The Impact of Other Customers on Service Experiences: A Critical Incident Examination of ‘Getting Along’*. “Journal of Retailing” 1997, 73 (1), pp. 63–85; L.C. Harris and K.L. Reynolds: *Jaycustomer Behavior: An Exploration of types and Motives in the Hospitality Industry*. “Journal of Services Marketing” 2004, No. 18(5), pp. 339–357; M.L. Meuter, A.L. Ostrom, R.I. Roundtree and M.J. Bitner: *Self-Service Technologies: Understanding Customer Satisfaction with Technology-Based Service Encounters*. “Journal of Marketing” 2000, No. 64 (July), pp. 50–64.

<sup>82</sup> D.D. Gremler: *The Critical...*, *op.cit.*, p. 65.

<sup>83</sup> B. Edvardsson: *Service Breakdowns: A Study of Critical Incidents in an Airline*. “International Journal of Service Industry Management” 1992, No. 3 (4), pp. 17–29.

Service management researchers have reported the CIT as being exceptionally useful in research designed to attain a thorough understanding a real world phenomenon. For example, Nyquist, Bitner and Booms<sup>84</sup> write that the “CIT generates data with a level of detail and richness that puts the researcher close to the realities of the process being studied”. In a similar vein, Bitner, Booms, and Tetreault<sup>85</sup> point out that, because the CIT examines actual human behaviours rather than general concepts (such as *courtesy*), the: “results of CIT studies provide much greater detail and depth of understanding than do typical customer satisfaction surveys”. Moreover, not only is the CIT context-rich, unlike observation studies, the context is also considered from the subject’s perspective. Accordingly the CIT it is able to capture the feelings, thought processes, and frames of reference surrounding an incident. Besides, as Nyquist, Bitner and Booms<sup>86</sup> point out, “direct observation of service encounters is both difficult and expensive.” Indeed, interaction processes are not entirely observable.

### Using the CIT

The original five steps in applying the CIT have been restated by Nyquist, Bitner and Booms<sup>87</sup> as: (1) establishment of the general aim of the activity to be studied; (2) development of a plan for observers or interviewers; (3) collection of data; (4) analysis (classification) of data; (5) interpretation of data. These stages will now be discussed in turn.

#### *Establishment of the general aim of the activity to be studied*

It is important that the researcher has a clear understanding of the purpose of the activity. This helps to establish or identify situations which cause difficulties. As Flanagan used the techniques to study employee effectiveness it was probably easier to be more precise about the aim of an activity than when studying a consumer’s activity. So when using the CIT to investigate consumer perspectives on an issue, it may be necessary to perceive the aims of the activity in terms of customer satisfaction. In such cases it may be more appropriate to describe the motivation for the study rather than define at the outset what consumers are trying to do. Indeed, consumers may be reacting to a situation which they would rather not have experienced.

#### *Development of a plan for observers or interviewers*

Before engaging in data collection, a considerable amount of planning and preparatory work must be undertaken. Many organisational issues need to be addressed. These included: Who should be the respondents? Who will be the interviewers? How should the interviewers be trained? What should be the format of the research instrument? What ethical issues are involved?

Often the interviewers are students, but it is important to assess their suitability for this role. For example, do they have knowledge and/or an interest in the topic being investigated? Do they have previous practical experience in collecting data? Comprehensive interviewer training is vital and should include such issues as the purpose of the survey; an outline of the merits and

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<sup>84</sup> J.D. Nyquist, M.J. Bitner and B.H. Booms: *Identifying communications difficulties in the service encounter: a critical incident approach*. In: “The Service Encounter” 1985. J.A. Czepiel, M.R. Solomon, and C.F. Surprenant (eds). Lexington Books/D.C. Heath, Lexington, MA, p. 209.

<sup>85</sup> M.J. Bitner, B.H. Booms and M.S. Tetreault: *The Service...*, *op.cit.*

<sup>86</sup> J.D. Nyquist, M.J. Bitner and B.H. Booms: *Identifying communications...*, *op.cit.*, p. 209.

<sup>87</sup> *Ibidem*, p. 197.

methodology of CIT; the questions to be asked; the instructions (both verbal and non-verbal) to be followed. Training can also include role play in groups to practise interview techniques.

The design of the process to be used by interviewers is a very important task. Usually some sort of questionnaire or interview guide will be created. Such an instrument should: introduce respondents, in a non-academic way, to the general theme of the research; provide reassurance of the privacy of any data collected; and carefully word a request for the recalling of a relevant incident.

#### *Collection of data*

Respondent are usually required to complete the questionnaire in the interviewer's presence. A typical time guideline for interviews is about 15 minutes. Interviewers should be briefed to achieve clarity about the incident and to prompt the respondent so as to secure as detailed a written account as is possible. Interviewers need to find out exactly what happened. They should let the interviewee talk; ask for clarification if necessary; provide encouragement but to avoid steering the interview. To avoid filtering and misrepresentation respondents are often requested to write down the incident in their own words. Written incidents tend to vary in length from a few lines to one page.

A common question is how many incidents should be collected. Flanagan points out that the number of incidents required varies tremendously with the complexity of the activity being investigated, and suggests it may range from as low as 50 incidents to as high as several thousand incidents. He recommends that incidents be collected to the point where an additional 100 incidents only contain two or three new critical behaviours<sup>88</sup>. Accordingly, sample size does not need to be determined prior to the collection of incidents.

#### *Analysis (classification) of data*

Once the incidents have been gathered, each needs to be placed into a category. The process for doing this often includes elements of the following. The incident accounts are read and re-read, and thoughts and provisional labels are attached to them. Some incidents are rejected almost immediately, and some will be identified for potential rejection. Words, themes and patterns emerge in the data. For example, key words used by respondents might be highlighted or certain circumstances may be noted. Category labels are allocated to incidents, working definitions are created. Often labels are later refined, so as to better communicate their meaning and to make themselves broader or narrower. When the incidents in a category are reflected upon sub-categories usually emerge. Definitions are continually improved and sometimes widened to accommodate particular situations. Incidents which seem difficult to categorise might be compared to a selection of incidents with some similarity in order to tease out their character. Once fairly stable groupings have been established, there will be a check to see if the sample size has reached saturation level.

Because the ability of the judge(s) is the main influence on the quality of the induced categories, it seems prudent to submit the categories for review by others. Accordingly, an essential element of the classification process is that the incidents should be independently classified by two judges. The extent to which the two judges agree on the classification of the incidents, known as inter-judge agreement, should be calculated. It has been suggested that inter-

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<sup>88</sup> J.C. Flanagan: *The critical...*, *op.cit.* p. 343.

judge reliabilities of over 80 percent are acceptable<sup>89</sup>. Differences in how judges classify incidents can be highly stimulating for discussion of the meaning of incidents, and new categories or sub-categories can result from such a dialogue.

### *Interpretation of data*

The report of a CIT study should include discussion of: (a) the research question; (b) the data collection procedures; (c) the characteristics of respondents; (d) the data characteristics; (e) data quality; (f) procedures used in the classification process; and (g) the classification scheme and its implications<sup>90</sup>. It is particularly important that a CIT research report includes evidence of the quality of the data, and the procedures followed to ensure this quality. This includes issues such as justification of the sample size and reflections on the extent to which the sample of respondents can be considered representative. Any possible limitations need to be pointed out.

The level of detail at which the data is reported, for example the number of categories proposed, depends heavily on the purpose of the study. This is largely a question of determining the appropriate balance between specificity and generality. For example: a CIT study conducted in a single service firm to create insights for employee training would merit a far higher level of specificity than an all-service exploratory study of an emerging services management theme. Often it is difficult to anticipate the appropriate reporting level in advance of the analysis. This, however, is not a problem as the reporting level decision can be made after analysis. Indeed, one CIT study identified 87 categories but for reporting purposes collapsed these into a far more manageable 8 categories<sup>91</sup>.

As can be seen from the above five stages the CIT is far more structured than simply gathering stories from customers. A variety of checks and balances are available to ensure it is utilised in a reliable way. The CIT does, however, have a number of possible limitations. These include: respondents may be subject to recall bias; trivial incidents may be too easily forthcoming; and interviewers and/or researchers may misunderstand respondent stories<sup>92</sup>. Every research method, however, carries potential weaknesses or limitations and generally the CIT is viewed in highly positive light. The great strength of the CIT method is, in the words of Gremler<sup>93</sup>, it "reflects the normal way service customers think ... [it]... does not force them into any given framework". Indeed, the CIT's respectability is evidenced by its frequent use in studies accepted for publication in international journals on service industries.

### **Summary**

Qualitative research methods have been found particularly useful for investigating services management. This article has explored some of the reasons for this tendency. A range of qualitative techniques are briefly described. One qualitatively oriented technique, namely the Critical Incident Technique (CIT), has been discussed in some detail. The five main stages involved in applying the CIT have been considered. A range of practical issues when using the

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<sup>89</sup> S.M. Keaveney: *Customer Switching Behavior in Service Industries: An Exploratory Study*. "Journal of Marketing" 1995, No. 59 (April), pp. 71–82.

<sup>90</sup> D.D. Gremler: *The Critical...*, *op.cit.*, pp. 81–82.

<sup>91</sup> K.D. Hoffman, S.W. Kelley and H.M. Rotalsky: *Tracking Service Failures and Employee Recovery Efforts*. "Journal of Services Marketing" 1995, No. 9 (2), pp. 49–61.

<sup>92</sup> D.D. Gremler: *The Critical...*, *op.cit.*, pp. 67, 77–78.

<sup>93</sup> *Ibidem*, p. 66.

technique has been introduced. Various recommendations, together with sources of explicit information, have been provided for those intending to employ the technique.

## **ZASTOSOWANIE METODY KRYTYCZNYCH PRZYPADKÓW W BADANIU USŁUG**

### **Streszczenie**

Jakościowe metody badawcze uznawane są za szczególnie przydatne w dziedzinie zarządzania usługami. Artykuł niniejszy wyjaśnia dlaczego tak się dzieje. Opisuje pokrótce szereg metod jakościowych. Więcej miejsca poświęca zaś jednej z nich tj. metodzie krytycznych przypadków (ang. Critical Incident Technique CIT). Autor dość szczegółowo omawia pięć etapów zastosowania metody krytycznych przypadków. Etapy te to: (1) określenie celu działania będącego przedmiotem badań; (2) stworzenie planu obserwacji; (3) zbieranie danych; (4) analiza i klasyfikacja danych; (5) interpretacja i prezentacja danych. Autor porusza praktyczne zagadnienia związane z zastosowaniem tejże metody, rekomenduje również źródła informacji nt. metody krytycznych przypadków przydatne dla tych, którzy chcieliby ją stosować.

# *Chapter V*

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## *CUSTOMER RELATIONSHIP MANAGEMENT*



*MACIEJ BURAK*

## BEHIND THE IT OUTSOURCING DETERMINING OPTIMAL STAFFING LEVELS IN SPECIALIZED CONTACT CENTERS

### Introduction

The business of IT outsourcing in Poland has experienced a unprecedented rates of growth in recent time. Enabled by changes in legal environment and technology, the outsourcing of IT is no more the domain of multinational companies implementing proven business models from their home markets but also increasingly the proffered way for local companies of all sizes. The services offered by leading providers like for example Accenture, HP, BCC, IBM cover not only simple remote administration or hosting of basic IT systems or technical help desk for standard applications, but also outsourcing of complete ERP environments up to Business Process Outsourcing<sup>94</sup>. A good example is growing number of companies implementing SAP R/3 – one of the leading ERP software systems, in an outsourced manner<sup>95</sup>. The services offered by IT companies regarding SAP outsourcing cover not only remote hosting or system administration, but increasingly consulting in customization and changes for specific SAP modules required by end-customer<sup>96</sup> e.g. adoption of the FI/CO module due to the business development or changes in law will be requested by accounting/controlling department of the customer and require for example changes in depreciation classes, new reports for management, interfaces to new external systems etc. – the necessary specification, development and tests can be done nowadays remotely, e.g. using remote access to the system and contact via telephone, e-mail, videoconference etc.

The maturity of this business area is also reflected in forth going standardization and transparency of offered solutions, often formalized and certified according to best practices standards like ITIL and ITSM or even international standards like BS15000 and BS ISO/IEC 20000-1,2:2005<sup>97</sup>.

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<sup>94</sup> <http://www.hp.com/>; <http://www.ibm.com/pl/services/portfolio/so>. <http://www.sap.com-poland/company/customers/index.epx>.

<sup>95</sup> e.g. [http://www.bcc.com.pl/klienci\\_zak31.html#lista](http://www.bcc.com.pl/klienci_zak31.html#lista).

<sup>96</sup> <http://www.bcc.com.pl/akademia>.

<sup>97</sup> e.g. <http://www.hp.com/>; <http://www.iso.org>.

The research cites numerous reasons for outsourcing IT decisions. Romauldo, Gurbaxani (1998)<sup>98</sup> give cost reduction due to the specialization and effects of scale as the primary motivation to outsource but also stress the strategic role of IT outsourcing for their success. Significantly the forerunners were the very technologically oriented companies with well-run, innovative IT departments that are large enough to achieve the same scale and specialization benefits as an external vendor, well aware of the importance of information and communications technologies, such as Lufthansa, British Petroleum, J.P. Morgan and Swiss Bank Corporation, confronting the disparity between the capabilities and skills, necessary to realize the potential of modern IT technologies and the reality of their own in-house technology capabilities and skills.

An often highlighted reason for IT outsourcing, indicated in numerous case studies of IT outsourcing, presented by the service offering companies, is the problem of sparse available pool of skilled and knowledgeable human resources<sup>99</sup>. The so called knowledge workers play an important role as they act not only as pure operators of their systems, but also increasingly as an interface to the end customers, acting more like consultants spawning IT and very specific business related knowledge rather than autonomous systems administrators or programmers.

Finding and retaining the appropriate talents is not only limited to the costs of their compensation but also relates to other aspects of their employment, e.g. prospects of their professional development the company can offer.

Another and very related, are cited the costs of in-house knowledge management and operational risks due to absenteeism and turnover.

On the demand side the same pool of specialists is targeted by international companies both, through the possibilities to work abroad offered after Poland's EU accession and by growing number of outsourcing centers, off-shored to Poland for offering services to international companies. According to the newest releases of the McKinsey "War for Talent"<sup>100</sup> research program, 50 percent of Polish engineer graduates are, due to their language skills and cultural fit, suitable for employment for multinational companies, compared to 25 percent in India and only 10 percent in China. A comprehensive information about current BPO foreign investments and their perspectives can also be found in publications of the Polish Information and Foreign Investment Agency (PAIIZ)<sup>101</sup> and Kalinowski (2007)<sup>102</sup>.

The efficient use of the human capital involved in direct customer service, is thus one of the most critical factors for success in an IT outsourcing service company.

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<sup>98</sup> A. Romauldo, V. Gurbaxani: *Strategic Intent for IT Outsourcing*. Center for Research on Information Technology and Organizations. I.T. in Business. Paper 145 (January 1, 1998).

<sup>99</sup> Numerous case studies can be found for example on <http://www.bcc.com.pl/akademia> (a particularly focused white paper from BCC is "Kompleksowy outsourcing IT").

<sup>100</sup> M. Guthrie, A. Komm, E. Lawson: *Making talent a strategic priority*. "The McKinsey Quarterly" 2008, No. 1; D. Farrell, M. Laboissiere, J. Rosenfeld: *Sizing the emerging global labor market*. "The McKinsey Quarterly" 2005, No. 3.

<sup>101</sup> *Business process offshoring and shared services centers in Poland*. PAiZ 2006; downloadable from: <http://www.paiz.gov.pl/>.

<sup>102</sup> T. Kalinowski: *Stymulowanie innowacyjności i zdolności eksportowych polskiej gospodarki poprzez poprawę struktury napływu inwestycji zagranicznych do Polski*. Instytut Badań nad Gospodarką Rynkową, Gdańsk 2007.

### **Customer service part of the IT outsourcing services - a case of specialized contact center**

The provision of the help desk and consulting service delivery in a remote manner developed historically at first, as so called call centers, handling relatively simple customer requests on a mass scale. For many companies, such as financial institutions, airlines, hotels, and telecommunication companies, call centers provided the primary communication channel to their customers, offering a broad range of available services ranging from infoline's thru operational customer services (e.g. telephone banking, ticket reservation, contract management) up to telemarketing of new services to existing and prospective customers. Gans, Koole, Mandelbaum (2003)<sup>103</sup> gives an example definition of a call center:

"...call center constitutes a set of resources – typically personnel, computers and telecommunication equipment – which enable the delivery of services via the telephone".

The development of the communication technology enabling more complex customer interactions and the increased complexity of services offered remotely, extended the way of providing such services beyond simple telephone call. This further development of the call center is usually referred as a contact center (e.g. Whitt 2002<sup>104</sup>).

Most contact centers serving retail customers require no particular knowledge to properly serve customers requests. Due to the standardization of customer services procedures, the time that is necessary to train a new hire, for example in a retail banking contact center, can be accomplished in 2-6 weeks time.

In opposite to that a contact center, that provides IT outsourcing related help desk and consulting services, requires from the candidates at least academic education in some particular (e.g. IT, Finance, Law) area, furthermore, building and retaining specific knowledge, for example as SAP consultant for a particular area like Controlling or HR module, makes steady investment in the training and generally the knowledge management of the employed consultants inevitable<sup>105</sup>. It constitutes a special case of a more general term: specialized contact center - I'll later refer to, meaning a class of contact center organizations requiring special knowledge and/or expensive and time consuming education of employed consultants in order to provide their services to the customers in a appropriate quality.

Another possible examples of a specialized contact center could be law and tax consulting for companies or technical service of advanced medical equipment.

### **Service quality parameters**

The goal of finding methods for determining the optimal staffing levels for a contact center relies on satisfying service dependent objectives and performance measures in a way that minimizes costs and use of available resources. Research has resulted in many proposals for

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<sup>103</sup> N. Gans, G. Koole, A. Mandelbaum: Telephone call centers: Tutorial, review, and research prospects. "Manufacturing & Service Operations Management" 2003, No. 5, pp. 79–141.

<sup>104</sup> W. Whitt: Stochastic models for the design and management of customer contact centers: some research directions. Working paper 2002.

<sup>105</sup> An analysis on impact of knowledge management due to turnover for an organization can be found in: S. Bordoloi, H. Matsuo: Human resource planning in knowledge-intensive operations: A model for learning with stochastic turnover. "European Journal of Operational Research" 2002, No. 130 (1), pp. 169–189.

evaluating the performance of a contact center. According to Gans, Koole, Mandelbaum (2003)<sup>106</sup> there are three commonly used views on quality of a contact center from the customer point of view:

- accessibility – measured with customer waiting times, abandonment rate etc.
- effectiveness – measured by satisfactory solution of the customer problem
- content of interactions – quality of interaction, attitude of the consultant etc.

Any of them includes several possible metrics, some examples of them for the accessibility area are: average speed of answer, average handling time, abandoned rate, abandoned rate from ringing, service level, calls in queue etc.

Another from Marr Neely (2004)<sup>107</sup> proposes more general assessment of the quality of the services consisting not only of:

- operational Efficiency Measures,

but also:

- customer Satisfaction,
- service Quality,
- employee Satisfaction,
- satisfaction of other stakeholders (e.g. financial performance),

based on the idea of measure of the overall value creation of the service delivery with particular emphasis on the intangible performance drivers.

For the purpose of the staffing level optimization, of the most importance are the objectives and measures that describe operational service quality, as they, together with the number of service requests, influence directly the number of necessary available dedicated consultants required for their fulfillment (demand for resources). This will be explained more detailed later while discussing available models.

Meeting the objectives and measures regarding other areas (e.g. perceived Customer Satisfaction, Employee Satisfaction) is so far related as it decreases in most cases the time the consultants can deliver for solving service requests (e.g. training, coaching and other knowledge and skill management measures, managerial coaching, additional break time, social activities sponsored by the company and other employee satisfaction measures) thus in most cases reducing the supply of resources to be planned or optimized.

The usual parameters, that are of importance for that purpose and have to be met by IT outsourcing service providers, define usually:

- possibility for the customer to contact the service in a predictable and possibly immediate time defined usually for the contact centers as:  
(Availability) Service Level – defining the time, a customer needs for contacting the service – usually as percentage of calls (service requests) that has to be answered in a specific time (e.g. SL 90/10 means that 90 percent of calls are answered in less then 10 seconds)

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<sup>106</sup> N. Gans, G. Koole, A. Mandelbaum: *Telephone call centers: Tutorial, review, and research prospects*. “Manufacturing & Service Operations Management” 2003, No. 5, pp. 79–141.

<sup>107</sup> B. Marr, A. Neely: *Managing and Measuring for Value: The Case of Call Centre Performance*. Research Report for publication by Cranfield School of Management and Fujitsu, 2004.

- guarantee that the customer problem will be solved in appropriate manner by dedicated staff in a predictable time defined as:

Problem Resolution Service Level – defined usually as the expected and maximum time elapsed between the first reporting of a problem and its resolution

The expected values of this measures are defined in Service Level Agreements (SLA) that are an integral part of every customer – service provider contract<sup>108</sup>

The scientific approach to contact center management: Erlang-C model and its application for specialized contact center in IT outsourcing

The simplest but widely used model of a contact center is the M/M/n queue also known as Erlang-C model. Its use for contact center modeling and planning was analyzed by various research e.g. Koole, Mandelbaum (2002)<sup>109</sup>, Brown et al. (2002)<sup>110</sup>, Gans, Koole, Mandelbaum(2003)<sup>111</sup> and Halfin, Whitt (1981)<sup>112</sup>.

The origin of the Erlang-C model dates back to beginning of the 20<sup>th</sup> century and is the result of scientific research of Agner Krarup Erlang who analyzed and described the work of human telephone operators connecting incoming calls physically to the proper extension/line on a switch board. The main idea behind, was to develop an analytical mathematical model based on queue theory, describing dependencies between arrival rates, service times, number of available servers (operators) and the probability that the service request will be served in predefined amount of time.

The model assumes Poisson distribution of incoming service requests, single FIFO queue with endless capacity and a finite number of servers with exponentially distributed service time. This implies that both – the clients and the servers are homogenous (single-type customers, single-skill agents). The model ignores blocking and abandonments.

One of the most important reasons for the widespread use of this model is existence of closed form expressions for most of its performance measures. It can be easily implemented in form of spreadsheet mathematical functions and used for modeling of different scenarios due to changing input parameters.

The model, although very simplified, delivers very appropriate results, as long as the real system being modeled does not significantly break the underlying assumptions. This assumes in particular, in addition of above mentioned service and arrival process distribution requirements, that the analyzed time period is short enough for arrival rate to be treated as constant (usually 30 min) and the system is otherwise stable (e.g. abandonment rate of 2-3% is considered as non significant) and of course that the modeled system follows same routing strategy (single FIFO queue, one level of finite number of servers).

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<sup>108</sup> Implementation case studies on <http://www.bcc.com.pl/akademia>; see also: L. Paul: *ABC: An Introduction to Service-Level Agreements (SLAs)*. CIO Magazine, 8 August 2007.

<sup>109</sup> G. Koole, A. Mandelbaum. *Queuing models of call centers: An introduction*. "Annals of Operations Research" 2002, No. 113, pp. 41–59.

<sup>110</sup> L. Brown, N. Gans, A. Mandelbaum, A. Sakov, H. Shen, and L. Zhao: *Statistical analysis of a telephone call center: A queuing-science perspective*. The Wharton School, University of Pennsylvania, Philadelphia, PA, 2002.

<sup>111</sup> N. Gans, G. Koole, A. Mandelbaum: *Telephone call centers: Tutorial, review, and research prospects*. "Manufacturing & Service Operations Management" 2003, No. 5, pp. 79–141.

<sup>112</sup> S. Halfin, W. Whitt. *Heavy-traffic limits for queues with many exponential servers*. "Operations Research" 1981, No. 29 (3), pp. 567–588.

According to Koole, Mandelbaum (2002) large US retail contact centers using this model for staffing, achieve productivity of their employees exceeding 90% while keeping very satisfactory service level (31 seconds ASA, 318 seconds AHT, 2.8% abandoned).

Although quite well suitable for large retail contact centers with big number of arriving calls and relative short service times, unfortunately this routing and servicing model does not generate satisfactory results for a typical specialized contact center.

Using available Erlang-C calculators one can estimate that assuming a 90/20 (availability) service level, 21 minutes service time (quite usual for consulting IT problems) and 10 service requests per hour – 7 consultants have to be always available. This means that in order to provide satisfactory SL results 50 percent of available working time of high qualified (thus expensive and difficult to hire) professionals, cannot be used effectively. In reality this value will be probably even much worse, at least due to the changing arrival rate during the day, as staffing has to guarantee the fulfillment of the service levels even at its peak.

The reason for the difference in the above examples is the economies of scale effect (EOS) and is related to the so called safety staffing effect. Safety staffing is used to meet the service level requirements thus requiring more workforce scheduled then in case when all consultants worked continuously for a specific workload (with nearly 100% utilization) due to the stochastic nature of the arrival of service requests. A detailed analysis of EOS related to contact centers can be found in Koole, Mandelbaum (2002).

Achieving the EOS for specialized contact centers is particularly difficult, due to relatively small number of potential customers generating service requests in comparison to the mass retail services for a country of Poland's size. This results in relatively low workload of incoming requests. Another reasons of increased safety staffing are: high (availability) service levels required to serve high-value customers and much higher average handling times, then in case of retail services, due to complex nature of problems to be solved increasing both, the problem resolution time and time spent with the customers in order to properly identify and describe their needs.

### Other routing policies proposals

A comprehensive overview of different approaches to optimize productivity in contact centers can be found in Koole, Pot (2006)<sup>113</sup>. The main and widely discussed proposal is to achieve additional EOS by implementing multi-skill routing policies. Another proposed method to achieve higher productivity is blending of synchronous with asynchronous service requests (e.g. incoming with outgoing telephone calls or telephone calls with e-mail requests).

Multi-skill routing assumes handling different service requests by cross-trained consultants. For example in retail banking contact center a consultant could handle both infoline and credit cards calls. This creates in comparison to different staff handling separately one of this skills in separate contact centers one virtually bigger contact center thus achieving potential effects of scale. However the gains from the EOS can be easily consumed by increased effort to retain knowledge simultaneously in many areas, especially in cases when training and other knowledge management requires significant amount of consultants time. This would be probably the case in

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<sup>113</sup> G. Koole, A. Pot: *An overview of routing and staffing algorithms in multi-skill customer contact centers*. Working Paper, Department of Mathematics, Vrije Universiteit Amsterdam, The Netherlands, 2006.

most specialized contact centers. Additionally it often would require some sort of (graduate) education in all served areas (e.g. SAP financial modules consultants vs. database system administrator). Another possible implementation of multi-skill routing, could be serving customers from different countries – it would require consultants to be multilingual (thus probably more difficult to hire) or all the clients to communicate in one language (e.g. English) – the approach can be easily applied only if there is no local (national) peculiarities e.g. for basic IT system support.

Blending assumes, that serving asynchronous service requests can be interrupted by synchronous service requests (e.g. telephone call). This proves adequate in case of simple tasks that can be easily interrupted and later resumed. An example in retail banking contact center would be a consultant entering data records from e-mails into an application, while being available for telephone calls. It would be however more difficult in case of specialist - solving complex customer problems.

### **Conclusions, future research and reflections**

“Only some articles develop theory that is either rooted in or actually settles a real-world problem, and scarcely few carry the work as far as validating the model or the solution. (...) In call centers, and more generally service networks, science is lagging behind that in telecommunications, computers, transportation and manufacturing” /Koole, Mandelbaum (2002)/

The remote provision of services, dependent on the end-customer request and interaction, like technical help, system administration, IT related consulting in finance and HR etc. all of them traditionally associated with the physical presence of a specialist when doing the work for a customer, gain fast growing acceptance due both to the technological progress in telecommunication and increasing perception about its possibilities and potential benefits.

It follows similar adoption pattern to the recent development of retail contact centers which are perceived today, only few years after their introduction, as the common method of service delivery.

This trend experiences currently enormous growth, especially in the area of outsourcing of IT services and will probably continue in other areas, where no physical contact with the customer is necessary for delivering of a service in appropriate manner (e.g. business consulting, some health care areas or back-office business processes).

The remote provision of services centralized in form of a contact center is area of various research. The scientific literature about contact centers reflects the fast development and changes in their management and customer service in general.

Most of the research on this area concentrates however on management problems of mass scale, low knowledge retail contact centers and is often not applicable in case of more sophisticated know-how oriented customer service delivery thus being potential area of further dedicated research.

The prospective areas for such research could include new servicing models as well as proper adoption of currently existing solutions focused on their usability for modeling and optimising for the particular case of specialised contact centers.

## **OKREŚLANIE OPTYMALNEJ OBSADY W WYSPECJALIZOWANYM CONTACT CENTER W RAMACH USŁUGI OUTSOURCINGU IT**

### **Streszczenie**

Praca omawia problem optymalizacji obsady w wyspecjalizowanych contact center. Jako szeroko występujący obecnie szczególny przykład takiego contact center analizowane jest świadczenie usług help desk i consultingowych w ramach outsourcingu IT w szczególności zaawansowanych usług takich jak zdalna administracja i pielęgnacja systemów ERP.

W artykule przedstawione zostały podstawowe uwarunkowania związane z zapewnieniem właściwej obsady wykwalifikowanych specjalistów dla tego rodzaju usług i ich wpływ na wykorzystanie proponowanych w literaturze sposobów optymalizacji.

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## INTEGRATED CRM CLASS SYSTEMS IN PRACTICAL FUNCTIONING OF TRAVEL OFFICES IN POLAND

### Introduction

Fast progress in the development of information technology facilitates its widespread implementation in the process of an enterprise management as well as its communication with the environment. Information technology becomes the stimulating power and one of the basic strategic resources, indispensable to carry out the concept of customer relationship management. This notion represents the concept of an enterprise management based on an excellent knowledge about clients and adjusting both business activities and products to their expectations and needs. It requires an introduction of a customer oriented company culture, safeguarding effective marketing, sales and service processes. Such philosophy makes marketing the creator of an overall enterprise<sup>114</sup> functioning and its core concept consists in working out such attitude towards clients which would supply them with full satisfaction in their contacts with a company.

### The core concept and functioning of CRM class systems

Customer Relationship Management (CRM) represents a new tool in integrated systems, which supports enterprise management. They are a natural extension of ERP systems, which facilitate the functioning of a company back-office (production, logistics, administration, finance)<sup>115</sup>. In case of CRM we deal with front-office type of system, which offers direct connection between a client and an enterprise.

According to R. Shaw CRM is an interactive process focused on obtaining optimum balance between investments made by an organization and the satisfaction of its clients, which leads towards an overall profit maximization. The process covers, among others:

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<sup>114</sup> [www.masterplan.com.pl](http://www.masterplan.com.pl).

<sup>115</sup> I. Michalska-Dudek: *Application of customer relationship management concept in tourist enterprises*. Research Studies by Wrocław University of Economics, No. 967, Wrocław 2002, p. 152.

- measurement of costs with regard to marketing, sales and services, as well as profits generated by individual clients,
- acquisition and permanent knowledge updating with reference to clients' needs, their motivation and behavior,
- application of information about customers for continuing improvement of an enterprise results in the process of learning, based on success and failure,
- integration of marketing, sales and service activities to accomplish common targets,
- implementation of suitable systems, which support the acquisition and co-sharing of knowledge about a client, as well as measure the efficiency of CRM<sup>116</sup>.

CRM class also covers the system which includes most of the presented modules:

1. Sales – contacts management (clients' profiles, clients' structure by an institution they represent, the history of sales and service contacts), client's account management (sales procedures, orders, generating offers).
2. Sales management – sales cycle prognosis and analysis, assigning to customer's account and assigning to territory, monitoring client's status and potential sales – following an organization structure and sales methodology characteristic for a company.
3. Time and territory management – schedule and data base of an individual user or a whole group.
4. Correspondence – letters, e-mails, fax-es.
5. Marketing – campaign management, an encyclopedia of products, product set-up, price lists, offers, generator of targeted address lists, campaign effectiveness analysis.
6. Servicing trade inquiries – registration and distribution of information, within sales structures, about clients making inquiries about an offer and responding to a campaign – sales leads.
7. Telemarketing – making phone lists according to target groups' definitions, automatic dial, generating sales leads, collecting orders.
8. After sales service and support of a client – assigning, following and reporting tasks, problem management, order control, guarantee.
9. Information – extensive and easy in use function of reporting.
10. Integration with ERP systems – accounting, production, distribution.
11. Synchronization of data – between portable devices and central data base or out of different central data bases and applications servers.
12. E-commerce – overall trade and communication conducted by means of the Internet.
13. Call Centre – customer service phone centre.

The most frequently automated functions of CRM system are sales, marketing and after sales service. Servicing the sales function mainly consists in the automation of sales process. The result of such process becomes an automatic collection of detailed information, which is the subject of transaction. In order for the sales transaction to occur it is indispensable to perform numerous elementary activities (recognition of clients' needs, placing and in some cases presenting an offer, contract negotiating, collecting orders, issuing invoices, dispatching goods, and accounting deliveries of sold goods). Sales functions, with regard to thematic and technological scope, can be divided into the following sub-functions:

- register of clients (including data about clients; it also facilitates registration and analysis of competition for a given product, allows for generating the list of sold

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<sup>116</sup> M. Parzydło: *CRM, czyli świadoma sprzedaż*. „Teleinfo” 1999, No. 43, p. 15.

products for a particular client, quoting sales prices, following the dynamics of sales for a given client, etc.),

- register of contact persons (used for registering information about sales process participants), both from the client and from the supplier. It facilitates continuing control of individuals engaged in the sales process, which allows for quick description of responsibility level related to particular employees for certain sales tasks),
- planning and forecasting of sales (facilitates generating sales plan divided into periods, products, salesmen and types of clients, as well as obtaining information referring to sales ranking, resulting from turnover forecasts),
- sales registration (it is carried out in the way that orders received by salesmen are, in most cases, automatically transformed into sales invoices),
- sales analysis (allows for providing information referring to orders realization, level of clients' satisfaction related to keeping deadlines of deliveries, quality of delivered products. Information defining ranking of particular clients, related to their turnover value and discounts received, is also obtained<sup>117</sup>).

The function of marketing covers automation of procedures connected with an overall registration of standard marketing activities, while particular sub-functions carried out within its framework refer mainly to<sup>118</sup>:

- registration of the conducted advertising campaigns (facilitates data collecting about types, manners and dates of the conducted advertising campaigns, their length and timeframe, regions, segments and market, following client's reaction to particular campaigns allows for comparing the issued invitations quantity, number of replies, number of present clients, monitoring client's source of interest by automatic combining marketing actions with the commencing sales processes);
- replying to incoming correspondence from clients (allows for the implementation of substantial processes which require reliability and keeping deadlines, according to procedures accepted earlier);
- market segmentation (allows for creating any lists of clients and contact persons on the basis of clients' data base; these lists are most frequently applied in defining marketing strategy);
- monitoring competition (implements the process of data registration about all suppliers of products, services, similar or the same range of goods, available at the market. These data commonly refer to the size of products' value market share, products' quality, products' price, scope of activities, size of workforce, product update, etc.);
- marketing encyclopedia (facilitates quick comparison and analysis of data kept on the records in the context of competitive products, press releases about the competitiveness of company products, their selling rate, customer satisfaction etc.).

An after-sales function is, in fact, similar to the sales one. However, the sub-functions referring to servicing after-sales processes present certain specific nature, which most frequently refers to guarantee and after-guarantee servicing of the sold services<sup>119</sup>.

CRM systems aim at providing support for the, so called, client's life cycle. It commences from searching for potential recipients of services and products. Next the sales process transforms

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<sup>117</sup> *The outline of problems about marketing information systems upgrading*. A. Nowicki and J. Unold (eds). Wrocław University of Economics Publishing House 2002, p. 142 and the following.

<sup>118</sup> *Ibidem*, p. 143.

<sup>119</sup> *The outline of problems..., op.cit.*, p. 145.

part of the potential buyers into real clients. Activities conducted in the later phase of client servicing should result in the following, successful sales transaction.

For the first time CRM systems were applied in the 80s of the XX-th century, mainly in the firms which decided to introduce organizational changes and the implementation of complex information technology solutions (MRP/ERP class systems). In Poland the CRM class software market still represents an initial stage. Due to the fact that CRM systems are an absolute novelty in our reality, they are treated by enterprises as a luxury, a higher level good rather than a tool used for increasing performance efficiency. Software systems, which offer support for an enterprise managing, became popular in Poland as late as the 90s of the XX-th century. The dynamics of CRM market development in Poland reached, at present, the level of several per cent annually<sup>120</sup>. It is not much as compared to 40% rate of global market development<sup>121</sup>.

Among the CRM systems modules, most frequently implemented, by Polish enterprises, are the listed below<sup>122</sup>:

- Contact Management (93% installations). Due to the lack of explicit and unambiguous definitions we understand this notion as managing contacts with clients, sales management (opportunity management and lead management), salesmen management and time management,
- tools related to analytical CRM (about 20%),
- service supporting module (13%),
- helpdesk module (7%).

At present there are several firms in Poland which offer CRM solutions directed towards large and medium enterprises and dozens of companies address their product to rather small entities. Among companies offering CRM solutions there are both software producers, information systems integrators and companies offering consultancy services.

### **Advantages and threats resulting from CRM class systems application**

Management supporting systems are included in the class of integrated systems. In an integrated system all information is accessible immediately in a common data base of an enterprise, which facilitates quick decision taking<sup>123</sup>. Information flow integration means in practice that no data has to be input in the system twice and the data input once in one place become immediately available for processing in any other place or process.

CRM systems facilitate an enterprise management at all three levels: operational, tactic and strategic ones. The overall implemented system allows for managing both company finance and supporting company administration, as well as servicing chains of goods deliveries, production planning and coordinating. It constitutes the source of data for taking up decisions by managers representing different levels. The advantages resulting from performing automatic tasks by means of CRM class systems, as well as the example of carrying out activities by means of a traditional method, are presented in table 1.

<sup>120</sup> P. Usakowski: *CRM nadal dojrzewa*. „Media i Marketing” 2002, No. 11–12, p. 8.

<sup>121</sup> A. Gwiazda: *Właściwe relacje z klientem – system CRM*. „Ekonomika i Organizacja Przedsiębiorstwa” 2002, No. 1, p. 45.

<sup>122</sup> Based on: M. Stanuch: *Raport – wdrożenia CRM w Polsce*. Process4E S.A., Warsaw 2002, pp. 2–3.

<sup>123</sup> A. Chabrzyk: *System? Koniecznie*. “Businessman Magazine” 2001, No. 9, p. 128.

**Table 1.** Advantages resulting from performing automatic tasks by means of CRM class systems

Task	Before CRM system implementation	After CRM system implementation
Customer service after leaving of an employee who was responsible for him so far	Not possible or significantly difficult	Fully possible
Servicing a customer by a group of company employees	Difficult	Fully possible
Solving the customer's problem	In 90% cases a new way of solving the same problems has to be worked out	Taking advantage of solutions implemented so far
Sales planning	Only on the basis of numerical data from ERP systems	Based on numerical-qualitative data from ERP and CRM systems
Reply to an inquiry about an offer	About 7 work days necessary	About 1-2 days necessary
Number of clients successfully serviced by a salesman	50-70 clients	150-200 clients
Preparation of a price offer by a salesman	2-3 hours	During a 2-3 minutes lasting phone call
Passing over the list of orders by an area salesman	At the end of the day	During a conversation with a client

**Source:** The outline of problems..., op.cit., p. 147.

Among the main beneficiaries of CRM class systems there are individuals engaged in sales. The process of sales represents, in general, a repetitive sequence of defined activities, which should be performed by a person engaged in sales in order to sign a contract. It is commonly believed that the time span devoted by salesmen to administrative procedures (preparation of offers, information materials, information collecting, report preparation) turns out to be much longer than the time spent on activities strictly connected with sales (personal meetings with clients, product's presentation, phone calls). Limiting time devoted to administrative processes results, therefore, in efficiency increasing, which is supported by research referring to CRM<sup>124</sup>. It proves that owing to CRM applications 35% of time devoted by salesmen to administrative work may be reduced down to 15%. The outstanding advantage of CRM systems becomes their usefulness in generating offers. The system allows for an automatic preparation of a detailed, and responding to client's expectations, price offer, as well as precisely configured product, and come up with specific information much faster. As the result time passing from winning a contact till finalizing sales becomes significantly shortened. Shorter sale cycle means more time for other clients, lower sales costs and results in more contracts signed.

One of the more important problems, characteristic for sales departments in contemporary enterprises, is the rotation of workers. Time span in which a new employee turns out to be a fully efficient worker depends on the scope of information about clients and the number of contacts inherited after his or her predecessor. A new employee frequently has to approach clients with the same questions which were already asked before, it is highly likely that the same mistakes will be repeated, resulting in the drop of satisfaction, or even in losing some of the clients. The CRM system, by means of the information storage facility, allows new employees for taking up their new duties more swiftly and efficiently.

<sup>124</sup> M. Parzydło: *CRM ..., op.cit.*, p. 15.

The second domain, apart from sales, where benefits resulting from CRM application will definitely be most extensive, is the marketing department which functions on the basis of knowledge about the market. CRM systems facilitate storing detailed information about clients (record of all contacts made so far, responses to marketing campaigns, client's preferences both as a company and as an individual client etc.). Each performed sales, reasons for declining and offer, motives behind making a purchase, competitive behavior represent types of information first collected and next processed by the system. Such knowledge and awareness helps in better choice of promotional actions, advertising and distribution channels. One may also forecast the sales of a new product and prepare an individual and specifically adjusted argumentation for each and every client.

Additional advantages resulting from CRM application will also be observed in customer service departments. Having finalized sales, the responsibility for company's reputation, i.e. the level of client's satisfaction, decisive for their future loyalty, lies in the hands of customer service department or technical support unit. The way each client is treated depends on his or her willingness, or the lack of it, for further contacts as well as the opinions spread by this customer about a given company.

The objective of CRM systems is to construct a synergy – additional value resulting from cooperation between sales departments, marketing and customer service unit. Product sales may therefore be monitored from the moment of passing the product over to a client until after sales contacts<sup>125</sup>.

Profits calculation, obtained by an enterprise having implemented CRM class technology, turns out very difficult. It results from the lack of earlier data of this sort used by the system which would help in the comparison of profits before and after CRM implementation, an extensive number of different, independent factors, as well as the fact that the obtained profits are difficult to notice. The advantages resulting from the application of integrated systems, facilitating relations marketing activities, may be divided into two groups:

- measurable advantages – changes in basic indicators of an enterprise (e.g. sales value, sales profit or sales costs),
- non-measurable advantages – qualitative parameters (e.g. increase in customer's loyalty, employees' satisfaction).

Among threats related to CRM technology application one should point to improper organization and realization of this class systems implementation project. Among them there are as follows<sup>126</sup>:

- lack of intensive support from company management,
- lack of measurable targets definition relating to implementation,
- lack of client oriented activities,
- lack of gradual approach towards implementation,
- lack of measurable objectives referring to clients (clients' satisfaction, service strategies, speed of deliveries etc.),
- lack of acceptance for diversified treatment of clients,

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<sup>125</sup> M. Rzewuski: *CRM on-line*. „PCKURIER” 2001, No. 3, p. 38.

<sup>126</sup> A. Stachowicz-Stanach, M. Stanach: *Blaski i cienie wdrożeń systemów klasy CRM*. [www.crmexpert.pl](http://www.crmexpert.pl).

- lack of partial targets, clearly defined in time, owing to which progress in the system implementation may be monitored, as well as occurring problems or delays in schedule may be identified.

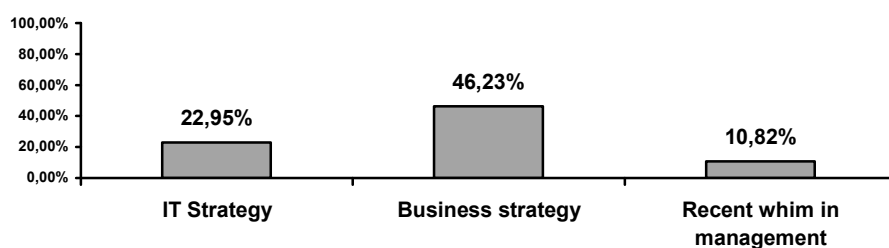
A specific solution plays a smaller role in an effective implementation of CRM system, while it is more important to define an objective to be followed. Its precise and clear definition should be worked upon by a broad team of company workers, composition of which influences to a high extend the ultimate success.

An enterprise which takes up the challenge of CRM class system implementation also has to take the responsibility for a “revolution” consisting mainly in changing attitudes of both management and employees towards a client. Experience proves that CRM implementation is not an easy task. It may not be difficult to point to areas in which CRM is likely to bring about measurable effects; however, it is difficult to change people’s attitudes. One has to remember that a more extensive set of information from clients and about clients is directed to enterprises, and in fact to its employees. It turns out, unfortunately, that it is not an easy task to accomplish a proper feedback between clients’ expectations and needs and the reactions of company employees to them.

### CRM class systems in practical functioning of Polish travel offices

The scope of hereby research covered the evaluation of both knowledge and application of relations marketing and Customer Management Technology related to it by owners and managers of travel offices functioning at Polish market. The study covered the sample of 305 travel offices<sup>127</sup>.

It should be emphasized that every five in the studied travel offices did not provide an answer to any of the questions referring to the implementation of CRM class systems. It proves no or little knowledge of their owners about this issue. Among the entities which decided to omit the block related to CRM systems there were 41,67% agents, 25,72% intermediaries and as few as 7,47% of organizers. It points to a definitely higher interest in the problem by these travel offices which organize the events directly. The figure 1 presents the perception of CRM concept by researched entities.



**Figure 1.** CRM concept definition

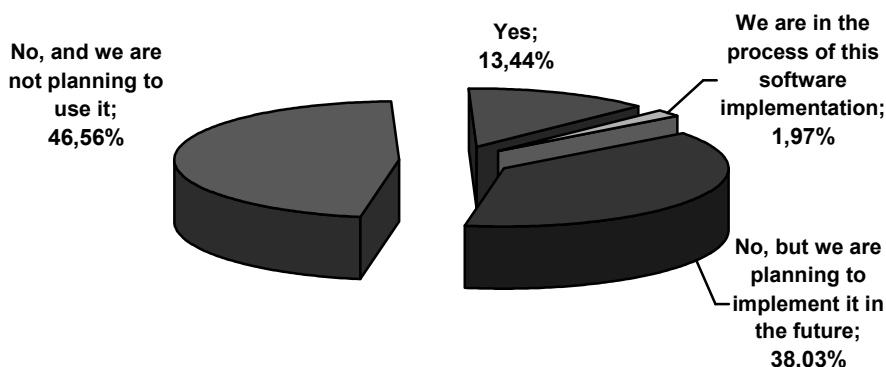
**Source:** own elaboration based on survey results.

<sup>127</sup> Having applied the method of statistical conclusions in the conducted research for the researched population of travel offices in Poland  $N=2629$  (as of 11 July 2005), coefficient of trust  $((1-\alpha) = 0,9$  (i.e. 90%) and the sample population of  $n=305$  units, the statistical error ( $d$ ) presents the level of 3,5%.

Travel offices owners and managers, who decided to react to the block of questions about CRM software, were asked what CRM represents for them. Almost half of them defined CRM as a business strategy, 1/3 associated this concept with IT strategy and every tenth travel office perceived CRM as the most recent 'whim' in management.

It is worth pointing out that as many as 75,86% of the group representing organizers who employ over 50 employees identified CRM as a business strategy, and as few as 2,9% claimed that it is the most recent whim in management. In case of agents CRM was associated with a business strategy by 26,04% of respondents, as an IT strategy by 18,75% and as a management whim by 13,54% of agents.

Over 13% of respondents use software supporting client relations management in their work, almost 2% of travel offices are in the process of such software implementation, while 38,03% of respondents are planning to introduce CRM class software in the nearest future. Over 46% of travel offices are not applying it at present and are not planning to use CRM class software in the future.



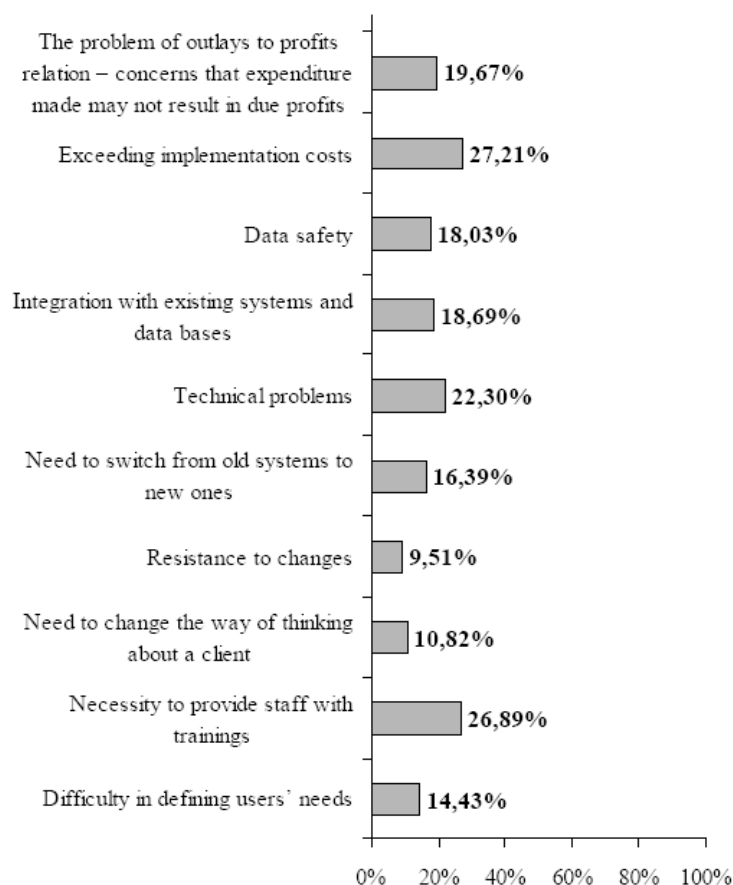
**Figure 2.** Application of software supporting client relations management

**Source:** own elaboration based on survey results.

It is significant that as many as 28,58% of respondents (representing big organizers of tourist events) declare that they have already been applying CRM class application and also the same percentage is planning to implement this software in the coming future. On the other hand, among agents as few as 5,93% use systems supporting client relations management and 58,47% are not intending to implement it in the future at all.

Owners and managers of the studied travel offices were asked to share their concerns and point to threats related to CRM class system implementation. Generally, their concerns are of financial, technical and organizational nature. Among the financial ones these most frequently mentioned were too high costs of implementation. It is one of major reasons why travel offices refrain from introducing software supporting client relations management. Another reason of their concerns, connected with CRM systems implementation, was the necessity to cover the costs of staff trainings in such software application. Among threats respondents mention the problem of

outlays and profits ratio. They are afraid if the expenditure made will result in due profits (see figure 3).

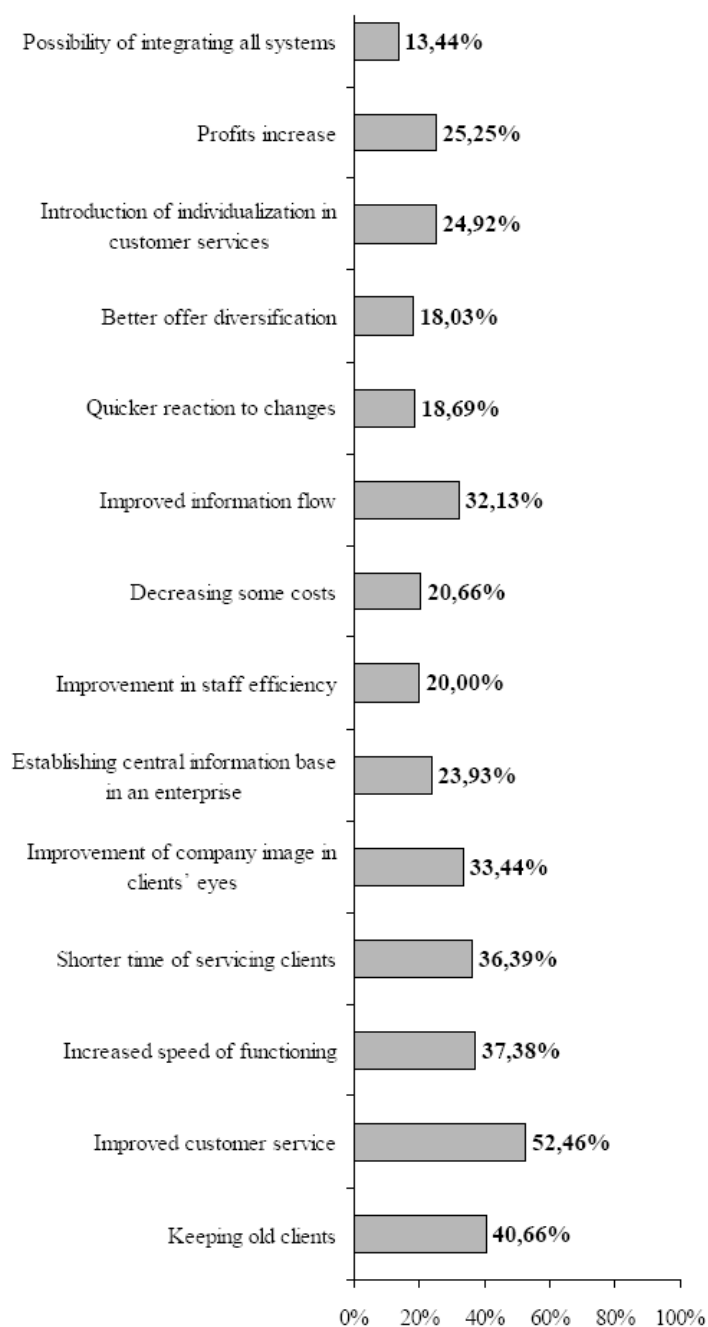


**Figure 3.** Threats related to the implementation of CRM class software

**Source:** own elaboration based on survey results.

Besides travel offices are afraid of technical problems related to implementation and integration with the already existing systems and data bases, as well as the need to resign from old systems. It also seems problematic how to assure that the procedures of data safety are followed. In an organizational sphere the difficulty in defining users' needs is underlined, as well as the resistance to changes and the need to alter the way of thinking about a client.

The expectations of travel offices related to CRM software implementation refer mainly to the opportunities for improving services offered to clients, namely improving customer service, keeping old clients and the individualization of services.



**Figure 4.** Expectations related to CRM class software implementation

**Source:** own elaboration based on survey results.

From the point of view of expectations related to improving work organization the most frequently mentioned factors were as follows: an opportunity for information flow enhancement, better diversification of an offer, quicker response to market changes and the integration of all systems.

Travel offices expect that the implementation of CRM systems will result in decreasing some of their costs and increasing their profit. Additionally they hope for extra advantages in the form of company image improvement in clients' eyes. The specification of expectations pointed to by the surveyed travel offices and connected with CRM class systems implementation is presented in figure 4.

## **Conclusions**

The scope of functions carried out by the most popular CRM packages facilitates collecting and processing historical data referring to cooperation with clients, sales negotiations, offers, orders, employees performance and the functioning of these departments which have direct contacts with clients. Packages also contain modules referring to sales automation, orders configuration and systems for preparing offers, as well as marketing encyclopedia. Such programs, most frequently, facilitate searching for adequate data, preparing analyses and sales or market prognosis, management of technical support departments and phone service points for clients. More and more frequently CRM is understood as several applications integrated with one another, which service all distribution channels (both these traditional, e.g. the network of client service points, and the modern ones like e.g. call centers, internet shops or mailing) joined by one, common for the whole company, information data base about clients and offers.

The conducted research proves that the majority of surveyed travel offices owners and managers identify the implementation of CRM with a business or IT strategy. The CRM class software has already been applied by one in ten travel offices and more than one third of the sample intends to do it in the coming future. Among the advantages resulting from CRM class systems implementation one should mention, among others, the improvement of travel offices functioning and cutting costs of performing its activities. Among the threats signalized by respondents the most frequently encountered ones referred to financial and technical aspects.

The implementation of CRM system may bring about numerous benefits for a tourist enterprise; however, it may also pose certain problems. Therefore, both owners and managers of travel offices, who plan to introduce such systems, have to keep in mind that application of the system has to be strictly connected with the company strategy, its organizational culture and internal processes. They also have to realize the fact that taking up a decision about the implementation of CRM requires subsequently an overall alteration of the company performance philosophy as well as changes in its organization and procedures.

## **ZINTEGROWANE SYSTEMY KLASY CRM W PRAKTYCE FUNKCJONOWANIA BIUR PODRÓŻY W POLSCE**

### **Streszczenie**

W niniejszym artykule dokonano charakterystyki systemów klasy CRM, podstawowych korzyści oraz zagrożeń związanych z ich wdrażaniem. W drugiej jego części przedstawiono wyniki badań ankietowych, które pozwoliły na ocenę stopnia znajomości oraz wykorzystania technologii CRM przez właścicieli i menedżerów polskich biur podróży. Istotnym elementem opracowania jest identyfikacja podstawowych korzyści oraz zagrożeń związanych z wdrażaniem tych rozwiązań w biurach podróży.

# *Chapter VI*

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## *HUMAN RESOURCES MANAGEMENT*



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## SOME ASPECTS OF HUMAN RESOURCES MANAGEMENT IN CONTACT-INTENSIVE SERVICES

The aim of the paper is to present some thoughts on the specific features of managing people in a service organization focusing attention on the contact-intensive services. This particular aspect is outlined in the paper because most services require close relationship between customer and service provider. Moreover contact-intensive services require high level of employee commitment and pose a particular challenge for service provider to understand, properly diagnose and solve customer's problem. Accordingly, service provider has to perform personal function to develop highly qualified and trained personnel, particularly who corresponds directly to customer's satisfaction. The paper begins with the brief overview of service definition and typology focusing on the relationship and interaction aspects of the term. Contact-intensive services require particular approach to personnel management, and some aspects of managing people have been presented later in the paper.

### **Relational nature of services**

Dynamic development of service sector is a stable trend in modern economies nowadays. Experience of numerous countries suggests that economic and social development is accompanied by increasing income and demand for services both in quantity and quality terms. A variety of services exists in practice and no single definition is capable of encompassing the full diversity of services. Service is broadly defined in a variety of ways in the economic and management literature<sup>128</sup>. From the point of view of this paper attention has been focused on definitions directly pointing on relationship and contact between customer and service provider.

A service is an activity or series of activities of a more or less intangible nature that normally, but not necessarily, take place in **interactions** between the customer and service employees and/or physical resources or goods and/or systems of the service provider, which are

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<sup>128</sup> Characteristic features of services are thoroughly discussed in: S. Flejterski, A. Panasiuk, J. Perenc, G. Rosa (eds). *Współczesna ekonomia usług*. Wydawnictwo Naukowe PWN, Warszawa 2005 and P. Mudie, A. Cottam (eds). *Usługi. Zarządzania i marketing*. Wydawnictwo Naukowe PWN, Warszawa 1998.

provided as solutions to customer problems<sup>129</sup>. Interaction in service operations is also emphasized by B. van Looy defining services as all those economic activities that are intangible and imply **an interaction** to be realized between service provider and consumer<sup>130</sup>. Thus many academicians emphasize that service providing as an economic activity imply an interaction as the core element of customer satisfaction. C. Grönroos points out that service firm has always been oriented towards relationship. The very nature of services encounters is contact with customers, providing the ideal platform for the formation of a relationship<sup>131</sup>.

Relationship can be of different nature. L.L Berry and A. Parasuraman classify relationship on three different levels depending on the types of bonds used to develop customer loyalty. Level one employs financial bonds, level two social bonds and level three relies on structural bonds (with the highest level of customization)<sup>132</sup>.

### Services typology

There are a lot of existing service classification schemes. In this paper attention is focused on typology taking into account relationship with customer. R.B. Chase<sup>133</sup> classifies services according to the extent of customer contact required in service delivery. In high contact services (e.g. health care) customers exert more influence on timing of demand and services feature. Although high contact services allow detailed personalization of the services and allow employees more discretion but are harder to control.

P.K. Mills and N. Margulies give attention to personal interface between the customer and service organization. According to authors there are three types of services: maintenance-interactive, task-interactive and personal-interactive<sup>134</sup>.

1. Maintenance-interactive. This type of services concentrates on routine and standardized contacts between employee and the customer. Contact is usually short, the flow of information limited and employee may serve large number of customers. In this type of services there is no need of individual solutions (e.g. a standardized bank service when bank operates customer account).
2. Task-interactive. This type of services is oriented toward particular task. Customers are precise about what they need but they do not know how to accomplish it. Customers are unaware the nature of the problem and methods and techniques used by professional services provider. The relationship is intense but information asymmetry exists, and the customer is not able to deliver much critical information (e.g. architect or surgeon delivering service to the customer).

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<sup>129</sup> Ch. Grönroos: *Services Management and Marketing: Managing the moments of truth in service competition*. Lexington Books, 1990, p. 27.

<sup>130</sup> B. van Looy, P. Gemmel, R. van Dierdonck: *Services Management. An Integrated Approach*, Prentice Hall 2003, p. 11.

<sup>131</sup> Ch. Grönroos: Relationship marketing: the strategy continuum. "Journal of Academy of Marketing Science", Vol. 23, No. 4, pp. 252–254.

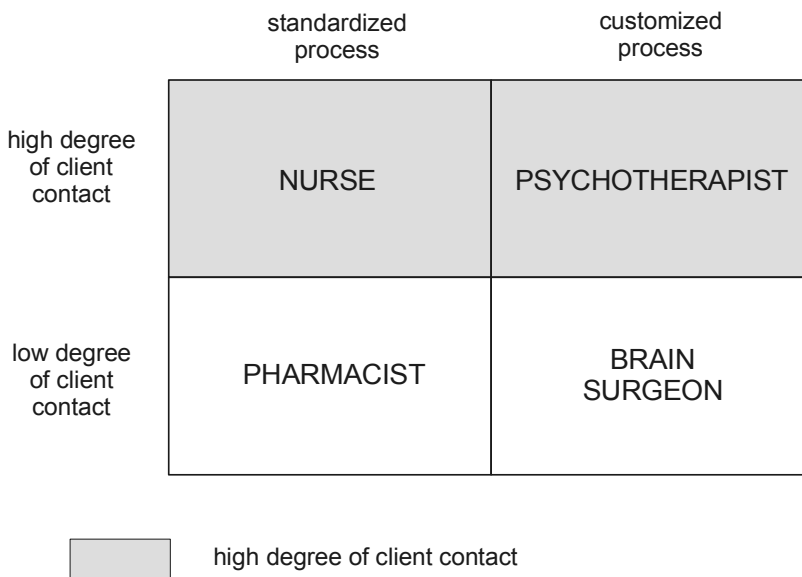
<sup>132</sup> A more thorough discussion of relationship types can be found in: L.L. Berry, A. Parasuraman: *Marketing Services – Competing through Quality*. Free Press, New York 1991.

<sup>133</sup> R.B. Chase: The customer contact approach to services: theoretical bases and practical extensions. *Operations Research*, Vol. 29, No. 4, pp. 698–706.

<sup>134</sup> P.K. Mills, N. Margulies: Towards a core typology of service organizations. *Academy of Management Review*, Vol. 5, No. 2, pp. 255–265.

3. Personal-interactive services imply the most complex type of interaction. A customer seeks help from an organization providing counseling, but may be unaware the extent of the problem. Based on information (often confidential) from customer, service provider engages in the process of defining problem and ways of solving. In this type of services personal and social skills are crucial (some medical services e.g. psychotherapist).

A customer – service provider relationship can be measured by degree of service customization. The more need for service personalization the more intensive contact between customer and service provider is required. In this context services range from the simplest factory service to professional service with the highest degree of customization. D.H. Maister<sup>135</sup> extended this classification scheme and took into account multiple criteria to classify services. Figure 1 shows four quadrants taking into account two criteria: the degree of customer contact and the level of customization.



**Figure 1.**Maister's service classification

**Source:** B. van Looy, P. Gemmel, R. van Dierdonck: *Services Management. An Integrated Approach*. Prentice Hall, 2003, p. 20.

This classification can be characterized as follows:

1. Psychotherapist. This type combines professional skills with a high degree of customer interaction. In this case one is faced with problems whereby the customer wants to be – or even must be – involved in the process to come to solutions.
2. Nurse. This type combines the high degree of standardization and considerable contact to obtain high level of customer satisfaction.

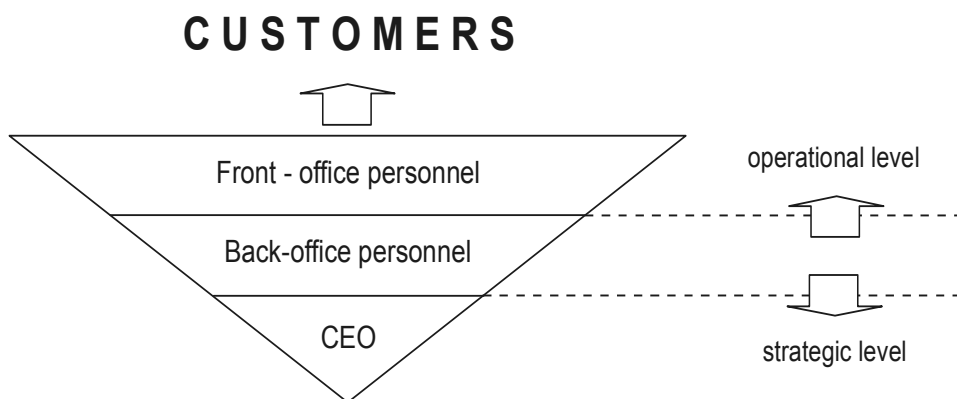
<sup>135</sup> D.H. Maister: *What kind of provider are you?* Maister Associates Inc., Boston 1996, p. 34.

3. Brain surgeon situation is characterized by a high degree of customization, creativity and even innovation, but involves rather low level of customer interaction.
4. Pharmacist is a situation in which customers want services to be delivered according to strict technical standards at a minimal cost. The process of the service delivery is standardized and the contact with customer is limited.

Based on these definitions and classifications some conclusions can be drawn as far as human resources management is concerned. Each type of service requires individual approach to management and implies that special social skills, wide range of competencies and particular personality are needed. Management of contact-intensive services is a challenging process embracing proper work design and effective performance of organization's personnel function.

### A work design in contact-intensive services providing

Characteristic features of services imply that employees directly providing service are closer to the customer, interacting and working with customers more often than with their superiors. Accordingly, high degree of delegation and autonomy is required. In the process of service delivery there is no time for consultation with managers thus employees are forced to make decisions by themselves being managers on their own. Reverse pyramid is sometimes defined to describe the specifics of organizational structure in service organization (Figure 2). Although top management is responsible for strategic decisions they are usually at the back of the front line. From hierarchical point of view top management is at the peak of organizational mountain but taking into account contacts and interactions with a customer they usually have no direct impact on customer behaviors.



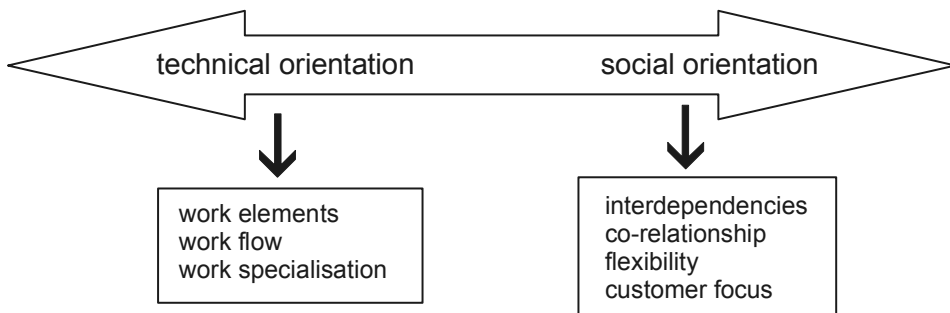
**Figure 2.** Reverse approach to service organization structure

**Source:** own elaboration.

Therefore top managers should focus attention on the work design to maximize value delivered to service organization customers because value is rendered in the “front room” i.e. during interaction with the client<sup>136</sup>.

<sup>136</sup> B. van Looy, P. Gemmel, R. van Dierdonck: *Services...*, *op.cit.*, p. 20.

There are two main orientations to work design: technical and social<sup>137</sup>. The idea of the technical orientation has its sources in theory and practice of F.W. Taylor principles. The technical orientation results in focusing on the form of work design i.e. technology, division of labor, and work scheduling. Overemphasis on technical aspects of work its substance is usually overlooked. And the substance means people their skills, knowledge, personality, learning, etc. The social orientation takes into account the workplace and organizational context in which people work, as well as their psychological needs (Figure 3).



**Figure 3.** Typology of work design

**Source:** D.A. Hensher, A.M. Brewster: *Transport. An economics and management perspective*. Oxford University Press, New York 2004, p. 278.

In practice equilibrium is needed between technical and social orientations. Equilibrium means the proportion adequate to service type and specifics. In the contact – intensive services this equilibrium seems to be closer to social side than to technical one. In the contact - intensive services emphasis should be made on social aspects (not to neglect technical one) rising the strong challenge to managers and employees alike. For that reason some aspects of work design should be emphasized to unleash employees' commitment and motivation and as a result to assure that customers' needs and wants are satisfied.

L. Mullins lists and describes five core job dimensions that can be summarized as follows<sup>138</sup>:

- skill variety – the extent to which a job entails different activities and involves a range of different skills and talents,
- task identity – the extent to which a job involves completion of a whole phase of work with a visible outcome,
- task significance – the extent to which a job has a meaningful impact on other people, either inside or outside the organization;
- autonomy – the extent to which a job provides freedom, independence and discretion in planning the work and determining how to undertake it;

<sup>137</sup> D.A. Hensher, A.M. Brewster: *Transport. An economics and management perspective*. Oxford University Press, New York 2004, p. 278.

<sup>138</sup> L.J. Mullins: *Management and Organizational Behaviour*. Prentice Hall, Seventh Edition, 2006, p. 716.

- feedback – the extent to which work activities result in direct and clear information on the effectiveness of job performance.

As a conclusion in a service-intensive organization employees should have high degree of discretion and autonomy in decision making, high level of consciousness, identity and significance of tasks they perform, and should have skills which allow taking independent actions with high degree of self-control in the process of continuous information feedback.

To maximize value rendered in the process of continuous interaction with the customer service organization has to focus on core areas of managerial activities:

- empowerment,
- employees competencies,
- performance of the management process.

### Empowerment

Ideally, the front-line employee should have the authority to make prompt decisions. Otherwise, sales opportunities and opportunities to correct quality mistakes and avoid quality problems in these moments of truth are not used intelligently, and become truly wasted moments of opportunity to correct mistakes, recover critical situations and achieve re-sales and crosssales<sup>139</sup>. In practice empowerment is a delegation tasks and authority to the most appropriate level of responsibility. Going further one can argue that empowerment is a state of mind. An employee with an empowered state of mind experiences feelings of:

- control over how the job shall be performed,
- awareness of the context in which the work is performed,
- accountability for personal work output,
- shared responsibility for unit and organizational performance; and equity in the rewards based on individual and collective performance<sup>140</sup>.

Allowing employees greater freedom, autonomy, and self-control over their work, and responsibility for decision making, empowerment can be succinctly defined as the authority of subordinates to decide and act.

### Competencies

Following C.K. Prahalad and G. Hamel core competencies have to be defined as specific combinations of internal resources that can constitute a competitive advantage for the organization. Individual competencies, on the other hand, are defined here as a human characteristics related to effective performance. These characteristics can be seen as indicating ways of acting, behaving or thinking<sup>141</sup>.

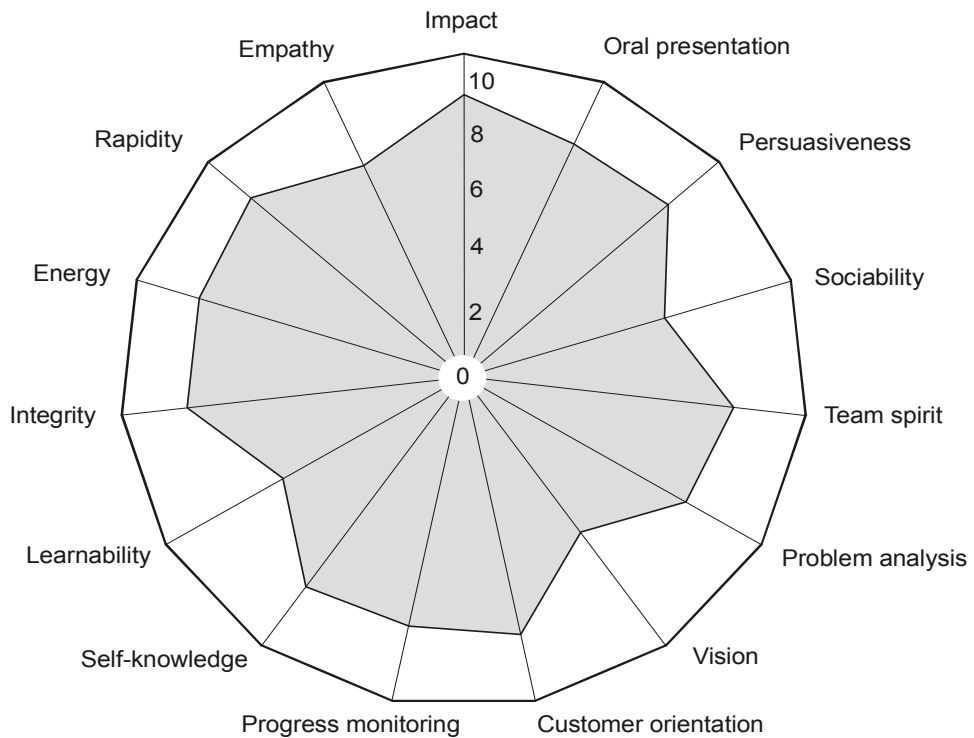
The individual competencies may differ in an infinite number of ways. The above mentioned definition focuses on the social side instead of technical one. Ways of acting, behaving and thinking is extremely important in contact-intensive services. Figure 4 shows an example of

<sup>139</sup> M.R. Pervaiz, K. Ahmed: *A contingency model for empowering customer-contact services employees*. "Management Decision" 1998, No. 36/10, p. 686.

<sup>140</sup> L.L. Berry: *On Great Service*. The Free Press, New York 1995, based on: M.R. Pervaiz, K. Ahmed: *A contingency...*, *op.cit.*, p. 687.

<sup>141</sup> Definition adapted from: B. van Looy, P. Gemmel, R. van Dierdonck: *Services...*, *op.cit.*, p. 195.

the set of individual competencies most important for front-office personnel in a distribution company.



**Figure 4.** Competencies of front-office personnel in a distribution company – an example

**Source:** Quintessence Consulting Belgium, based on: B. van. Looy, P. Gemmel, R. van Dierdonck: *Services...*, *op.cit.*, p. 200.

This diagram lists not only the set of competencies but shows the degree of intensity of the particular feature. This diagram shows profile of a front-office employee. The profile differs depending on the characteristic features of the service, particularly the degree of customization and relationship of the employee with the customer.

### Performing the process of management

Contact-intensive services represent a challenge for employees but for managers as well. These types of services require special way of performing managerial functions and decision making. As a consequence of intangibility and simultaneity of production and consumption function of **planning** is much more complex as compared to physical product. Precision of planning is constrained due to lack of the final product specification. This specification usually is defined in details during the process of service production. Quality details are usually defined with the customer during the process of production. The more direct relationship with customer

the more autonomy and discretion is needed for the front-office employee. In contact-intensive services employee instead of precise planning have to communicate with customer, understand needs, and make decision to match service quality and customer's needs. In the process of service planning high degree of flexibility is needed.

Due to the specific services features **organizing** is a managerial function with the high level of uncertainty and ambiguity. The scope of tasks and responsibility is often difficult to define in a very detailed way. Assigning too detailed tasks specially if combined with the high degree of formalization results in organizational chaos and lack of action when customer needs are unusual, undefined clearly. Too formalized and rigid procedures result in lack of creativity and innovativeness.

It seems to be clear that the crucial role in intensive-contact services organization play employees, their commitment and **motivation**. Customer satisfaction depends also upon the style of management. Style of management based on leadership should assume high degree of delegation and empowerment, clear distinction between operational and strategic level of management and a particular set of managerial skills with the most crucial ability to engage in high performance orientation toward service organization mission attainment.

The process of management comprises also the function of **control**. The difficulty and the lack of direct control over process of delivering services is a result of services specific features. Simultaneity, heterogeneity and dynamics of some services (e.g. transport service), geographic dispersion of organization structures result in lack of direct control. Control during the process of service delivery should be performed instead of end-control, especially when we take into account that there are no clearly predefined standards of service quality – due to the subjectivity and ambiguity of the process of service delivering with the customer. Therefore the process of informational feedback is crucial in the practice of control.

Decision making is the process with specific features in services organization. Managers in services organization should focus efforts on informational aspect of decision making. Limited time accompanied with lack of information results in the increasing role of intuition and experience. Most operational decisions are made in the process of interacting with customers. Decision has to be made immediately as the response to customer's remarks and needs which are often precisely defined in the process of services providing. Immediate reaction at the operational level is necessary to meet customer needs. Employee providing service directly has no time to gather detailed information, to analyze options and to consult upper level management in the problem solving process.

The role of experience, intuition and ability to understand and analyze the situation seems to be crucial. Creativity and innovativeness are characteristics of great importance. The importance of decision making at the operational level is the result of contact with customers. Consequences of erratic decision are immediately noticed by the customer who usually provides the feedback information. In such a case trust may suffer and willingness to return is endangered. Customer is not aware of strategic decision made in services organization and paradoxically from her/his point of view operational decision has more tangible and visible impact than errors in strategic decisions and planning.

The process of designing and managing of services is complex and challenging especially when we take into account the social side of this process. Social aspect of services providing is as important as technical one especially in the contact-intensive services. Interaction between customer and a service provider is the very nature of most services. To deliver value to customer

effectively managers should focus attention on employees - their competencies, motivation and personality.

## **WYBRANE ASPEKTY ZARZĄDZANIA ZASOBAMI LUDZKIMI W USŁUGACH WYMAGAJĄCYCH CIĄGŁEGO KONTAKTU**

### **Streszczenie**

W teorii i praktyce występuje bardzo duża różnorodność usług. Jednak istnieje wspólna cecha dla większości usług – występowanie relacji i często interakcji pomiędzy klientem a pracownikiem przedsiębiorstwa usługowego. Usługi wymagające intensywnego kontaktu stanowią duże wyzwanie dla pracowników bezpośrednio obsługujących klientów, jak również kadry menedżerskiej przedsiębiorstwa usługowego. Dlatego też niezbędnym jest skoncentrowanie uwagi na nie tylko na technicznych aspektach produkcji usług, ale również na aspektach społecznych. Przedsiębiorstwo usługowe powinno szczególną uwagę przywiązywać do realizacji funkcji personalnej, stwarzając przy tym warunki, w których pracownicy mają swobodę decyzyjną, odpowiednie kompetencje i cechy osobowości.



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## IDENTIFYING TRAINING NEEDS OF EMPLOYEES AS A PART OF HUMAN RESOURCE MANAGEMENT - CULTURAL INSTITUTIONS CASE STUDY

### Introduction

Human resource management (HRM) is a process that consists of many sub-processes aiming at recruiting suitable staff, ensuring its development and improvement, and using it to achieve a competitive advantage. It is a continuous process, which is mostly about optimal utilising the skills of employees and co-workers. HRM means influencing a company's human resource in such a manner and by means of such instruments that the company can reach its objectives through its workforce.

There are four main sub-processes of HRM: employee selection, employee motivation, staff appraisal and staff training and development. In this study, the authors concentrate on the last of the sub-processes. It is important to see that if any staff training is to be efficient and suited to the training recipients, it must be preceded by a detailed analysis of employees' training needs.

The aim of this study is to present the process of identifying training needs of employees. The authors present an exemplary model of conducting such an identification analysis on the example of cultural institutions located in one of Polish cities.

### 1. Employees' training and developing as a sub-process of HRM

The notion of HRM first appeared in literature at the beginning of the 70s of the 20<sup>th</sup> century and has gradually replaced other, previously used terms, like "personnel management"<sup>142</sup>. HRM is a strategic and coherent approach to management of the most valued assets of an organization, i.e., people that work for it, who individually and collectively contribute to the achievement of the organization's objectives<sup>143</sup>.

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<sup>142</sup> *Zarządzanie zasobami ludzkimi*. W. Golnau (ed.). Wydawnictwo fachowe CeDeWu, Warszawa 2004, p. 11.

<sup>143</sup> M. Armstrong: *Zarządzanie zasobami ludzkimi*. The third, broadened edition. Oficyna Ekonomiczna, Kraków 2005, p. 29.

The term is defined on the one hand with an emphasis on human resource issues, on the other – with an emphasis on the potential of the processes, i.e., developing and improving the organization's capabilities of undertaking effective actions.

The most important features of HRM are:

- emphasis on strategic workforce management resulting in compatibility or integration of the company and HRM strategies,
- comprehensive and coherent approach to the issue of mutually supporting principles of employment policy and practice,
- importance placed to employees' commitment to the realisation of the organization's mission and values,
- perceiving people as assets rather than as costs,
- assuming that employees and employers have common interests (interdependence principle),
- ascribing HRM to the scope of responsibilities of line managers<sup>144</sup>.

The assumption is that HRM should facilitate the success of an organization success through the organization's employees. Due to HRM organizations should achieve good results and realize their assumed strategic objectives. For this aim to be achieved, the HRM strategy must necessarily be strictly related to the general strategy of a given organization.

The HRM aim is to achieve a competitive advantage due to the use of human capital. This is possible through knowledge management and acquiring and developing human resources. HRM should result in attracting and retaining talented, competent, committed and motivated workers and consequently – in building a company more intelligent and flexible than competitors.

HRM is directed at enhancing and enlarging employees' commitment through effective implementation of policy and processes that ensure proper appreciation of the employees' work, including remuneration adequate to performed work, achievements, skills and expertise. The aim of HRM is also to develop workers' potential by giving them opportunities of lifelong-learning and developing.

The aim of a proper training policy should be to achieve the state when workers reach the level of conscious competence, i.e., they are able to perform right tasks in a correct way<sup>145</sup>.

Employee training is generally aimed at sustaining and increasing the effectiveness of currently performed work, supporting the development of employees' skills and their adoption to new working methods, machines and equipment, organizational solutions as well as new work content<sup>146</sup>.

When we speak of employee development, we usually mean the following areas:

- self-teaching,
- on the job learning, often under supervision,
- participation in project work,
- redeployment in order to widen professional experience,
- work with a coach (who directs activities and is partially responsible for their results),

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<sup>144</sup> *Ibidem*, p. 30.

<sup>145</sup> M. Sidor-Rządkowska: *Zarządzanie personelem w małej firmie*. Oficyna Ekonomiczna, Kraków 2004, p. 95.

<sup>146</sup> J. Penc: *Sztuka skutecznego zarządzania. Kierowanie firmą z myślą o jutrze i procesach integracji z Unią Europejską*. Oficyna Ekonomiczna, Kraków 2005, p. 207.

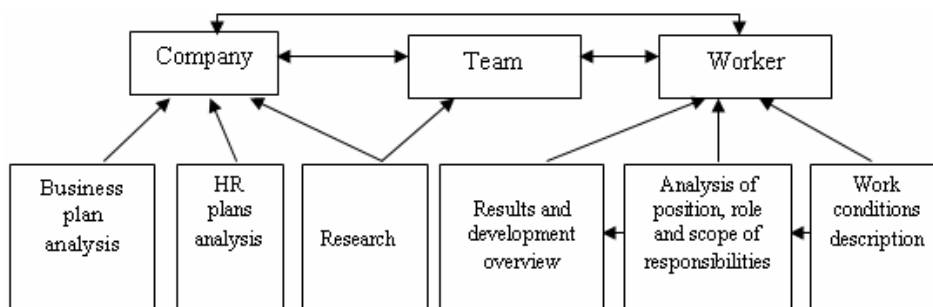
- off the job learning (participation in training courses)<sup>147</sup>.

Trainings are one of the most popular forms of supporting employees' development. They may be organised by the organization itself or by external institutions (educational centres, colleges and universities, specialised training companies, consulting companies, scientific societies).

Every training process must be preceded by a training outline, taking into account the present and future needs of workers, so that they can later use their new knowledge in practice. The training process should meet the following elements:

- convicting employees that it is necessary for them to analyse their performance at work,
- ensuring that employees know what is expected from them and understand what knowledge and skills they need to perform their work in a satisfactory manner (controlled empowerment),
- using all possible opportunities to promote learning,
- encouraging employees to analyse more serious problems and speculate about different possible solutions to them<sup>148</sup>.

Training needs of an organization should be analysed from the perspective of the organization as a whole (organization's needs), particular sections, teams, functions and professions within the organization (team's needs) and from the point of view of particular workers (individual needs). These spheres are strongly interrelated, as figure 1 shows.



**Figure 1.** Training needs analysis – areas and methods

**Source:** own elaboration based on M. Armstrong: *Zarządzanie zasobami ludzkimi*. Oficyna Ekonomiczna, Kraków 2003, p. 501.

In order to specify the training needs of a given company, we can use four procedures: evaluation of efficiency, analysis of a given position's requirements, organizational analysis and HR overview<sup>149</sup>. To make the analysis reliable and accurate, we ought to use at least two sources of information, so that the information from each of the sources can fill the gaps on the general list of needs. There are usually more training needs than possibilities of satisfying them, so we need to select from among them, bearing in mind the size of a training budget, the

<sup>147</sup> J. Szaban: *Miękkie zarządzanie. Ze współczesnych problemów zarządzania zasobami ludzkimi*. Wydawnictwo Wyższej Szkoły Przedsiębiorczości i Zarządzania, Warszawa 2003, p. 213.

<sup>148</sup> J. Penc: *Sztuka skutecznego zarządzania...*, *op.cit.*, pp. 207–208.

<sup>149</sup> J.A.F. Stoner, Ch. Wankler: *Kierowanie*. PWE, Warszawa 1992, p. 293.

indispensability of training for given positions (to ensure their continuing work), availability and experience of trainers, the costs of particular training forms<sup>150</sup>.

## 2. Training needs diagnosis in cultural institutions – research methodology

HRM plays a great role in any contemporarily functioning institution. Nevertheless, the term itself is rarely used in relation to cultural institutions. Still, the requirements set for such institutions force their managers to change their managing styles. Workers of cultural institutions need to acquire new skills in the scope of searching for additional sources of activity financing, cooperation and inner communications within the organization's teams, etc. Competence analysis of workers from cultural sector shows that they are mostly experts of a given institution's cultural domain (theatre, museum, and archive). However, there are not enough people properly trained to manage the institution's activities.

Hence, from the perspective of efficient management of cultural institutions, it becomes increasingly important to build an HRM system, including proper training policy, allowing for selecting proper training instruments and specifying workers' competence gaps that need to be filled the most urgently.

The research was aimed at identifying training needs of workers of selected cultural institutions. In order to achieve this goal, the authors of the study adopted the following procedure:

- *ex ante* definition of the scope of competences essential for realising cultural events financed from the EU resources,
- identification of the training needs of a cultural institution's employees by confronting the previously defined scope of competences with the diagnosis concerning the real competences of workers (empirical research),
- research results analysis.

Empirical research was conducted among the managers of cultural institutions in one of Polish cities. The research was carried out through 11 questionnaires answered by managers of human teams in selected institutions. The research instrument was a questionnaire and the questions concerned issues related to the diagnosis of workers' present competences in different areas, as well as the identification of factors that inhibit the use of them. The competence diagnosis part consisted of a list of competences regarded as crucial for realising projects financed from the EU resources. The competences were also selected in compliance with the SWOT analyses previously carried out for cultural institutions. The SWOT analyses were the first source of information indicated in relevant literature.

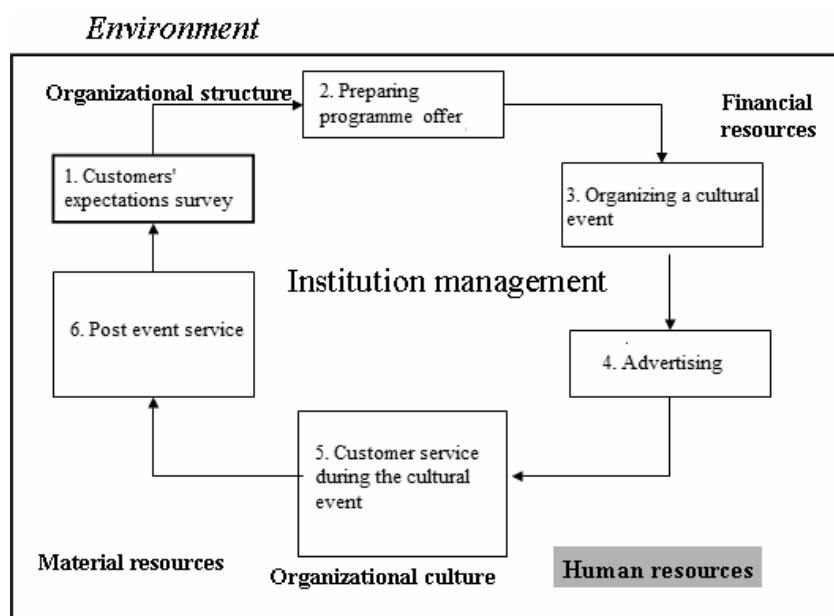
The list of competences was chronologically ordered according to particular stages reflecting the universal course of action applied by every institution realising cultural projects. It was based on the process pattern presented in figure 2.

The questionnaire content was compiled to find answers to the following questions:

- In which areas are the training needs the most significant (acquisition of EU resources, promotional activities and PR for management, cooperation with other institutions, etc.)?
- What are the most urgent training needs?

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<sup>150</sup> Zarządzanie zasobami ludzkimi..., *op.cit.*, p. 350.



**Figure 2.** The process and environment of realising a cultural event

**Source:** own elaboration.

The research focused on issues related to financial management of cultural institutions, especially on their acquiring of external financial resources.

The data gather during the research and presented in the form of a table and description further on in the report, have been used to compile suggestions for cultural institutions concerning trainings that should be conducted in the nearest future in order to make the realisation of various cultural undertakings more efficient. The research results constitute the second source of data, apart from the SWOT analyses, used to construct training programmes.

Table 1 lists training needs according to the decreasing number of respondents' indications.

## Conclusion

The conducted research reflects the analytical process proposed in relevant literature concerning HRM issues. The form of the questionnaire reflects organizational structure analysis, work requirements analysis (in the context of running cultural activities) and HR overview in cultural institutions. The research had two goals: indicating trainings that would allow for completing competence gaps and indicating the most urgent training needs.

The obtained empirical data confirm the necessity for completing competences in areas related to financial management (acquiring additional financing resources); customer expectations analysis as far as the programme offer is concerned, more efficient management of organized undertakings and applying sales methods and techniques to institutions' cultural offer. The results

confirm the compatibility of the specified areas of competence enhancing (ex ante analysis)<sup>151</sup> and respondents' indications (real training needs diagnosis).

**Table 1.** Training needs of cultural institutions' workers

No.	Training	Number of indications
1	Acquiring EU funds, preparing projects	10
2	Planning, organizing and conducting market research	6
3	Project management	5
4	Using promotion and sales methods and techniques	5
5	Institution and project financial reporting	4
6	Financial planning and undertaking costs analysis	4
7	Long-term planning, using strategic management methods	4
8	Acquiring sponsors	4
9	Professional negotiation strategies and techniques	3
10	Financial management	3
11	Professional customer service	3
12	Cooperation with media, NGOs and tourist industry in promoting the institution's offer	3
13	Institution and product branding	3
14	Legal aspects of cultural activities	3
15	Customer satisfaction study and product or service quality evaluation	2
16	Professional presentation of the offer (including one training concerning the use of multimedia)	2
17	Internal communications	2
18	Human resource management	2
19	Using concept elements and quality management instruments	1
20	Cooperation with other cultural institutions in preparing the cultural offer	1
21	Offer analysis and evaluation from the perspective of customers' expectations	1

**Source:** own elaboration.

The results of the research also show the necessity for external institutions engagement in organizing trainings in areas indicated by the respondents, because cultural institutions lack employees sufficiently qualified in institution management, who could conduct such trainings.

Nevertheless, it is worth emphasizing that cultural institutions are adapting to market economy conditions, even though their mission and overriding aim is to satisfy higher needs as well as creating and maintaining cultural heritage. Institution management itself should meet market economy standards and institution employees should be able to use similar standards and understand the way their potential sponsors and customers function.

This research concerning training needs diagnosis and training programme construction constitute one of the first steps to create the cooperation platform for cultural institutions and their environment as well as to ensure more efficient managing of cultural institutions themselves.

<sup>151</sup> The areas specified basing on previously conducted SWOT analysis of cultural institutions, enclosed in strategic documents of the institution superior to the majority of the respondents.

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## **IDENTYFIKACJA POTRZEB SZKOLENIOWYCH PRACOWNIKÓW JAKO ELEMENT PROCESU ZARZĄDZANIA ZASOBAMI LUDZKIMI (NA PRZYKŁADZIE MIEJSKICH INSTYTUCJI KULTURY)**

### **Streszczenie**

Zarządzanie zasobami ludzkimi jest procesem, który składa się z wielu podprocesów mających na celu pozyskanie odpowiedniej kadry pracowniczej, następnie jej rozwój i doskonalenie oraz osiąganie przewagi konkurencyjnej dzięki pracownikom. Proces ten jest procesem ciągłym i polega przede wszystkim na optymalnym wykorzystaniu umiejętności pracowników i osób, z którymi współpracujemy. Zarządzanie kadrami jest oddziaływaniem na czynnik ludzki w firmie w taki sposób i przy pomocy takich instrumentów, aby dzięki swoim pracownikom firma osiągała swoje cele.

W procesie zarządzania zasobami ludzkimi można wyodrębnić cztery główne podprocesy: dobór personelu, motywowanie personelu, ocenę personelu oraz jego szkolenie i rozwój. W niniejszym opracowaniu autorki skupiają uwagę na czwartym z wymienionych podprocesów. Należy przy tym zaznaczyć, że proces szkolenia pracowników – aby był efektywny i odpowiednio dostosowany do odbiorców – powinien być poprzedzony szczegółową analizą potrzeb szkoleniowych pracowników.

Celem niniejszego opracowania jest przedstawienie procesu identyfikacji potrzeb szkoleniowych pracowników. Autorki prezentują przykładowy model przeprowadzenia takiej identyfikacji na przykładzie instytucji kultury zlokalizowanych w jednym z dużych miast Polski.



# *Chapter VII*

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## *INNOVATIONS MANAGEMENT*



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## IMPLEMENTATION OF BLENDED LEARNING EFFICIENCY OF LAMS WZIEU PROJECT – CASE STUDY

### 1. The Characterization of LAMS WZiEU Project

LAMS WZiEU Project<sup>152</sup> has its beginnings in 2006, when the contact was established between the Department of Management and Economics of Services of University of Szczecin and elearning Institute MELCOE<sup>153</sup> of Macquarie Innovative University in Sydney. Effect of this co-operation was author's scholar visit Macquarie University, creating Polish version of LAMS system (learning activity management system<sup>154</sup>) and first in Poland implementation of Australian elearning and blended learning platform.

In April 2007 LAMS WZiEU project team was established and its main goal was to begin realization of:

- Final test of Polish version of LAMS system – April 2007.
- Implementation of LAMS system on elearning server in WZiEU network – May 2007.
- Selection and essential elaboration of issues of first subject for teaching using blended learning method – May 2007.
- Elaboration of internet website LAMS WZiEU – May- June 2007.
- Elaboration of elearning training (methodology and electronic materials) – June-August 2007.
- Test and verification of elearning training, evaluations- September 2007.

There are several main barriers for elearning initiation mentioned in elearning literature: financial limitations of organization, lack of suitable infrastructure and mental barriers, considered as lack of knowledge and simple anxiety for changes by all concerned groups (teachers, students and technicians, organization administrative body). To avoid these problems on the beginnings of elearning path, the following assumptions were made<sup>155</sup>:

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<sup>152</sup> <http://www.lams.wzieu.pl>.

<sup>153</sup> <http://www.melcoe.mq.edu.au>.

<sup>154</sup> <http://www.lamsfoundation.org>.

<sup>155</sup> On the basis of: A. Stecyk: *ABC elearningu, system LAMS*. Difin, Warszawa 2008, pp. 169–172.

- Financial barriers- elearning platform used at WZiEU must be a **free** tool; however it must fulfill the basic needs of modern model of education. After several consultations, the team project decided that it will be free (GPL license), open **LAMS system**.
- Technical barriers- LAMS system will be implemented on one the servers **working in department network**, with enough power for proper functioning of the LAMS system. After verification and evaluation of first stage of the project a new dedicated elearning server will be purchased.
- Mental barriers – implementation of e-learning philosophy will have an **evolutional character** (“small steps” method), will be bottom-up initiative, and will be possible only when class leaders (teachers) acknowledges, that **elearning system is raising teaching effectiveness and helps in organizing academic work**. Furthermore, inquires and polls will be executed to analyze students relations to new teaching methods.
- Blended learning will be main training model, (traditional way of teaching mixed with up-to-date IT methods and tools). First subject for blended learning is Computer Science which is carried out at computer laboratories from 1 October 2007. The project team is responsible for description and elaboration of the chosen subject.
- Methodology, form and content- because of high costs of methodological, graphical and electronic elaboration of the subjects, it was decided to use both, international and polish experiences and to compile first subject within LAMS WZiEU project team.
- Because of the usage of Learning Activity Management System, the project will be named LAMS WZiEU and it will have its own website, linked to WZiEU main site.

The biggest challenge was methodological and electronic elaboration of chosen issues of computer science subject and transferring didactic content delivered by traditional method into elearning language. While working on electronic version of the course following assumptions were made:

- **Lectures**- theoretical lectures will be carried out using traditional methods, 15 hours in semester, while verification of the theoretical knowledge will take place in computer laboratories using LAMS system in form of elearning test. Furthermore summary of the lecture will be available for students in LAMS system, each time a lecture is finished.
- **Computer laboratories**- practical part will be carried out in computer laboratories, 45 hours in semester. Traditional range of the subject includes the basic office applications (text editor, graphic presentation, calculation sheets, data base, and internet communication). The subject will be divided into two blended learning groups: 70% in traditional way in laboratories and 30% on-line (students' homework).
- **Computer Science subject**- main information carrier in electronic course will be graphic animations (tutorials, guide books), showing “step- by- step” way of using office applications. Guide books will be created using free (i. e. *wink*) or commercial (i.e. *SwishMax*) programmes for building FLASH animations. Furthermore students will verify acquired knowledge through realization of homeworks (files) elaborated in office applications (i. e. homework for using logic functions in MS EXCEL).
- **Additional elements**- electronic materials will be equipped in additional elements which can be found in e-courses, such as test and polls, discussion forums and sending file tools.

The electronic materials for Computer Science were elaborated by the project team and were placed on the LAMS platform. Classes had both stationary character (computer laboratories) and students' homework (self- education) and were planned to achieve following educational goals:

- **To equalize level of the students' basic (initial) knowledge** involving elaboration of graphical tutorials (guidebooks), allowing quick familiarization of basic knowledge for students with smaller experience in office applications at the beginning of the semester.
- **Standardization in passing the knowledge** in traditional form- using LAMS system during "live" classes for presentation training contents in the same way and realization task of the same type (doesn't mean that the same) by all the teachers.
- **Students homework-** elaboration of elearning activities will allow content presentation (graphic tutorials, summary texts; students will be capable to copy notes to notepad-LAMS system tool for students) and its verification through application files (send file tool), test surveys and multiple choice questions.
- **Communication with students-** every activity sequence accomplished by the student in any time between one and another meeting with teacher, has got asynchronous communication mechanism (Forum) for exchanging questions, notes and suggestions as well as mechanism for delivery accomplished tasks (application specified documents) to the teacher (Sending files).
- **Knowledge verification- monitoring** students progress (exchanging documents, file marks), monitoring and marking answers on the forum, tests, questionnaires and open questions. Weekly verification of partial knowledge and complex test (i. e. theoretical knowledge test about computer science).

## 2. Evaluation of LAMS WZiEU Project

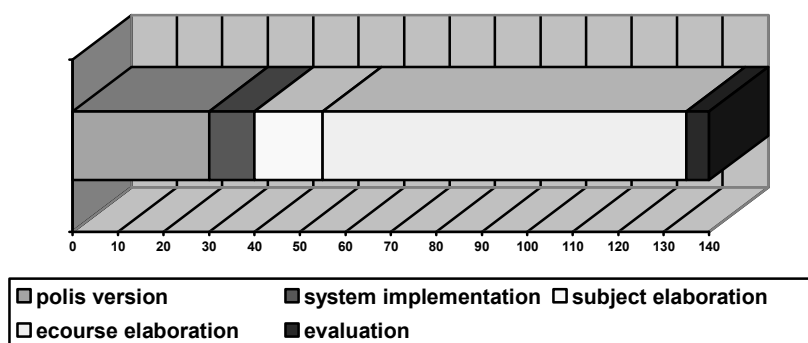
For evaluation of the first stage of LAMS WZiEU project the following factors were used: Economical factors (costs in person-days) and Educational factors (quality of elearning process and satisfaction of teachers and students). Table 1 contains information about costs incurred while preparing works to start the project and initiate first subject in blended learning.

**Table 1.** Costs of LAMS WZiEU project

	Task	Person/days
1	Elaboration and test of polish language version of LAMS system	30
2	LAMS system installation	10
3	Subject elaboration	15
4	Methodological and electronic course elaboration	80
5	Test and verification	5
	<b>Sum</b>	<b>130</b>

**Source:** own elaboration.

While analyzing information coming from other elearning projects accomplished in Poland and worldwide, one can observe, that majority of costs absorb methodological and electronic elaboration of the course. It was the same with LAMS WZiEU project. As it appears from presented information, majority of costs was incurred during transferring traditional subject issues on elearning language tools (animations, tests, forum, tasks etc.). However it must be underlined that, in case of purchase (or rent) commercial elearning platform and elaboration of educational materials by external company, incurred cost would be much higher.



**Figure 1.** Costs of LAMS WZiEU project

**Source:** own elaboration.

There is a question coming about quality of used solutions, functionality of chosen platform and effectiveness of elaborated e-course. An answer will be given by analyzing data from surveys, (carried out in LAMS system), which students (satisfaction and quality of e-courses) and teachers (platform functionality) took part in.

**Table 2.** Methods comparison- teachers' surveys

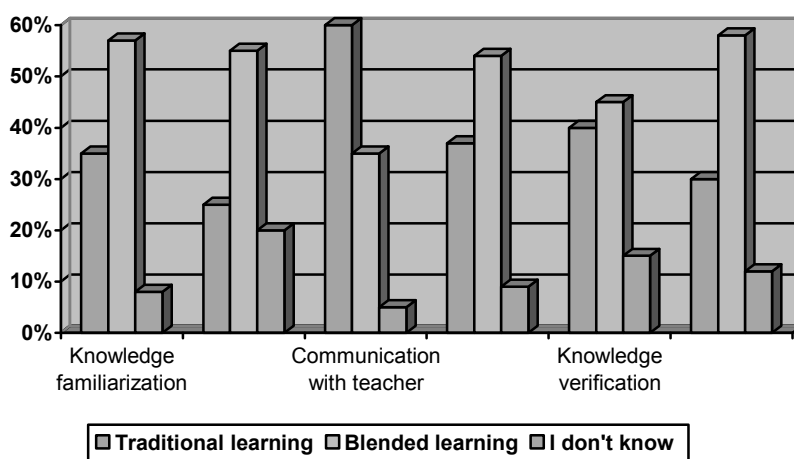
	Traditional method	Blended learning
Creating plan for laboratory classes	3	3,5
Elaboration and distribution of didactic materials for „live” classes	2,3	4
Elaboration and distributions of homework and self-educational materials for students	2	5
Knowledge and homework verification	1,5	5
Communication with students	1	4
Administration	2	3
<b>Sum</b>	<b>11,8</b>	<b>24,5</b>

**Source:** own elaboration.

Questionnaires were performed on group of seven teachers, using LAMS for teaching computer science subject in blended learning method. Of course small number of respondents may show lack of objective results, nevertheless it seems that achieved results may be starting base to deeper analysis. Main advantages raised by teachers are: realization of the subject in the same way by all teachers, comfort of carrying out classes (most of didactic materials was elaborated previously), easy form of knowledge and files distribution, communication with students after “live” classes etc. As shown in table 2 comparison of traditional and blended learning methods, clearly shows the benefits of the second one (teachers gave marks in scale from 0 to 5).

What's interesting in open questions about faults of blended learning, comments were not about the method itself but elearning platform. Most often appearing comments were about: easier

groups and users' administration and greater amount of tools helping in didactic process, like individual and cumulative statistics. Final conclusions are very elevating. Both elearning platform and way of carrying out classes were accepted and appreciated by teachers. Return to traditional method is unlike.



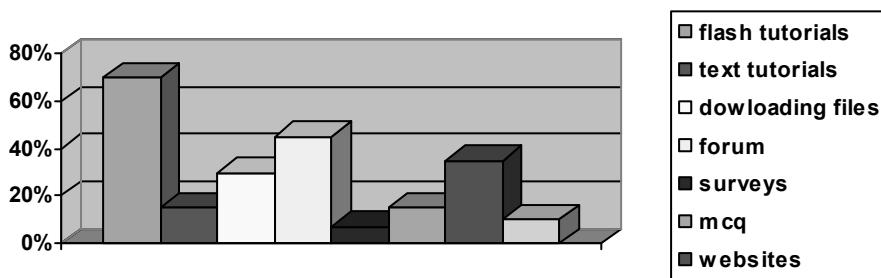
**Figure 2.** Methods comparison- students' surveys

**Source:** own elaboration.

It is very hard to judge educational quality of performed training, especially its efficiency. As starting point to the analysis of the issue, surveys for students were adopted. Questionnaires were executed on group of 150 students who participated in schooling realized in blended learning.

As it appears from executed analysis, general rating of efficiency and quality of blended learning is than twice higher than traditional method. According to students blended learning is better in every element of the educational process, except communication. It seems that it is very important opinion which must be taken under consideration when other e-courses will be design. Essential are solutions for synchronous communication (i. e. chat, not only forum) or, going further, e-consultation tools (i. e. audio/ video on- line).

Questionnaire research contained also popularity of used solutions and showed that the most helpful tool for students were animated tutorials (FLASH animation – board tool). Forum and tool for www sites explorations were also very popular, as “natural” method of searching and gaining information for students between 19 and 25 years old. Tools for downloading files and sending them to teacher were rated on the level of 30% .



**Figure 3.** Popularity of LAMS tools - students' surveys

**Source:** own elaboration.

Research proves that students are using interactive tools (animations) and those, which gives unlimited possibilities to exchange information and communication (forum, exploration www sites). General rating of efficiency of the method is positive alike by students and teachers. LAMS platform is not faultless, but is interesting alternative for commercial solutions, especially at the beginning of elearning route. In March 2008 second stage of the LAMS WZiEU project has started consisting of: purchase and installation newer elearning dedicated server, installation next version of LAMS system (with branching features), evaluation of the Computer Science subject and elaboration of next two subjects for blended learning.

### Summary

Developing an elearning project is a complex, time-consuming, and expensive task, but it is also a key to create new ways of communication and collaboration in higher education. University of Szczecin had a little experience with elearning in the past, but with polish version of LAMS, Faculty of Management and Economics of Services starts a new chapter in online studies. LAMS represents a new generation of open, free elearning tools for designing and delivering sequences of collaborative learning activities. It becomes a great solution for everyone, who is either at the beginning of the elearning way or has a great experience with online training.

## NAUCZANIE KOMPLEMENTARNE EFEKTYWNOŚĆ PROJEKTU LAMS WZIEU

### Streszczenie

W artykule zaprezentowano charakterystykę darmowego systemu elearning'owego LAMS (Learning Activity Management System) i jego wykorzystanie w projekcie blended learningowym na Wydziale Zarządzania i Ekonomiki Usług Uniwersytetu Szczecińskiego. Omówiono założenia projektu do komplementarnego nauczania przedmiotu testowego oraz zaprezentowano wyniki badań ankietowych przeprowadzonych po zakończeniu procesu dydaktycznego.

# *Chapter VIII*

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## *SERVICE ENTERPRISE MANAGEMENT*



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### E-BUSINESS INFLUENCE ON INSURANCE COMPANIES

Relative recently a new electronic world of communication – Internet – appeared on the horizon. Today Internet is shortly described as a worldwide, publicly accessible series of interconnected computer networks that transmit data by packet switching using the standard Internet Protocol (IP)<sup>156</sup>.

A wider explanation and an understanding of what is meant by the “Internet” is reflected in an important definition that was adopted in 1995 by the U.S. Federal Networking Council (FNC)<sup>157</sup>.

FNC agrees that the term Internet refers to the global information system that:

- is logically linked together by a globally unique address space based on the Internet Protocol (IP) or its subsequent extensions/follow-ones;
- is able to support communications using the Transmission Control Protocol/Internet Protocol (TCP/IP) suite or its subsequent extensions/follow-ones, and/or other IP-compatible protocols;
- provides, uses or makes accessible, either publicly or privately, high level services layered on the communications and related infrastructure described herein.

According to this, it is obvious that Internet has an important part to play within the new concepts of disaggregated value chains of “manufacturers” and “distributors”. The most obvious applications apply to distribution with the Internet acting as both a distribution channel and as an enabler for other more integrated distribution models. The Internet plays also a significant role in other areas, such as data exchange and customer services<sup>158</sup>. In consequence the new technology enables companies to enter into the world of e-business.

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<sup>156</sup> See *Encyklopedia Popularna PWN*, wydanie dwudzieste dziewiąte zmienione i uzupełnione. Wydawnictwo Naukowe PWN, Warszawa 1999, p. 323.

<sup>157</sup> Comp. FNC Resolution (10/24/95) and B. Gregor, M. Stawiszyński: *e-Commerce*. Oficyna Wydawnicza Branta, Bydgoszcz–Łódź 2002, pp. 51–52.

<sup>158</sup> Comp. A.J. Beerli: *Facilitating conditions for effective knowledge transfer in New Business models*. Difo-Druck GmbH, Bamberg 2001, p. 145.

Electronic Business, commonly referred to as "eBusiness" or "e-Business", may be defined broadly as any business process that relies on an automated information system. Today, this is mostly done with Web-based technologies<sup>159</sup>.

Although e-business is relatively new, it is already having a profound impact on business strategy and operations. It is not limited to messaging but instead it includes ways of helping companies meet their goals, both in the marketplace as well as in the back-office. Moreover e-business can be used as well as in the strategic and in the operational dimension.

From one side companies believe that e-business can help them serve their existing as well as potential customers better, which is nowadays a key strategic goal. It's even more important due to the fact that many enterprises today reorganize to become centered around customers. The new technology can help to provide services "anywhere and anytime"<sup>160</sup>.

On the other side the technology of e-business itself is enabling companies to accomplish new operational goals. Managing technology and quality of information remain key operational concerns for managers, and they see process streamlining and cost control/efficiency as best ways to gain competitive advantage<sup>161</sup>.

No wonder that the effects of e-business are the subject of intense debate in the insurance industry, although actual translation into solutions is still in its infancy. Various e-business models are emerging and compete with traditional insurers. Newly established internet insurers are in the process of implementing the new opportunities provided by technology and testing innovative business models<sup>162</sup>.

Basically it looks that nowadays for companies that want to use e-business technology and operate on the insurance market there is scope for three different business models<sup>163</sup>:

- Independent eIntermediary,
- Insurers' own websites,
- eInfomediary.

The independent eIntermediary business model takes the traditional agent or broker role from the office and phone-based distribution and applies it to the Internet. Under this model, the user provides his details and requirements and the online broker provides a number of quotes and suitable products for the consumer. Subsequently the customer can choose from the options proposed by the broker<sup>164</sup>. There are already many companies in the Internet that use this model. One of the best examples can be found in the USA – InsWeb<sup>165</sup> but there are also numerous European sites coming online and using this model, such as Screentrade or Ironsure.

<sup>159</sup> Comp. <http://en.wikipedia.org/wiki/E-business>.

<sup>160</sup> Comp. S.A. Brown: *Customer Relationship Management. A strategic imperative in the world of e-business*. Willey & sons, Toronto 2000, p. 144.

<sup>161</sup> *Ibidem*, p. 144.

<sup>162</sup> Swiss Re, sigma 5/2000.

<sup>163</sup> Comp. A.J. Beerli: *Facilitating conditions for effective knowledge transfer In New Business models*. Difo-Druck GmbH, Bamberg 2001, p. 145.

<sup>164</sup> Comp. *Ibidem*, p. 145.

<sup>165</sup> The following companies are selling insurances by using the solution offered by InsWeb: AIG, American Family, Amica, Auto Club of the South, Blue Cross and the Blue Shield of Jersey, Blue Cross And Blue Shield Of Floryda, CNA, Country Companies, GE Financial Assurance, The Hartford, Jon Hancock, Kemper, Liberty Mutual, Lincoln Benefit Life, The MONY Group, Mutual of Omaha, Nationwide Insurance, Ohio Casualty (Avomark), Ohio

The second business model provides transactional capabilities on the insurer's own website. Many established insurers noticing the advantages of e-business technologies and the advancements made by the insurance market "newcomers" using Internet have also begun to restructure their business systems and set up additional online sales channels.

Currently all (or almost all) companies acting on the insurance market have created their own website. One can find very simple as well as very complex websites, but irrespective of that, the basic application is enabling the customers' access to information about company and its products as well as cheap and ubiquitous communication.

The more sophisticated websites allow customers also<sup>166</sup>:

- to perform a simple needs-analysis,
- get quotes for insurances,
- buy products that may interest them,

and after acquiring a product:

- to get pending information about their insurance policy,
- manage their accounts values,
- report an coverage accident and allow claim management.

Moreover the use of Internet-based information systems within an enterprise creates the opportunity to maximize efficiency and effectiveness of its internal processes. Issues that can be improved in his way are for example<sup>167</sup>:

- more systematic use of the available data at the right time of business process,
- more systematic information storage, which makes them available at another step in the process, at another time or another place for different employees,
- better connections of various information systems,
- storage of the data just in one place and subsequently a cheaper and easier maintenance and keeping them up to date.

However, re-engineering traditional business processes is expensive and often meets with considerable opposition from within the company itself. Creation of an internal information system is relatively easier, because the agents and other company employees can feel the benefits of such a system in a short time. But the main challenge for insurers is to adapt the existing agent-based model of distribution to the new Internet reality and convince the agents that there is no threat for them from the side of Internet-based distribution.

Nowadays the companies try to encourage more of the commodity business and commodity transaction to go directly through the Internet, reducing cost and commissions for the agents<sup>168</sup>. At the same time, the agents have to focus on more added-value and complex products like

National, Progressive, Reliance Direct, State Farm Insurance Companies, TIG Insurance, Tri-State Insurance, United Security Life, Western-Southern Life and Zurich Kemper.

<sup>166</sup> Comp. K.E. Hollen: *Re-engineering the insurance business system using e-business in financial services*. In: *The insurance revolution: new frontiers in the convergence of financial services*. Seminar proceedings vol. 2001, Vienna 2001, p. 19.

<sup>167</sup> Comp. M. Verboom, J. van Iwaarden, T. van der Wiele: *A transparent role of information systems within business processes: A case study*. Erim Report Series, September 2004, p. 5.

<sup>168</sup> This can be observed also on the Polish insurance market where companies like AXA, Liberty Direct and Link4 are selling insurance policies directly by phone or through the Internet and companies like Allianz and Commercial Union have created their own direct channels.

variable universal life insurances, which will help to compensate for the loss of earnings from simple products like motor insurances.

The third business model combines the traditional channels with the Internet. The model works around the Internet being used simply as an information source, which then refers the consumer to an existing adviser in order to provide more tailored advices and carry out the transaction. Examples of this type of model are websites that provide insurance product information from experts as well as from independent consumers who can write their mind about an insurance company or its products.

The Internet represents an ideal medium for companies to enhance customer servicing and give individual information at any time, but one can foresee that the eIntermediary model will develop into the main distribution network for commodity-type insurance on the Internet. The independent eIntermediary can offer more benefits to the consumer than a website of one of the insurances companies because it compares more products at one time and can tailor better services for the customers.

But nowadays it is hard to compare different products offered by different companies. That is why most customers who want to buy their insurances online are using insurance companies own websites which have more and more facilities.

It is obvious that the Internet has a great influence on the insurance industry and many companies are adapting it to their business processes. But many of them see the Internet just as a channel of distribution. The Internet can be seen as both less and more than a channel of distribution<sup>169</sup>.

On the one hand, the Internet is less than a channel because it often needs to hand off to other channels to close the deal. Customers may find the company via Internet, but the vast majority will want to talk to an advisor by phone or direct in person before decide to buy. That's why Internet can be perceived in many cases more of a lead-generation tool than a distribution channel.

On the other hand, the Internet is more than a channel in because the Internet is helpful tool for all channels of distribution – for getting quotes, doing illustrations, getting the right forms, viewing pending policy status downloading data, etc.

Moreover the Internet enables new entrants to the market to avoid the expensive and lengthy process of setting up traditional sales networks. Established insurers are thus facing growing competitive pressure<sup>170</sup>. In order to stay on the market and to be more competitive in the future they are adapting the Internet and e-business, which enables them to link their internal and external data processing systems more efficiently and flexibly, or work more closely with suppliers and partners as well as to better satisfy the needs and expectations of their customers.

Like all changes this will probably be a difficult transition process and only a few companies with strong management and a clear vision of entering the world of e-business will succeed.

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<sup>169</sup> K.E. Hollen: *Re-engineering the insurance...*, *op.cit.*, p. 18.

<sup>170</sup> Swiss Re, sigma 5/2000.

## **WPŁYW E-BIZNESU NA FIRMY UBEZPIECZENIOWE**

### **Streszczenie**

Pomimo tego, iż e-biznes jest stosunkowo nowym zjawiskiem ma obecnie duży i coraz większy wpływ na sposób prowadzenia działalności gospodarczej firm usługowych w tym także firm oferujących ubezpieczenia gospodarcze. Wprowadzanie elektronicznej formy działalności biznesowej jest także coraz szerzej omawiane, jak i wprowadzane do praktyki gospodarczej w firmach działających na rynku ubezpieczeń gospodarczych. Spośród wielu modeli biznesowych opartych na e-biznesie można wyróżnić trzy najczęściej stosowane: model (niezależnego) pośrednika, model oparty na posiadaniu własnej strony internetowej oraz model portalu informacyjnego. Artykuł charakteryzuje wyżej wymienione modele biznesowe wraz ze wskazaniem korzyści, zarówno dla firm stosujących dany model, jak i dla klientów korzystających z danego rozwiązania, jak również wskazuje na możliwości stosowania ich na rynku ubezpieczeń gospodarczych.



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## **MODERN CUSTOMER SERVICE AS THE COMPONENT OF THE FIRM'S COMPETITIVE PREDOMINANCE**

### **Introduction**

In the era of trade and production globalization that requires fighting with competitive firms and a high level of offered distribution services, client's service decides of the trading success of the firms to a greater extent than the basic elements of marketing strategy as product, quality or price. Under pressure of changes in the market producers, distributors and logistic service gives offer to the client reliable deliveries, comfort in service, the indispensable communication concerning orders and still shorter delivery time. High logistic abilities are the basis of this competitive offer. It is just clients and their growing demands that make the firms improve their logistic systems to deliver the right product in the right amount and condition to the right place in the right time to the right client on the right cost.

### **The system of logistic client's service**

There is not one objective, the most accurate or right definition of service. Generally, client's service is defined as a system of solutions ensuring satisfying relations between the time of getting the order and the product/service reception to the client.

In some organizations the term 'client's service' includes following activities<sup>171</sup>:

- offering profitable financial and credit conditions,
- guarantee of delivery in a specified time,
- change of invoice time to meet the clients' demands,
- having competent sales department representatives quickly reacting to their signals at the clients' disposal,
- keeping the satisfying amount of spare parts in store,
- installations of products.

Special attention is paid to the efficiency of orders' service (taking, confirming, elaborating, completion, sending). The activities connected with client's service include also

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<sup>171</sup> J.J. Coyle, E.J. Bardi, J. Langley: *The Management of Business Logistics*. West Publishing Company, St. Paul 1992.

operational planning, cost calculations, invoice, stock management, giving out, transport (adjustment, contacts with agents, bills of lading), wrapping. Generally, the activities are connected with documentation preparation, delivery of products to the client and deliveries' accounts settlement. Client's service is performing all these activities being the duty and task of a given organization. There is a problem, however, that in spite of the duties performed better and better the desired results are very often not reached.

Client's service is also connected with keeping the standards of delivery time, promptness, completeness, accessibility of stock, damage, etc. They are either absolutely required by the recipients or they are an encouraging offer and declaration of the firm competing through its service on the final products market. Rightly stated standards, meeting the real needs of the clients, must be absolutely kept by the firm as they are the clients' needs fulfillment, and their realization shows the attained level of the service.

Client's service – understood as philosophy of management and the firm's mission, to which all its activity is subordinated – appears most often with market leaders, determined to introduce some latest ideas of management to reach the already reached position.

The unique and elaborate way of treating the client and his orders makes these firms able to conquer the competition. They deliver high quality offer to the client, not only to attract him but also to make him stay with the firm as long as possible. There are still more examples of Polish firms that notice the need to include client's service into its strategy. Such activities dominate in telecommunication, banking, and logistic services offers sectors.

In client's service in logistic many activities are taken into consideration. In the first step the servicing organization (producer, agent, and seller) undertakes the philosophy totally oriented onto the client. A special attention is paid to the client's needs, and resources are directed in order to learn and fulfill his needs. It is hard to measure to what an extent there is an agreement with the service philosophy, so in the second step the standards and measure estimating the performance of particular service's elements are stated. They are measurable by nature and easily undergo the process of standardization. Then there are identified a few elements important in service and their relative meaning, what does not automatically fulfill the client's demands. In the third (final) step there is decided the process that will enable the performance and estimation of the activities connected with service. In order to realize this task the manager must have properly trained staff and indispensable information. Only then the effective service of clients' orders and giving the proper information is possible.

There are a few basic elements that clients usually care much about. The most important elements of client's service are:

1. Delivery time (the cycle of order's realization ), so the time from the moment of ordering to the moment of receiving the product by the client, that includes partial times:
  - time of ordering; order transmittal –the time depending on the decided way of communication of the client with the firm and taking orders,
  - order processing – the time depending on documentation circulation in the firm and the way of their elaboration,
  - order preparation – time for manipulation works – selection, completion, packing and loading the ordered products on the means of transport,
  - time of transport; order shipment, time of sending the ordered products lasts from the moment of loading by the seller on the means of transport till the moment of delivery, reception and unloading by the buyer.

2. Accessibility of stock products – means the size of demand that can be immediately fulfilled from the deliverer's stock.
3. Flexibility of deliveries – the ability to adjust time (e.g. the time of the day, night), the assortment's size and the way of delivery to the client's expectations.
4. Frequency of deliveries – the amount of deliveries in a given time (in twenty four hours, in a day, month), depends on the kind of delivered products and deliveries organization system. It is crucial both in the chain of deliveries as in the immediate deliveries to the market.
5. Infallibility of deliveries comprises the right realization (precision, completeness) and punctuality of expected deliveries and keeping the losses, ullages and mistakes on a relatively low level.
6. Completeness of deliveries, the deliverer's ability to realize a full specification of ordered products.
7. Precision of deliveries, the assortment agreement of delivery with the order.
8. Convenience of ordering, getting the right information on this step of order realization and technical data of the product and some other convenience.
9. Convenience of documentation required for ordering.

The enumerated client's service elements are considered transaction elements so deciding of transaction's realization that is efficient and in agreement with client's expectations – from the moment of ordering to the moment of receiving the product. These elements concern the immediate contact of the firm with the client, and their right realization to a great extent decides about client's satisfaction. Constant monitoring of these elements, finding faults in their delivery, looking for the mistakes' reasons and their elimination later on are advised here.

Apart from the transaction elements there are also the pre-transaction elements, taking part in shaping the client's expectations, influencing his perception of the firm and the post-transaction elements that enable the clients the proper use of the products. These elements enable prolonging the firm's contact with the client. Including the post-transaction services into the firm's offer enables constant contact with the clients, evokes their kindness and loyalty, and forces the good picture of the firm. The post-transaction services may also be the source of information of clients' preferences or a new offer of the firm. Client's service includes the elements of all three phases of commercial products and services exchange process. In logistic, especially in deliveries chain management, the most attention is paid to the transaction elements.

The logistic client's service should fulfill the rules called 7P (7W). It must consist in the fact that a proper product should be in its proper place in a proper time being in a proper state, a proper quantity, with a proper service and a proper cost. Moreover, the client's service should be understood as a set of all the activities on the level of management and executive, connected with such elements as:

- one's own preparation to reception and realization of the client's order (easy way of client's order),
- keeping in touch with the client and information service (for example informing of the progress in order's realization or where is the load at a certain time),
- the inner service of the order, preparation and release of the ordered product,
- delivery of product to the client,
- the payment service (offering profitable payment time-limits),
- installation and instruction, training,

- the warranty and after warranty service,
- a possibility to return the goods and complaint conditions,
- the requirements of environment preservation in the process of sale and after finishing the use of product<sup>172</sup>.

In case of logistic firms very important meaning of the staff shows itself in service contact with the client that can take place on two levels, as:

- the direct contact,
- the indirect contact (through media, telefax, Internet).

The task of the staff, keeping in touch with the client in particular is:

- creating the climate of reliability and efficiency in all the forms of contact with the client, concerning both technical means of information as the direct information given to the client by the staff members;
- emphasizing the competence of the staff in all possible forms,
- creating the atmosphere of lack of danger, risk, different doubts, that may show up on the client's part, if the staff members have such doubts or the conditions of service performance create some bad impressions;
- creating with full awareness the infallibility and precision in all the aspects of the offer, creating the atmosphere of ability to perform a service according to the client's expectations, eliminating all the pressure concerning time, possibility of irritation, doubt or dissatisfaction of the client;
- creating the comfort of performing services, using simple language for information,
- aesthetic look of the staff members, aesthetic look of the means of transport.

On the level of service contact the staff performing a service has a big influence upon the shape of service's quality. Its level depends on their knowledge, qualifications and communicativeness, and also on their involvement and willingness to help when solving problems.

People are more often treated by the firms as the greatest capital that determines quality of the firm's services and shaping its outer picture. So much importance is attached to systematic trainings and the system of motivation of the staff members and co-workers employed. The basic role of trainings consists in increasing the employees' qualifications, their knowledge of the firm and its service offer. Trainings are adjusted to the tasks performed on given positions and they can be as follows:

- integration, interdisciplinary trainings,
- trainings on team co-operation improvement;
- operation and specialist trainings;
- trainings on communication, cooperation, creative thinking;
- trainings on contacts with clients;
- trainings on sales techniques;
- trainings on client's service, etc.

Fundamental elements of motivation system are economic stimuli as basic salary, commission of sale, additional bonuses and prizes. The extra-economic stimuli are the possibilities to improve qualifications, thanks to the trainings organized by the firm, and certain criteria of promotion encouraging employees to more effective work. The additional motivation

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<sup>172</sup> *Logistyka ponad granicami*. Praca zbiorowa w ramach programu Interreg II pod naukowym kierownictwem S. Abt i K. Richter. ILiM, Poznań 2000, p. 130–131.

for active staff members can be participation in task groups that are formed by choosing people from different positions, teams and regions of the firm's activity.

In order to manage better, firms more often carry out opinion polls of the staff members. It is important to identify weak and strong sides of organization culture, stating the areas of high and low satisfaction of the staff members and learning of the attitude and expectations of the staff members concerning the solutions on human resources management, also the diagnosis of motivation. The cultural aspects and the character of motivation of the staff members are shown through their attitudes within the scope of: identification with the firm and satisfaction with job, the atmosphere and communication in the firm, satisfaction with the solutions used in human resources management and the expectations of the staff members within this scope, differing opinions of the employees' groups of different age, education level, the length of work practice, localization of employment place, and the position held.

All the activities undertaken by logistic firms generally aim at professionalism and high quality of service since the first contact with the client, helping to solve the clients' problems, proper identification of the clients' needs, and their quick and complete fulfillment, ensuring the individual approach and partnership in relations with the client, keeping the commitments, efficient communication with the client, employees and transporters (deliverers), constant improvement, improving your own qualifications, co-creating the uniform, prestigious picture of the firm, care of surroundings, environment, usage and improvement of Quality Management System.

Nowadays there is a stress put upon the extension of the internet client service. Such a service may enable among others:

- the access to current firm offer 24 hours a day,
- follow the history of its transactions,
- reprinting the invoices,
- get the information of the status of orders in realization,
- follow your own payments (with one week, two weeks and one month expiration),
- give orders filling in the forms.

Information is indispensable in every phase of management, starting with planning, and finishing with the results control. It is a factor deciding of efficient functioning of the firm. The information system forms a collectivity of people and technical appliances with software, organized on purpose, that is supposed to gather, work out, process news and information of a given scope and sending them to the places where they are needed<sup>173</sup>. The main features of this system within the logistic management, ensuring the high quality of information in decision making processes, are: reliability (a specified certainty extent that the information is true), relevance (full information for its users needs), assimilability (should not require any additional transformations of its state), accessibility (retaining a proper information system reaction time), confidentiality of access (a proper coding of information, creating users groups of a limited access, authorization of access), full safety in case of system damage<sup>174</sup>.

The development of information processing technologies created, during the last several years, the basis to work out and use the efficient information systems. Without support of the

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<sup>173</sup> S. Krawczyń: *Zarządzanie procesami logistycznymi*. PWE, Warszawa 2001, p. 124.

<sup>174</sup> P. Adamczewski: *Informatyczne wspomaganie łańcucha logistycznego*. Wydawnictwo Akademii Ekonomicznej w Poznaniu, Poznań 2001, p. 10.

most modern information processing technology the improvement of flow processes management and storage of products and increasing the efficiency of this flow is not possible. It enables a quick access to the information such as: cash balance, availability, the state of recipients' orders, the state of warehouses, etc. Thanks to the module structure of information processing systems adjusted to the individual needs of the firm these systems are the effective tool of planning and control of finances, warehouses, allocations and managing of the firm's resources, planning, realization of production etc. Each change introduced by the system's user is immediately registered by the whole system, for example the client's order introduced into computer is immediately accessible for steering the stock, production planning, and sales prognosis. This enables the effective flow of information between the producer and the one that orders the product, which speeds up the transaction processes, so the financial and material stream. The basic functions of information system are mostly: registering the existent states of real planning and technical data, planning and forecasting, controlling, working out the analyses and reports<sup>175</sup>.

Some more important information indispensable for the proper functioning of a firm is the information of the clients' needs, their knowledge of the firm's products and the demand. In order to get this information the surveys of client's satisfaction and special promotions of the products are used. The periodically made surveys among clients deliver a lot of information concerning their demands and expectations on products, service, and orders realization (e.g. the speed of realization, the way of communicating with the client). This information enables to plan trainings for the employees of the first contact and define the service process satisfying to the client.

## **Conclusion**

The firms acting in the market competition conditions are constantly forced to look for modern solutions in their activities in order to keep their position. They pay particular attention to the high quality of client's service. They do their best to satisfy the client as far as time, reliability, communication, and comfort in the process of product purchase are concerned, because satisfaction of the client is an important factor in making the organization successful. The indispensable element of this process is the information system. The improvement of the system of formation and realization of material and information flow contribute to the firms' production and service potential increase and to their more effective use.

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<sup>175</sup> *Ibidem.*

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## **NOWOCZESNA OBSŁUGA KLIENTA ELEMENTEM PRZEWAGI KONKURENCYJNEJ PRZEDSIĘBIORSTWA**

### **Streszczenie**

W artykule przedstawiono podstawowe zagadnienia związane z logistyczną obsługą klienta. Działania podejmowane przez firmy logistyczne mają ogólnie na celu dążenie do profesjonalizmu i wysokiej jakości obsługi od pierwszego kontaktu z klientem, pomoc w rozwiązywaniu problemów klientów, właściwą identyfikację potrzeb klienta oraz szybkie i kompletne ich zaspokojenie, zapewnienie indywidualnego podejścia i partnerstwa w stosunkach z klientem, dotrzymywanie zobowiązań, sprawną komunikację z klientem, pracownikami i przewoźnikami (dostawcami). Ciągłe doskonalenie obsługi klienta, podnoszenie własnych kwalifikacji, współtworzenie jednolitego, prestiżowego wizerunku firmy jest, bowiem istotnym elementem przewagi konkurencyjnej przedsiębiorstwa.



# *Chapter IX*

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## *REGIONAL MANAGEMENT*



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## **IS MEASURING THE EFFICIENCY OF LOCAL AUTHORITIES GROUNDED**

### **Introduction**

The objective of the study is the review of researches regarding the efficiency of public services in Poland. The scope of research is related to the analysis of public services unit costs with particular emphasis of these performed by local government units. Special attention was devoted to interactions between legislation referring to performing public services and their efficiency.

Main methods applied in order to carry out the above task consisted in the review of literature in the field of public services economics, supplemented by professional literature in related domains, such as management, law and political sciences. The above scope of research was imposed by an interdisciplinary nature of the discussed issues. In the second part of the article the author provides a review of selected research results carried out, with reference to the problem, in recent years. The presentation of author's own research results constitutes the concluding part of the provided analysis, which was performed by the author on the basis of a sample of Lower Silesia voivodship.

The efficiency of public services is referred to, in the hereby study, as a strictly economic category, which puts together relations between costs and the level of target implementation. The author, quite consciously, focused on quantitative measures, leaving quality indicators for further and broader considerations, as well efficiency understood more extensively as effectiveness. Such concentration allows avoiding discussion rambling into political categories in which efficiency can be measured by means of the number of occurred repeated elections.

### **The efficiency of public services in professional literature**

In public sector there are no objective mechanisms of effect-measured resources' allocation, additionally, problems related to the application of efficiency criteria result in the fact that decisions referring to the level and structure of public expenditure are taken up in the process

of political negotiations<sup>176</sup>. This sector is characterized by the urge to provide equal access to public services for all citizens, regardless of their financial status.

In this respect, according to many authors, the superior objective of these services provision becomes their fair distribution and combining it with efficiency is an extremely difficult task. It was Vilfred Pareto (1884-1923) who emphasized this problem and claimed that there occurs a clear negative interdependence between efficiency and equality – improvement of the first factor is always carried out at the expense of degrading the second and vice versa<sup>177</sup>. In public sector, as opposed to the private one, where the allocation of resources is governed by the rate of profits, the measure of effective functioning becomes accomplishing the assumed goals (effectiveness), frequently without much consideration for financial outlays, as well as moral (economic) ones<sup>178</sup>.

The criticism of public sector efficiency resulted in the discussion regarding the possibility of limiting its role to the indispensable minimum. In this domain there have occurred numerous discussions referring to the grounds for the State withdrawal from many areas of activity by means of services privatization<sup>179</sup>. These discussions lead us towards the conclusion that the privatization itself, when not combined with restructuring, frequently does not result in the expected effects. Limiting access and the deterioration of quality indicators may especially occur in service sectors, which are characterized by natural monopoly<sup>180</sup>. In these spheres, where it is possible to introduce competition, privatization effects may be better<sup>181</sup>.

According to Zalewski, privatization cannot be observed as a golden mean for all failures of the public sector, including local authorities. It should be referred to as one of the instruments for efficiency improvement, as well as public services quality upgrading, which in defined conditions (opportunities for arranging effective competition) may bring the required results<sup>182</sup>. In professional literature there prevails an opinion, that the most important factor, responsible for efficiency improvement, is not as much an organizational form as the conditions for developing competitiveness<sup>183</sup>. The threats resulting from allocation became the background for investigating

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<sup>176</sup> A. Zalewski: *Reformy sektora publicznego w duchu nowego zarządzania publicznego*. In: *Nowe zarządzanie publiczne w polskim samorządzie terytorialnym*. A. Zalewski (ed.). SGH, Warszawa 2007, p. 51.

<sup>177</sup> J.E. Stiglitz: *Ekonomia sektora publicznego*. PWN, Warszawa 2004, p. 136.

<sup>178</sup> W. Kieżun: *Struktury i kierunki zarządzania państwem*. In: *Dobre Państwo*. W. Kieżun, J. Kubin (eds). WSPiZ, Warszawa 2004, p. 42.

<sup>179</sup> A. Zalewski: *Prywatyzacja jako instrument poprawy efektywności gospodarki gminy*. In: *Gospodarka lokalna i regionalna w teorii i praktyce*. D. Strahl (ed.). Prace Naukowe AE, Wrocław 2007; R. Bugaj: *Demokracja pod presją neoliberalnej doktryny*. In: *Dobre Państwo*. W. Kieżun, J. Kubin (eds). WSPiZ, Warszawa 2004.

<sup>180</sup> H. Sochacka-Krysiak, R. Makowska: *Usługi społeczne w jednostkach samorządu terytorialnego*. In: *Nowe zarządzanie publiczne w polskim samorządzie terytorialnym*. A. Zalewski (ed.). SGH, Warszawa 2007.

<sup>181</sup> N. Flynn: *Public Sector Management*. Pearson Education, Harlow 2002; E.S. Savas: *Prywatyzacja, Klucz do lepszego rządzenia*. PWE, Warszawa 1992.

<sup>182</sup> A. Zalewski: *Reformy sektora publicznego...*, op.cit., p. 212.

<sup>183</sup> S.J. Bailey: *Local Government Economics*. Macmillan Press Ltd., London 1999, p. 288; A. Zalewski: *Reformy sektora publicznego w duchu nowego zarządzania publicznego*. In: *Nowe zarządzanie publiczne w polskim samorządzie terytorialnym*. A. Zalewski (ed.). SGH, Warszawa

the methods of public expenditure rationalization. Research in this domain started after the Second World War in both the United States and Western Europe. It resulted in elaborating different methods of budgeting, which generally are not in line with the commonly applied, in traditional budgeting, planning of expenditure based on the historical (incremental) method implementing extrapolation. The discussed methods, despite significant differences, present a few common attributes:

1. accepting the method of budgeting according to existing needs as the cardinal principle, obligatory in programming due spending,
2. measuring effects of public expenditure even when these effects do not have any monetary dimension, but are possible to be expressed in physical units,
3. considering the quality of services and measuring the efficiency of public expenditure at the same time,
4. constructing public expenditure on the basis of variant profit and loss analysis, which facilitates making choices in line with the principle of rational management<sup>184</sup>

The problem of public services efficiency has been significantly developed within the framework of the *New Public Management* idea. Objective methods of measurement constitute the basis for benchmarking system which, due to the lack of market conditions (which, as it has already been mentioned above, create the grounds for pro-efficient attitudes), makes up for the small portion of competition among units. Providing price comparisons as well as the efficiency and entrepreneurship of a public company with the same qualities of businesses offering services in other towns, even though it can hardly be called authentic competition, has a highly motivating effect, which stimulates competitiveness and rivalry<sup>185</sup>.

It is worth pointing to the fact, that the issue of efficiency usually occupies a marginal position in studies related to public administration, services and finance<sup>186</sup>. Most frequently there are followed three research directions: the research on theoretical comments within the scope of public administration phenomena, analysis and description of administrative structures and processes functioning and constructing new models and principles of an organization and of contemporary administration functioning<sup>187</sup>.

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2007, p. 209; J. Klich: *Przedsiębiorczość w reformowaniu systemu ochrony zdrowia w Polsce. Niedoceniane interakcje*. UJ, Kraków 2007, p. 338.

<sup>184</sup> A. Zalewski: *Reformy sektora publicznego...*, *op.cit.* p. 52.

<sup>185</sup> D. Osborne, T. Gaebler: *Rządzić inaczej. Jak duch przedsiębiorczości przenika i przekształca administrację publiczną*. Media Rodzina, Poznań 2005, p. 133.

<sup>186</sup> Comp.: J. Hauser: *Administracja publiczna*. PWN, Warszawa 2005; S. Flejterski, (et al.): *Współczesna ekonomika usług*. PWE, Warszawa 2005; A. Miszczuk, (et al.): *Gospodarka samorządu terytorialnego*. PWN, Warszawa 2007; R. Bról: *Ekonomika i zarządzanie miastem*. AE, Wrocław 2004; K. Bondyra, (et al.): *Państwo, samorząd i społeczności lokalne*. WSB, Poznań 2005; A. Tucholska: *Powiat. Między zbiorowością a wspólnotą*. Scholar, Warszawa 2007; A. Błaś, J. Boć, J. Jezewski: *Administracja publiczna*. Kolonia Limited, Wrocław 2004; L. Patrzałek: *Finanse samorządowe*. Wydawnictwo AE, Wrocław 2000; St. Owsiak: *Finanse publiczne. Teoria i praktyka*. PWN, Warszawa 2005; *Administracja publiczna. Zagadnienia ogólne*. H. Izdebski, M. Kulesza (eds). Liber, Warszawa 1999; Z. Lioński: *Nauka administracji*. C.H. Beck, Warszawa 2002; J.E. Stiglitz: *Ekonomika sektora publicznego*. PWN, Warszawa 2004.

<sup>187</sup> M. Kachniarz: *Ekonomizacja administracji publicznej na tle koncepcji prawnych i społecznych*. In: *Gospodarka a Środowisko*. T. Borys (ed.). AE, Wrocław 2008 (at print).

The above discussion refers, mainly, to these representing the domains of economics and management. It is worth underlining at this point, that the problem of public services efficiency is significantly depreciated in the considerations presented by academics that represent other domains of science.

Within the, so called, concept of legal binding, searching for methods of effective functioning might be even regarded as the symptom of free interpretation and recognition which are characteristic for discretionary authorities<sup>188</sup>. An executive nature of public administration means that organs of this administration limit their activities only to substantiating legal regulations, which are already in force, and executing these laws. Nothing more, nothing less<sup>189</sup>.

Błaś emphasizes that in the state of law, in the light of, still up-to-date and in force, principle of a democratic state of law, the fundamental liberty of every citizen is the right to take advantage of administration, which is supposed to offer comfort and stability for a given legal entity. This is the right to use administration which does not limit the scope for enjoying by citizens their constitutionally defined and protected rights. Any improvisation and risky undertakings are unknown to administration in the state of law like e.g. failed reforms, which curb or in any way distort the constitutionally defined frameworks of citizens enjoying their public rights and liberties<sup>190</sup>.

In most general terms, law defines an organizational system where observing law means defined functioning of particular elements of public administration. One may assume that with reference to efficiency of performing public services it defines just the grounds for or the limits of functioning. Therefore, the efficiency and effectiveness of acting depends, to a great extent, on public administration itself and occupies a subordinate position as far as firm, stable and legally vital standards, related to performing public services, are concerned<sup>191</sup>.

From the formal point of view, the efficiency of managing public resources is permissible and desired only when it is covered by the legislation in force<sup>192</sup>. In a democratic state of law the principle of legality is superior as compared to other principles, which are subordinate to it. As it happens, however, legality and efficiency, or rationality are not always the goals which coexist in agreement with each other, quite contrary, there are frequently observed disharmony and conflicting standpoints between them<sup>193</sup>.

The presented above, substantial differences in understanding public services efficiency are frequently the basis for numerous discussions and criticism. An example of such conflict may

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<sup>188</sup> P. Cane : *An Introduction to Administration*. Oxford 1996, p. 123.

<sup>189</sup> A. Błaś, J. Boć, J. Jeżewski: *Administracja publiczna*. Kolonia Limited, Wrocław 2004, p. 34.

<sup>190</sup> A. Błaś: *Studia z nauki prawa administracyjnego i nauki administracji*. UW, Wrocław 1998.

<sup>191</sup> A. Błaś, J. Boć, J. Jeżewski: *Administracja..., op.cit.*, p. 371.

<sup>192</sup> E. Ruśkowski: *Ekspertyza na temat interpretacji pojęć: kryterium legalności, gospodarności, celowości i rzetelności, zawartych w art. 203 Konstytucji RP i art. 5 ustawy o Najwyższej Izbie Kontroli*, „Kontrola Państwowa” 2002, No. 4.

<sup>193</sup> E. Ruśkowski: *Mity i realne możliwości racjonalizacji wydatków publicznych w Polsce*. In: *Ekonomiczne i prawne problemy racjonalizacji wydatków publicznych*. J. Głuchowski, (et al.) (eds), vol. 1, *Racjonalizacja wydatków publicznych – uwarunkowania i instrumenty*. UMCS, Lublin 2005, p. 118.

become dual attitudes towards public administration reform implemented in 1999<sup>194</sup>. This path of activity is also true for the ideas, in Polish reality, of abandoning “administration for the sake of active management”. This means that traditional supervision and management of tasks’ implementation by means of legal regulations and providing access to resources (within the framework of public budgets) are no longer enough. One should rather apply diversified academic inventions in the field of management theory, economics of enterprises, finance and other social sciences<sup>195</sup>.

### Efficiency of public services in the practice of local authorities

The problem of public services efficiency is not duly taken care of by Polish finance law system. The primary recommendation becomes here Article 28, item 3, point 1, of the Act of Public Finance, according to which: “... public expenditure should be made in a *purposeful* and *economical* way, following the principle of obtaining best *effects* from *outlays* made”. It may seem that such phrasing provides sufficient grounds for the control of expenditure efficiency. However, with regard to the spectrum of supervisory instruments at the RIO disposal, there are only these which facilitate the study of public resources implementation in a *legal* way and *according to the planned objective*. This means the necessity of following due procedure of budget planning and performing expenditure according to it. The evaluation of expenditure *substantiality* is done by the due bodies (commune or district councils, regional Parliaments). Having considered the fact that these authorities take decisions and pass the budget at the same time, the related control boils down to the assessment of performance which has to persist in agreement with the previously passed local budget laws.

In practice, however, as Misiąg puts it, it does not only boil down to the spending itself being target oriented (i.e. supporting task performance), but also if it is grounded to spend just the defined amount. Therefore, we have to differentiate between the purposefulness of making a given spending (treated in an abstract way, as spending a *set* amount in a *defined* way) from its efficiency, which can be studied by checking if the accepted relation between the size of expenditure and extending the level of obtaining the target is preserved (the degree to which a set public task was carried out) which, owing to the expenditure made, will be obtained<sup>196</sup>.

The same author claims, that Polish procedures lack mechanisms combining public spending with its result, which constitutes a major weak point in the structure of Polish public finance and probably the most important reason for present problems with balancing public finance. If this issue is not resolved, the rational reform of public finance will not be possible to carry out<sup>197</sup>.

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<sup>194</sup> W. Kieżun: *Transformacja administracji publicznej w świetle teorii organizacji i zarządzania*, „Master of Business Administration” 2000, No. 1; M. Klesza: *Nieprawdą jest, jakoby...*, „Master of Business Administration” 2000, No. 2.

<sup>195</sup> H. Bauer, K. Szczepańska: *Streszczenie, wnioski i aspekty szkoleniowe*. In: *Efektywna polityka i administracja. Strategie i instrumenty zarządzania miastami*. Bogucki, Poznań 2005, p. 299.

<sup>196</sup> W. Misiąg: *Mierzenie zadań publicznych jako podstawa planowania budżetowego*. In: *Ekonomiczne i prawne problemy racjonalizacji wydatków publicznych*. J. Głuchowski, (et al.) (eds), vol. 1, *Racjonalizacja wydatków publicznych – uwarunkowania i instrumenty*. UMCS, Lublin 2005, p. 153.

<sup>197</sup> *Ibidem*, p.154.

Kieżun pays much attention to economic factor as the basic condition for effective functioning, treated as the ratio of practical, useful effect to outlays made and moral costs paid. The economic factor is accompanied by effectiveness – such measures are the components of efficient functioning. Therefore, an efficient entity is the one which obtains the maximum of the planned objective at minimum cost. However, in our Polish tradition we are focused on effectiveness and achieving the target no matter what and independently from costs incurred<sup>198</sup>.

At this point one should make a comment, that opinions presented in such way are not accepted commonly. Critics of this attitude point to the specific nature of public sector which manifests itself just in the difficulty of precise presentation by means of practical effects. They emphasize that simple implementation of modified solutions, which were already known and checked before in industry and market services, to public domain, cannot be applied. One has to bare in mind that it is characterized by its specific nature, resulting mainly from a democratic way of running the office by public authorities. This, obviously, stimulates the need to act within the framework of social compromise and acceptance for initiatives, which from the point of view of efficiency, find their solutions in a completely different way than the one followed by the, so called, social consensus.

Obviously, as Misiąg writes, there are public tasks which are easier and such which are more difficult to measure. One, however, must not give up to the pressure of “general impossibility to measure” public services and effects of public expenditure (“health does not have any price”, “justice is never too expensive” etc.). Our problem is the fact that even in case of tasks of which quantitative and qualitative measurement is relatively easy, nobody is eager to introduce tasks’ measuring system to budget procedures.

Administration lacks measuring determinants (so there are no substantially outlined quality and quantity requirements), which provides it with certain comfort in performing its tasks – but the clue is that such measuring determinants, adequate for particular tasks, should introduce discipline in administration. The core sense of public finance sector functioning becomes the provision of a set of services guaranteed by due laws, according to non-market principles –and this situation results in problems of executing economic rationality in performing tasks by public institutions. When the obligation of presenting measurable results of their activities is lifted from public institutions these problems get even worse<sup>199</sup>.

### Presentation of selected research results

In the practice of Polish local authorities there are few initiatives aiming at creating systems facilitating the comparison of their activities results.

An important role in filling such obvious gap was played by activities performed within the scope of Institutional Development Programme, carried out from the means of World Bank and within the framework of Rural Areas Activating Programme. As the result of the cooperation of teams representing Małopolska School of Public Administration, University of Economics in Kraków and Canadian Urban Institute, there was elaborated the method of institutional

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<sup>198</sup> W. Kieżun: *Struktury i kierunki zarządzania państwem*. In: *Dobre Państwo*. W. Kieżun, J. Kubin (eds). WSPiZ, Warszawa 2004, p. 42.

<sup>199</sup> W. Misiąg: *Mierzenie zadań publicznych...*, *op.cit.*, p. 155.

development assessment of particular units in which the key role was also played by the identification of unit costs related to both quality and effectiveness of performed services<sup>200</sup>.

The System of Analyses performed by Local Authorities constitutes the most extensive base for these activities – the initiative taken up by local authorities' associations in towns, rural communes and districts which have been carried out in cooperation with the Norwegian local authorities. At the first stage of this programme there were performed, among others, studies referring to unit costs of activities in the domain of culture<sup>201</sup>.

These initiatives are still just pilot-type ones and cover only a small group of local authorities, but their development and diffusion of results may become a starting point for effective functioning of the unit costs comparison system within the selected local authorities.

Unfortunately the lack of adequate amount of available data becomes major obstacle at this point, since the usefulness of information collected within the framework of public statistics presents low level. Information generated with reference to budget reporting is also adjusted to the criteria of carried out tasks' legality. The problem is, that the mentioned above programmes are based on filling in complicated application forms, which may quite effectively discourage subsequent local authorities from participating in the programme. In such situation, generating indispensable information requires additional, not legally imposed, activities (which from the point of view of the whole system's "legality" becomes difficult to execute). This is probably the reason, why spreading and common acceptance of entrepreneurial attitudes in Polish local authorities is mainly concentrated on the improvement of management procedures inside an organization (e.g. obtaining quality management certificates - ISO), without engaging into a more extensive analysis of efficiency in performing public services.

The above thesis is supported by both research conducted within local authorities of Podlaski and Kujawsko-Pomorski region, as well as practical experience of the author during his serving two terms of office as the District Head. In the first case, among the two third of researched organizations the procedures of counting costs for some services were identified. None of the studied units analyzed unit costs related to quality and efficiency assessment of provided services<sup>202</sup>.

In the second case, the initiative aiming at an attempt of 'positioning' with reference to unit costs, related to performing public services, encountered serious barriers in providing access to information from other local authorities units. It required conducting basic research directly in the units as well as an independent data aggregation.

It is worth presenting interesting outcomes obtained as the result of Supreme Chamber of Control audits which, beyond any doubt, prove that the more means are at the disposal of local authorities, the more they spend on administration itself<sup>203</sup>. Therefore, this does not prove the, so called, effect of scale to occur, according to which the bigger the unit, the smaller its unit costs spent on administration expenses are. This effect is also presented in other studies, which do not

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<sup>200</sup> St. Wańkowicz: *Wskaźniki realizacji usług publicznych*. Program Rozwoju Instytucjonalnego, Kraków 2004.

<sup>201</sup> G. Praweńska-Skrzypek: *Polityka kulturalna polskich samorządów. Wybrane zagadnienia*. UJ, Kraków 2003.

<sup>202</sup> B. Koźuch: *Zarządzanie publiczne w teorii i praktyce polskich organizacji*. Placet, Warszawa 2004, p. 153.

<sup>203</sup> Report on audit results regarding costs of local authorities' administration functioning, Supreme Chamber of Control. Public Administration Department, Warszawa 2006.

take into consideration unit structure of performed services, which results in substantial distortion of results<sup>204</sup>.

The research covering Lower Silesia districts points to the lack of mutual relationship between a given district size and unit costs of performing other public services as well. It seems that much more importance, in this case, is attributed to such qualities like leadership and innovation, i.e. features related more to new trends in the management of particular units<sup>205</sup>.

The problem is particularly visible in case of health care management. The issue represents such scale in the region of Lower Silesia that solving it extends the capacity of local district authorities. At present the negative financial result of hospitals in 2/3 of cases exceeds indebtedness capacity levels defined by the due Act (Public Finance Act Art.), which means that districts are not capable of covering the negative financial result of units for which they play the role of establishing organs. In such case, just like in the already mentioned spheres, the efficiency of performing services depends not just on the size of means at the disposal, but most of all on the quality of management strategies applied<sup>206</sup>.

The analysis of restructuring activities provides interesting conclusions, consisting in the liquidation of the, so called, Health Care Institutions (ZOZ) and establishing hospitals, in their place, run as the form of commercial partnerships. Experiences of Lower Silesia region definitely point to the fact that just changing the formula of providing health services does not become a satisfying condition for these changes efficiency. An indispensable condition is an alteration in the structure itself, consisting in the adjustment of costs to the volume of revenues. Comparative results of three, very similar, transformation cases (carried out in twin-type units with reference to the size and structure of services provided by these units and performed following an identical legal regulation) pointed to significant differences in economic results. While on the one hand the hospital in Kamienna Góra was obtaining, since the very beginning, positive financial results, on the other hand the units in Lubań and Kowary, since the very start of their functioning in line with the new structures, were presenting negative results<sup>207</sup>.

The study of functioning efficiency, even in such cost-intensive areas, which the provision of medical services definitely is, does not constitute the priority for public administration and decisions referring to restructuring, which are taken up in this domain, unfortunately are not based on thorough analysis of the due phenomenon.

The situation is similar in the field of education, in which the analysis of competence tests' results, carried out on the basis of uniform principles at the three levels of education (primary school, lower and higher secondary school) provides the background for establishing such

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<sup>204</sup> M. Kachniarz: *Efekt skali a efektywność usług publicznych*. „Studia Ekonomiczne”, AE, Katowice 2007, p. 12.

<sup>205</sup> M. Kachniarz: *Oddziaływanie korzyści skali na funkcjonowanie struktur administracyjnych (na przykładzie powiatów dolnośląskich)*. In: *Gospodarka Przestrzenna X*. Z. Przybyła (ed.). Plan, Jelenia Góra 2007, p. 195.

<sup>206</sup> M. Kachniarz: *Restrukturyzacja placówki medycznej-doświadczenia praktyczne*. In: *Komercjalizacja i prywatyzacja ZOZ. Kluczowe warunki osiągnięcia sukcesu*. AE Wrocław, Wrocław 2006, p. 96.

<sup>207</sup> M. Kachniarz: *Oddziaływanie korzyści..., op.cit.*, p. 195.

indicators of efficiency. Research done in this area reveals poor relation between the volume of expenditure on education and competence test results<sup>208</sup>.

An interesting observation has been made, that the significant role is played by cultural and social relationship, but no attention was paid to a possible dependence between the quality of teaching and the manner of local education system organization, the dependence which was so strongly emphasized and identified in case of health care services.

Research conducted in Lower Silesia districts presented extensive differences in the level of expenditure per 1 inhabitant (about 95%), showing no reference to the obtained results. At this point two additional aspects are worth mentioning:

- limited access to data related to competence tests results,
- assessment system for the evaluation of means used from the subsidy assigned to education.

In the first case, the information which should become the basis for benchmarking is not made publicly available. This situation creates completely different conditions for establishing the efficiency of services, in this case educational ones, as compared to these postulated before in the article presenting, at the same time, complicated relations in the access to already aggregated data.

In the second case, the assessment of expenditure from the subsidy for education is based on classical assumption, that the increase in expenditure means better tasks realization and obtaining higher level of objectives implementation (even in spite of the lack of interdependencies pointed to in the previous paragraph!). Such assumption is, obviously, a false and misleading one – since sometimes higher outlays result in lower efficiency, therefore frequently the increase in expenditure brings about nothing more but opposite results as compared to the planned ones<sup>209</sup>. However, having followed a classical method of budget planning and budget implementation control, such efficiency is often not cost effective, even if one disregards the effect underlined by Misiąg, that the basic criteria of evaluation is whether a given unit has, or has not, exceeded the expenditure plan and whether it has taken advantage of all the means offered at its disposal<sup>210</sup>. According to the criteria of the Ministry of Education, the more means originating from its own revenues a given local authority invests in education, the more it is engaged in taking care of the due tasks to be performed in the most effective way. As the result, these local authorities which organized their services in the domain of education in such a way, that they are capable of supporting them only on the basis of the subsidy assigned to education (calculated, as they claim, according to tasks!), or even use its part for investing in educational base, are penalized by being deprived from access to the means coming from the provision part of the general subsidy for education<sup>211</sup>. As it has been proven above, we have to deal with classical counter-efficiency of legal regulations. Having considered the fact, that the educational part of general subsidy means significant amounts in the budgets of local authorities, the problem translates in practice into millions of zlotys.

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<sup>208</sup> P. Śleszyński: *Ekonomiczne uwarunkowania wyników sprawdzianu szóstoklasistów i egzaminu gimnazjalnego przeprowadzonych latach 2002–2004*. Ministerstwo Edukacji Narodowej i Sportu, Warszawa 2004, p. 65.

<sup>209</sup> W. Misiąg: *Mierzenie zadań publicznych...*, op.cit., p. 159.

<sup>210</sup> *Ibidem*, p. 155.

<sup>211</sup> *Regulation by the Minister of National Education, dated 21 December 2006, on the manner of dividing educational part of general subsidy for local authority units in 2007* (Journal of Law dated 28 December 2006).

The analysis of unit costs assigned to performing administrative services in the districts of Lower Silesia region also reveals substantial diversification of these values. They cannot be correlated with quality, better accommodation facilities or equipment etc. It is especially interesting to present the results of geodesic and cartography services as well as those referring to vehicles registration. Differences in unit costs of a given service (even though in these cases they are standardized) exceed the level of 150%. In many cases the bigger the population number per one worker, the more efficient and quicker service can be hoped for. Although the correlation is not very important here, the fact in itself, that it does not present negative values, is far from general expectations.

## **Conclusions**

Having analyzed professional literature referring to public services it seems that not enough attention is offered to the analysis of its efficiency. This observation refers mainly to monographic studies, which should, in a complex way, characterize problems related to the functioning of administration and public services.

The matter of efficiency (or as it is sometimes defined by some authors – economic quality) in the field of public services becomes more and more significant, especially in the aspect of implementing new management concepts, based on experiences coming from the manufacturing sector. In this understanding, efficiency is perceived as an indispensable and complementary component of these ideas. Due to the fact, that the need for research in the area of public expenditure efficiency is not generally acceptable, it seems indispensable to develop this particular field of study, which confirms its influence on the allocation of public funds.

The selected research results, which characterize the efficiency of public services in a fragmentary way, definitely point to the necessity of verifying the, so far, applied approach towards the functioning of administration. It seems the influence of pro-effective and entrepreneurial attitudes increases extensively unit results of services provision. It is substantiated by significantly diversified unit costs of providing services, which proves the decline of performing the same number of services for the same amount of financial means. Unfortunately it still does happen in the reality of legislation, which represents rather more bureaucratic systems, than the ideas of New Public Management. Public statistics should follow these transformations by means of data generation system modifications, so that it supports these changes and constructs the background for benchmarking system. The discussed above problem requires further research which would substantiate this diversification and identify its specific reasons.

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## **ZASADNOŚĆ MIERZENIA EFEKTYWNOŚCI SAMORZĄDU**

### **Streszczenie**

Artykuł zwraca uwagę na niewielką ilość badań jaka poświęcona jest kosztom jednostkowym wykonywania usług publicznych. Konieczność takich analiz, często jest nawet kwestionowana. Tymczasem, według niektórych autorów winny one stanowić podstawę do oceny efektywności alokacji środków publicznych. Ich rola wzrasta wraz z procesem odchodzenia administracji od biurokratyzmu w kierunku zarządzania publicznego. Przedstawione wyniki badań świadczą o dużym ich zróżnicowaniu w poszczególnych jednostkach, nieskorelowanym z uzyskiwanymi efektami.



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## CO-MANAGEMENT OF BUSINESS INSTITUTIONAL FRAMEWORK BY LOCAL AUTHORITIES

### 1. Local economic development - theoretical and practical aspects

Stimulation of economic development is difficult to define as it is understood and interpreted differently in various scientific disciplines (law, sociology, psychology, theory of management and other). Below the author intends to focus on economic questions. Entrepreneurship is defined as a way of thinking and a process aimed at creating commercial and profitable organizations. Entrepreneurship is connected with creativity, innovation and changes as well as with risk taking. The benefits created by entrepreneurial spirit and actions are well known and understood at local, national or international level<sup>212</sup>.

This article concentrates on the role of local authorities in creating a business friendly environment at the local level, which will give unquestionable benefits to the local population. Local authorities are able to implement a wide range of economic instruments concerning revenue and expenditure policies connected with the local budget.

There appears to be a dilemma concerning the scale of expenditure on creating better development opportunities for local business. Higher expenditures mean more attractive conditions for companies and a faster expansion; on the other hand it means limitation of outlays on other ventures financed by the budget. Among activities aimed at enhancing business environment are:

- investments in technical infrastructure (roads, utilities, communication network),
- investment in social infrastructure (housing, education, healthcare).

Direct financial or capital engagement of local communities into business ventures is another way of improving the local economy. Statistics show the strongest involvement of communities in transport and utilities, especially in or around big cities<sup>213</sup>. The structure of

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<sup>212</sup> B. Mikołajczyk, T. Rynkowski: *Wokół przedsiębiorczości i innowacyjności małych i średnich przedsiębiorstw*. In: *Finansowe uwarunkowania konkurencyjności przedsiębiorstw z uwzględnieniem sektora MSP*. Difin, Warszawa 2006, p. 207.

<sup>213</sup> E. Zeman-Miszewska, M. Krakowiak: *Rola jednostek samorządu terytorialnego w wspieraniu rozwoju małych i średnich przedsiębiorstw*. In: *Partnerstwo w regionie*. J. Karwowski (ed.). Wydawnictwo US, Szczecin 2004, p. 422. Comp. also: *Wspieranie przedsiębiorczości przez*

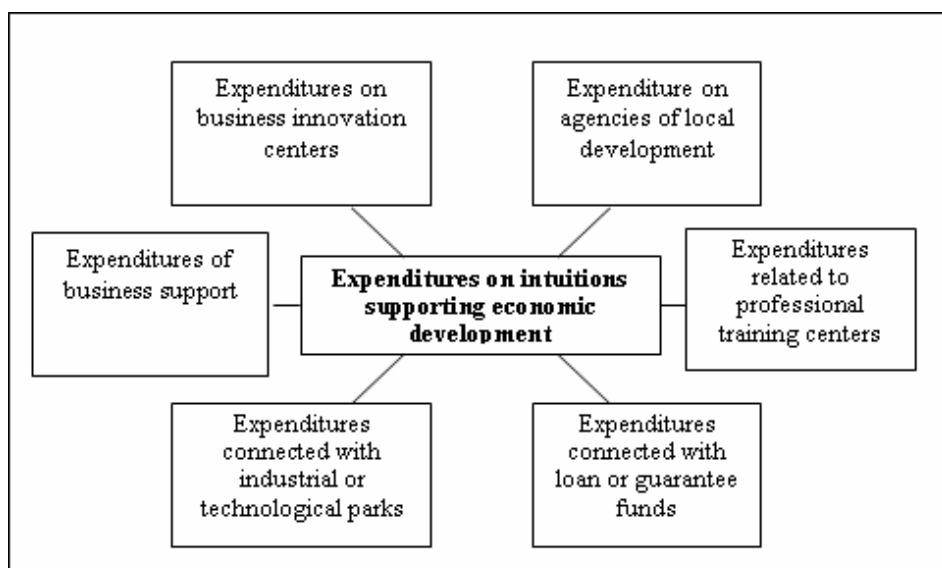
expenditure has been evolving since the beginning of the system transformation in Poland (1989), starting from drinking water supplies, through sewage and waste utilization, up to road and transport facilities in the most recent years<sup>214</sup>.

## 2. Systems of business support used by local communities

Local economic development requires considerable engagement from local authorities, not only into direct investments but financial support from the budget as well.

Local authorities create structures which enable proper management of their financial and organizational resources, such as business advice and support centers, technological parks, local development agencies as well as development funds.

They participate in organizing, advising and financing of economic ventures, which is shown in a detailed scheme below (Figure 1).



**Figure 1.** Intuitional instruments of expenditure policies

**Source:** own elaboration.

Business support centers are mainly focused on developing ideas which can be turned into successful businesses. Technological parks are concentrated on inventing and implementation of new technologies in IT, telecommunications, biotechnology or other branches<sup>215</sup>. All business

samorząd terytorialny. W. Misiąg (ed.). PFPiR MSP, Warszawa 2000, p. 11 and U. Kłosiewicz-Górecka: Współdziałanie podmiotów na rynku lokalnym. In: „Gospodarka Narodowa” 2006, No. 4, p. 87.

<sup>214</sup> Comp.: Samorząd terytorialny w procesie rozwoju regionalnego i lokalnego. W. Kosiedowski (ed.). Tonik, Toruń 2005, p. 243.

<sup>215</sup> B. Filipiak, M. Kogut, A. Szewczuk, M. Ziolo: *Rozwój lokalny i regionalny. Uwarunkowania, finanse i procedury*. FnUS, Szczecin 2005, p. 291.

support institutions aim at creating a business friendly environment through an easier access to office, communication or production facilities, as well as easily accessible accounting services<sup>216</sup>. More details are presented below (table 1).

**Table 1.** Types of business support organizations

	Type of business	Type of activity	Period of activity	Supporting services	Level of rent	Scope of activity	Technological preferences (towards the type of activity)
<b>Industrial park</b>	Small middle – size and large business	Production	No limit	Not offered	Regional	Regional	No
<b>Business Innovation Centre</b>	Newly created business	No limit	Limited to 3-5 years	Broad range	Preferential	Local	Mixed
<b>Technological Centre</b>	Small technological companies	New products and technologies	Limited to 3-5 years	Broad range	Preferential	Regional	Strong
<b>Technological Park</b>	Small and middle – size companies, research centers and other	New products technological services, technologies	Not limited	Not offered	20-50 % over the market level	Interregional national and global	Very strong

**Source:** K. Poznańska: Parki technologiczne jako regionalny instrument wspierania innowacyjności małych i średnich przedsiębiorstw. In: *Małe i średnie przedsiębiorstwa w gospodarce regionu*. B. Plago (ed.). Wyd. Uniwersytetu w Białymstoku, Białystok 2001, pp. 32–33.

The expenditure side of local governments' budgets also includes aid given to business support centers through financing, particularly or completely their activities which include organizational and legal support, mainly for small and middle-size companies. The participation of local self-government authorities in developing local entrepreneurship is similar to that of agencies of regional development. However, the latter cover a broader scope of interest.

Local self-governments can become shareholders of the agencies or support them through capital investment or financial and fiscal incentives, e.g. reduction of tax rates. Financial guarantee is a particularly important tool on the expenditure side. This is a form of interference by local authorities into business activity in order to support enterprises or particular economic ventures which are vital for the local development<sup>217</sup>. That kind of direct support is possible in limited, specific number of cases. Similar initiatives at a broader scale involve participation by local authorities in trust funds or loan funds.

Institutions specializing in creating friendly business environmental have been gaining importance lately, which is contributed to Poland's accession into the UE. Such institutions can also be helpful in successful business contacts in international markets as well as in gaining additional funding from specialized EU agencies, especially aimed at helping small business.

<sup>216</sup> *Wspieranie przedsiębiorczości przez samorząd terytorialny*. W. Misiąg (ed.). PFPiR MSP, Warszawa 2000, p. 11.

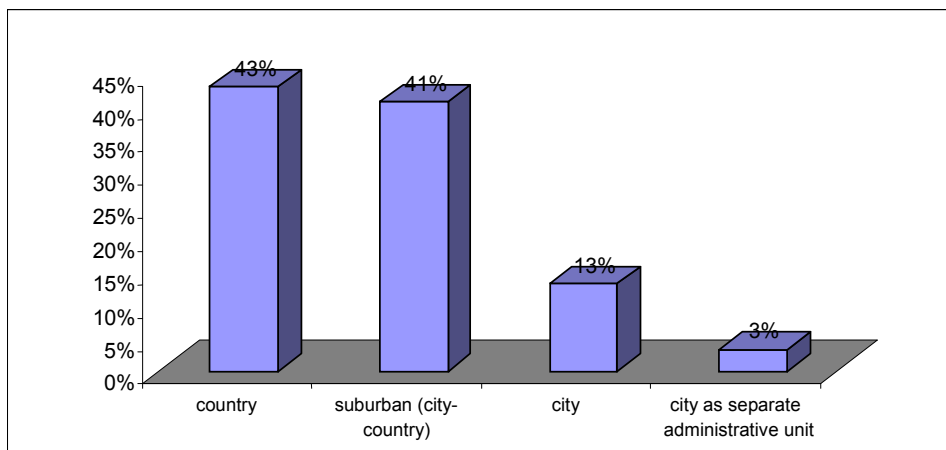
<sup>217</sup> A. Borodo: *Samorząd terytorialny. System prawnofinansowy*, Wydawnictwo Prawnicze LexisNexis, Warszawa 2004, p. 235.

### 3. Supporting local governments in creating and developing institutions of business environment - survey results

Support from self-governments is preceded by a thorough analysis of local needs. Besides, those needs are often determined by capabilities and investments projects of other institutions engaged in creating a friendly environment for local entrepreneurship, like private schools, foundations and other.

An important factor is profitability of such engagement, which is difficult to measure, especially for the local government itself (estimated by the level of budget revenues gathered as a result of organizational and institutional support given to creation of business friendly environment). Considering the context given above, local authorities should be extremely aware of the importance of various institutions serving and supporting local businesses.

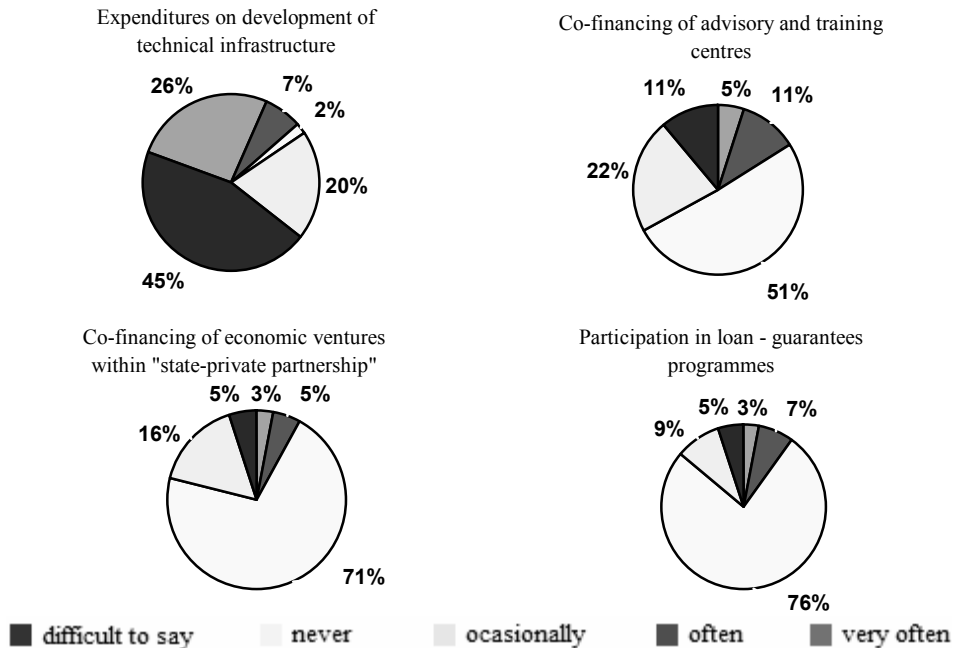
The survey and analysis given below present the way expenditures influence local economic development. The survey covers 114 local communities of Zachodniopomorskie voivodship in Poland, of which 43 % are city boroughs and 41 % are country boroughs. The replies were sent back by 82 % of the communities asked. The target group of boroughs (35%) are those with budget revenues under 10 000 000 PLN.



**Figure 2.** Division of boroughs according to level of urbanization (w %)

**Source:** own elaboration based on surveys.

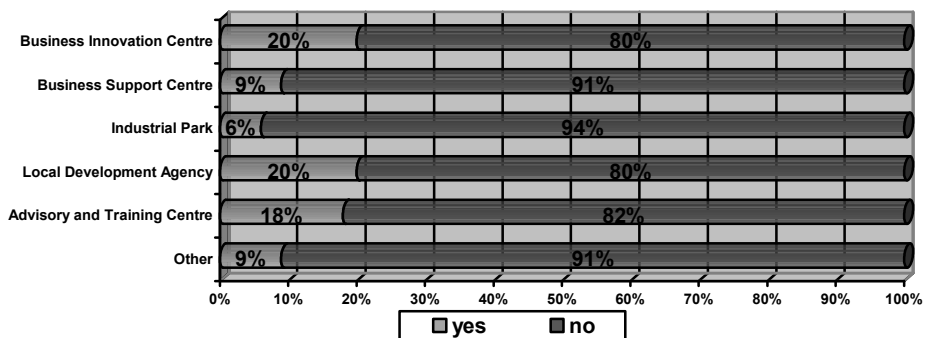
Most of the expenditures aimed at stimulating local economic development concern technical infrastructure, information and promotion. Expenditures on institutional support of business are by far less important, with only 5% of respondents using such instruments very often. Even fewer respondents (only 3%) stress the importance of co-financing through communities' participation in loan guarantees (see Figure 3).



**Figure 3.** Main instruments of expenditure policies in stimulation of economic development (based on respondents opinions (in %))

**Source:** own elaboration based on surveys.

The above charts mirror a level of active participation of local governments in creating business friendly environment. In general it can be concluded that local communities seldom participate in ventures aimed at giving institutional support to economic development. Only 20% of respondents declare financial involvement into business innovation centers and 8% into business support centers. 5% of the communities surveyed participate in funding industrial parks and 18% give back-up in order to establish advisory or training centers (see Figure 4).



**Figure 4.** Capital involvement of local communities in creating institutions of business support

**Source:** own elaboration based on surveys.

The research proves that the communities surveyed show little activity in development of trust or guarantee funds. A mere 20% declare readiness to co-operate in order to establish such institutions. However, communities participate willingly in organization of conferences or seminars with a view to solve efficiently problems of local entrepreneurs.

Respondents admit that building local strategies and programmes with the aim of supporting economic development is an important factor of overall economic prosperity.

In conclusion it can be inferred that the instruments of local interventionism on the expenditure side are given considerable importance. Unfortunately much less consideration is given to establishing institutional base with a view to create and maintain business friendly environment. Capital involvement of local governments is still at an inadequate level, especially when considering small and middle-size businesses. City or suburban boroughs are considerably more involved in support projects than communities from rural areas.

Having in mind high economic growth in Poland at present and additional stream of funding from EU agencies, it must be stressed that all institutions giving support to local businesses are absolutely essential and should be given priority among all tasks and goals set for local communities.

## **WSPÓŁZARZĄDZANIE ŚRODOWISKIEM OTOCZENIA BIZNESU PRZEZ SAMORZĄD LOKALNY**

### **Streszczenie**

Stabilna gospodarka w regionie zapewnia poprawę warunków życia społeczności lokalnej. Władze samorządowe powinny zatem być zainteresowane kreowaniem warunków dla inwestorów, którzy to stanowią jedną z głównych determinant rozwoju gospodarczego w regionie. Efekty działań lokalnych władz samorządowych powinny być stymulatorem ekonomicznych procesów, które to pobudzą działalność lokalnych przedsiębiorców. W tym kontekście istotnym staje się stworzenie teoretycznych podstaw w zakresie stymulowania rozwoju gospodarczego przez samorząd lokalny, a w szczególności wskazanie na sposoby i możliwości oddziaływania na lokalnych przedsiębiorców.

Artykuł przedstawia podstawowe aspekty związane z lokalnym interwencjonizmem. W szczególności omówione zostają wydatki związane z finansowaniem instytucji otoczenia biznesu do których zalicza się: inkubatory przedsiębiorczości, agencje rozwoju lokalnego, ośrodki szkoleniowo-doradcze, parki przemysłowe i technologiczne oraz fundusze pożyczkowe i kredytowe.

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## THE ROLE OF ADMINISTRATIVE SERVICES MARKETING IN MANAGEMENT OF A LOCAL GOVERNMENT UNIT

### 1. Introduction

Administrative reform in Poland introduced a three-level administrative division of the country, thus transforming former structures implemented with directives issued by superior authorities on organizations that try – taking market trends into account - to satisfy the community living in the administered area through satisfying their needs. This is why simple administration is not enough – it is important to take a role of manager, who shall skilfully manage a given unit. Ph. Kotler claims that „it is obvious that public sector needs improvement in effectiveness – perceptible and factual – to satisfy citizens and gain their trust and thus their support”<sup>218</sup>.

Taking into account widely understood marketing actions with making use of marketing rules and tools relates to all areas of local government unit activity, including administrative services provided on the departmental level. The sign of marketing orientation in a civil servant – petitioner relationship is a greater focus on petitioners’ needs, treating them as a subject, not as an object or adjusting the process of providing services for petitioners, not civil servants. However, administrative services marketing differs significantly from commercial services marketing, what results mainly from strict subordination to the provisions of law, monopolistic position of departments or differentiated hierarchy of goals. Administration, due to its statutory power, does not work in competitive conditions, thus departments may cooperate broadly between them, in the scope of experience and information exchange. So the results of possible mistakes in administration do not cause consequences for the future existence of a department. These examples prove that administrative services marketing has its own specificity. Department employees, contrary to commercial companies workers, do not have to strive for customer’s favours or their another purchase and measure the level of customers’ satisfaction concerning provided services.

The aim of this study is a presentation of selected fields of use of marketing in administration and defining the level of implementing them in the Podkarpackie voivodship.

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<sup>218</sup> Ph. Kotler: *Marketing w sektorze publicznym*. Wharton School Publishing, Warszawa 2008, p. 6.

On the background of theoretical reflections, there are presented results of tests conducted in the second quarter of 2007 in 20 deliberately selected communes of the Podkarpackie voivodship. The tests were in the form of a deepened interview conducted among 20 commune heads and questionnaire interview with 400 citizens living in the selected municipalities.

## 2. The most important factors influencing marketing actions in administrative services specificity on the commune level

Administrative services are an important element of local government megaproduct, which are strictly regulated by the provisions of law, provided by a given unit. Local government units, by keeping necessary register, issuing permits and stipulating the amount of taxes paid by the taxpayers, influence the economic and social life<sup>219</sup>. Actions of this type are perceived by citizens in numerous ways. In the case of proper policy and systematic explanation of particular actions they are fully understood and accepted. In other case they are perceived as necessary evil and invoke negative social feelings. In addition, the public character of administrative services causes that consumers use them in active or passive way, consciously or unconsciously, directly or indirectly.

An impediment in implementing marketing on the departmental level are its specific features that fundamentally restrict or exclude the use of all possible instruments and actions. This issue is presented in table 1.

**Table 1.** Basic differences in service activity of market entities and departments

Service companies	Departments
The customer may order provision of service to randomly chosen company	Departments have a monopoly to provide services
Providing services is based on an agreement between a service provider and a service receiver	It happens that the service is provided against the service receiver's will
Scope and quality of service are hard to estimate before the service	Scope of services (permission, decision) is strictly defined by law
Companies willingly use advertisement and promotion in the form of brochures, advertisements etc.	In the principle, excluding informational boards, no advertisements and promotions are used
Between a customer and a service provider are relations based on free-market principles	Between a civil servant and a petitioner may appear a form of dependence that may present an opportunity for corruption
Scope and time of provision of ordered service are stipulated by means of negotiations	Process of providing a service has course stipulated by formerly known procedures
Company cares about gaining new customers	Civil servants do not care about gaining new customers

**Source:** Z. Mazur, J. Zieziula: *Marketing w administracji publicznej*. Wyższa Szkoła Biznesu, Nowy Sącz 1999, p. 117.

Consumers, when judging services in a subjective way, perceive their quality a bit differently than employees imagining tasks related to providing them. Existence of these

<sup>219</sup> E. Wojciechowski: *Samorząd terytorialny w warunkach gospodarki rynkowej*. PWN, Warszawa 1997, p. 106.

discrepancies (gaps) may pose the main obstacle to provide administrative services on the level expected by the customers.<sup>220</sup>

Marketing orientation of a local government unit means „taking by the local authorities such a stance, where needs and expectations of customer are point of reference for all areas of its activity, including administration too. Marketing orientation understood in that way assumes:

- Specific way of thinking of authorities and employees;
- Specific internal organization of organs of local administration;
- Proper conditions and procedures of customer service;
- Adequate criterion of evaluation and motivating the employees;
- Proper ways of setting and implementing goals and tasks resulting from them<sup>221</sup>.

At the moment of resigning from centrally planned system of country's economy management, local units have to show independence when making all kinds of decisions, which up to that moment were made by the superior authorities. It affected all fields of organizational, financial and social activity. Communes had to answer the following questions: what actions should be taken, to provide customers with expected satisfaction and satisfy their needs?

In the light of anticipated goals, marketing orientation of a given department must be characterized by rigid attitude towards customers' needs, expressed i.a. by accepting and implementing following rules:

- petitioner – customer is the most important person;
- there is no more important issue than issues of our customers;
- we work to solve the problems of local community;
- customer is a person, not a case;
- customer's satisfaction is our goal;
- satisfied customer is the source of our satisfaction from work;
- customer is the substantiation of workplace of each civil servant of local government or municipal company;
- customer pays a remuneration to the civil servants from the local government;
- there are no departments without customers;
- working conditions of a local government institution should be adjusted „towards customers”, not the employees;
- customer is always right, when s/he is not right one has to explain it to him/her in such a way, that s/he is convinced that s/he is right<sup>222</sup>.

Place and rank of marketing activity in the organizational hierarchy of public administration unit are determined mostly by: the size of a unit or its own wealth, achieved stage of „petitioners – customers organization” and the level of the unit openness towards external contacts. In practice, activities in the scope of administrative services marketing, which jointly create a local government megaproduct, can be reduced to transfer from bureaucratic structures to

<sup>220</sup> Z. Mazur, J. Zieziula: *Marketing w administracji publicznej*. Wyższa Szkoła Biznesu, Nowy Sącz 1999, p. 141.

<sup>221</sup> T. Babińska: *Orientacja marketingowa gminy (podstawy, kierunki rozwoju)*. In: *Orientacje marketingowe podmiotów gospodarczych w sektorach rozwojowych i innowacyjnych*. Conference materials. Polskie Towarzystwo Ekonomiczne, Katowice 1999, p. 12.

<sup>222</sup> A. Szromnik: *Marketing terytorialny - koncepcja ogólna i doświadczenia praktyczne*. In: *Marketing terytorialny*. T. Markowski (ed.), vol. CXII. Polska Akademia Nauk, Komitet Przestrzennego Zagospodarowania Kraju, Warszawa 2002, pp. 86–89.

create, by means of conducted marketing research, various improvements in the scope of customer service. The effect of this is raising the level of customer satisfaction and creating atmosphere based on mutual trust and approval, what may be hard in this case and requires changes in previous, wrong clerical habits.

### 3. Level of satisfaction from the administrative services provided on the commune level in the opinion of Podkarpacie citizens

The information gathered in the process of direct interview with commune heads and results of polls conducted among the citizens of Podkarpackie voivodship point out that most of communes lack a specialized marketing cell, employing specialists in the field of marketing. Consequence of this fact is a low level of acquaintance with local society needs and unprofessional actions in the scope of shaping marketing instruments. It has to be underlined that along the growth of a given unit, the role of marketing in organizational structure also grows. Actions in the scope of improving quality of the services provided on the department level are taken there more and more often; regular marketing polls are conducted.

Vital stage of the departmental marketing orientation diagnosis was the assessment of quality of administrative services from the citizens' perspective (table 2).

**Table 2.** Level of satisfaction from quality of the service provided by employees during taking care of issues in municipality office (in %)

Detailed list	Satisfied	Dissatisfied	No opinion
Culture and kindness of employees	73,6	11,7	13,9
Employees' competence	66,8	11,1	21,5
Way of taking care of a case	64,4	12,2	22,0
Service efficiency	64,1	14,9	19,6
Time of service duration	57,1	21,2	20,9
Service discretion	56,0	11,4	30,7

**Source:** own calculations based on poll researches.

Polls have shown that respondents are generally satisfied with the level of provided services, what is supported by the fact that almost three out of four questioned evaluate highly culture and kindness of employees, as well as their competence. On average, two out of three respondents are satisfied with the way of taking care of their case in the department and with the service efficiency. The lowest but still generally satisfying level of satisfaction can be observed in case of time of service duration and service discretion.

Relatively high notes do not mean that respondents do not encounter any obstacles when dealing with clerical issues. People taking care of their problems in the departments were complaining about „impracticable regulations” (55,0%) and tardiness in taking care of problems (20,9%). Very little percentage of respondents points out incompetence or even arrogance of clerks (9,3%) and their incompetence (8,8%). Elderly people have also pointed out architectonic barriers.

General diagnosis of marketing orientation state in the communes selected for the research was made on the basis of commune head's self-evaluation. It allowed for classification of units

into one of three types of orientation<sup>223</sup>. It has to be underlined that none of the selected communes was classified into the lowest category, characterized by lack of market and customer orientation and a large lack of marketing orientation. 60% of units (12 communes) were placed into the 2nd class, what can be interpreted as a fact that these are the units with a satisfactory level of marketing orientation, which made a lot, but not everything, in the field of marketing. Remaining communes were categorized into the highest class, which means that their marketing orientation is high and they should strive for keeping the existing state.

#### **4. Summary**

One of the public administration effectiveness indexes is the level, on which it makes the life of citizens easier, satisfying their needs and desires. This goal is strictly related to the concept of marketing in administrative services, which have been developing faster and faster in the last years. It shows both in scientific literature as well as in the field of practical implementing solutions. In spite of great interest in this subject in the administration, marketing reorientation of administrative services on the level of local government units is not over yet. It is a long-term process, requiring appropriate changes of bad tradition, rooted action schemes and clerical habits. Its primary goal is formation of relationships of trust, support and friendship in relation clerks - customers.

What can be seen from the above presented research results, the quality of provided administrative services on the commune level in the Podkarpackie voivodship generally satisfies interviewed inhabitants of this region. It is proved by high evaluation of professionalism and interpersonal abilities of clerks, as well as in efforts taken by some units in the scope of improving the level of customer satisfaction. Thus one can assume that department employees provide services to the customers with commitment and solve their needs. It is an expression of menial role of department employees towards inhabitants, expressed by the philosophy of services for a „customer” and proves marketing orientation of scrutinized communes.

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<sup>223</sup> A. Szromnik: *Marketing terytorialny – koncepcja...*, op.cit., pp. 91–95.

## **ROLA MARKETINGU USŁUG ADMINISTRACYJNYCH W ZARZĄDZANIU JEDNOSTKĄ TERYTORIALNĄ**

### **Streszczenie**

W artykule przedstawiono wybrane obszary wykorzystania marketingu w administracji oraz podjęto próbę określenia stopnia ich wdrażania w woj. podkarpackim.

Autorzy wskazali, że marketing usług administracyjnych różni się w sposób znaczący od marketingu usług komercyjnych, co wynika przede wszystkim ze ścisłego podporządkowania przepisom prawnym, monopolistycznej pozycji urzędów oraz zróżnicowanej hierarchii celów.

Wyrazem orientacji marketingowej w relacjach urzędnik – petent jest konsekwentne nastawienie na potrzeby interesantów, traktowanie ich w sposób podmiotowy a nie przedmiotowy, oraz dostosowanie procesu świadczenia usługi do wygody petentów, a nie urzędników. Na podstawie wyników badań przeprowadzonych wśród 20 wójtów gmin woj. podkarpackiego oraz 400 mieszkańców zamieszkujących wytypowane gminy można stwierdzić, że jakość świadczonych usług administracyjnych w badanych gminach jest ogólnie satysfakcjonująca. Znalazło to potwierdzenie w wysokiej ocenie profesjonalizmu oraz zdolności interpersonalnych urzędników, a także w podejmowanych przez część jednostek wysiłkach w zakresie podwyższania stopnia satysfakcji klientów.

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## APPRAISAL OF FINANCIAL STANDING OF POLISH REGIONS – SELECTED ASPECTS

### Introduction

Financial standing of Polish regions is determined by many internal and external factors. Despite having the same sources of financing (regulated by law) Polish voivodships have achieved different financial results since restoration. Analysis of social and economic indicators has revealed the significant regional differentiation among territorial units in Poland. Comprehensive analysis of the regional self-governed entities reflects many dysfunctions in the area of: financing regional tasks, creating own revenues, dynamic and structure of expenditures (especially capital expenditures).

The article presents the main aspects of financial analysis of the regional self-government entities. The financial standing of Polish regions has been evaluated by using of selected indicators based on budgetary data.

### Financial analysis of self-government entities at regional level – theoretical background

The analysis of self-government units is a cardinal, economic tool supporting decision making process at regional tier. The financial analysis of public body always differs from the commercial one. The self-government entities do not gain profits in the process of provision of public services. The main goal of public entities is to meet public demand. This kind of public activity is usually non-profit. There is also no production process and some financial categories and accounting rules (methods) are different at self-government level (table 1).

The comprehensive analysis of every region (voivodship) needs detailed knowledge about their financing system. The completed list of financing sources at self-government level has been regulated by *ustawa o dochodach jednostek samorządu terytorialnego*<sup>224</sup>. According to the Polish law financial independence of the regions is strictly limited. The provinces are not able to create their own revenues (local fees and taxes have been collected only by municipalities) and their

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<sup>224</sup> *Act of 13th November 2003 on revenue of territorial self-government units*. Journal of Laws 2003, no 203, item 1966 (consolidated text).

share in the state taxes (CIT and PIT) does not guarantee efficiency in the provision of public services.

**Table 1.** Comparison of financial analysis in the public and the commercial units

Item	Financial analysis in public sector	Financial analysis in commercial sector
Goals	Receiving general information about financial standing	analytical research supporting decision-making process
Tasks	Analysis of budgetary statements; identifying factors influence on budgetary results	Analysis of financial statements; identifying factors influence on tax results and company standing
Subject	Analysis of budgetary categories: revenues, incomes, expenditures, costs; evaluating of non-profit activity and effectiveness of provision of public services	Analysis of incomes, costs, financial results (profit/loss), evaluating of operating achievement in order to enhancing profit and reducing risk factors

**Source:** own elaboration.

Financial standing of the regions can be analyzed with using a variety of indicators which are divided into four general groups:

- indicators based on legal act<sup>225</sup>;
- revenue indicators;
- expenditure indicators;
- debt indicators.

The revenues and expenditures of the regions are defined in the Law on Regulating Public Finance which emphasizes a difference between operating (current) and capital revenues and expenditures<sup>226</sup>. The capital revenues are: grants and funds for financing investment tasks, fixed assets revenues, revenues from transforming the right to enjoyment of property into the right of possession. The revenues which have not been counted as operating revenues are classified as capital revenues. The capital expenditures in a regional budget are represented by: investments, financial operation: 1) buying and holding stocks, 2) making in-kind contributions. The other kinds of expenditure are treated as operating expenditures.

According to the Law on Regulating Public Finance and Debt Limits regional self-government debt ( $I_{L1}$ ) should be maintained below 60% of executed revenues of the region after the fiscal year and debt service costs ( $I_{L2}$ ) at the regional self-government level must not exceed the limit of 15% of planning revenues for fiscal year.

1. Law indicator 1 ( $I_{L1}$ )<sup>227</sup>

$$I_{L1} = \frac{L_{EU}}{R_{EX}} \leq 60\%$$

$L_{UE}$  – financial obligations not included funds supporting tasks (projects) with EU cofinancing;  
 $R_{ex}$  – executed revenues;

<sup>225</sup> Act of 30th June 2005 on public finances. Journal of Laws 2005, no 249, item 2104 (consolidated text).

<sup>226</sup> A. Borodo: *Bieżące i majątkowe dochody i wydatki budżetu samorządowego*. In: „Finanse Komunalne” 2007, No. 6, p. 13–17.

<sup>227</sup> Indicators defined in the Report of Polish Ministry of Finance: “*Financial analysis of self-government entities*”, [www.mofnet.gov.pl](http://www.mofnet.gov.pl).

2. Law indicator 2 ( $I_{L2}^{228}$ )

$$I_{L2} = \frac{I_{EU} + IP_{EU}}{R_{ex}} \leq 15\%$$

$I_{EU}$  – credit/loan interest without services interest of credit/loans for cofinancing projects with involvement of EU structural funds;

$IP_{EU}$  – installment payments without installments of credit/loans for cofinancing projects with involvement of EU structural funds;

The analysis of regional, budgetary revenues based on structural indicators which might (depending on details of research) reflect the structure of revenues describing especially the share of: own revenues (include share of state taxes PIT and CIT), grants, subventions, revenues according to: budgetary classification and sources of generating revenues.

3. Revenue indicator ( $I_{R1}^{229}$ )

$$I_{R1} = \frac{R_T}{R_O}$$

$R_T$  – executed tax revenues;  $R_O$  – executed operating revenues;

Revenue indicator ( $I_{R1}$ ) reflects the share of tax revenues in operating revenues.

4. Revenue indicator ( $I_{R2}^{230}$ )

$$I_{R2} = \frac{R_O}{R_{OC}}$$

$R_O$  – executed operating revenues;  $R_{OC}$  – executed operating and capital revenues;

Revenue indicator ( $I_{R2}$ ) describes the share of operating revenues in total revenues.

The structural analysis of regional expenditures focuses on their classification based on concept of the line item budgeting. The structural searching of expenditures describes: share of wages and salaries in the current expenditures ( $I_{E1}$ ), relation between operating transfers from state budget and operating expenditures ( $I_{E2}$ ), share of operating and capital expenditures ( $I_{E3}$ ).

5. Expenditure indicator ( $I_{E1}^{231}$ )

$$I_{E1} = \frac{E_{ws}}{E_O}$$

$E_{ws}$  – executed expenditure spent on wages and salaries;  $E_O$  – executed operating expenditures;

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<sup>228</sup> Report of Polish Ministry of Finance: “*Financial analysis of self – government entities*”, [www.mofnet.gov.pl](http://www.mofnet.gov.pl).

<sup>229</sup> *Ibidem*.

<sup>230</sup> *Ibidem*.

<sup>231</sup> *Ibidem*.

Expenditure indicator ( $I_{E1}$ ) presents the share of wages and salaries in the operating expenditures.

6. Expenditure indicator ( $I_{E2}^{232}$ )

$$I_{E2} = \frac{T_c}{E_o}$$

$E_{ws}$  – current transfers from state budget;  $E_{OC}$  – executed operating expenditures;

Indicator  $I_{E2}$  informs which parts of operating expenditures are current transfers from state budget (grants and general subventions).

7. Expenditure indicator ( $I_{E3}^{233}$ )

$$I_{E3} = \frac{E_c}{E_{OC}}$$

$E_{ws}$  – executed capital expenditures;  $E_{OC}$  – executed capital and operating expenditures;

Indicator  $I_{E3}$  reflects share of capital expenditures in total sum of expenditures in regional budget.

One of the most important elements in the evaluation of financial standing of the provinces is the category of operating surplus<sup>234</sup> (operating revenues – operating expenditures). Operating surplus reflects financial credibility of the regions. There are three main indicators based on operating surplus:

$$- I_{OS1} = \frac{OS}{R_{OC}} \quad \text{OS – operating surplus; } R_{OC} \text{ – executed total (capital and operating) revenues ;}$$

$$- I_{OS2} = \frac{OS}{R_o} \quad \text{OS – operating surplus; } R_o \text{ – executed operating revenues;}$$

Calculation of operating conditions (results) enables to identify sources which could be involved in the process of financing investment tasks. This indicator confirms also region's ability to discharge its financial obligations.  $I_{OS1}$  indicator predicts province's possibilities of incurring additional financial obligations (for example loans, bonds, credits).

$$- I_{SF} = \frac{OS + R_c}{E_c}$$

OS – operating surplus;

$R_c$  – executed capital revenues;

$E_c$  – executed capital expenditures

<sup>232</sup> *Ibidem.*

<sup>233</sup> *Ibidem.*

<sup>234</sup> M. Jastrzębska: *Polityka inwestycyjna jednostek samorządu terytorialnego*. „Samorząd Terytorialny” 2005, No. 9, p. 19.

$I_{SF}$  indicator reflects regions ability for self-financing of the investment tasks. Increasing value of ISF indicator informs that liquidity risk index decreases. However, high value might also indicate relatively low dynamic of investment activity of regional authorities.

### Indicator analysis of Polish regions – case study

The general results of the financial analysis of Polish provinces have pointed out the significant, territorial polarization among regional entities. There is a visible contrast between the poorest regions which are situated on the eastern boarder of the country (Warmińsko-Mazurskie, Podlaskie, and Lubelskie) and the strong economic provinces like Mazowieckie, Dolnośląskie, Wielkopolskie, Śląskie, Małopolskie. The other regions have achieved average financial results.

The analysis of regional debt has showed that legal limit of debt (60% of executed revenues) has not been achieved yet (table 2). There is still a big potential in the area of using of external financing at regional level. The voivodships generally have financed their investment tasks with credits and loans. According to the Polish law debt financing in the area of operating expenditures is allowed but under one condition: debt has to be paid in the same year it has been taken. There is obvious that credits and loans are the most popular sources of capital in the budgets of the poorest regions. However, these regions have to be financially credible. The debt indicators have been changeable since 2004 (table 2). In 2006 only two provinces noticed increasing share of debt Kujawsko – Pomorskie and Opolskie (table 2). The other regions characterized decreasing value of debt indicator the same year. The cost of debt service in every regional budget is generally very low and under legal limits (15% of executed revenues). There is one important problem in the process of debt analysis: debt indicators do not include the whole amount of financial obligations<sup>235</sup>. Average debt indicators ( $I_{L1}$ ) have decreased slightly after 2005 because of the reform of local and regional financing system (figure 1).

The debt indicators are correlated with the group of indicators based on operating surplus. The higher value of debt indicators the lower value of operating surplus indicators. Operating surplus reflects the credibility of the voivodship and its financial potential in the process of covering capital expenditures with using own revenues. The operating surplus determines the safe debt level (reducing liquidity risk).

The Polish regions are financially credible (table 2 indicators -  $I_{os1}$ ,  $I_{os2}$ ). The financial standing of the poorest regions improved significantly in 2006. The share of operating surplus in the total amount of revenue and in the operating (current revenue) has confirmed that provinces (even the poor one) are able to service financial costs and pay back the installments generating by new credits and loans. The self-financing indicator ( $I_{os3}$ ) has been also noticeably improved after 2005 which determines the high share of own revenues in the financing regional investment tasks. The higher is value of the indicator, the better ability of self-financing. However, the high value of this indicator might be result of the poor standing of the investment policy. The highest value of self-financing indicator in 2006 is characteristic for three regions - Łódzkie, Świętokrzyskie and Śląskie and the lowest one for Kujawsko-Pomorskie and Warmińsko-Mazurskie.

The percentage share of total self-governed revenues in total central revenues has risen noticeably since the bill ustawa z dnia 13 listopada 2003 o dochodach jednostek samorządu

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<sup>235</sup> Example – credits and loans involved in cofinancing of UE projects are not countable and do not increase the limit of debt till the project has not been finished.

terytorialnego<sup>236</sup> was enacted. In 2004 the revenues grew mostly at voivodships level. In the same time the role of grants has been radically diminished. The regulations regarding financing system of regional government emphasize the need of financial independence of every self-governed authority. The increasing share of own revenues in financing self-government tasks could be assessed positively including the one exception - linkages between local revenues and economic growth<sup>237</sup>. The share of regional tax revenues in regional operating revenues (figure 1 -  $I_{R1}$ ) has been sustainable since 2004. The average indicator  $I_{R1}$  has slightly decreased in 2006 and the average share of operating revenues in total amount of revenues in the period 2004-2006 seems to be constant. However, the situation differs at every regional tier. Generally the eastern regions (but not only) have pointed out the crucial decrease regarding the share of tax revenues in the amount of operating taxes (especially in 2006 example – Lubelskie, Podkarpackie, Świętokrzyskie, Warmińsko-Mazurskie, Opolskie). There explanation – these regions might be less attractive for capital investors and entrepreneurs (decreasing share of CIT) that influences on labor market, unemployment rate (decreasing share of PIT) and finally on migration rate.

The structure of expenditures in the regional budgets has been determined by law regulations. The indicators of expenditures have confirmed the strong link between regional budgets and state budget. The poorest region the highest share of operating transfers from state budget (table 3 example Świętokrzyskie, Podlaskie, Lubelskie). Strongest regions (Mazowieckie, Małopolskie, Śląskie, Wielkopolskie) are the most financial independent provinces. The share of capital expenditures in total regional expenditures is quite high in eastern regions (table 3). It means that these voivodships are strongly involved in the process of reducing their investment gap and absorb more financial sources in order to cover their capex.

## Conclusion

The reform of public finance system has been still in progress since 1998. There is the result of increasing role of local and regional government in the provision of public services. The scope of LGEs' tasks and responsibilities has been enlarged for sixteen years. The increasing share of local expenditures in total public expenditures determines seeking new efficient sources of financing the regional demand. The cluster of financial instruments for regional government entities in Polish conditions is limited. There is also a group of factors like political, economic, social, technical and legal which determine financial standing of regional authorities. The financial standing of Polish provinces is determined by legal regulations. According to the Polish law the debt of general government limited the total amount of debt at regional level. The regional own revenues are also strongly limited by general regulations and state tax policy (share in CIT and PIT). The dynamic of capital expenditures and regional development policy has been improved after EU accession<sup>238</sup>. The EU structural funds have significant impact on regional infrastructure and investment projects.

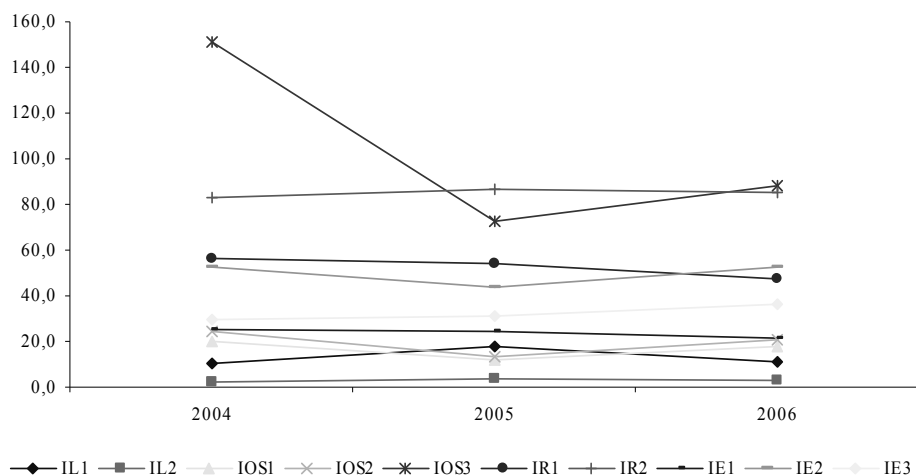
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<sup>236</sup> Act of 13th November 2003 on revenue of territorial self-government units. Journal of Laws 2003, no 203, item 1966 (consolidated text) with further amendments.

<sup>237</sup> K. Surówka, M. Kossek-Wojnar: *Dylematy racjonalizacji wydatków publicznych jednostek samorządu terytorialnego*. In: *Ekonomiczne i prawne problemy racjonalizacji wydatków publicznych*, T2. J. Głuchowski, A. Pomorska, J. Szolno – Koguc (eds). Wyd. Uniwersytetu Marii Curie-Skłodowskiej, Lublin 2005, p. 182-183.

<sup>238</sup> M. Szejba: *Wydatki inwestycyjne jednostek samorządu terytorialnego jako jeden z instrumentów stymulowania rozwoju regionalnego*. In: B. Filipiak (ed.). *Ekonomiczne*

## Appendix



**Figure 1.** Financial standing of Polish regions describing by selected groups of indicators (average value)

**Source:** own elaboration based on data of Polish Ministry of Finance.

**Table 2.** Regional indicators describing legal limits of debt and operating surplus

Region	Indicators according to law						Indicators based on operating surplus								
	IL1			IL2			IOS1			IOS2			IOS3		
	2004	2005	2006	2004	2005	2006	2004	2005	2006	2004	2005	2006	2004	2005	2006
dolnośląskie	0,0%	2,2%	11,0%	2,9%	2,2%	0,1%	20,5%	17,5%	12,1%	23,3%	20,9%	13,8%	173,4%	133,0%	69,9%
kujawsko-pomorskie	10,3%	13,2%	24,0%	3,4%	4,1%	2,7%	21,8%	10,8%	16,0%	26,0%	12,0%	17,9%	156,1%	59,7%	51,7%
lubelskie	32,0%	44,6%	19,3%	1,3%	3,7%	5,7%	7,2%	-4,7%	9,9%	8,7%	-5,4%	11,6%	89,3%	28,9%	84,8%
lubuskie	4,8%	18,4%	12,9%	1,1%	1,2%	2,1%	19,5%	9,0%	12,0%	24,2%	10,9%	15,9%	136,4%	61,4%	79,6%
łódzkie	18,2%	14,2%	6,1%	6,3%	5,5%	4,6%	24,8%	11,6%	27,3%	27,9%	12,4%	28,7%	215,4%	84,8%	142,1%
małopolskie	17,8%	28,2%	16,4%	2,7%	3,0%	2,4%	24,6%	14,4%	16,6%	30,9%	18,0%	20,7%	139,7%	71,4%	99,9%
mazowieckie	0,2%	1,5%	0,0%	1,8%	0,1%	0,2%	37,7%	30,4%	21,4%	39,2%	31,2%	22,7%	291,6%	83,3%	70,7%
opolskie	8,9%	20,4%	22,3%	3,5%	2,1%	3,0%	12,3%	21,1%	14,4%	14,7%	23,8%	18,4%	112,9%	74,8%	73,5%
podkarpackie	6,4%	10,5%	6,4%	2,0%	2,4%	1,4%	16,3%	10,5%	12,0%	20,5%	12,2%	15,8%	123,9%	92,3%	72,1%
podlaskie	22,2%	30,8%	16,5%	4,5%	10,9%	3,2%	14,8%	4,2%	16,4%	16,5%	4,8%	19,9%	104,2%	66,9%	74,9%
pomorskie	6,6%	10,7%	8,0%	2,3%	2,5%	1,1%	23,4%	13,7%	21,9%	29,0%	16,7%	26,1%	162,7%	70,4%	95,4%
śląskie	2,2%	1,6%	0,7%	0,8%	0,9%	0,6%	27,4%	23,7%	22,3%	40,8%	30,6%	29,2%	159,1%	97,6%	119,4%
świętokrzyskie	6,2%	11,4%	0,0%	1,5%	3,0%	3,0%	18,8%	8,0%	34,0%	26,5%	9,7%	36,1%	127,5%	102,2%	122,6%
warmińsko-mazurskie	18,8%	34,9%	23,7%	3,8%	11,6%	14,5%	10,7%	-6,9%	10,2%	14,0%	-7,8%	11,2%	97,4%	15,8%	63,0%
wielkopolskie	13,7%	20,5%	6,0%	1,5%	4,0%	2,2%	28,2%	20,7%	20,7%	32,0%	22,9%	25,2%	176,3%	84,9%	88,9%
zachodniopomorskie	3,1%	19,5%	4,8%	0,8%	0,7%	1,1%	16,1%	2,0%	14,4%	17,2%	2,1%	16,5%	151,7%	34,4%	99,0%

**Source:** Polish Ministry of Finance.

**Table 3.** Regional indicators of revenues and expenditures

Region	Revenue Indicators						Expenditures Indicators								
	IR1			IR2			IE1			IE2			IE3		
	2004	2005	2006	2004	2005	2006	2004	2005	2006	2004	2005	2006	2004	2005	2006
dolnośląskie	65,0%	60,2%	64,6%	87,9%	83,8%	87,5%	21,6%	20,6%	17,1%	41,3%	37,4%	32,0%	21,8%	27,7%	31,8%
kujawsko-pomorskie	55,0%	48,3%	42,8%	83,7%	89,9%	89,6%	23,6%	28,0%	25,0%	58,3%	49,9%	63,3%	28,2%	30,7%	41,0%
lubelskie	39,0%	42,2%	29,5%	82,3%	86,8%	85,5%	28,8%	26,8%	23,0%	64,5%	52,0%	68,0%	27,1%	24,2%	27,6%
lubuskie	43,0%	42,5%	37,9%	80,6%	82,7%	75,4%	25,8%	25,8%	23,8%	72,1%	60,0%	64,9%	31,9%	36,8%	42,0%
łódzkie	61,1%	62,2%	53,5%	88,6%	94,0%	95,0%	28,2%	25,0%	23,4%	50,9%	37,9%	53,5%	20,8%	20,2%	25,1%
małopolskie	62,2%	56,7%	59,6%	79,4%	80,0%	80,4%	24,7%	24,8%	20,6%	42,0%	40,1%	41,2%	37,1%	42,3%	36,2%
mazowieckie	91,1%	84,5%	80,1%	96,2%	97,5%	94,1%	14,9%	15,3%	12,4%	11,3%	11,2%	15,1%	19,6%	37,1%	34,7%
opolskie	50,3%	60,1%	46,4%	84,0%	88,6%	78,1%	27,4%	25,9%	24,1%	55,4%	45,7%	54,4%	26,0%	39,2%	43,7%
podkarpackie	42,7%	43,7%	34,2%	79,4%	86,2%	75,6%	29,2%	29,1%	23,8%	68,3%	59,0%	69,3%	32,0%	25,9%	44,2%
podlaskie	41,1%	42,7%	30,5%	89,7%	87,6%	82,4%	28,0%	28,5%	25,3%	65,8%	55,6%	73,5%	24,3%	22,9%	40,8%
pomorskie	69,2%	58,1%	57,3%	80,8%	82,4%	83,9%	21,8%	22,5%	19,7%	38,2%	36,5%	45,6%	31,4%	39,4%	39,1%
śląskie	74,4%	70,4%	64,3%	67,0%	77,3%	76,4%	24,9%	24,9%	21,4%	37,8%	30,7%	27,1%	48,9%	47,0%	41,6%
świętokrzyskie	45,6%	46,3%	31,4%	71,1%	82,0%	94,1%	24,7%	23,4%	20,7%	72,2%	56,5%	81,5%	41,7%	25,6%	35,1%
warmińsko-mazurskie	41,7%	39,7%	25,3%	76,3%	88,3%	91,0%	27,8%	23,8%	19,8%	64,0%	52,7%	64,5%	35,0%	24,4%	27,4%
wielkopolskie	76,5%	71,5%	68,2%	88,0%	90,4%	82,1%	23,4%	23,5%	21,7%	28,2%	25,7%	25,8%	27,6%	33,9%	41,5%
zachodniopomorskie	41,0%	41,7%	35,5%	93,5%	91,2%	87,7%	27,4%	25,0%	24,2%	68,9%	54,1%	66,6%	16,1%	25,8%	26,9%

Source: Polish Ministry of Finance.

## OCENA KONDYCJI FINANSOWEJ POLSKICH REGIONÓW – ASPEKTY WYBRANE

### Streszczenie

Sytuacja finansowa polskich województw pozostaje zróżnicowana w skali kraju. Ocena kondycji finansowej regionu dokonywana jest w oparciu o zestaw wskaźników dynamiki i struktury bazujących na danych z pozycji budżetowych. Główne kategorie wskaźników wykorzystywanych w analizie budżetów regionalnych to: wskaźniki ustawowe, wskaźniki wydatków, wskaźniki dochodów, wskaźniki zadłużenia oraz wskaźniki budżetowe. Łączna interpretacja wyników płynących z analizy wskaźnikowej pozwala na dokonanie kompleksowej diagnozy standingu finansowego regionu. Rezultaty analizy w szczególności dostarczają danych odnoszących się do: struktury finansowania, kierunków alokacji środków publicznych (ze szczególnym uwzględnieniem wydatków produktywnych), zdolności inwestycyjnej województw, ich wiarygodności finansowej (kredytowej), zdolności do obsługi istniejących zobowiązań oraz potencjalnych możliwości zadłużania się w okresach przyszłych.

# *Chapter X*

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## *INFORMATION MANAGEMENT*



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## **ELECTRONIC COMMUNICATIONS: ITS CONCEPT AND SERVICES**

### **Introduction**

The concept of electronic communications is in common use at present as it refers to the service area which is one of the most important factors determining efficient and effective functioning of modern economy and society. Nevertheless, one should be aware of the fact that this term has officially come into view in documents not before 2002 when the European Commission presented a package of regulative directives, the objective of which was to create uniform frameworks for different areas carrying out electronic services. In this connection, theoretical issues connected with the concept and the functioning of electronic communications have not found their reflection in professional reference literature. This objection refers first of all to the question of defining the concept of electronic communications and the problems connected with classification of services and determination of their functional range. The objective of this paper is to fill the gap existing within this matter.

### **1. The origin and the essence of electronic communications**

Electronic communications is frequently connected in literature and practical use with telecommunications concept. As a rule, some people even treat these two terms as synonyms. In case of the common use, this view should not be certainly considered as a particularly important mistake, whereas in the professional wording it can be assumed as knowledge insufficiency in this respect since both concepts, although close to each other, can not be certainly regarded as identical ones. This question should be entirely explained by a reference to the origin of development of both service areas under discussion. Telecommunications, in the present-day understanding of this word, come into being in the second half of the 18th century, whereas telegraphy should be considered the first telecommunications service rendered. Further evolution in this field of technology and economy was a consequence of dynamic development of new technologies and service forms, including first of all telephony and data transmission. A breakthrough technological solution, which radically changed the face of telecommunications, was digitalization which caused that "all information sources, including material phenomena and natural processes as well as sensual simulations were made uniform in the form of zero-one

sequences (0/1)<sup>239</sup>. Effects of the digital revolution can be presented in the following dimensions<sup>240</sup>:

- technological, which freely allows for collecting, transferring and processing of text, image and sound in the form of digital data,
- social, which is connected with creation of new forms of interactive communication,
- economic, which is connected with creation of the value chain that links goods providers to those of net services, which opens new opportunities for entrepreneurship.

Digitalization was a kind of common denominator for many different and inconsistent so far activity areas that dealt with creation, collection, processing and transmission of information. As a consequence of the materialization of that breakthrough technological innovation, a phenomenon of convergence appeared in the field of telecommunications and related sectors, which is defined as “a phenomenon in which two or more existing technologies, markets or value-formation chains become connected together creating a new power, which is more powerful and more effective than the total of its elements”<sup>241</sup>. A result of this convergence was development of a series of processes and phenomena of the technical, regulatory and market character, which considerably changed the image of telecommunications. In the technical aspect, this convergence brought about a situation in which different technological platforms could practically render the same communication services; also through those platforms that operated so far outside the area being traditionally attributed to telecommunications. This meant that the telecommunications sphere became technologically neutral, and the same the provision of services of the communication character stopped to be the sole domain of entities running their economic activity in the telecommunications sector. However, since the provision of communication services was determined by a series of restrictive regulatory solutions, this situation brought about the necessity of including under the same legal regulations also the service providers who operated outside the telecommunications sector. The situation, when entities rendering basically the same or similar services fell within different legal regulation, was unacceptable. A consequence of this convergence was also significant changes in the service offers found in the market of telecommunications services. Through this, customer obtained an opportunity to access a set of communication services connecting different forms of information transmission, from voice and data transmission to transmission of motion picture. Development of technologically complex service offers affected in turn the necessity of making available at the telecommunications market the terminal units that combine functions of telephone, TV set and personal computer. This convergence had also far-going consequences for the whole market of telecommunications services. Following technological changes, the integration processes of enterprises operating in so far separate market sectors intensified. They aimed first of all at acquiring additional competencies by economic entities to cope with the necessity existing in this service area of creating and providing complex product offers. These integration processes resulted in a situation, in which took place the specific interpenetration of technologies, competencies, services and entities providing them, which in consequence caused that the sectors separate until recently were

<sup>239</sup> D. de Kerckhove: *The Skin of Culture. Investigating the New Electronic Reality*. Ed. MIKOM, Warszawa 2001, p. 91.

<sup>240</sup> W. Szpringer: *Electronic commerce – competition or rivalry?*. Ed. Difin, Warszawa 2000, p. 15.

<sup>241</sup> A. Hartman, J. Sifonis, J. Kador: *Net Ready: Strategies for success in the E-economy*. Ed. Liber, Warszawa 2001, p. 67.

regarded as mutually coherent. The same, it was possible to talk about the appearance of new market area that integrated the telecommunications, media and information technology sectors, which was given a name of electronic communications market. The essence of *differentia specifica* between telecommunications and electronic communications should be given to the fullest by differences which have to be seen in the defining sphere. However, significant problems occur in this matter. Basically, telecommunications has been defined as “transmission and conveyance of signals between specific points of telecommunications network by means of wires or radio waves, optical or electromagnetic means”<sup>242</sup>. On the other hand, the term “electronic communications” in the European Union and national documents does not have any practical defining qualification. This is quite strange since such terms as electronic communications network, electronic communications services or associated facilities and associated services are broadly defined, whereas definition of the basic term is completely omitted. What is more, despite the official introduction of new term, the legal regulations that refer to the electronic communications sector still commonly use a “telecommunications” definition. As an example, one can give only the Telecommunications Act currently in force at the Polish market, where the term “electronic communications” is not used. It is very difficult to explain this situation. A certain explanation for the lack of definition for electronic communications may be the fact that the practice of that dynamically developing market is considerably ahead of deliberations of the theoretical nature. For running the economic activity in the sector of electronic communications, its definition is certainly not essential. On the other hand, no one can imagine studying a given science branch without determining the subject of research work, which should essentially result from a definition. To determine a defining conception of electronic communications, it is worth referring to the concepts connected with this term that are to be found in literature. As the first one, a definition of electronic communications service should be presented, which is defined as “a service normally provided for remuneration which consists wholly or mainly in the conveyance of signals on electronic communications networks, including telecommunications services and transmission services in networks used for broadcasting; it does not include however services connected with providing, or exercising the editorial control over the content transmitted using electronic communications networks and services”<sup>243</sup>. The presented definition clearly articulates that telecommunications services are included within its objective scope. In order to be aware of the changes, it is also worth referring to a definition of telecommunications service comprised in documents when the concept of electronic communications was not used. According to Directive 90/388, a telecommunications service is defined as “a service which consists wholly or partially in the transmission or conveyance of signals on a telecommunications network, excluding radio-television broadcasting”<sup>244</sup>. It results explicitly from the definition presented above that the term “electronic communications” is a broader concept than “telecommunications” since it includes in addition the radio-television broadcasting. In other words, an important element defined in documents referring both to telecommunications and electronic communications is the concept of

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<sup>242</sup> S. Piątek: *Telecommunications law of the European Community*. Wydawnictwo C.H. Beck, Warszawa 2003, p. 2.

<sup>243</sup> Directive 2002/21/EC of the European Parliament and the Council of 7 March 2002 on a common regulatory framework for electronic communications networks and services (Framework Directive), OJ L 108, 24.04.2002.

<sup>244</sup> Directive 90/388/ECC, Commission Directive of June 28, 1990 on competition in the markets for telecommunications services, OJ 1990, L 192/10.

network. In case of an electronic communications network, it is accepted that such a network is formed by “transmission systems and, where applicable, switching or routing equipment and other resources which permit the conveyance of signals by wire, by radio, by optical or by other electromagnetic means, including satellite networks, fixed (circuit- and packet-switched, including Internet) and mobile terrestrial networks, electricity cable systems, to the extent that they are used for the purpose of transmitting signals, networks used for radio and television broadcasting, and cable television networks, irrespective of the type of information conveyed”<sup>245</sup>. On the other hand, a concept of telecommunications network has been understood as “a set of telecommunications lines and facilities cooperating with each other”<sup>246</sup>. In this case, there is a necessity of comparing two completely different defining conceptions. Definition of electronic communications network specifies in detail the elements that are part of the network, whereas a concept of telecommunications network is more general and thus it could appear that even more capacious. It is difficult to conclude on the basis of such different definitions whether there are significant differences in the substance of these defining approaches. The practice of application of these regulations shows that numerous objections specified in the documents used prior to the introduction of legal solutions about communications caused the concept of telecommunications network to be practically limited to the definition of public telecommunications network. Also in this case, thus, the extent of perception of electronic communications is much broader than that of telecommunications. The presented comparisons allow for posing the following thesis referring to definition of electronic communications. It can be assumed that the term “electronic communications” has been adopted only as a kind of division line that points at changes in the character of telecommunications sector functioning. This was a necessity since the convergence and the new technologies connected with it had brought about a dynamic development of communications forms, which did not fit into telecommunications classic defining canons. Thus, new regulatory solutions have expanded the objective range of telecommunications, changing at the same time its terminology. This means that electronic communications is an explicit concept with telecommunications *sensu largo*, which can be defined as the enrichment of telecommunications understood traditionally with information technology techniques and media resources. This is because telecommunications has undergone a permanent evolution and one can not, to any extent, compare its present-day situation with that from before a decade. Therefore, it can be assumed that electronic communications is a developmental state of the market of telecommunications services that has been found at the time of introducing new terminology. Of course, with an objection that the area of electronic communications functioning will be much broader than that attributed to traditional telecommunications. This opinion is acceptable; however, it requires a fundamental defining specification in the functional sphere of telecommunications *sensu largo*. One may however think over the purposefulness of using such a procedure in the situation when the term “electronic communications” is already in use. This ambiguity in terminology may arouse objections if one wants to determine clearly the functional range of that service area. Taking into consideration all presented aspects, electronic communications should be defined as “broadcasting, reception or transmission of information,

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<sup>245</sup> Directive 2002/21/EC..., *op.cit.*

<sup>246</sup> Telecommunications and Posts Act of 23 October 1990, O.J., No. 117 of 15 December 1990.

irrespective of its type, by means of wires, radio or optical waves or other means that utilize electromagnetic energy<sup>247</sup>.

## 2. Classification of electronic communications services

The definition of electronic communications presented above is of implicative nature and requires an additional systemization and classification that take into account a considerable complexity of forms and processes, which are decisive of the essence of electronic communications. There are no explicit divisions of electronic communications services in the literature; in this connection, it is worth creating prerequisites for their more rational classification. The conceptual basis of that process should be the marketing conception of product levels, which assumes the following product structure<sup>248</sup>:

- product core,
- real product,
- expanded product.

In case of telecommunications services, the product core is all benefits connected with a possibility of the remote transmission of information, regardless of the transmission form. On the other hand, the real product is the telecommunications service itself, in which a specific form of transmission is taken into account, for example a text, voice or image. The expanded services, however, are the expansion of real product by additional elements, which are important from the point of view of consumer. Thus, it should be assumed that in case of electronic communications they correspond to:

- the level of basic services, and
- the level of services of the value-added character.

The presented division of electronic communications services has a basic disadvantage since there is practically no way to point at definitions that characterize these concepts. In practice, basic services of electronic communications are quite frequently characterized through their enumeration. On the other hand, a negative criterion is used as a rule in case of the value-added services, which means that services not considered as the basic ones are classified as those of the highest order. Such a defining approach does not give the full answer on what are the particular types of services and what is a criterion for their distinguishing. When considering the available conceptual approaches, it is worth paying attention to the definition of value-added services, in which they are defined as “services where there are additional functions provided over and above the basic conveyance functions”<sup>249</sup>. The same, one can conclude that the basic services are inseparably connected with the pure transmission. Therefore, to close suppositions connected with systemization of electronic communications services, it should be stated that, when classifying them and recognizing as basic or value-added ones, it is critically important to ascertain whether they are primary or secondary from the point of view of technical and

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<sup>247</sup> Act on Telecommunications Law of 16 July 2004, O.J. No. 171 of 3 August 2004.

<sup>248</sup> Ph. Kotler: *Marketing Management: Analysis, Planning, Implementation and Control*. Gebethner & Ska, Warszawa 1994, p. 401.

<sup>249</sup> *Towards a dynamic European economy*. Green Paper on the Development of the Common Market for Telecommunications Services and Equipment, EU Commission, Brussels 1987, p. 87.

technological aspects of their provision<sup>250</sup>. The basic services of electronic communications include:

- telephonic services,
- facsimile services,
- data transmission services,
- radio-diffusion services, and
- motion picture transmission services.

In view of the conception of product levels adopted above, it should be assumed that services of the value-added character are complementary with respect to the basic services of electronic communications. Furthermore, in principle they are rendered on the basis of infrastructure, which serves a purpose of accomplishing the basic services that are attributed to them. In this connection, one can assume that the value-added services can be divided into:

- intelligent services accomplished on the basis of basic telephonic network, such as:
  1. FPH – free phone (info-line: 0-800),
  2. SPL – split charging (0-801),
  3. UAN – universal access number (0-804),
  4. VNP – virtual private network (0-806),
  5. PPC – prepaid phone card (0-808),
  6. CCC – credit card calling service (0-808), and
  7. VCC – connections within virtual calling card service (0-808).
- services accomplished through data transmission network, such as:
  1. electronic data interchange – EDI, and
  2. electronic funds transfer – EFT.
- complex value-added services accomplished on the basis of broadband networks (telephonic or data transmission ones), such as:
  1. video-telephony, and
  2. video-conferencing.

A separate category within electronic communications services is services of the universal character. Their separation is not based on any technical criterion, but the basis for their distinction is a conviction that there is a considerable influence of electronic communications on the shaping and meeting socio-economic needs of the state and citizens. This prerequisite, undoubtedly a correct one, is the basis for the conception of so called electronic communications universality. It is based on the fact that electronic communications<sup>251</sup>:

- is an important factor of economic and social development both in industrial and post-industrial societies,
- exerts an important influence on economic development, with the effects of its impact on national economy being as much important (if not more important) as inter-branch effects, evaluated on the basis of economic indicators of electronic communications as a separate branch of national economy,

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<sup>250</sup> W.M. Maziarz: *Fundamentals of marketing management in telecommunications*. PTE, Szczecin 1998, p. 37.

<sup>251</sup> F. Kamiński: *Social aspects in the telecommunications policy of the European Union*. "Information Bulletin of the National Institute of Telecommunications" 1999, No. 1–3.

- exerts an influence on the management structures and the forms of job provision,
- exerts an influence on the origin and development of new production and services methods, and
- creates new opportunities for satisfying human needs in the aspect of health protection, culture and education.

Therefore, it is possible to assume that a universal service is a legal instrument of the state, the objective of which is first of all to maximize the access to electronic communications services being most important from the socio-economic point of view. In the conceptual wording, a universal service is “a service basket that contains basic services of electronic communications, which satisfy important social and vocational needs”<sup>252</sup>. The needs emphasized in this definition result from the fact of advancing civilization transformation, the effect of which is development of information technology society. The basis of its functioning is universal access and use of electronic communications services. The concept of universal service has been defined in the framework directive as the minimum set of services, of specified quality, which is available to all users, regardless of their geographical location and, in the light of specific national conditions, at an affordable price. On the other hand, the Universal Service Directive presents remuneratively the basic services that should be included in the basket of universal service in the EU member states. The following elements are included in it<sup>253</sup>:

- assurance of the subscriber access to infrastructure,
- minimum set of telephonic services of specified quality with a possibility of using telefax, servicing national and international calls and accessing the Internet network and services, with subscriber-driven expenses control,
- sufficient number of generally accessed paid telephones,
- emergency services,
- subscriber number information services,
- telephone operator assisted inquiries,
- provision of services for handicapped people.

It should be emphasized that the EU member states have a possibility of supplementing the basket of universal service with additional services.

## Summary

The problems discussed above certainly do not use up the whole of issues connected with the essence of electronic communications and the classification of services accomplished through it because due to the paper size deliberations were focused on basic questions only. However, considering the fact that the issues presented here refer to such an important area of the market, it was worth taking them up, since they may become a contribution to launching research works on the theoretical aspects of electronic communications.

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<sup>252</sup> F. Kamiński: *Universal telecommunications service in the European Union and Poland*. “Telecommunications and Information Techniques” 2003, No. 1–2.

<sup>253</sup> *Ibidem*.

## KOMUNIKACJA ELEKTRONICZNA. POJĘCIE I USŁUGI

### Streszczenie

Termin komunikacja elektroniczna znajduje się obecnie w powszechnym użyciu, jednak dotychczas nie został w pełni określony kontekst definicyjny oraz zakres przedmiotowy tego pojęcia. W prezentowanym artykule podjęto się zapewnienia istniejącej w tej materii luki. Przeprowadzono teoretyczne rozważania związane z istotą komunikacji elektronicznej, ze szczególnym uwzględnieniem relacji tego obszaru usługowego z telekomunikacją. Konsekwencją tych dywagacji było przyjęcie kompleksowej definicji, która w pełni odpowiada charakterowi komunikacji elektronicznej. W drugiej części artykułu skupiono uwagę na usługach realizowanych przez komunikację elektroniczną. Zaproponowano autorską koncepcję klasyfikowania usług komunikacji elektronicznej oraz przedstawiono ich zakres czynnościowy. Odniesiono się także w sposób szczególny do istoty i funkcji usługi powszechnej w komunikacji elektronicznej.

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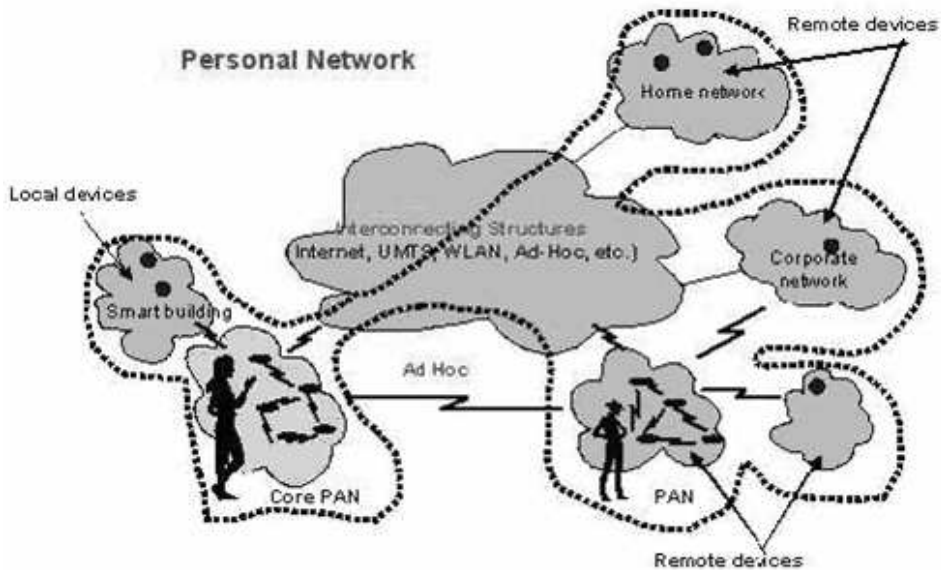
*Lucent - Alcatel*

## THE MARKET POTENTIAL OF PERSONAL NETWORK SERVICES

### Introduction

With the massive introduction of technologies for Wireless Personal Area Network services, mobile customers will have expanded options and bandwidth for multimedia communications, entertainment and content delivery to their mobile devices.

Personal Networks (PNs) is one of the most attractive developments of 4G mobility today. PN technology supports Ad Hoc Networking as well as Infrastructure based Networking. This milestone marks the beginning of a revolution in the mobile market by employing 4G, WLAN (Wireless Local Area Network), WPAN (Wireless Personal Area Network) and new multi standard devices together at same time.



**Figure 1.** Illustration of the Personal Network concept

**Source:** MAGNET Beyond - My personal Adaptive Global NET and Beyond, Integrated Project within Sixth Framework Programme, Annex 1, "Description of Work", September 2005.

In PNs, users interact with various companions, embedded or invisible computers not only in their close vicinity but potentially anywhere. They also need to interact with other persons having their own PNs, leading to group communication and federation of PNs to achieve particular tasks.

PNs comprise potentially all of a person's devices capable of network connection in the real or virtual vicinity. This requires major extensions of the present Personal Area Network (PAN). PNs are configured in an ad hoc fashion, as the opportunity and the demand arise to support a person's private and professional applications. These applications may run on a user's personal devices but also on foreign devices.

PNs consist of communicating clusters of personal digital devices, possibly shared with others and connected through various suitable communication means. Unlike PANs, with a limited geographical coverage, PNs have an unrestricted geographical span, and may incorporate devices into the personal environment regardless of their geographic location. In order to extend their reach, they need the support of infrastructure-based and ad-hoc networks.

The aim of this paper is to provide inroads into the analysis of the personalization and individualization of services, to describe the importance of user centricity and more specifically to examine aspects of the market potentials for Professional as well as Active Life and Medical cases.

P2P (peer-to-peer) technology gives the opportunities for operators and providers to meet users emerging orientation for communication and content services that are cost-effective, affordable, available and ubiquitously accessible. Initially the networks deployed utilizing P2P technology might provide a business model facilitating reduced costs due to the fact that 'central'

functionality is distributed and thus requiring a smaller number of servers and imposed maintenance.

These possibilities will furthermore be enhanced by the introduction into the market of new mobile smart phones, PDAs and tablet PCs together with new broadband wireless access (BWA) such as Mobile WiMax (802.16e).

This means that the users will experience mobile social & public utility networking by communicating directly with other mobile users or from kiosk areas or WLAN hot spots. As a result, individuals will also be able to connect based on one another's proximity and on pre-configured triggering events and preferences.

## 1. Personalization and individualization of services

Users are individuals. Especially among young people there is a need to profile themselves as belonging to a certain group or a certain community. In Malmö in the south of Sweden 1/4<sup>th</sup> of the population are considered to be immigrants with close ties to their home customs, religions and ethnical beliefs.

One of the mobile Internet mantras is personalization: 'give me MY information'. Device constraints have resulted in using customization as a goal for the design. But this might be a mistake since there is a limit to what extent people want to be personalized. Let's define the three terms: Customization, personalisation and individualization.

Customization means receiving a tailored product or service, personalization means receiving a tailored experience, individualization means that a person builds his/her identity through choices, through comparing a personalized experience with what's outside.

Devices are fashion-oriented, and there will be all kinds of form factors tailored for different personalities and functionalities. It's all about the individual. One day you will carry a device tailored to this day's special needs and another day it will be tailored for other purposes. People will maybe equip their devices in the same way as they change their clothes.

### *Personalization framework*

In the Personalization Framework, attributes and attribute values link the users and the content together and form the user interface. Attributes of the content are matched up with attributes of users. The user's specific attribute values are paired with content information in order to determine which content to display and how to present it at any given time<sup>254</sup>.

### *User Interface Layer*

In this framework, we have users and the content meeting at the user interface through the general process of personalization.

### *Profile Layer*

Underneath the user interface is the profile layer, where specific values for the attributes are used to determine what content to present to which user under what conditions.

Personalization is the process when attribute values are assigned automatically by some software process to user profile classes.

Individualization is the process when discrete attribute values are assigned manually by the end-user or his/her representative.

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<sup>254</sup> MAGNET BEYOND, *Specification of user profile, identity and role management for PNs and integration to the PN platform*, D4.3.2 (D1.2.2), 31 March 2007.

### *Attribute Layer*

Beneath the profile layer is the attribute layer. At the attribute layer, the attributes themselves are defined and the set of acceptable values (preferred range) are specified. Both users and content have their own attributes, but they are coordinated to make sure that the higher-level profile information is synchronized. The attribute layer is the set of all attributes and values, while a profile is merely one specific instance of this layer.

### *End User Market for Individualized Services*

Examples of Special User Groups and User Roles that could benefit from Individualized Devices/Services are:

- Disabled people
- Elderly people
- Children
- Calendar & Meeting-driven people
- Hospitalized people
- Immigrants

## **2. User-centered approach in the magnet beyond project**

User centricity is central to the MAGNET project. Users have to be involved in both designing and implementing the MAGNET vision and therefore the following aspects must be taken into consideration:

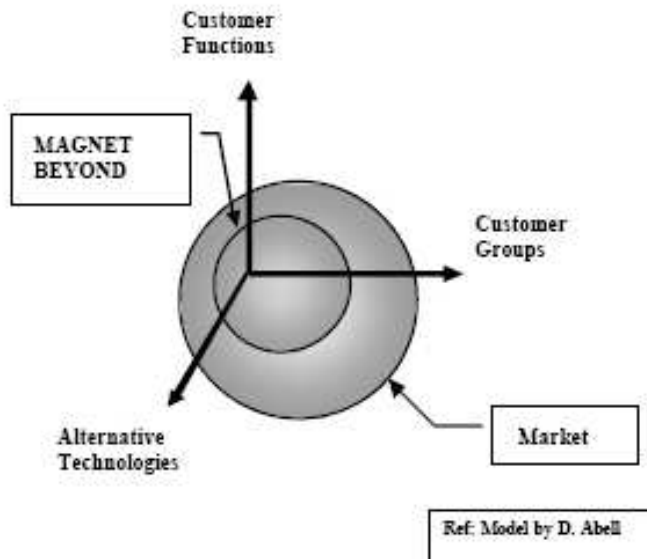
- Social and Public consciousness: The applications and services should be able to solve typical social problems in the society and order to gain public acceptance.
- The coverage of service themes: The service themes constitute a classification of service areas that all are important for most of the users the MAGNET project is focused on.
- Security and privacy are the major issues for human life. If the technologies are not used in the right way, they will make the users nervous or scared.

PNs should cover all kinds of users and all aspects of their daily life (MAGNET Technical Annex). This means that different environments must be included in MAGNET applications and services. Ownership and commitment: Who has the interest, resources and commitment to develop new services? By working with well-defined use cases necessary user feedback on system design and business potential can be provided.

Business opportunities could, on a high level, according to Harvard Professor Derek F. Abell, be evaluated from a 3-dimensional model:

The MAGNET Beyond Project provides a number of Customer Functions to a number of Customer Groups using new Technologies.

- Served Customer Groups. Categories of customers. (WHO)
- Served Customer Functions. Customer needs. (WHAT)
- Technologies Utilized. The way that the needs are being satisfied. (HOW).



**Figure 2.** How MAGNET Beyond is defined

**Source:** I. Windekilde, A. Henten, Cimmino, V. Kaldanis, R. Roswall, Su-En Tan, Yan-Hui, Need for management and/or overlay management networks, MAGNET Beyond Deliverable D1.5.3, June 2007

By identifying the requirements and needs of users, we are in effect identifying the potential market where technologies and services are well received. It is therefore important to note the interrelatedness of the different aspects of the project.

In our work we perform an analysis and a coarse evaluation of the new business opportunity that Personal Networks bring us. It is about competition. It is also about market descriptions and growth opportunities.

The end-user is more essential than the customer in this model. The choice is between technologies, functions and users to serve and not between which products to offer. The method is complex and may only provide information about the direction for movement but not any information about distance or speed.

### 3. The impact of new technologies on the consumer choices and behaviour - value proposition

New technologies are enabling consumers to make decisions about the types of the services they want to use. To satisfy users' needs it requires an understanding of value propositions. Use of the value proposition approaches will be important to analyze the impact of new technologies on the consumer choices, behaviour and production possibilities in the future.

In this paper we will concentrate on two values. The first one is intended value which represents the supply side and the second is the value that end user expects from the services –

demand side. In the literature we can also meet delivered value and perceived value, but they are more appropriate for the services which already exist on the market.

Value proposition presented in this paper is based on two MAGNET pilot services which are intended to demonstrate the MAGNET project in its entirety<sup>255</sup>.

The Lifestyle Companion is representing Magnet.Care and targets primarily diabetic users who have a desire for being in good shape by using a fitness centre as well as monitoring and adjusting their blood glucose level.

The Icebreaker is representing Nomadic@Work and targets knowledge workers which can meet physically and exchange a digital business card as a demonstration of a temporary PN-federation formation and exchange information forming a long term ad hoc PN-federation for the purpose of collaborative work.

#### *Intended value*

Intended value is the value that a provider intends to offer to customers or end-users with the service. Intended value is translated into functional requirements, like technical specifications, and into requirements for the value network, like roles that are necessary<sup>256</sup>.

Companies seek to fulfil user expectations, and they seek to satisfy their own value expectations, such as: selling more services, gaining market share, reducing and avoiding costs, establishing brand recognition, and building a base of loyal customers.

These expectations can be seen as an equation with users on one side and the service supplier on the other. Benefits of use and return on investment are a balance between the two sides. The central issue in designing pilot services in the Magnet Beyond project: Lifestyle Companion services and the Icebreaker is a certain value that is intended to be delivered.

Lifestyle Companion services allow end-users:

- to access relevant information from a single point of entry with a single sign-on function
- to automatically monitor and register their blood glucose concentrations
- to receive recommendations for insulin injections a “personal trainer” functionality by which the service acts as a fitness trainer guiding the user through fitness programs in a fitness centre keeping track of repetitions, load settings
- to update weight
- The Icebreaker services allow end-users:
  - to access relevant information from a single point of entry with a single sign-on function (through a PNFederation, service provider or the PN)
  - to create PN-F and to be part of a large PN exchange of business cards
  - file sharing
  - access sharing
  - to have personal preferences for devices, locations, federations, security, expenses
  - to discover/look up devices included in a P(A)N, set PN inclusions/exclusions
  - lock down devices if stolen/missing
  - maintain backups of data to be used for replacement devices if necessary

*Expected value - needs and requirements, preferences*

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<sup>255</sup> MAGNET BEYOND, My Personal Adaptive Global NET, Deliverable No.: D 1.5.3. *Need for management and/or overlay management networks*, 30 June 2007.

<sup>256</sup> E. Faber, B. Kijl, H. Bouwman, T. Haaker: *Dynamic Business Models in Mobile Service Value Networks: a Theoretical and Conceptual Framework*. TU Delft, December 2005.

The expected value is the value that a customer or end-users expects from the service. Furthermore, expected value is determined by resources and capabilities like branding, trust and reputation, and by financial arrangements like paying for the device, paying per usage or paying flat fee, subsidized handsets or discounts<sup>257</sup>.

Simplicity and ease of use is something that users would want, even as the number of services and applications increases. But simply introducing a new service does not guarantee its success. It must fulfill a user need, provide a benefit, or enrich a lifestyle.

#### The Icebreaker

This pilot service creates an opportunity for new and informal relationships in business. The primary value of the Icebreaker is that users are using the new technology to organize their life and preserve their social connectivity.

Personalization has an important role in a successful customer experience. A customer must have an easy migration path to new services, easy to buy and activate.

A user will expect to be able to use any device to connect securely to any application or information, from anywhere. The application market is in its early stages, and most analyses agree that the potential is extremely large.

#### The Icebreaker – expected value

- Trust and safety
- Time-saving
- Social communication – a social ‘icebreaker’
- Exchange information and Digital Business cards
- Collaborative work - using shared digital material and to share computational power of individual devices the collaboration between visitors, organizers and presenters at an event
- Access to all services - Single Sign-on
- Security
- Possibility for the user to view data on a larger screen than currently available (e.g. a small handheld device)
- Reliability and the feeling to trust the system
- New service should be operational in a matter of seconds
- Privacy, anonymity and accountability. Privacy should be achieved within a PN federation or when accessing services from foreign providers by using a pseudonym or being anonymous

#### Lifestyle Companion

Going to the gym or fitness centre is a common activity for diabetics as well as non-diabetics. Diabetics may however have a special interest in keeping fit and maintain a history of his/her health progress as this supports proper diabetes management.

#### Lifestyle Companion – expected value

- being in good shape - using a fitness centre
- being slim
- monitoring and adjusting a blood glucose level
- lowering chances of developing diabetes

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<sup>257</sup> E. Faber, (et al.): *Designing Business Models for Mobile ICT Services*. 16th Bled Electronic Commerce Conference. Bled, Slovenia, June 2003.

- easy access to gym services
- security, privacy
- fun

There are many types of users with different needs, values, life styles and life situations. Therefore, there is a need for a better user understanding within new personalized services. This understanding must include attitudes, behavior and the human inclination to resistance to changes. This should lead to a more service minded approach with improved flexibility and agility as important characteristics. Magnet Beyond offers the possibilities to extend Magnet enabled devices with a number of plug-in modules. This will give the opportunity to deliver the value that a customer or end-user expects from the service.

#### **4. Market potential in p2p networks and overlay networks for magnet beyond pilots**

In a rapidly changing environment, we are often faced with the challenge of assessing the market potential for services/products or technologies that are entirely new to the marketplace.

In the process of the new services development the major challenge is to understand the end-user behaviour and process of acceptance of new services. Launching new services in the market means responding rapidly to real market demand and providing solutions that are easy to access and use. Perceived ease to use and perceived usefulness are fundamental determinants of user acceptance. The end-user will adopt services with high perceived value which is obtained through intrinsic and extrinsic service attributes appreciated by them.

Intrinsic service attributes are: ease of use, usefulness, compatibility, service quality, innovativeness, whereas extrinsic attributes are attributes of the network of users and complementary services offered.

The Icebreaker services

A value of the Icebreaker to a potential customer may depend on the number of people (journalists, knowledge workers, and other participants) participating in the event who sign on for the Icebreaker service. The more people register onto the Icebreaker services, the more useful the service is to its registrants. A network effect is an important part of these services.

A consequence of a network effect is that the purchase of the Icebreaker services by one of the participant indirectly benefits others who bought this service by:

- making possible to exchange digital business card with more users
- finding new business contacts
- increasing social contact - more users mean more interaction
- exchange of documents
- establishing PN-Federation between event participants

Lifestyle Companion services

By contrast, the value of a Lifestyle Companion is primarily proportional to the quality of services, not to the number of other people using the gym.

A network effect is not important part of the Lifestyle Companion services. In this pilot service the 3rd party services are only available through a PN-F between the user, the gym and an optional physiotherapist. Federation and trust are two key aspects of the Lifestyle Companion service that have a potentially high impact on perceived usability of the service.

The market potentials of personal networks and services for diabetes patients represented in Lifestyle Companion are bigger for equipment manufacturers especially end-user device manufacturers than e.g. for network operator.

According to our assumptions, the Icebreaker service has much bigger revenue potential than Lifestyle Companion. The Icebreaker service is a network service. A value of the Icebreaker to a potential customer will depend on the number of people using the service. Therefore, it can be expected that as more users will join the Icebreaker, benefits will increase the value of the service to each user inducing more users to join.

In general, it is reasonable to assume that network effect will increase with the number of users, raise the value of the Icebreaker service to each user and will generate great revenue in the future.

## **5. Conclusion**

Individualization is a concept dealing with the integration of individual user preferences, roles, user location, context, and infrastructure and terminal capabilities. The system solution should be tailored to the individual user's qualities and preferences. Peer-to-peer technology gives such opportunities for operators and providers to meet users emerging orientation for communication and content services that are cost-effective, affordable, available (i.e. accessible ubiquitous) and located in the psychological area called 'perception of freeness'.

User Centricity is another important aspect when finding the business. Served customer groups, served customer functions and utilized technologies will set up the borders for the possible Personal Network market. By identifying the requirements and needs of users, we are in effect identifying the potential market where technologies and services are well received.

When discussing the two pilots, Icebreaker and Lifestyle Companion, we also discuss the value proposition with intended and expected service delivery values but also intrinsic and extrinsic service attributes. The Icebreaker pilot is an example of a service, where the extrinsic network effect has a huge importance, while the intrinsic value of having access to information for the individual is more prominent in the Lifestyle Companion pilot.

The Icebreaker service represents a combination between the service oriented and the self-organised business model where different types of communication takes place, either through a network operator's connection or through a personal peer-to-peer application running on any users mobile device. The Lifestyle Companion service represents very limited business opportunities for the creation on the value network between the operators. However, for smaller business companies, there are business opportunities to be developed.

According to our assumptions and calculations, the Icebreaker service has a big revenue potential with revenue estimates exceeding 500 MEUR per year. The European market for the Lifestyle Companion will be lower or around 20 MEUR per year. The common service portfolio for PN Services is expected to be much greater.

## **POTENCJAŁ RYNKOWY USŁUG OFEROWANYCH W SIECIACH OSOBISTYCH (PNS)**

### **Streszczenie**

Wraz z intensywnym wprowadzeniem nowych technologii w sieciach bezprzewodowych WPAN (Wireless Personal Area Network), mobilni użytkownicy będą posiadali rozszerzone możliwości korzystania z komunikacji multimedialnej, treści i rozrywki.

Sieci Osobiste (Personal Networks PNS) są jedną z najbardziej atrakcyjnych przesłanek rozwoju 4G. Technologie PNS wspierają zarówno sieci Ad-hoc jak również sieci infrastrukturalne (m.in. GSM, UMTS). Sieci osobiste oznaczają początek rewolucji na mobilnym rynku poprzez wprowadzanie 4G, WLAN, WPAN oraz nowych multistandardowych urządzeń.

Technologie PNS pozwolą na dostarczenie spersonalizowanych usług, które sprostają oczekiwaniom odbiorców będąc jednocześnie tanie, bezpieczne i zawsze dostępne. Przez zidentyfikowanie żądań i potrzeb użytkowników, w rezultacie identyfikowany zostanie potencjalny rynek, gdzie nowe technologie i usługi znajdą popyt.

# *Chapter XI*

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## *QUALITY MANAGEMENT*



LILIANA JODKOWSKA

## GERMAN QUALITY MANAGEMENT SYSTEMS IN PUBLIC SERVICES

### Introduction

The history of quality supervision is very long. Its first written records are from 1700 B.C. (the Code of Hammurabi provided for corporal punishment if the product quality was bad<sup>258</sup>). In the medieval times, guilds supervised and thus protected the quality of manufactured goods. Craftsmen who produced cheap and bad quality goods were taken to task or excluded from the guild. Before the development of the first systems designed to warrant the required quality standards for a given product by way of preventing defects (errors), product quality assurance had been hinged on supervision over the production process (over the worker) and punishment.

The post-war attempts of the Japanese at reducing defectiveness of manufactured goods can be deemed the beginnings of contemporary quality management systems. The systems developed at that time were subsequently introduced in the USA and Europe. In the 50s of the 20th century, primarily in the UK and in the USA, the first systems (AGAP, AQUAP, BS 4891, BS 5179, and BS 5750<sup>259</sup>) were introduced so as to improve (semi)finished products for the war industry. The most famous practitioners and theoreticians who contributed to the development of QMS and who worked out the statistical methods used to describe and prevent errors arising in the course of the production process lived at that time. Joseph Juran, Philip Cosby, and William Deming were among the pioneers in that field.

### ISO standard

In the 70s of the 20th century there arose the need to arrange the various domestic quality standards into one international system. The first version of ISO standards series 9000 was developed in 1987 (updated in 1994 and 2000) by the International Organization for Standardization that was appointed for this purpose<sup>260</sup>. To improve the requirements of ISO 9000 series standards, the number of documents to be kept as documentation of quality management

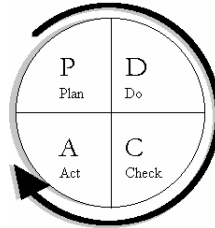
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<sup>258</sup> S. Wawak: *Zarządzanie jakością. Teoria i praktyka*. Wyd. Helion, Gliwice 2006, p. 12.

<sup>259</sup> J. Myszalski: *Po prostu jakość. Podręcznik zarządzania jakością*. Wyd. Wyższej Szkoły Przedsiębiorczości i Zarządzania im. L. Koźmińskiego, Warszawa 2005, pp. 283–286.

<sup>260</sup> S. Wawak: *Zarządzanie..., op.cit.*, p. 14.

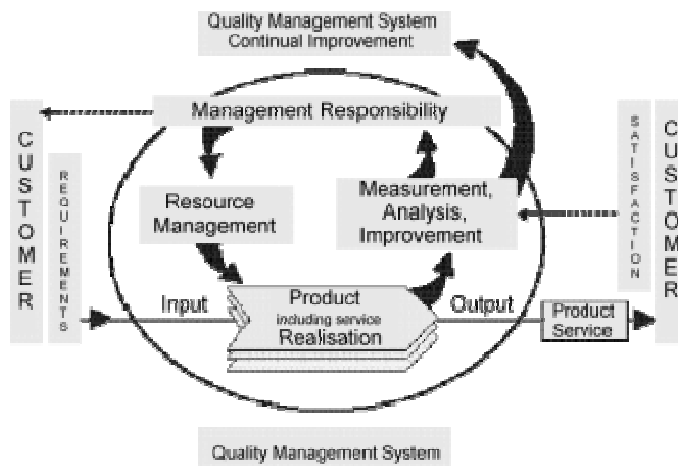
system (QMS) was reduced. The main emphasis was put on the process approach based on Deming PDCA cycle (plan-do-check-act) (figure 1).



**Figure 1.** Deming Cycle – continual improvement cycle

**Source:** G.F. Kamiske, J.P. Brauer: *Qualitätsmanagement von A bis Z*. Hanser, München 2008, p. 35.

The changes were introduced to adjust the requirements to how enterprises actually operated as well as to prevent implementing QMSs that companies would later not adhere to because the standards were too bureaucratic formally and required bulky documentation. The process approach is based upon management responsibility, resources management, process management, analysis, measurement and improvement, orientation towards customer's needs and customer satisfaction, organization self-improvement through correction and prevention measures. In the new process approach, the Deming cycle is clearly applied in the quality management process (figure 2).



**Figure 2.** Continual improvement of the quality management system

**Source:** DIN EN ISO 9000, Qualitätsmanagementsysteme – Grundlagen und Begriffe (ISO 9000:2005), Dreisprachige Fassung EN ISO 9000:2005, DIN Deutsches Institut für Normung e.V., Beuth Verlag, Berlin 2005, p. 11.

ISO 9001:2001 standard describes quality management system requirements in an organization that must be met if an organization is to be capable of responding to customers'

demands. ISO 9004:2004 standards offer solutions that exceed the basic criteria set out in ISO 9001 and show the pathways to developing universal quality management systems. QMS requirements according to ISO 9001:2000 comprise 8 issues: 1. customer focus, 2. leadership, 3. involvement of people, 4. process approach, 5. system approach to management, 6. continual improvement; 7. factual approach to decision making, 8. mutually beneficial supplier relationships<sup>261</sup>.

ISO 9001 does not have specific requirements as to graphic design or structure of quality management system documentation in an organization. Therefore, companies can develop their quality manuals that reflect the methods they employ to conduct operations. Apart from the required documents, it is customary to keep two quality manuals – an internal manual that is continually updated and an external manual for the customers.

The growth in the number of the ISO certificates granted worldwide from 44.388 in 2001 to over half a million in 2003<sup>262</sup> confirms that it is right and necessary to implement and maintain quality management systems according to ISO standards. An increasing trend can also be determined in Poland. This you can see in the increase of certifications from 475 to 538 at the same period of time and to 873 until 2006<sup>263</sup>.

## LQW System

LQW System (Lerner- und Kundenorientierte Qualitätstestierung in der Weiterbildung / learner- and customer-oriented testing of education quality) has been developed by the federation and the states represented by commission for education planning and development of scientific research. This process was funded by the Federal Ministry of Education and Research and the European Social Fund. LQW System has been offered since 2002, after its pilot phase initiated in Lower Saxony in 2000. In 2002 (LQW 1 model version) 106 organizations were granted certificates, and 248 more until 2003 (LQW 2 version). Before 2008 almost 600 organizations (589) from Germany and Austria were awarded quality certificates of that model or certification was in progress.

To obtain a LQW System certificate, it is necessary to register and describe 11 fields of activity in a quality manual (fig. 3) – by analogy to ISO. LQW System is oriented on organizations that offer training courses, which is reflected in the structure of the quality manual to be developed. Particular emphasis on two issues (description of the teaching -learning process and description of the evaluation of education processes) distinguishes that system from ISO standards.

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<sup>261</sup> DIN EN ISO 9000, Qualitätsmanagementsysteme – Grundlagen und Begriffe (ISO 9000:2005), Dreisprachige Fassung EN ISO 9000:2005, DIN Deutsches Institut für Normung e.V., Beuth Verlag, Berlin 2005, pp. 15–33.

<sup>262</sup> The ISO Survey of ISO 9001:2000 and ISO 14001 Certificates 2003, ISO Central Secretariat, Geneva 2004, p. 4.

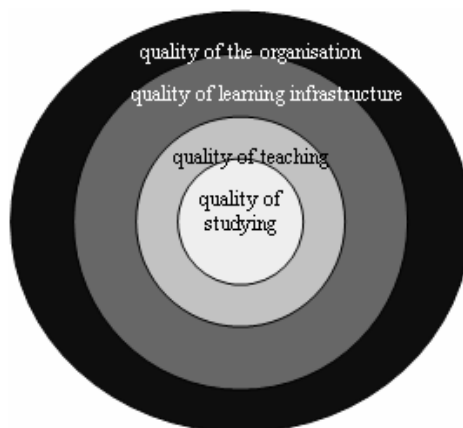
<sup>263</sup> *Raport roczny 2006, Sprawozdanie z działalności Polskiego Centrum Akredytacji za rok 2006*. Polskie Centrum Akredytacji, p. 9.



**Figure 3.** Quality development and testing model (LQW)

**Source:** *Lernerorientierte Qualitätstestierung in der Weiterbildung. Leitfaden für die Praxis*. Expressum Verlag, Hannover 2006, p. 13.

Reflection of particular emphasis on the teaching process is emphasized by the structure of the pedagogical process that occurs in the course of teaching and learning. The authors of the system assumed that quality of the organization results from what objectives the organization has adopted and how it seeks to achieve those objectives. The quality cycle model (fig. 4) designed for LQW System stresses this approach. LQW does not refer directly to PDCA cycle, but it mainly emphasizes the fact that implementing a QMS should lead to establishment of the, so called, learning organization<sup>264</sup>. This approach makes it possible to test certain solutions and, if those solutions prove ineffective, to change processes to achieve set objectives in the fullest extent possible.



**Figure 4.** Quality circles of the LQW System

**Source:** *Lernerorientierte Qualitätstestierung in der Weiterbildung. Leitfaden für die Praxis*. Expressum Verlag, Hannover 2006, p. 55.

<sup>264</sup> *Lernerorientierte Qualitätstestierung in der Weiterbildung. Leitfaden für die Praxis*. Expressum Verlag, Hannover 2006, p. 57.

The organization that offers LQW System adjusted the system to the needs of other institutions. As a result, 5 systems based on similar requirements were created. In the first quarter of 2008 QMS in the following categories were available (the number of certified organizations is provided in brackets): LQW (585), LQK – for kindergartens (2), LQS – for schools (7), LQB – for individual training courses (no data), KQS – for organizations that offer social services (6)<sup>265</sup>. The number of certified organizations in 4 systems offered (apart from LQW) is still small. The variety of those systems, however, emphasizes the need to develop and offer QMSs that better match the activity profiles of particular organizations.

In order to extend the activities of the organization, negotiations are being held to implement the system in Poland, Bulgaria and Lithuania<sup>266</sup>.

In the education sector, two more certification systems are offered, which are similar to LQW and have their focus on the learning person. The systems are called PAS 1037:2004 and AZWV. PAS, Quality Specification for Distance Learning Providers, was developed for institutions, which provide distance teaching, distance courses of studies with graduation as well as supervised e-learning<sup>267</sup>. AZWV, Recognition- and Admission Regulation of Postgraduate Professional Education, was started by the German Ministry of Economics to safeguard the quality of the postgraduate training, which is financed by the Federal Labour Office and should attune to the requirements of the labour market<sup>268</sup>.

### KTQ System

A German quality management system called KTQ (Kooperation für Transparenz und Qualität im Gesundheitswesen / Cooperation for transparency and quality in the Health Care System) was initiated under the aegis of the German hospital organisation, the health insurance and the German General Medical Council. Experts working in the hospital system developed a process for the assessment of the quality management in hospitals. After four years of development, this process has been used in Germany since 2001.

Initially, this QMS was developed to be used in hospitals. The aim of KTQ is the permanent improvement of processes in the medical service as well as the implementation of all improvements, which would prove advantageous for the patients. The most important document is the so-called KTQ-catalogue. It contains 252 questions, which are subdivided into six subject areas. The first focuses on Patients, others focus on Staff, hospital security, information management, hospital management and quality management<sup>269</sup>. The final result is presented in a scale, for an example see table 1.

<sup>265</sup> Artset, Forschung, Bildung, Beratung, Qualitätstestierung, <http://www.artset-lqw.de>.

<sup>266</sup> Lerner- und Kundenorientierte Qualitätstestierung, Infodienst 83, Artset, Hannover 2008, p. 1.

<sup>267</sup> *Kompendium. Przewodnik i poradnik do wdrożenia i utrzymania PAS 1037:2004*. RKW Brandenburg, Potsdam 2004, p. 5.

<sup>268</sup> Verordnung über das Verfahren zur Anerkennung von fachkundigen Stellen sowie zur Zulassung von Trägern und Maßnahmen der beruflichen Weiterbildung nach dem Dritten Buch Sozialgesetzbuch/Anerkennungs- und Zulassungsverordnung – Weiterbildung – AZWV, „Bundesgesetzblatt Jahrgang“ 2004, Teil I, Nr. 28, Bonn 2004.

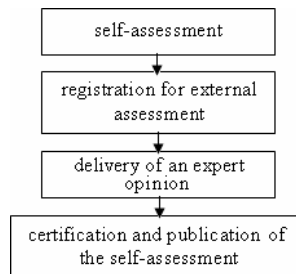
<sup>269</sup> A. Lüthy, G. Dannenmaier: *KTQ für Praxen und MZV – schnell einsteigen und viel Qualität gewinnen*. Deutsche Krankenhaus Verlagsgesellschaft mbH, Düsseldorf 2006.

**Table 1.** Assessment in points in the KTQ System

question	demands not met	achievable points demands partly met	demands fully met	result of an example
question 1	0	1	2	1
question 2	0	1	2	2
question 3	0	1	2	2
final result		max. 6 points		5

**Source:** A. Lüthy, G. Dannenmaier: *KTW für Praxen und MZV – schnell einsteigen und viel Qualität gewinnen*. Deutsche Krankenhaus Verlagsgesellschaft mbH, Düsseldorf 2006, p. 14.

Performing the self-assessment with a maximum of 568 points is the precondition for the delivery of an expert opinion. The phases of the certification are presented in the figure no. 5.

**Figure 5.** Phases of the certification in the KTQ System

**Source:** own representation on the basis of the information on [www.ktq.de](http://www.ktq.de).

According to legal regulations of 2005, fixed in § 137 SGB V, hospitals have to certify their internal quality management<sup>270</sup>. It is their own choice, which method they use to assess the quality. So far it was mostly an ISO-certification, which is steadily replaced or backed up by the KTQ certification. Medical and dental practices also can be certificated by KTQ. Consequently, KTQ is an alternative to the systems Good Dental Practice and Good Hospital Practice<sup>271</sup>.

Due to the increase of the number of certificated hospitals, the conclusion can be made that the QMS have been well-received. During the period from 1998 to 2006, the certification rate of hospitals increased from 10 percent to 26 percent<sup>272</sup>. This can also be seen in medical practices and rehabilitation hospitals.

### CAF<sup>273</sup> System

The quality management system called Common Assessment Framework (CAF) is a common European system. The use of quality management tools and systems, confined to the

<sup>270</sup> Kooperation für Transparenz und Qualität im Gesundheitswesen, <http://www.ktq.de>.

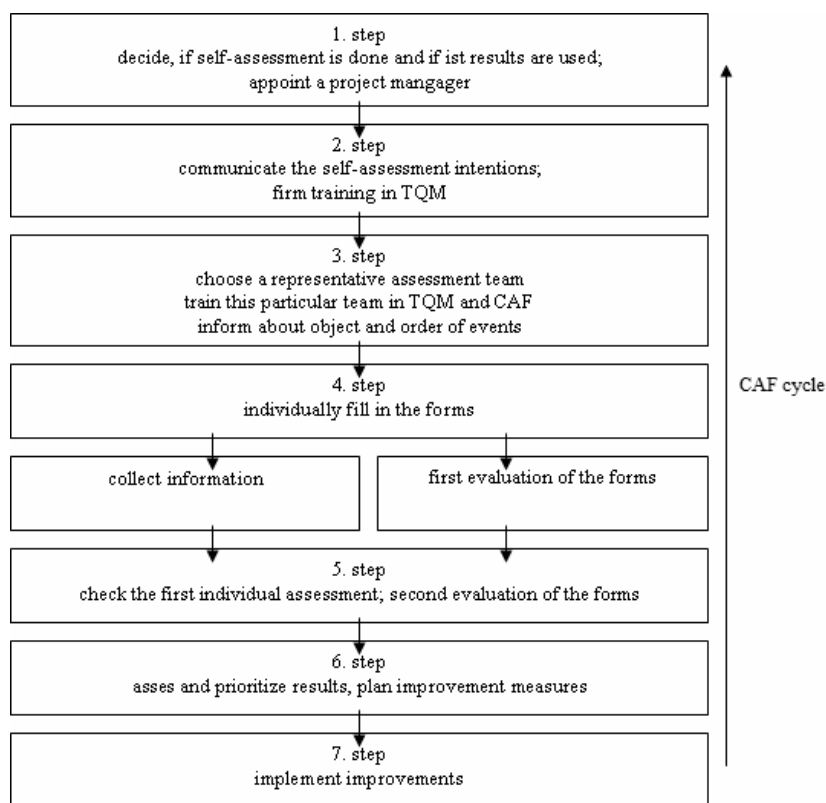
<sup>271</sup> Good Hospital Practice was the first quality management system in the health care system. It was introduced in 1995 and defined the requirements of a good hospital.

<sup>272</sup> Gesundheitsberichtserstattung des Bundes. Datentabellen, Entwicklung des Qualitätsmanagements. Robert Koch Institut, Statistisches Bundesamt, Wiesbaden 2007, p. 68.

<sup>273</sup> All documents and literature sources about CAF can be seen on [www.caf-netzwerk.de](http://www.caf-netzwerk.de) for registered users.

private sector for a long time, has since the early 1990s started to pervade the public sector in Europe as part of its strive for modernisation, better public management, increased performance and a stronger "customer" focus. During the Austrian EU Presidency in the second half of 1998, the possibility of developing a European Quality Award for the public sector was discussed in the framework of the informal meetings of the Director-Generals of the Public Administration of the EU Member States. The basic design of the CAF was developed in 1998 and 1999 on the basis of a joint analysis undertaken by the European Foundation for Quality Management (EFQM), the Speyer Academy, which organises the Speyer Quality Award for the public sector in the German-speaking European countries, and the European Institute of Public Administration (EIPA). First pilot tests were conducted in a number of public sector organisations and the "final" version of the CAF was presented during the First Quality Conference for Public Administration in the EU in Lisbon in May 2000.

At the same time, the Council of Europe advised his members to use this quality management system (QMS). Until 2006, 900 organisations and institutions were certificated in the EU<sup>274</sup>. The self-assessment of the CAF-system is schematically presented in the figure 6.

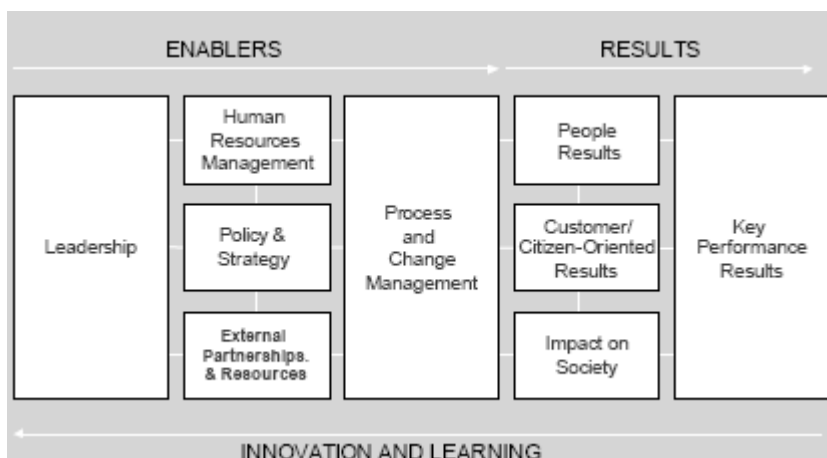


**Figure 6.** Cycle of self-assessment at the CAF System

**Source:** *Guidelines – Verfahren der CAF-Anwendung*. Deutsche Hochschule für Verwaltung Speyer, p. 2.

<sup>274</sup> F. Stein: *Qualitätsmanagement mit CAF*. Deutsches CAF-Zentrum, Köln 2006, p. 26.

The structure and the logic of the CAF (figure 7) have been taken over from the EFQM Excellence Model, well established and accepted in the private sector across Europe and in use in the public sector in several European countries. The logic according to which "Excellent results with respect to Performance, Customers, People and Society are achieved through Leadership driving Policy and Strategy, People, Partnerships and Resources, and Processes" of an organisation was esteemed also to apply to the public sector – and had already proven its worth in the public sector – and therefore remained in place. The CAF also keeps the distinction between five "enabler" criteria, which imply what an organisation does in order to achieve excellent results, as well as four "results" criteria, which implicate what an organisation actually achieves in terms of results. Within the scope of the enabler criteria, organisations should perform most effective processes, which guarantee a highly efficient continuity of the organisation. These processes are assessed with regard to results criteria.



**Figure 7.** Structure of the CAF System

**Source:** A. Stein: *Qualitätsmanagement mit CAF*. Deutsches CAF-Zentrum, Köln 2006, p. 28.

In this scale you can also get 0 to 100 points (table 2). Firstly, the scoring system of the CAF seems to need some refinement and clarification. Organisations have to assess their own performance over the nine criteria on a scale from 1 (no actions/no results measured) to 5 (a permanent quality improvement cycle is in place/results are consistently achieved at the highest level of performance). Some organisations reported having had difficulties in linking their actions or their performance to the descriptions of the different scoring levels provided for in the CAF. They also said it had been difficult to find the indicators or evidence that is needed in view of assessing their performance. Thus there also seems to be a certain need to work on the examples of indicators that the CAF proposes. One option is to work out a standard set of indicators that would facilitate the search for evidence and may also be useful when it comes to the sharing of experiences between public sector organisations.

**Table 2.** Benchmark scale in the CAF System

benchmark scale for quality criteria						
points	0-10	11-30	31-50	51-70	71-90	91-100
evidence	no evidence, vague idea of an evidence	some evidence for some areas	rare, but good evidence for particular areas	good evidence for particular areas	reliable evidence for all parts	extraordinarily good evidence in the whole area in contrast to other organizations
benchmark scale for result criteria						
trends	no result	negative trend	slightly increasing trend	sustaining development	decisive improvement	positive benchmarking in the whole area in contrast to other organizations
points	0-10	11-30	31-50	51-70	71-90	91-100
goals	no or rare information	goals missed	some aims achieved	some important goals achieved	most of the important aims achieved	no or rare information
points	0-10	11-30	31-50	51-70	71-90	91-100

**Source:** Bundesverwaltungsamt, Arbeitsbogen II, stand Juni 2007, pp. 3–4.

Finally, there are some indications that the guidelines for the use of the CAF, which were developed under the French Presidency in the second half of 2000 to give practical advice on how to conduct a self-assessment would also require some improvement, as in parts they seem to be too rigid and too detailed; e.g. in terms of the "usual" size of a self-assessment team or the distinction between an "organiser" – responsible for facilitating the work of a self-assessment team – and the self-assessment team itself.

The most important results of the Common Assessment Framework, however are not the points, that are achieved by the organisation, but the strengths and improvement areas pointed out and the appropriate improvements measures proposed by the CAF.

## Conclusion

From the perspective of the consumer of goods and services, the existence of only one international QMS such as ISO is obviously the best option. On the other hand, however, establishing QMSs specifically to a given country or given spheres of life cannot be avoided. Therefore, in view of the distinct features that distinguish the public services supplied, diversification and adjustment of QMSs to individual requirements and demands of a given domain appears to be necessary. There is also a tendency to adjust ISO standards to the needs of different domains, i.e. ISO training for production, services, and for social organizations.

In consideration of the situation in the labor market and in view of the education quality issues, it should also be made possible to introduce in Poland an integrated quality management system for school learning and vocational training. It is particularly important in the context of developing knowledge-based economy in Poland, and also and even more importantly, in the context of educating personnel that should best match up to the needs of the labor market. Evaluation within the ISO framework would permit assessment and identification of the need to introduce changes.

It is even more important to provide high quality health services, because errors herein may be irreversible. In the context of implementing QMSs in Polish healthcare, the most important tasks are to reform the healthcare system, to find a financing model, e.g. financing from insurance fees with subsidies from the state budget, and to improve the functioning of the healthcare system, which can be combined with promoting implementation of a QMS.

## **NIEMIECKIE SYSTEMY ZARZĄDZANIA JAKOŚCIĄ W USŁUGACH PUBLICZNYCH**

### **Streszczenie**

W niniejszym opracowaniu przedstawiono systemy zarządzania jakością (SZJ) w szeroko rozumianych usługach publicznych w Niemczech. Jako punkt odniesienia w celu stwierdzenia różnic i podobieństw w zakresie podejścia poszczególnych systemów do problematyki ciągłego rozwijania i doskonalenia systemu jakości posłużono się normą ISO jako najbardziej rozpowszechnioną. Z opisanych systemów norma ISO ma najdłuższą tradycję i ponadnarodowy charakter, z tego względu najlepiej nadaje się do analizy porównawczej.

SZJ w usługach sektora publicznego podzielono na następujące kategorie: kształcenie, system opieki zdrowotnej oraz funkcjonowanie organów administracji publicznej. Możliwość wyróżnienia kilku SZJ w administracji publicznej wskazuje na ich różnorodność i dążenie do rozwijania oraz udoskonalania SZJ w kierunku jak najlepszego dostosowania do potrzeb różnych dziedzin życia publicznego.

Głównym celem opracowania jest wskazanie trendu ciągłego przystosowania SZJ do wymogów rynku i potrzeb użytkowników w Niemczech oraz sformułowanie na tej podstawie zalecenia w tej dziedzinie dla Polski.

# *Chapter XII*

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## *KNOWLEDGE MANAGEMENT*



*KAROLINA KITLAS*

## **KNOWLEDGE MANAGEMENT – A CHALLENGE FOR PRESENT COMPANIES**

### **Introduction**

During the last few years it was possible to notice an increasingly growth in an interest in the topic of Knowledge Management (KM). One of the first conferences which brought this topic into the light was “Leveraging knowledge for Sustainable Advantage” which took place in 1995. Since 1997 numerous websites, books as well as magazines have appeared on the market. In fact companies needed several years to become familiar with this topic and to understand the necessity of KM implementation, because what worked yesterday not necessarily may work today or tomorrow. However, as it can be found in literature, while KM in many countries is gaining in popularity, there are still many countries where the topic is quite “fresh” and it is just slowly entering the “awareness” of many managers.

World of business, especially present world of business, is characterized by high level of uncertainty and inability to predict the future. Nowadays it is much more difficult to be uncompetitive on the market than as it used to be e.g. 20 years ago. Today, while competing but also during the “survival” on the market, companies cannot focus only on one of their assets, it is not sufficient any more. Good strategy for present companies is a strategy which includes effective usage of at least couple of assets - with emphasis on crucial role of the knowledge. Presently many firms (but unfortunately still not all) know how important knowledge as well as an effective management of it are while conducting their businesses. Numerous companies try to approach KM in a really professional way, some of them have even created knowledge teams and appointed CKOs (Chief Knowledge Officers) and “knowledge” is firmly on their strategic agenda. However, there are still innumerable companies which seem to not fully understand the concept of KM. They implement KM just for implementing, without any idea for what they are doing it. Very often it is done as a result of: because “others” do it or because they simply want to be up-to-date with what is popular on the market with no other reason. Sooner or later such unaware approach will appear to be fruitless for each of these companies, causing nothing -except immense expenditures. Nevertheless, it should be said here, that good, effective Knowledge Management is not an easy process. From awareness to realization usually takes long, hard way. Moreover, many of firms are still full of doubts whether it is really possible to gain advantage due to knowledge management. As some examples of the companies which have implemented KM

prove - definitely it is. Knowledge Management is quite challenging but with no doubt it can be a key to the success of each company which is ready to face this challenge.

### 1. What the knowledge management is?

Before knowledge management will be defined, it is more important, in the first place, to focus on a definition of the “knowledge”. What we should understand by “knowledge”? Knowledge is defined by different authors in various ways. In accordance with one of definitions, knowledge is built up from interaction with the world, and is organized and stored in each individual’s mind. It is also stored on an organisational level within the minds of employees and in paper and electronic records. Two forms of knowledge can be distinguished: tacit, or implicit knowledge, which is held in a person’s mind and is instinctively known without being formulated into words; and explicit knowledge, which has been communicated to others and is held in written documents and procedures<sup>275</sup>. Another definition says that knowledge is part of the hierarchy made up of data, information and knowledge. Data are raw facts. Information is data with context and perspective. Knowledge is information with guidance for action based upon insight and experience<sup>276</sup>. As we have already become more familiar with the definition of knowledge, now it is right time to explain what knowledge management is.

Knowledge Management is the name of a concept in which an **enterprise** consciously and comprehensively gathers, organizes, shares, and analyzes its knowledge in terms of resources, documents, and people skills<sup>277</sup>. It can be said that KM requires turning personal knowledge into corporate knowledge than can be widely shared throughout an organization and appropriately applied. As **Dr. Yogesh Malhotra**, Founding Chairman and CKO of **BRINT Institute** says, knowledge management focuses on ‘doing the right thing’ instead of ‘doing things right.’ (...) knowledge management is a framework within which the organization views all its processes as knowledge processes. In this view, all business processes involve creation, dissemination, renewal, and application of knowledge toward organizational sustenance and survival<sup>278</sup>.

The concept of knowledge management (KM) embodies a transition from the recently popular concept of ‘information value chain’ to a ‘knowledge value chain. What is the difference? The information value chain considers technological systems as key components guiding the organization’s business processes, while treating humans as relatively passive processors that implement ‘best practices’ archived in information databases. In contrast, the knowledge value chain treats human systems as key components that engage in continuous assessment of information archived in the technological systems. In this view, ‘best practices’ are not implemented without active inquiry by the human actors. Human actors engage in an active process of sense making to continuously assess the effectiveness of ‘best practices’<sup>279</sup>.

<sup>275</sup> *Digital strategy; Glossary of Key Terms*, available at: <http://www.digitalstrategy.govt.nz> (2008.03.22).

<sup>276</sup> The University of Melbourne: *Knowledge base: IT&ITIL based Glossary of Terms*; available at <http://servicedesk.unimelb.edu.au>, (2008.03.21).

<sup>277</sup> <http://searchdomino.techtarget.com> (2008.03.21).

<sup>278</sup> Malhotra, Yogesh *Knowledge Management: Knowledge Organizations & Knowledge Workers: A View from the Front Lines*; January 30, 1998; available at <http://www.brint.com-interview/maeil.htm>, (2008.03.20).

<sup>279</sup> *Knowledge Management: Knowledge Organizations & Knowledge Workers: A View from the Front Lines*, Interview of **Dr. Yogesh Malhotra**, Founding Chairman and CKO of

In an *Information Week* article, Jeff Angus and Jeetu Patel describe a four-process view of knowledge management as follow: (table 1)

**Table 1.** Knowledge management: four-process view

This process...	includes...
<b>GATHERING</b>	<ul style="list-style-type: none"> <li>- data entry</li> <li>- OCR and scanning</li> <li>- voice input</li> <li>- pulling information from various sources</li> <li>- searching for information to include</li> </ul>
<b>ORGANIZING</b>	<ul style="list-style-type: none"> <li>- cataloging</li> <li>- indexing</li> <li>- filtering</li> <li>- linking</li> </ul>
<b>REFINING</b>	<ul style="list-style-type: none"> <li>- contextualizing</li> <li>- collaborating</li> <li>- compacting</li> <li>- projecting</li> <li>- mining</li> </ul>
<b>DISSEMINATING</b>	<ul style="list-style-type: none"> <li>- flow</li> <li>- sharing</li> <li>- alert</li> <li>- push</li> </ul>

**Source:** SerchDomino.com Definitions, [http://searchdomino.techtarget.com/sDefinition/0,,sid4\\_gci2124-49,00.html](http://searchdomino.techtarget.com/sDefinition/0,,sid4_gci2124-49,00.html).

One of the main aims of each company is to create a value. Each company can create it by using different assets as follow: physical, financial, employee and suppliers, customer, and organizational.

However, in today's information economy, companies have come to realize that their major business assets are, as Rosabeth Kanter describes them:

- concepts (i.e. ideas, designs, etc.);
- competence (i.e. the ability to execute);
- connections (i.e. close relationships that allow for the augmentation of resources and the leveraging of one's abilities)<sup>280</sup>.

Recently some companies, while they are more aware of crucial role of these assets mentioned above, try to convert them into their strengths in order to gain advantage over their competitors. However, what is important, is that good, integrated management system is required here, without which to gain benefits from these assets is rather impossible.

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**BRINT Institute**, by the Knowledge Management editor of the largest Korean business newspaper: "Maeil Business Newspaper", available at: <http://www.brint.com/interview/-maeil.htm>, (2008.03.10).

<sup>280</sup> Kanter, Rosabeth Moss: *World Class*. Simon & Schuster, New York 1995. In: A. Alliance: *Knowledge Management as an Economic Development Strategy*; April 2001, available at: <http://www.athenaalliance.org> (2008.03.22).

As research done by David Skyrme Association shows, companies adopt two broad thrusts in applying knowledge management:

1. Sharing existing knowledge better - making implicit knowledge more explicit and putting in place mechanisms to move it more rapidly to where it is needed;
2. Innovation - making the transition from ideas to commercialization more effective.

Knowledge management programmes typically have one or more of the following activities:

- appointment of a knowledge leader - to promote the agenda, develop a framework;
- creation of knowledge teams - people from all disciplines to develop the methods and skills;
- development of knowledge bases - best practices, expertise directories, market intelligence etc.;
- enterprise intranet portal - a 'one-stop-shop' that gives access to explicit knowledge as well as connections to experts;
- knowledge centers - focal points for knowledge skills and facilitating knowledge flow;
- knowledge sharing mechanisms - such as facilitated events that encourage greater sharing of knowledge than would normally take place;
- intellectual asset management - methods to identify and account for intellectual capital<sup>281</sup>.

## 2. Implementation of knowledge management – a big step forward to the success

Traditionally, strategic management models have defined the firm's strategy in terms of its product/market positioning—the products it makes and the markets it serves. However, recently more up-to-date seems to be the resource-based approach which suggests that firms should position themselves strategically based on their unique, valuable resources and capabilities rather than the products and services derived from those capabilities. While products and markets may come and go, resources and capabilities are more enduring. However, competitors may imitate or develop a substitute for the resources. The only superior resource that is not easily imitable is knowledge. Usually, it is developed over years through experience, and it lies in the heads of people and organisational processes. That it is why the knowledge can be considered the most important strategic resource. It can be said, that managing knowledge effectively enhances the organization's fundamental ability to compete, to gain advantage but also enable to make the advantage sustainable. Knowledge, especially context-specific tacit knowledge embedded in complex organisational routines and developed from experience, tends to be unique and difficult to imitate. Unlike many traditional resources, it is not easily purchased in the marketplace in a ready-to-use form. To acquire similar knowledge, competitors have to engage in similar experiences. However, acquiring knowledge through experience takes time, and competitors are limited in how much they can accelerate their learning merely through greater investment<sup>282</sup>.

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<sup>281</sup> David Skyrme Associates: *Knowledge management - making sense of oxymoron*, Insight No. 22, available at: <http://www.skyrme.com/insights/> (2008.03.24).

<sup>282</sup> Based on R. Umamaheshwari: *KM, business strategy and competitive advantage*, available at: <http://www.expresscomputeronline.com> (2008.04.11).

Very generally it can be said, that the fact of being uncompetitive on the market is very often a result of many, smaller improvements or advantages gained by companies earlier due to implementation of KM.

Here are some of the main reasons why KM is worth to be implemented:

- **Globalization and competition** - many organizations rely on knowledge to create their strategic advantage. With available knowledge widely dispersed and fragmented, organizations often waste valuable time and resources in 'reinventing the wheel' or failing to access the highest quality knowledge and expertise that is available.
- **Knowledge can command a premium price in the market** - Applied know-how can enhance the value (and hence the price) of products and services. Examples are the 'smart drill' that learns how to extract more oil from an oil field, and the hotel chain that knows your personal preferences and so can give you a more personalized service.
- **Restructuring and downsizing** - Without effective mechanisms in place to capture knowledge of experienced employees, organizations make costly mistakes or have to pay again for knowledge they once had on tap.
- **Sharing of best practices** - Companies save millions a year by taking the knowledge from their best performers and applying it in similar situations elsewhere.
- **Successful Innovation** - Companies applying knowledge management methods have found that through knowledge networking they can create new products and services faster and better<sup>283</sup>.

From reasons for implementation of knowledge management listed above, it can be interfered that implementation of KM can cause nothing except benefits for companies. Although still many managers despite the fact of being conscious of the advantages for a firm due to KM, hesitate whether implement knowledge management in their companies or not, many of innovative companies have long appreciated the value for KM.

For example thanks to Knowledge Management, Coca-Cola has been able to sustain its number one position. This is how Charles Schwab or Polaroid took the world by surprise and created new value for the customer. There are many more such examples where companies have leveraged knowledge. One good example is how Xerox survived all these years—it was their knowledge of making copiers. Japanese companies overtook many American companies through their innovative products and knowledge. It took almost a decade for American companies to recover from the Japanese onslaught<sup>284</sup>.

Unfortunately, there is no uniform "recipe" for implementation of successful knowledge management to follow. Nevertheless while analyzing history of the companies mentioned above and their road to their success due to KM, it can be found, that there are some conditions which each firm have to grant in order to gain benefits from implementation of KM and without which there is a slight chance for being successful.

These key conditions are:

- clearly defined: vision, mission and strategy of the company;
- all KM implementations should start with a clear goal of complementing business strategies and goals;

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<sup>283</sup> David Skyrme Associates: *Knowledge management - making sense of oxymoron*, "Insight" No. 22, available at: <http://www.skyrme.com> (2008.03.24).

<sup>284</sup> Based on R. Umamaheshwari: *KM, business strategy and competitive advantage*, available at: <http://www.expresscomputeronline.com/20061113/management02.shtml>, (2008.04.11).

- and the most important condition, and perhaps one of the most difficult at the same time to be granted - readiness of the whole company, its culture and especially its employees to accept the idea of KM implementation, and moreover the common understanding and approval of the way it is going to contribute to a success of the company (as Dr. Dan's Daily Dose says: Successful KM implementation is not about what is the best initial effort or even about what or how to measure. Rather, it is all about the organization and its people, and the culture that they together create and the change that will be necessary to allow for the successful implementation).

### 3. Why Knowledge management is so difficult?

Whole idea of KM and its implementation for some managers still seems to be quite unclear. Many organizations still find it "too fresh" and their actions usually from the very beginning are doomed to failure. Why "knowledge management" is so problematic? Recently this question became as popular as the topic of KM. There are many reasons, but after many years of talking about it, specialists in this field indicate 5 the most common problems as follow:

1. organizations do not sufficiently recognize they are already doing it;
2. knowledge is treated the same as information;
3. information technology is often regarded as a substitute for social interaction ;
4. most knowledge management solutions look like traditional techniques;
5. first organizations need to understand what they want to achieve<sup>285</sup>.

In accordance with the first point above, too often a KM system is designed without consideration for the knowledge sharing already taking place.

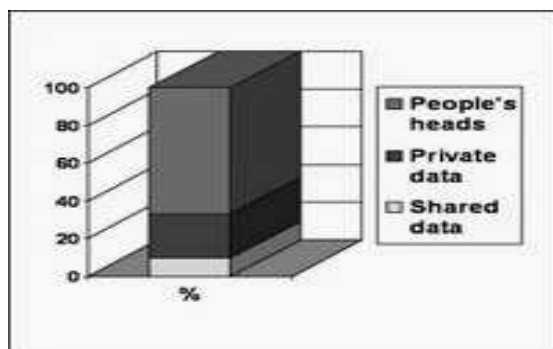
Informal social networks are present in each organization. Although they are very rarely documented, or not at all, they existence cannot be denied. Actually they are where the majority of knowledge flows. People have a tendency to keep with and to come back to the same people they know or trust. This can lead to exclude people they do not know, but who may have better knowledge to share. Very generally it can be said here that the flow of knowledge is not necessarily equivalent to the quality of knowledge. One of the possible responses for this problem would be an attempt to identify social networks and profiling skills which could make easier to find proper people to consult regardless of their inner-circle membership. It would help to improve the quantity and quality of knowledge flow through the organization. As many researches proved, we are still more likely to ask person than a system for the answer to the question (3 times more likely, According to Gartner, at their European Symposium in May 2005).

The second and, as specialist in this field say, the biggest problem is that still knowledge is treated the same as information.

Nowadays organizations still dedicate too much time, resources and money to the pursuit of managing accessible information (see figure 1) - the shared data in the chart, approx **10%** of corporate knowledge, often at the expense of simpler and more effective solutions that focus on helping people find each other and work together.

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<sup>285</sup> Joining dots: *Why is KM so difficult*. December 01, 2005, available at: <http://www.joiningdots.net/blog/2005/12/why-is-km-so-difficult.html>, (2008.03.20).



**Figure 1.** Percentage of shared data, private data and data as well as tacit knowledge stored in individuals heads within a company

**Source:** <http://www.joiningdots.net/blog/2005/12/why-is-km-so-difficult.html>, (2008.04.11).

The simple example of such situation is e.g. a department of AT&T which spent \$79,449 to get information that could be found in a publicly-available AT&T technical information document priced at \$13<sup>286</sup>. It is a pity to say that, but such situations are still quite common in numerous companies.

Third problem is that information technology is often regarded as a substitute for social interaction. The following assumptions are common in present firms:

- the “e-lance” economy – individuals will work as freelancers rather than as members of firms;
- telecommuting will replace traditional forms of commuting;
- the “Paperless Office”.

So why most of them have not succeeded?

The first two fail because of crucial element of human nature. We are social animals. We are very into sharing experiences, gossiping. We do like the feeling of belonging to a group. It happens very rarely that someone when asked for an advice, does not offer it willingly.

At first all of these assumptions seem to be beneficial for everyone in the organization. However, they lead to losing the most powerful source of learning, of using and generating knowledge.

Also the third phrase is a quite clearly beneficial by converting many bureaucratic processes to electronic ones but the question is whether it is possible to completely eliminate paper? For sure not- moreover, for some uses paper was invented.

Another problem is that most knowledge management solutions look like traditional techniques. With no doubt a paper-based file is not the same as an electronic record. A virtual meeting is not the same as a real one. Too many KM systems have tried to take a physical form, activity, whatever and simply replicate it online assuming that exactly the same processes will continue to apply. At first the physical and virtual worlds may seem similar, but they are not identical. To use technology to manage knowledge (and information) often means developing

<sup>286</sup> R. Umamaheshwari: *KM, business strategy and competitive advantage*, available at: <http://www.expresscomputeronline.com> (2008.04.11).

new tools and eliminating old ways of working. If organizations are not prepared to change the process then they should reconsider whether or not to change the tool.

Finally companies need to know and understand what actually they want to achieve. Too many attempts at KM still fall at the first hurdle, as identified by McKinsey in their 2001 global survey on knowledge management:

“Without knowing how to apply knowledge, there is little point in worrying about cultivation and distribution” I continue to be amazed by how often people struggle to articulate the reasons why they are investing in KM systems. Fluffy descriptions such as “to make it easier to find information” or “to help people collaborate” are usually given. ‘So what?’ is my usual response. What’s the point in being able to find information if you don’t know what to do with it. To succeed, each company needs to be able to define how the KM system will benefit the business. Well defined reasons help ensure that investment in KM is focused on what the business needs and provide metrics that can help measure the return on investment once the system is in use<sup>287</sup>.

## Conclusion

Era of an information economy is creating for companies new challenges but also many new opportunities at the same time. Nowadays knowledge and information play an increasingly important role in present economic activity, thus in today’s environment to manage knowledge effectively is somehow- mandatory. Presently the ever-mobile workforce needs instant access to know-how and interactive online support. Cost pressures force organizations to benefit from lessons learned in the past and reduce the re-invention of the wheel. Globalization compels companies to create global best practices and support global collaboration.

Nevertheless, the tools and techniques of Knowledge Management are nowadays available for entrepreneurs in order to help them to face this new environment. The question is: whether they are willing to use them? What is more, these tools can be also used by economic development organizations to enhance the external communications of local companies, including for e-commerce and marketing. They can benefit from KM but also while promoting the use of KM tools and techniques they can help local businesses capture and utilize their knowledge and information assets.

Knowledge management can be a powerful tool in a support of an individual company development but as well as in economic development in general—but only if companies can harness its power to the unique needs of economic development activities. Nevertheless numerous companies still need to get used to a new way of operating, need to learn and experiment with these tools and techniques. However, managers should be encouraged and supported in their efforts to use and tailor these tools to meet their own needs—and what is more to be encouraged to share their successes and failures. The information economy is not about the information technology industries. It is about the use of information and knowledge—formal and tacit—in economic activities. Knowledge Management tools and techniques can provide the foundation upon which to build successful individual businesses but what is more to build successful local information-age economy at the same time.

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<sup>287</sup> Based on Joining dots: Why is KM so difficult? December 01, 2005, available at: <http://www.joiningdots.net> (11.04.2008), pp. 7–9.

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## **ZARZĄDZANIE WIEDZĄ – WYZWANIE DLA WSPÓŁCZESNYCH PRZEDSIĘBIORSTW**

### **Streszczenie**

Artykuł wyjaśnia znaczenie coraz powszechniej stosowanego pojęcia „zarządzanie wiedzą”, wielokrotnie używanego w odmiennych kontekstach znaczeniowych, kreowanego przez praktyki badawcze tak odmiennych metodologicznie nauk, jak z jednej strony informatyka, a z drugiej teoria zarządzania czy też nauka o administrowaniu.

W pracy wyjaśniono termin „wiedza”, wskazując tym samym, iż zarządzanie informacją nie jest tożsame z określeniem zarządzanie wiedzą.

Głównym celem tej pracy jest wskazanie potencjalnych korzyści jakie mogą uzyskać organizacje, decydując się na implementację „zarządzania wiedzą”. W pracy wskazano również najczęściej popełniane błędy przy wprowadzaniu „zarządzania wiedzą”, które nie powinno być realizowane ani w pośpiechu, ani dlatego że jest modne.



# *Chapter XIII*

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## *TOURISM MANAGEMENT*



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## **SPECIFICITY OF AGROTOURIST FARM MANAGEMENT**

### **Introduction**

Agrotourism next to agriculture plays greater and greater role in economic and social transformation on rural areas. It is based on natural environment and cultural values as natural base for development. It also gives substantial economic values which stimulate rural farm development and improve technical and economical infrastructure. However it can not be treated as remedy for all rural and Polish agricultural problems but it gives many benefits. Agrotourism gives also possibility of making friendships, speaking foreign languages, meeting people with various professional lives. Making use of such possibilities influence on unemployment rate and confirms of great chance and possibilities of development in 'relaxation' industry on rural areas. Researches carried on in different regions of country confirm increasing popularity of unconventional rest such as agrotourism. It is also treated as a part of process of multifunctional rural areas' development.

Many studies in tourist and agrotourist areas have been carried in Poland so far. But the issue of agrotourist farm management was neither presented in articles nor books in nationwide range, which makes serious gap in tourism area. Researches made confirm that agrotourism will play greater role in rural areas development. The phenomenon will escalate as Polish families financial situation improves. Spending spare time in attractive, natural, clean and unpolluted environment is every citizen wish.

It is thought that development of agrotourist farm will entail greater accessibility to cheap rest to less wealthy citizens in particular reach in natural resources areas. This is why appropriate management of agrotourist farm should play crucial role. Specificity of such of management is based on client's and owner's satisfaction.

The aim of the article is to present the mechanism of management which will be reflected in tourists' relaxation process and profitability of agrotourist farm. If the management is effective it will be reflected in bigger income and greater wish for its running. Effective management should be associated with possibility of the increase in domestic and international tourists move on rural area.

## 1. The essence of management

Effects of a tourist entity's activities depend on qualifications, skills and managers' work. Management is a group of people who set up, start the activity of subordinates, stocks and capital. Probably everyone will agree with accuracy of following statements:

- almost all success of tourist entities might be assigned directly or indirectly to good management;
- almost all failures of tourist entities might be assigned directly or indirectly to inadequate management.

There are numerous definitions of management but the most frequent understanding of management is implied to be coordination of collective results to achieve one goal. To sum it up, management consists of all undertaken action that helps to accomplish some tasks making use of people efforts and contribution. Human and material resources, finance, production, areas and even each personality are manageable.

According to F.W.Taylor<sup>288</sup> this is precise recognition of people's needs and making use of that in the best and cheapest way. According to other specialist R.W.Griffin<sup>289</sup>, management is a group of activities such as: planning, decision making process, organization, human management and control focused on organization's resources (human, financial, material and informative) to successfully achieve certain benefits. Management of tourist object could be defined as a set of activities such as planning, motivation, undertaking decision and organization which should improve the quality of services provided, costs' reduction, achieving goals in efficient and effective way in accordance with social rationalization of economic activities.

Management of agrotourist farm constitutes of specific domain of decision making processes oriented on real processes course in tourist economy of given country, region or region of tourists' reception. In such management domain there is a need of taking into consideration specific interaction on ecosystems and pro-ecological activity on reception areas.

It includes also many aspects, problems, issues and questions. It is worth adding that agrotourist farm is regarded to be micro-company and decisions are taken by one or two persons. Despite that fact there are numerous regulations and legal acts, which might help to manage such a farm.

## 2. Organization of agrotourist farm

Organization of an agrotourism farm is not regarded to be a complicated process but it needs taking many courageous decisions and strong measures. Each founder should evaluate localization, first taking into consideration close attractions and external surroundings. Appropriate localization is a half of success. Currently there are many places where houses are left inhabited and which might be used to run agricultural activity.

To start such an activity it is essential to be occupant of agricultural farm area of which should exceed 1 hectare of rural farm. Tourists should be accommodated in residential building, admitted by administrative decision to residential usage located within agricultural farm. Agricultural farm should be situated on rural areas (outside municipal borders).

The first action to be done is to deliver application for registry into registry office destined for objects delivering hotel services but not being a hotel object (hotel, motel, guesthouse,

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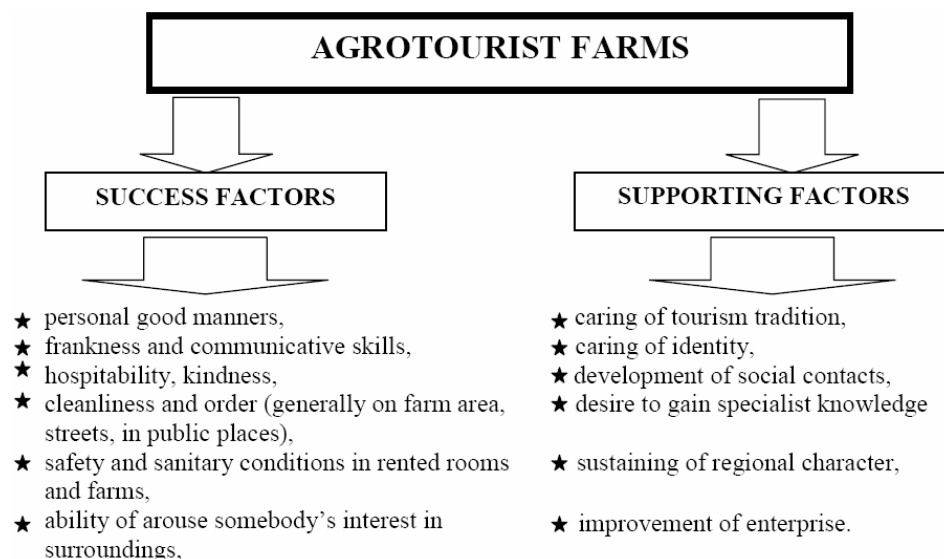
<sup>288</sup> F.W. Taylor: *Shop management*. Harper and Row, New York 1903.

<sup>289</sup> R.W. Griffin: *Podstawy zarządzania organizacjami*. PWN, Warszawa 1999.

camping, excursion house, youth hostel, hostel, campsite) in accordance with legal act issued on August 29, 1997 on tourist services into a commune office with treasury fee. Commune office might check whether a farm fulfils requirements given in legal acts. Then the owner is given the certification that confirms the entry into economic activity registry.

The next step is to apply for REGON to Statistics Office needed for short term accommodation. REGON given should be submitted to commune office in aim to confirm with original document. Having mentioned activities done, commune office enters agrotourist farm under appropriate number with name submitted by beneficiary. The owner of such a farm who rents rooms to tourists may be excused from income tax and VAT. Tax exemption concerns also income received from feeding guests. Situation described entitles to property tax exemption. The owner of an agrotourist farm should also render habitable in infrastructure in accordance with Ministry of Economy and Labour's Decree on August 19, 2004.

Tourist object should be marked in accordance with establishment of Polish Rural Tourism Federation "Hospitable Farms". Success of tourist activity is based on several factors (Figure 1).



**Figure 1.** Agrotourist farms development factors

**Source:** own elaboration.

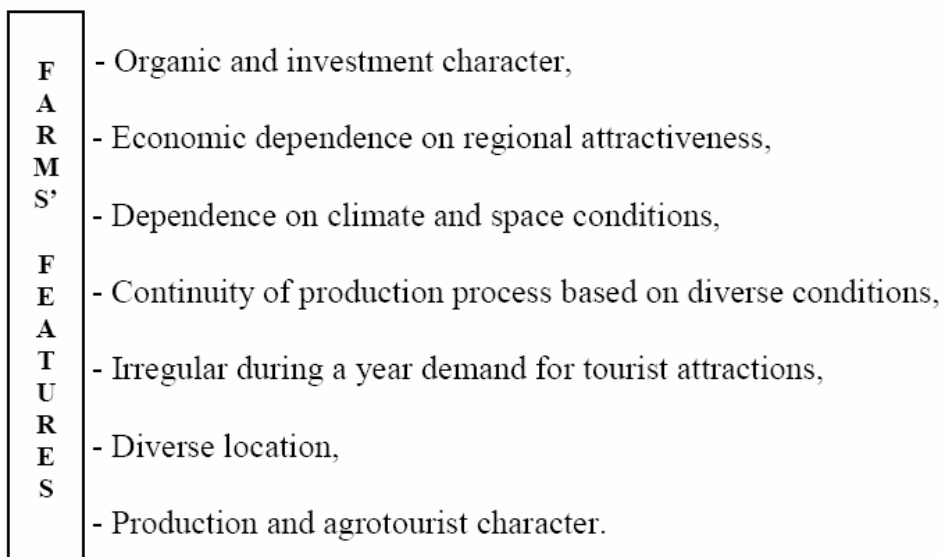
The owner of agrotourist farm may apply for category awarding of object's services standard. Applying for such a category Polish Rural Tourism Federation "Hospitable Farms" should be informed (fee in the amount of 350 PLN concerns members of agrotourist organizations and 700 PLN others is to be discharged) in accordance with statute of rural lodging place classification. Conducting of inspection mentioned and classification process should be completed within a month.

### 3. Features and functions of agrotourist farms

Each agrotourist farm should be characteristic of attraction, should offer diverse forms of spending spare time. Period of intensive tourist movement coincides with intensive field works on

rural areas that is why the process of welcoming guests should be deeply analyzed and tasks division should be prepared to share time and work between guests and field work. Types and forms of activities offered by farm owners should be dependent on quantity of guests, their interests and period of visit.

Important asset of each agrotourist farm is the ability of preparing delicious and regional home-made dishes. In menu construction (everyday and seasonal) diversity of dishes and their unique appearance should be promoted. It is also important to prepare appropriate quantity of soft drinks especially during hot days and high temperature seasons. Agrotourist farm irrespective of legal form and ownership forms obtains some specific features which are presented in Figure 2.



**Figure 2.** Features of agrotourist farms

**Source:** own elaboration.

Organic character of agrotourist farm is the result of connections and dependence between its particular elements. In other words, this is a socio-technical system that consists of productive, economical, technical and social connections, resulting from reciprocal social relations formed between farms, clients, institutions, organizations and other economical subjects.

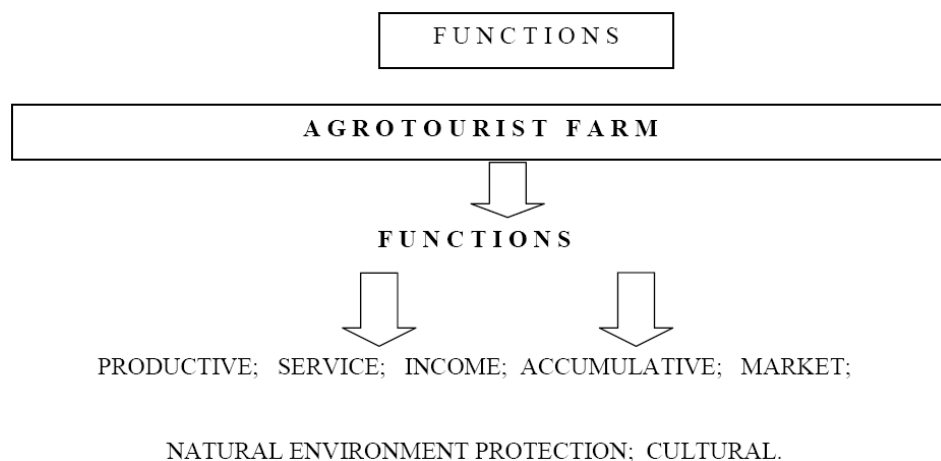
Investment character is the result of substantial processes arising in agriculture and tourism, where in the majority of cases we face time shifts between capital expenditures and income. It is rather common situation that constant clients appear within long time horizon (months or even years) and appear to be obligate condition for investment and at the same time condition for outstanding services.

Dependence on attractiveness emerges from farm location, tourist values and showplaces within the region. The more attractive is the agrotourist farm the more often tourist product is bought, which leads to household budget increase. Region's, district's attractiveness is a must of well prospering agrotourist farm.

What is more, dependence on climate, landscape and spatial conditions is also substantial, because of agricultural, especially vegetable production, which is run in open space and uncontrolled natural environment. Mentioned factor increases uncertainty and production risk. It may be easily reflected during tourists stay on the farm as they are willing to participate in production processes not even having experience in that field, for example: as a helping hand in hay, potatoes, fruits and vegetables gathering or even participating in harvest process.

Continuity of production processes taking into consideration diverse atmospheric conditions leads to irregular demand for working force. Each agrotourist farm has additional, specific attributes. One of which is farm unity – agricultural, domestic character which is reflected by running one ‘cash-desk’. The situation described is typical to family run business, where family members work simultaneously and most of the products made are directly consumed by family members and incoming guests, which has an influence on products’ sale reduction. The virtue of such condition especially in the middle of tourist season is definitely family members’ desire to work harder and longer, which normally could not be expected from hired workers. In case of such farms, owners, users work together with family members, hired workers and other workers eager to help guests.

Irregular demand for tourist attractions is connected to seasonal nature of works and intensity of tourist movement. Higher demand could be noticed during summertime and good weather, weaker in remaining seasons. Tourists’ inflow generally increases demand for food, drinks, detergents and accommodation. Analyzing agrotourist farm features it is worth to pay attention to its functions. The most crucial ones are reflected below, see Figure 3.



**Figure 3.** Agrotourist farm functions

**Source:** own elaboration.

The most popular definition of ‘function’ in economics is taken from mathematics, which considers function as a set of relations between two (or more) set of elements<sup>290</sup>.

<sup>290</sup> *Ekonomika turystyki*. A. Panasiuk (ed.). PWN, Warszawa 2007.

Productive function is tightly related to income one. Farms through production, own agricultural products' sale and delivering agrotourist services receive income which may be allocated to cover all business related cost and for private needs. Subject mentioned should receive such an income to satisfy family and all their needs. Unfortunately not all of them manage. Additional source that may somehow upgrade domestic budget is then agrotourism.

It is worth mentioning that agrotourist farm should be safe, functional and aesthetic. Its exterior and equipment should remind of originality and specific, as most of farms on rural area. It is advised to utilize natural building materials, such as stones or wood. Even the most beautiful metal fence or pales will not make such impression as wicker fence or hedge. All guests like flowers planted in wooden boxes or barrels, historic ladder cart, mills, castles, windmills, palaces, old already dry wells. When it comes to children they have good fun on wooded farms, where they have chance to climb trees, with lots of lawns and sand.

Agrotourist farm is also a working place to its owner and family members. It is advised that size and type of business run assure of full and harmonious usage of workforce. Farmers have rather limited influence on their farm size. They have definitely more influence on type of activity run and therefore have chance to rational workforce usage.

Accumulative function is related to increase of property wealth. Technical progress force to introduce new and more expensive machines and appliances. Market expectation make farmers increase the magnitude of production and services offered.

As recently noticed, more attention is paid to new agrotourist farms' function which is natural environment protection. Especially European countries allocate significant financial funds on the mentioned aim. When it comes to Poland, environment protection is more and more popular among farms' owners. New landscape parks and areas of protected landscape are set up, coal boilers tend to disappear and are being replaced by more environment friendly ones, and there is also constant increase in new water-supply and sewage systems installations.

Income function tends to be associated with main aim which is maximization of farms' income. But recent researches revealed that farm owners do achieve not only one goal but few simultaneously. Goals achievement has rather specific character: farmsteads' construction, recreation installations' building, increase of farm area, purchase of new machines and appliances, farm modernization by attracting tourists' crowds.

#### **4. Agrotourist farm management systems**

Agrotourist farms more and more frequently are facing the necessity of adjustment their businesses to clients' expectations, competitors and legal requirements' intensification. To catch up all mentioned changes in tourist business environment efficient management is needed. Efficiency of each farming subject activity is dependent on abilities, skills, qualifications and personal contribution of each manager.

Management has its own clear specificity that is the result of environmental conditions and on the other hand attribute of tourist product, which actually is regarded as service. Important character of tourist product is its complementarity as it concerns the set of material and non-material goods with system configuration. Complementarity plays an important role in the case of tourism. If of one link in the set of whole chain failures, it may cause tourists' disappointment.

Effective management of agrotourist farm is possible due to complete understanding of agrotourism concept as a social and economic phenomenon. Making appropriate decision in management area is based on conscious selection of possible options. Each decision is composed

of several stages such as: analysis, forecast, setting aims, ways to its accomplishment and control of action taken. Specific role is assigned to farm owner. The owner is the person who sets up, actuate and inspire subordinates, objects and capital. Managerial system of agrotourist farm is based on its owners' competences. Such advantages as managerial skills, observation skills, creativity, leadership, and way of solving problems should stay in correlation with behavior manners.

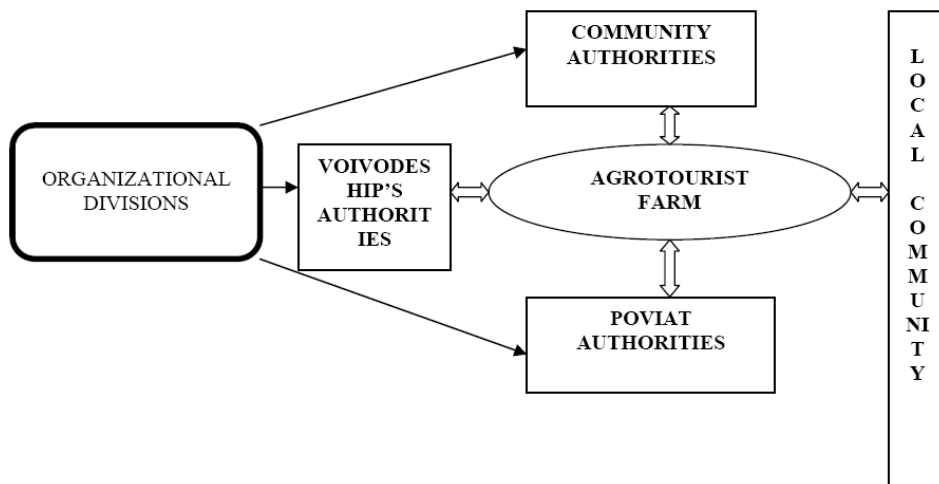
The owner of a farm is responsible for planning, organization and is regarded to be the main decision-maker in the case of own business enterprise, although family members are also part of decision-making process which make up all this chain specific way of management. Substantial role is assigned to solving problems. It is concentrated on choosing rational solution, called decision. Decision is basic link of each organization managerial system. This is a place where connections and interaction of all members is shown. The quality of management and effectiveness is dependent on its legitimacy.

Farm management is based on previously constructed plan which directly delivers information on activity targets, ways to its achievement, profitability, responsibilities, costs and deadlines. It could not be said straightforward that current management is based on certain principles. More efficient seems to be organized activity with the help of local government representatives, communes or districts. Since now, the structure does not take into consideration people that are responsible for agrotourism development in communes, districts and voivodships. Setting up organization structures which look after agrotourism development in each region are then worth considering. Such a unit would be responsible for:

- tourism, agrotourism, ecotourism and eco-agrotourism ideas promotion,
- undertaking and supporting social, economic, ecologic, scientific, cultural and other initiatives, which influence on communes, districts and voivodships development and especially on agrotourism,
- intensifying people's attitude and arousing new motivations,
- issuance and delivering advertising materials,
- agrotourism media promotion,
- natural, environmental, cultural, values, historic building promotion,
- stocktaking; cataloguing, reservation of various lodging places,
- agrotourism farms owners' training.

Agrotourism farms owners practically are not able to organize and finance agrotourism services promotions and sales. It is rather not expected that farmers apart from running their business activity, delivering services to guests, actively are taking part in market, competitors' analysis, advertising materials' distribution and sales. Such an attitude requires expert knowledge and additional financial funds.

Setting up organizational divisions on three mentioned tiers will definitely improve the quality of given services and therefore will increase the number of guests willing to spend their holiday on rural area.



**Figure 4.** Organizational solutions in management of agrotourist farm

**Source:** own elaboration.

It is worth benefiting from the biggest number of distribution channels. The bigger number of such channels the greater probability that client will choose our offer. Farm owners' cooperation with organizational divisions should lead to increase in promotion that may cause agrotourist offer reach bigger cities and agglomerations.

Almost total success of farms' business activity may be indirectly or directly assigned to good management and all failures – to incorrect decisions. To sum it up, management consists of all undertaken actions to complete certain tasks which need agreement and other people's effort. Managers on different tiers achieve different goals set by group of people by organizing their work not only by participating in all works.

## Summary

Management of agrotourist farm is specific process as its effects are dependent on group of factors. Owners' and family members' managerial skills, attractiveness of area, farm's attractions, climate and other factors play substantial role in whole process.

To endow agrotourist farm development, local authorities' (community, poviats, voivodship authority) help is crucial. Such structures should be set up. It is required because of increasing interest in such a recreation way on rural areas and number of agrotourist farms in all voivodships in country.

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## **SPECYFIKA ZARZĄDZANIA GOSPODARSTWEM AGROTURYSTYCZNYM**

### **Streszczenie**

Referat jest próbą przedstawienia problematyki zarządzania gospodarstwem rolnym, które podejmuje świadczenie usług agroturystycznych. W treści przedstawiono następujące grupy zagadnień: podstawy zarządzania w agroturystyce, organizację funkcjonowania gospodarstw agroturystycznych, cechy i funkcje agroturystyki, system zarządzania gospodarstwem agroturystycznym. W podsumowaniu stwierdzono, że zarządzanie agroturystyką zależy od wielu czynników, zarówno o charakterze zewnętrznym (np. działalności instytucji wspomagających rozwój agroturystyki) jak i wewnętrznym (np. lokalizacji, wielkości i struktury działalności gospodarstwa).



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## TOURISM ECONOMY MANAGEMENT IN THE CONDITIONS OF SUSTAINABLE DEVELOPMENT

### Tourism economy

All range of actions, appliances and means aiming at fulfilling needs created by tourists is called tourism economy. In Polish literature, despite continuing discussion on interpretation and range of "tourism economy" concept, most authors agree in general with the definition of W.W. Gaworecki, who describes tourism economy as "... *complex of varied economic and social functions developed directly or indirectly in order to fulfill growing human need for touristic goods and services*"<sup>291</sup>. That definition underlines complexity of tourism economy and its tight relation to the process of touristic consumption, similar to the definition formed by A.S. Kornak and A. Rapacz describing tourism economy as "*a group of varied functions developed directly or indirectly in order to fulfill people's need related with and resulting from their willingness for participation in particular forms and kinds of tourism and relaxation*"<sup>292</sup>.

In a system approach, tourism economy is defined as a system of correlations emerging during the process of fulfilling tourists' needs, correlations between institutions and organization realizing the process<sup>293</sup>. This system includes all activities aiming at fulfilling touristic demand, from natural environment adaptation for the needs of touristic movement to creation conditions enabling tourism development. There can be differed three basic subsystems (aggregates, functional units): coordination and management, material-supply and operational, linked together by means of horizontal and vertical connections. System of tourism economy is in a constant, mutual interaction with touristic demand formed by the amount and structure of signalized needs. System of tourism economy influences the amount, kind and character of touristic demand while touristic demand significantly influences activities taken up within tourism economy.

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<sup>291</sup> W.W. Gaworecki: *Turystyka*. PWE, Warszawa 2003, p. 161.

<sup>292</sup> A.S. Kornak, A. Rapacz: *Zarządzanie turystyką i jej podmiotami w miejscowości i regionie*. Wydawnictwo Akademii Ekonomicznej im. O. Langego we Wrocławiu, Wrocław 2001, p. 11.

<sup>293</sup> A. Nowakowska: *Gospodarka turystyczna w ujęciu systemowym*. „Folia Eeconomica Cracoviensia” 1988, Vol. XXI, pp. 169–171.

Internationally, a concept of tourism economy (Travel and Tourism Economy) was presented by the World Travel and Tourism Council (WTTC) and covered these kinds of activities that were “*pointed out by widely understood touristic demand not only on goods and services of direct touristic consumption but also these kinds of economic activity which are tightly or partly dependent on tourists movement and activities which development wouldn't be able (or would be significantly limited) without tourism*”<sup>294</sup>.

Tourism economy appears in all spheres of economy: production of goods and services, their division, exchange and consumption<sup>295</sup>; it appears also in most of the national economy branches, which bigger or smaller part of actions refers directly or indirectly to the realization of touristic demand. Nevertheless tourism economy is not an independent sector like building, trade, transport or health service. It is a collective concept comprising those fragments of national economy sectors, which create goods and services for tourism, fragments which are connected to each other and to other fragments of national economy<sup>296</sup>.

According to the recommendations of the World Tourism Organization (WTO) 10 from 17 economy sectors are included in the wide range of activity of tourism economy. Standard International Classification of Tourism Activity (SICTA<sup>297</sup>) differs the following parts of economy totally or partly connected with tourism: building industry, wholesale and retail trade, hotels and restaurants, transport, storage economy and communications, financial intermediation, real estate service, rent and other activity, related with business running, public administration, education, other service activity (communal, social and individual), international organizations and institutions<sup>298</sup>.

Besides mentioned economy sectors, in which the elements of tourism economy are directly placed, tourism position can also be find in the other sectors.

In a classic classification of tourism economy made by K. Krapf, W. Huziker and P. Bernecker there is differed direct and indirect tourism economy. The criteria of assigning entities' operations to each group are the degree of indispensability of leading activity to touristic movement service and the meaning of activity for tourism for particular entity. Development and changes in the field of tourism caused additional division of direct tourism economy on typical one and supplementary one (figure 1)<sup>299</sup>.

<sup>294</sup> *Kompendium wiedzy o turystyce*. G. Gołembski (ed.). PWN, Warszawa-Poznań 2002, p. 135.

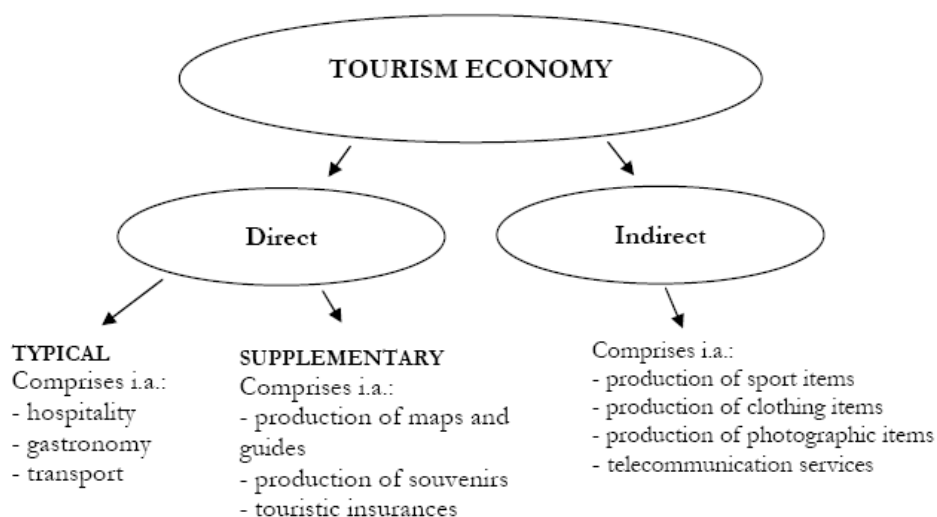
<sup>295</sup> T. Łobożewicz, G. Bieńczyk: *Podstawy turystyki*. WSE, Warszawa 2001, p. 71.

<sup>296</sup> A. Kornak: *Ekonomika turystyki*. Kujawsko-Pomorskie Studium Edukacyjne, Bydgoszcz 1997, p. 72.

<sup>297</sup> Standard International Classification of Tourism Activities – Międzynarodowa Standardowa Klasyfikacja Działalności Turystycznej.

<sup>298</sup> *Terminologia turystyczna. Zalecenia WTO*. Instytut Turystyki, Warszawa 1995, pp. 51–63.

<sup>299</sup> M.R. Łazarkowie: *Gospodarka turystyczna*. Wyższa Szkoła Ekonomiczna, Warszawa 2002, p. 29.



**Figure 1.** Direct and in direct tourism economy

**Source:** B. Meyer: *Teoretyczne podstawy gospodarki turystycznej*. In: *Gospodarka turystyczna*. A. Panasiuk (ed.). Wydawnictwo Naukowe PWN, Warszawa 2008, p. 23.

Direct tourism economy comprises operation of only those entities, which functioning results from realization of tourists' demand. Using additional criteria like: kind of activity, consumers' category (visitors, other travelers, local society) and participation of particular groups of consumers in purchase of touristic goods and services there was differed typical and supplementary tourism economy within<sup>300</sup>. Typical tourism economy (described also as a tourism economy in a narrow meaning) comprises typical touristic companies, organizations and institutions, which offer typical touristic products (services) exclusively (or almost exclusively) for visitors and other travelers. That group includes: hotels, gastronomy, passenger transport related to the touristic conveyances, tour operators, making touristic virtues accessible (including infrastructure and services enabling using touristic virtues for tourists), activity of touristic associations and organizations.

Supplementary tourism economy comprises activity in the field of goods and services production. The activity is led by entities belonging to various (not touristic) economy sectors and also by government and self-government administration units, non-government institutions, which in a narrow part specialize in creation of typical touristic products.

Indirect tourism economy (described also as a not typical touristic activity) is an activity of those units of economy, that don't create typical and characteristic touristic products during realization of needs of various groups of people. Functioning of this companies, institutions and organizations is not dependant on tourism and tourism is not the main recipient of goods and services created by by them although in some cases (due to the seasonal and mass character of touristic movement) it can happen that in a particular time (touristic season) services for tourists

<sup>300</sup> Those criteria have been used together or separate, using different combination, M.R. Łazarkowie: *Gospodarka...*, op.cit., p. 30.

can be dominating. Various groups of people use products created by indirect tourism economy, also tourists. Indirect tourism economy is comprised, among the others, by<sup>301</sup>: banking and insurance sector, other passenger transport, other trade places, post and telecommunications, natural environment protection, communal economy, production of articles like e.g.: photographic appliances, some cosmetics and pharmaceuticals, clothes.

Presented system of tourism economy and its division into direct and indirect determine its subjective structure. The following elements are included in the subjective structure of tourism economy (drawing 2):

- units leading economic activity – touristic companies,
- self-government units of all levels,
- organizations and associations in tourism, including economic self-government,
- regional and local tourism organizations.

### Sustainable development

The key point for the issue of sustainable development is a quality of life. Three basic aspects decide on the quality: economic, social and political. In practice, issues of stimulation required sustainable development of touristic areas are analyzed through the methods of welfare and life quality measurement, especially related to the concept of permanent sustainable development<sup>302</sup>.

Simultaneously it should be underlined that the quality has also a great meaning for the inhabitants of touristic reception, which (more or less) are beneficiaries of tourism development on the particular area. Development of tourism economy brings not only benefits connected with an improvement of the quality of life and staying but there are also identified dysfunctions of development, especially of mass tourism. The issues of nature protection and prevention from its irreversible degradation, especially degradation of touristic virtues, have a special meaning for the quality of life of inhabitants of touristic reception and tourists. The lower quality of touristic virtues caused by their excessive touristic exploitation, the lower is their rank and consequently lower satisfaction from the level of consumption what results in the decrease of tourist interest in particular touristic destination and for service providers it results in the lower profitability of economic activity.

Forming and keeping the quality in tourism economy on the proper level requires consideration of conditions created by sustainable development described, in the professional literature and in a practical operating also as ecodevelopment.

Issues of sustainable development come from global premises of potential threats to environment, threats deriving from economic activity. The most frequently mentioned threats are:

- demographic (pollution of environment progresses faster than increase the amount of people),
- geographic (disproportion between the capabilities of natural environment and the development of production factors),

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<sup>301</sup> *Ekonomika turystyki*. A. Panasiuk (ed.). Wydawnictwo Naukowe PWN, Warszawa 2007, p. 53.

<sup>302</sup> A. Niezgoda: *Obszar recepcji turystycznej w warunkach rozwoju zrównoważonego*. Wydawnictwo Akademii Ekonomicznej w Poznaniu, Poznań 2006, pp. 140–141.

- technical (uncontrollable – from the point of view of ecological requirements, development of modern techniques and technologies),
- economic (producers being unconcerned about the economic side of damages in nature)<sup>303</sup>.

The issues of sustainable development refer directly to the tourism economy, which through the mass touristic movement and its constant global growth poses a significant influence on the natural environment. The core of sustainable development is such development that meets the needs of the present without compromising the ability of future generations to meet their own needs. Among the 27 general rules of sustainable development described in the declaration on the Earth summit, the most important are:

- rule 1, stating that humans have the right to healthy and productive life in accordance with the nature and describing human as a subject of sustainable development,
- rule 3, underlining the equal right to development of present and future generation,
- rule 4, describing the role of natural environment protection as an integral part of sustainable development process,
- rule 8, pointing the necessity of changes in consumption and production,
- rule 10, implementing societies' involvement in natural resources management,
- rule 13, obliging to responsibility and repairing damages in the environment,
- rule 17, implementing impact assessment as a tool of management,
- rule 25, stating that development and environment protection are linked and indivisible.

Declaration was supplemented with the group of recommendations called Agenda 21, which stated i.a.:

- recognition of human mental development as a main purpose of life,
- description of impassable level of fulfilling material needs,
- acceptance of the concept of sustainable development,
- stable and sustainable exploitation of natural resources,
- creation of ecologic market policies.<sup>304</sup>

The concept and rules of sustainable development refer equally to the macro level (the whole economy and society) and micro (namely companies). Companies contribution to the process of sustainable development occurs in leading innovative activity, taking over leadership in initiatives referring to the sustainable development, taking social responsibility for led activity, increasing ecological effectiveness of processes and procedures, partnership solutions and considering consumers preferences<sup>305</sup>.

### **Sustainable tourism**

According to the above, sustainable development in tourism economy assumes ensuring the quality of life and touristic consumption on the level that enables civilization development, development considering needs and keeping natural virtues untouched. Modern touristic product's development is based on those virtues. Mentioned issues are important for current generation of tourists as well as for the next generations, which are going to fulfill their touristic needs using the

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<sup>303</sup> J. Adamczyk, T. Nitkiewicz: *Programowanie zrównoważonego rozwoju przedsiębiorstw*. PWE, Warszawa 2008, p. 20.

<sup>304</sup> *Ibidem*, pp. 26–27.

<sup>305</sup> *Ibidem*, p. 68.

same resources. In this case, the quality refers to a proper rational management of touristic natural virtues, which are characterized by being limited and by difficulty with their restoration.

Pro-quality activities considering proper eco- development in tourism economy consist, inter alia, in conscious forming of relations between touristic growth and development of touristic reception area, in care for natural environment (natural as well as anthropogenic) and care for human's health (tourist's and inhabitant's of particular touristic city).

Knowledge referring to the sustainable development has led to the description of development processes connections with tourism. A concept of sustainable tourism emerged as a result of researches on connections between tourism, environment and development. Sustainable tourism is not unequivocally understood. On the one hand it is treated as a tool of realization of sustainable development while on the other as a tool of development of tourism itself<sup>306</sup>.

The term sustainable tourism is often identified with the concept of ecotourism. Those terms are sometimes used interchangeably in the literature, but they shouldn't be treated as synonyms. Sustainable tourism refers to the widely understood concept of tourism development friendly to the environment in village areas and cities, in small touristic centers, big entertainment and rest centers, etc. Ecotourism is a notion much narrower because it is a one of traveling forms tightly connected with nature and indigenous culture of areas with precious natural virtues<sup>307</sup>.

### **Sustainable tourism economy management**

An idea of sustainable tourism is based on the model of eco-development and its synonyms are, i.a.: environment friendly tourism, tourism in accordance with eco-development rules. As D. Zaręba states, according to the definition of EUROPARC Federation, sustainable tourism is "every form of tourism development, tourism management and touristic activity, which keeps ecological social and economic integrity of areas and also keeps natural and cultural resources of those areas in unchanged state for future generations". The basis of sustainable tourism concept is gaining harmony between needs of tourists, natural environment and local societies<sup>308</sup>.

There are some rules which can bring tourism economy closer to the aims of sustainable development:

- tourism should propagate healthy and productive lifestyle in harmony with nature, bring closer people of different nationalities, create openness and tolerance,
- tourism development is supposed to contribute to maintaining natural resources and to protection of local societies' culture,
- Tourism development should be based on the variety of natural and cultural virtues and should favor maintaining this variety,
- local society should participate in tourism development in regions, beginning with the planning and tourism development should also create new sources of income for local people,
- tourism development should process in the way integrated with planning on different economy levels,
- service activity in a tourism sector should aim at limiting the amount of waste and at energy and water savings, should eliminate from use substances hazardous for environment, stimulate personnel, clients and local societies to pro-ecologic behaviors,

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<sup>306</sup> A. Niezgoda: *Obszar...*, *op.cit.*, p. 37.

<sup>307</sup> D. Zaręba: *Ekoturystyka*. Wydawnictwo Naukowe PWN, Warszawa 2006, p. 36.

<sup>308</sup> *Ibidem*, p. 37.

- countries should promote a policy of open market in tourism, free exchange of touristic services subordinated to the rules of sustainable development and respecting international nature protection law<sup>309</sup>.

Sustainable tourism is contrasted with conventional tourism called “hard” or “mass”, which disturbs the state of balance in nature and doesn’t consider the requirements of nature<sup>310</sup>. The basic differences between conventional, uncontrolled management in tourism economy and the new approach to the tourism management consistent with the rules of eco-development were presented in table 1.

**Table 1.** Differences between conventional and sustainable tourism economy management

Conventional management	Sustainable management
Lack of touristic infrastructure planning	Touristic infrastructure planning
Planning on the level of basic units of territorial self-government	Planning on the level of regions
Chaotic building – land-consuming	Concentrated building, saving area
Architecture incoherent with the local style of building	Coherent architecture (forms, materials)
Using particularly valuable landscapes	Leaving particularly valuable landscapes untouched
Building new infrastructure (e.g. new accommodations)	Utilization of existing infrastructure
Tourism economy managed by entities from the outside of region	Tourism economy managed by regional entities, participation of local society
Economic benefits are the main criteria of choice	Preparation of balance of benefits and costs considering economic, ecologic and social aspects
Creating infrastructure for private motor traffic	Supporting public and alternative communication (e.g. cycling)
General implementation of technology and mechanization of touristic appliances	Selective implementation of technology, supporting not mechanized forms of tourism

**Source:** D. Zaręba: *Ekoturystyka*, *op.cit.*, p. 39.

An influence of tourism on the environment is one of the many problems of sustainable development in tourism economy. Modern approach to the socio-economic aspects of development should concentrate not only on the ecologic results but also on the fight with poverty. Responsible and ethic tourism is an answer of touristic companies and consumers on the important social, economic and ecologic problems harassing the world. It consists on traveling in another better way, taking responsibility for changes made in other people’s life, in their social, cultural and natural environment. It also means ensuring more attractions for tourists and more opportunities for development for touristic companies<sup>311</sup>.

Sustainable tourism is therefore an issue which complexly considers aims and rules of sustainable development in relation to the tourism economy<sup>312</sup>. It also remains in a tight relation with issues of quality in tourism economy. Implementation of aims of sustainable development

<sup>309</sup> A. Niezgoda: *Obszar...*, *op.cit.*, p. 38.

<sup>310</sup> D. Zaręba: *Ekoturystyka...*, *op.cit.*, p. 39.

<sup>311</sup> *Zarządzanie turystyka*. L. Pender, R. Sharpley (eds). PWE, Warszawa 2008, p. 363, 383.

<sup>312</sup> A. Niezgoda: *Obszar...*, *op.cit.*, p. 38.

requires a development of measures and operational standards<sup>313</sup>, mainly by means of quality criteria directed at the consumers of touristic services.

The quality of touristic consumption depends on the fact in what degree the tempo of tourism economy development considers natural environment's possibilities of absorption toward tourists. Pro-quality activities should equally influence the tourism economy infrastructure and influence the maintenance of, exploited by tourism, the natural environment untouched. Thus the quality of consumption in tourism mainly consists in an active participation of touristic entities in protection of the environment which they use. Applied technologies and the way of organization and functioning of entities providing touristic services in region have a particularly import meaning. For example, for some hotels the environment protection becomes the leading motive of many activities in the process of particular object exploitation and also of active influence on pro-environment behaviors of guests. Applying ecologic cleaners is more and more popular among many hotels. Simultaneously, hotel guests more and more often choose hotels with pro-ecologic attitude. Implementation of pro-ecologic activities in the companies of modern tourism economy leads to the realization of practical assumptions of environmental management system. Therefore pro-ecologic activities should consider eco-approach to the nature and touristic virtues. Those activities should consider clients' expectations, clients who want to live and travel in clean and friendly environment.

The quality of exploitation of the natural environment and related touristic virtues in the process of touristic servicing should consider the norms of the amount of touristic utilization. The norms in relation to the natural environment take the form of indicators of absorptiveness and touristic capacity characterized as a maximal ability of the area of touristic infrastructure to acceptance of load resulting from touristic movement. Absorptiveness is an ability of natural environment to acceptance of particular amount of load by touristic movement, which maximal amount is presented by absorptiveness indicator (namely the amount of load on area's unit which on the one hand ensure an optimal conditions of rest and on the other is an upper ceiling of acceptable environment's load to the limit of devastation processes. It should be added that in case of many touristic areas there can be observed a significant exceeding of upper absorptiveness indicators what causes a gradual degradation of the main elements of the natural environment. Exceeding those indicators most often results from the needs of maximization of economic profitability what is a result of intensive development of tourism economy. Sometimes service providers as well as local authorities do not realize the value of absorptiveness and touristic capacity indicators or they don't want to know about them. Crossing the limits of absorptiveness indicators leads not only to the degradation of the natural environment but also to the deterioration of the optimal conditions of rest. Absorptiveness indicators are presented in numbers as a number of people per hectare or the number of square meters per person. If particular touristic area has absorptiveness indicator presented in number it means that it is the upper ceiling of the acceptable environment's load, the environment that undergoes devastation under the influence of excessive touristic movement.

Concluding, it should be stated that an increase of touristic movement and a development of mass tourism cause an increase of demand for the natural environment, which often is a basis for touristic product creation. Without implementation of effective systems of the environment protection, the environment will gradually undergo degradation. Under the pressure of the tempo

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<sup>313</sup> J. Adamczyk, T. Nitkiewicz: *Programowanie ...*, op.cit., p. 89.

of tourism development, the environment won't be able to defense itself without outer intervention, often institutional.

## **KONCEPCJA MARKETINGU OBSZARU TURYSTYCZNEGO W ASPEKCIE ZRÓWNOWAŻONEGO ROZWOJU**

### **Streszczenie**

Celem artykułu jest przedstawienie zakresu działań marketingowych podejmowanych na poziomie obszaru turystycznego. Przedstawione zostaną zagadnienia tworzenia zintegrowanego produktu turystycznego, uwzględniające zaangażowanie przedsiębiorców turystycznych, jednostek samorządu terytorialnego oraz organizacji turystycznych. Podstawową kwestią decydującą o skuteczności działań skierowanych na tworzenie zintegrowanego produktu turystycznego jest wsparcie marketingowe. Istotną determinantą praktyki marketingowej obszarów turystycznych jest uwzględnienie w działalności jednostek samorządu terytorialnego problematyki zrównoważonego rozwój turystyki. W tym zakresie przedstawiona została struktura działań podmiotów odpowiedzialnych za produkt turystyczny obszaru. Biorąc pod uwagę bieżące koncepcje dotyczące działań marketingowych w obszarach zostaną wykorzystane zagadnienia marketingu terytorialnego oraz zrównoważonego rozwoju. Zrównoważony rozwój turystyki wydaje się bowiem jednym z istotnych uwarunkowań decydujących o kształcie działań marketingowych w obszarach turystycznych.



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## **AGRITOURISM IN FARMING PLANNING. SOCIOLOGICAL ANALYSIS OF EMPIRIC FINDINGS**

### **Introduction**

In Poland the agricultural area occupies circa 83% of the country territory and is inhabited by 38% of its population. In European Union, to compare, the agricultural area is very similar, 81%, but it is scarcely populated by only 17,5% of population. In countries such as Belgium and The Netherlands the area is hardly ever inhabited by more than 5% of their inhabitants.

Although different forms of industrial initiative, not directly connected with farming, develop, still farming is the main source of earning the living and family farming remains the leading business entity. These, like every single business entity (or enterprise) require proper management. The management is about planning, organizing, motivating and controlling.

The aim of this article is to characterize one chosen aspect of management which is planning targeted at farming development. Intentions of taking up other forms of industrial initiative, mainly agritourism, were also included in the article.

Planning is about choosing and deciding about the best way to achieve assumed goals. The assessment of actual inner situation of an enterprise is a starting point. It refers to issues such as economy, human resources or organization.

In the article survey findings on the subject of „Polish Agriculture and Rural Area in 2007” carried out all over Poland were used. The survey was carried out by Research International Pentor.

### **1. Planning the Future**

The basis of agriculture is family farming perceived as business entities in rural areas. In Poland there are 1,782,331 individual farms which exceed 1 ha of cultivated land. More than

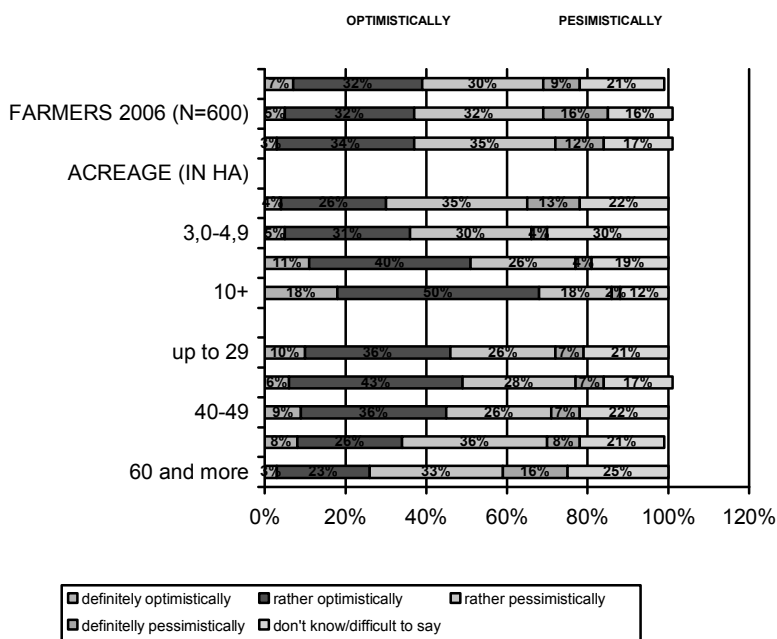
a half of them (57,9%) are small farms with area ranging from 1 to 4,99 ha. The average area of a farm is 8,7 ha<sup>314</sup>.

According to the survey carried out on rural areas on the subject of social and economic situation by Research International Pentor in 2007, farmers do not have any clearly specified plans about the future of their farms<sup>315</sup>. In 2007 39% of farmers were optimistic about farming but at the same time exactly the same percentage of farmers saw no positive vision for their farms. Optimistic and hopeful is the fact that when compared to the year 2006, there has been 2% increase of the optimistic ones and as much as 9% decrease of the pessimistic ones (draw.1). Hence is the prognosis that slowly but steadily the situation of farming is improving.

As it can be seen in drawing no. 1 the most optimistic vision is among farmers with greater acreage. In 2007 as many as 68% of farmers with acreage above 10 ha were optimistic about planned future of their farms (figure 1).

There is a visible correlation between the attitude and the age of surveyed farmers. In this case more optimistic were young farmers, up to the age of 39 (figure 1).

Investment arrangements made in these business entities are strongly connected with planned vision of farms.



**Figure 1.** Answer to the following question: „Do you see the future of your farm optimistically or pessimistically?”

**Source:** Polish Agriculture and Farming, Research Findings 2007. Research International Pentor.

<sup>314</sup> Province Statistical Bulletin 2006. The Polish Central Statistical Office GUS, Warsaw 2006, p. 585.

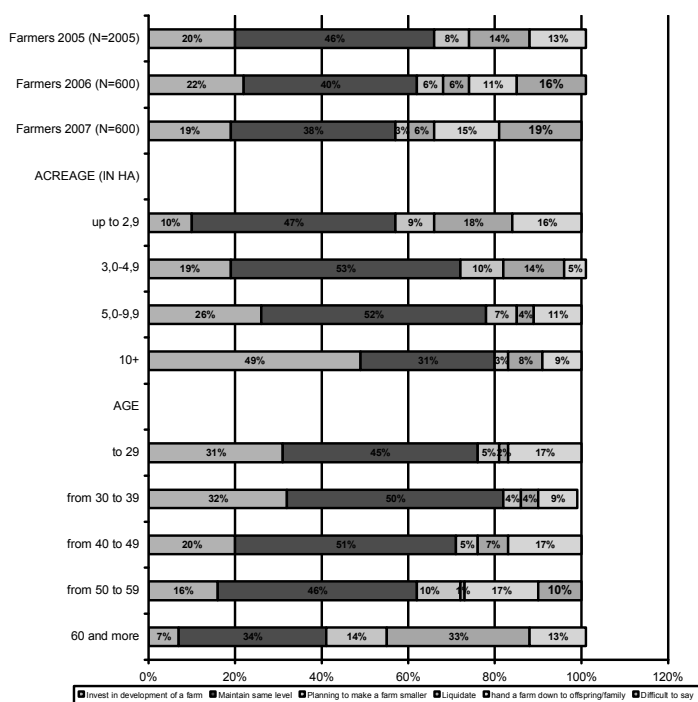
<sup>315</sup> Polish Agriculture and Farming 2007. Research findings. Research International Pentor, Warsaw 2007.

## 2. Investments into farms

It is not always the case that optimistic plans about the future of a farm result in acting<sup>316</sup>. In 2007, when compared to 2006, the amount of farmers willing to invest in the development of their farms decreased for 2 percentage points. It is particularly visible in the group of the youngest farmers (up to 29 years old). In this case planned investments are welcomed by only 31% of farmers. In 2006 it was 42% of farmers. Owners of the greatest farms would eagerly welcome any investment to their farms (49%).

Nevertheless, the decrease does not mean that the number of farmers who are considering doing away with farming has increased. Quite contrary, according to the survey the percentage of farmers who wish to keep and continue their farms at the same level has gone up for 6% since 2006. In 2007 it was as high as 46% (figure 2).

Interest into investments into farming is a good example of its continuity.



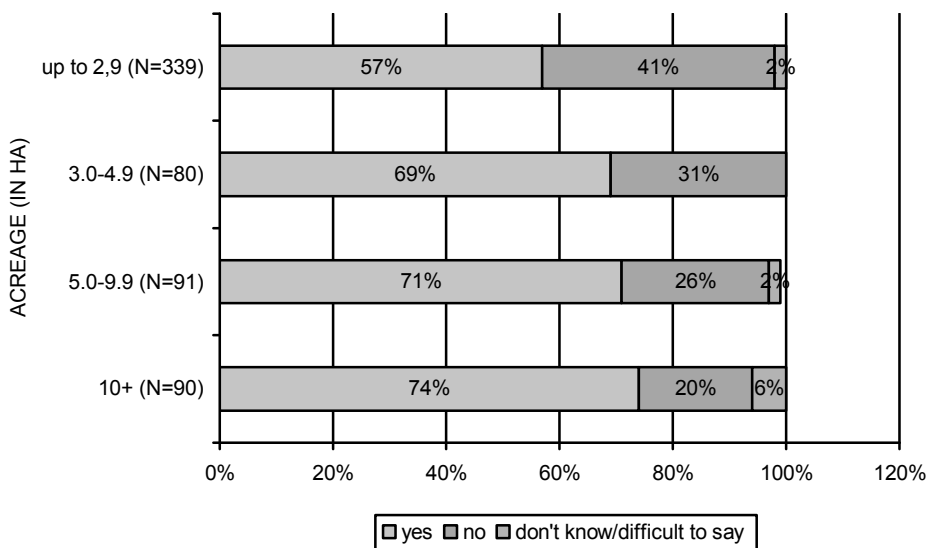
**Figure 2.** Answer to the following question: „Do you see any future for your farm. Which of the following statements best represents your plans about the farm?”

**Source:** Polish Agriculture and Farming, Research Findings 2007. Research International Pentor.

<sup>316</sup> Comp. *Polska wieś w społecznej świadomości*. Bukraby-Rylska (ed.). IRW i R PAN, Warsaw 2004, p. 89.

### 3. Attachment to a farm

Optimistic approach towards the future of farming may be, up to some extent, connected with the increasing interest in future work on a farm. In 2007 as many as 63% of farmers were positive about the continuation of their work. The feelings were similar in 2006 (61%) and in 2005 (66%). What is characteristic is the fact that the bigger the farm the more optimistic the approach, (figure 3).



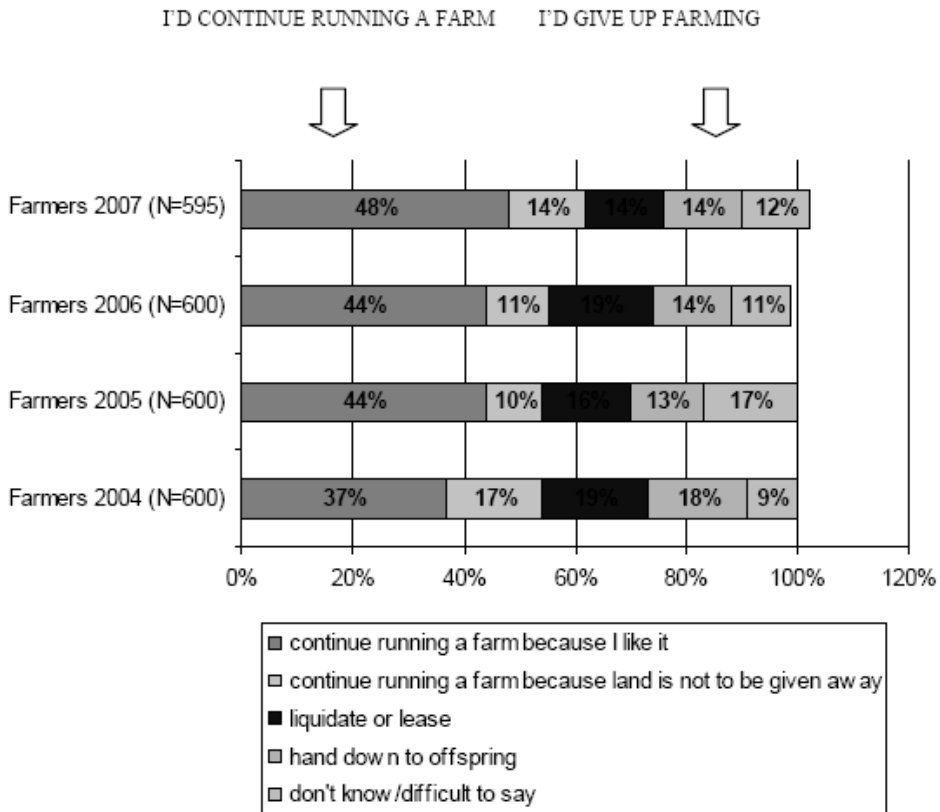
**Figure 3.** Farmers' views on the continuation of a farm done by family (N=600)

**Source:** Polish Agriculture and Farming, Research Findings 2007. Research International Pentor.

Strong attachment to a farm only assures farmers' further answers. „If you were offered a permanent job away from your farm what would you do with your farm?” (figure 4).

Answers shown in drawing no. 4 clearly present that most farmers (46% in 2007), would decide on running the farm even if they were able to make a living out of the other job. Such an attitude undoubtedly gives an optimistic look on the future of Polish agriculture and farming. Farmers like their work, feel strong attachment to their land, plan further running and continuation of their farms. They believe that land shall never be given away<sup>317</sup>. They maintain that farming is always a secure and firm source of living which is not the case with work in big cities or for foreign companies.

<sup>317</sup> Comp. J. Wilkin: *Polska wieś i rolnictwo w obliczu wielkiej zamiany*. In: *Wymiary życia społecznego. Polska na przełomie XX i XXI wieku*. M. Marody (ed.). Wydawnictwo Naukowe SCHOLAR, Warsaw 2007, p. 165.



**Figure 4.** Answer to the following question: „If a permanent job away from your farm would provide you with a living what would you do with your farm?”

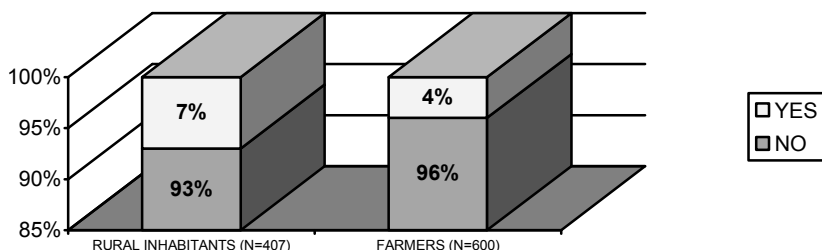
**Source:** Polish Agriculture and Farming, Research Findings 2007. Research International Pentor.

Intentions of running own farm, independently of having or not another permanent job have been increasing in the couple of last years.

#### 4. Extra non-agricultural business

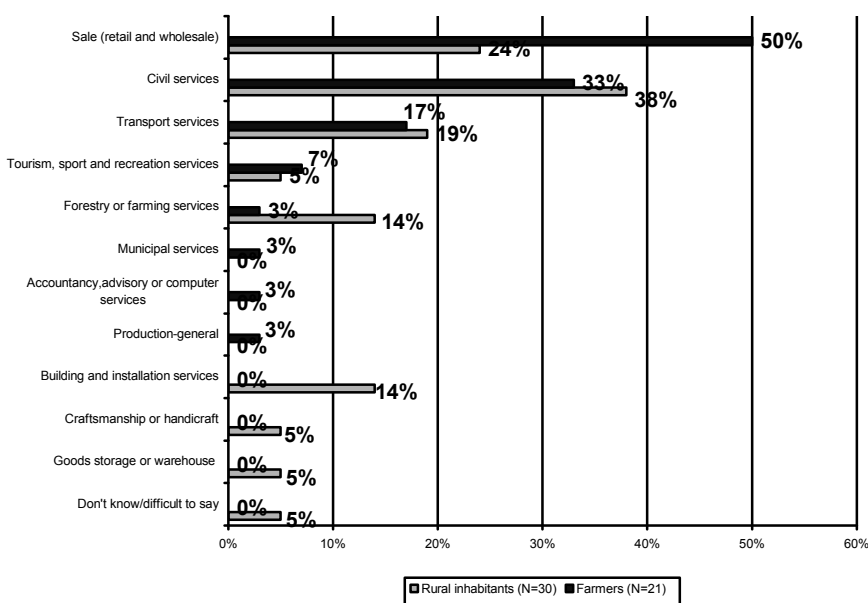
Running own business, especially in present social and economic conditions is not only connected with agricultural business but more often with non-agricultural business (not connected with farming).

According to the survey only 7% of rural area inhabitants run some kind of non-agricultural business in 2007. In the same year the percentage of farmers was as low as 4% (figure 5).



**Figure 5.** Answer to the following question: „Do you currently run non-agricultural business”?

**Source:** Polish Agriculture and Farming, Research Findings 2007. Research International Pentor.



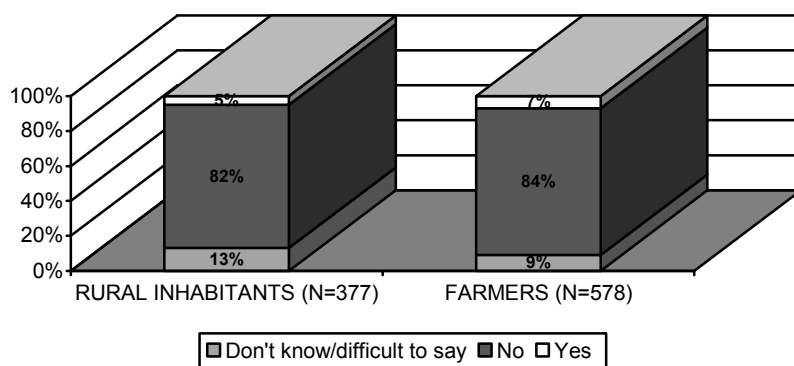
**Figure 6.** Answer to the following question: „What kind of non-agricultural business do you run”?

**Source:** Polish Agriculture and Farming, Research Findings 2007. Research International Pentor.

Most inhabitants of rural areas (50%) are in sales business. Farmers, on the other hand, run more varied businesses. In most cases they start in services (33%). What is more, they more frequently than other inhabitants of rural areas undertook transport and spedition services, building services, and services for farms and forestry.

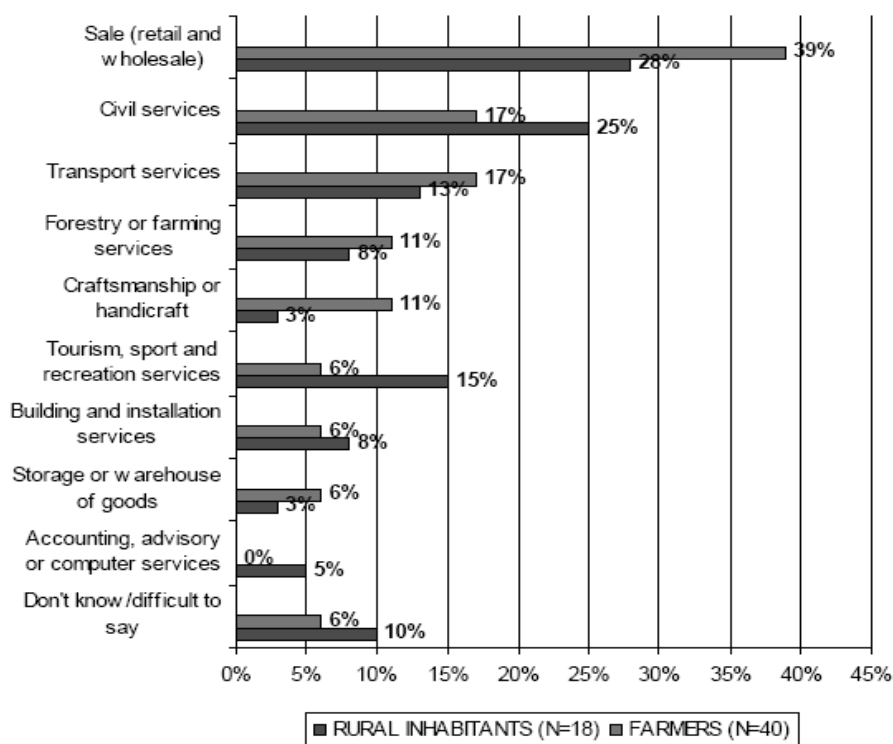
They also provided services connected with tourism, sport and recreation, craftsmanship and handicraft, (figure 6).

According to what the surveyed said plans for starting own non-agricultural business had quite a big potential. 7% of farmers were considering the option (figure 7). Tourism, sport and recreation services were the leading non-agricultural businesses to open. (15%), (figure 8).



**Figure 7.** Answer to the following question: „Have you ever considered the option of starting your own non-agricultural business?”

**Source:** Polish Agriculture and Farming, Research Findings 2007. Research International Pentor.



**Figure 8.** Answer to the following question: „What kind of non-agricultural business have you ever considered?”

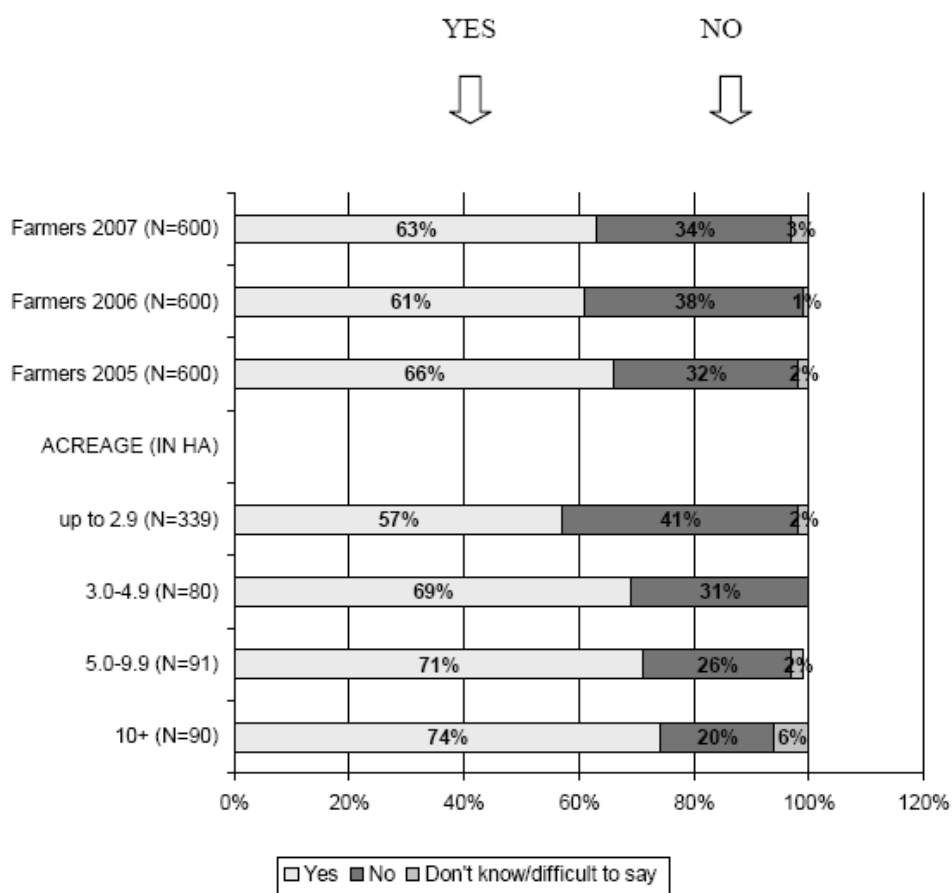
**Source:** Polish Agriculture and Farming, Research Findings 2007. Research International Pentor.

### 5. Agritourism as an example of extra activity in farming

Declared willingness to start extra business activity by farmers, particularly in the field of tourism and recreation, is a perfect example of further development of agritourism (figure 8).

Optimistic vision of agritourism development as an extra source of making a living may be connected with the growing interest to continue farming (figure 9).

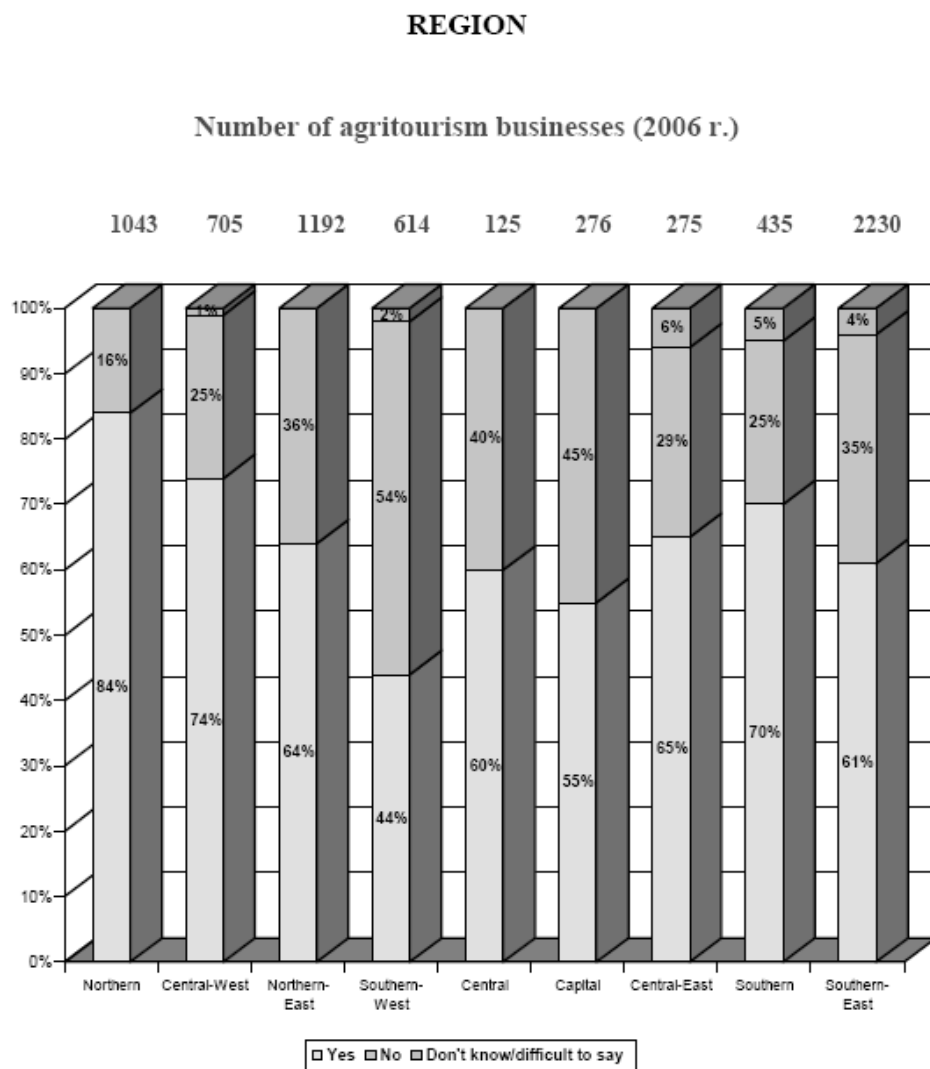
According to the survey carried out in 2007 as many as 63% of farmers were convinced that their farming activity would be handed down and continued, (figure 9).



**Figure 9.** Answer to the following question: „Do you think that anyone from your family will continue running your farm?”

**Source:** Polish Agriculture and Farming, Research Findings 2007. Research International Pentor.

Positive and highly optimistic vision about continuation coherently corresponds with agritourism which can be easily measured in the number of agritourism businesses run. The issue presents figure no 10, where the willingness to continue farming and growing number of agritourism businesses with reference to particular region of Poland were shown.



**Figure 10.** Family continuation in running a farm compared to the number of agritourism businesses with reference of particular region of Poland

**Source:** Own elaboration on the basis of Polish Agriculture and Farming 2007. Research findings. Research International Pentor and Individual Accommodation Resources in Poland in 2006. Preparation: A. Jagusiewicz, H. Legienis, Tourism Institute, Warsaw 2006.

The most optimistic continuators of farming were from the North (84%), Mid-West (74%) and the South (70%). The least optimistic were farmers from Łódź Province (60%), Masovia (55%) and South-West (44%).

If we compare the least optimistic regions of Poland with the number of agritourism businesses (table 1), then we clearly see that the number of the last ones is also smaller, for example:

- Lodz Province (central part) has 125 agritourism businesses (60% indicators in favor of further development of a farm);
- Masovian Province has 276 agritourism businesses (55% indicators in favor of further development of a farm);
- Southern-West region (Lower Silesia and Lubusz Provinces) has 614 agritourism businesses and only 44% declaration of running the farm in the future.

Regions with high percentage (above 60%) of positive declarations on running a farm in the future have also relatively the greatest number of agritourism businesses, for example:

- Northern region (Western-Pomeranian and Pomeranian Provinces) has 1043 agritourism businesses;
- Northern-East region (Warmian-Mazurian and Podlasie Provinces) has agritourism businesses 1192;
- Southern-East region (Lesser Poland and Subcarpathian Provinces) has as many as 2236 agritourism businesses.

**Table 1.** Commune agritourism accommodation in 2006

Province	Accommodation facility			Accommodation space		
	In total	yearly	Poland in total = 100	In total	yearly	Poland in total = 100
Lower Silesian	481	460	6,67	5 469	5 246	7,78
Kuyavian-Pomeranian	273	194	3,78	2 850	1 881	4,05
Lublin	275	208	3,81	2 115	1 561	3,01
Lubusz	133	98	1,84	1 317	932	1,87
Lodz	125	79	1,73	1 154	784	1,64
Lesser Poland	1 220	946	16,91	13 975	10 816	19,88
Masovian	276	185	3,83	2 282	1 647	3,25
Opole	101	76	1,40	934	694	1,33
Subcarpathian	1 016	730	14,08	7 581	5 878	10,78
Podlasie	519	392	7,19	4 437	3 433	6,31
Pomeranian	601	385	8,33	6 231	4 445	8,86
Silesian	334	282	4,63	4 529	3 818	6,44
Swietokrzyskie	313	238	4,34	2 346	1 920	3,34
Warmian- Masurian	673	447	9,33	6 376	4 326	9,07
Great Poland	432	331	5,99	3 915	2 956	5,57
Western -Pomeranian	442	302	6,13	4 789	3 275	6,81
Poland in total	7 214	5 353	100,00	70 300	53 612	100,00

**Source:** Individual Accommodation Resources in Poland in 2006. Preparation: A. Jagusiewicz, H. Legienis, Tourism Institute, Warsaw 2006.

Optimistic approach of farmers towards the plans of their farms create favorable situation for the development of initiative in rural area, including agritourism. Such an approach need to be

implemented by means of education both at school and home.<sup>318</sup> Farmers' comments on other rural subjects apart from agritourism speak for it.

According to the survey:

- Farmers see profits in local enterprises (49% in 2007), where agritourism plays a significant role;
- European Union funds in the form of credits and loans are mostly for investments into farming (31% in 2007), (agritourism included);
- Farmers remain optimistic about the future of their farms (39% in 2007); Hence is the big number of farmers planning to develop and continue running their farms (49% in 2007);
- There is a strong attachment of farmers to their farms and willingness to keep them going in spite of the possibility of extra non-agriculture related job (46% in 2007);
- Some farmers clearly declare to take up a job which is not directly related with agriculture (7% in 2007); 15% among them were interested in tourism, sport and recreation services provided on their farms.

All these opinions have undoubtedly a positive influence on the perspective of agritourism.

### In the place of conclusion

Irrespectively of the optimistic vision of agriculture, rural area and agritourism in Poland, empiric findings show also pessimistic vision for the future.

One of the reports on Polish rural areas says: "Polish village changes incoherently with expectations. Small farms become even smaller. Big ones, instead of fast development, shrink. This means that with great EU funds we build archaic skansens"<sup>319</sup>. This is strongly connected with greed for land. „The saying: Mother Earth – has dramatically changed its meaning. Land is no longer for crops but for profit"<sup>320</sup>. (...) „Common Agriculture Policy changed a simple farmer into a skillful accountant. They have to get rid of their farms in order to get pension benefits. Hardly any farmer sells their farm though. They'd rather hand them down to their offspring or share it equally among all of them. This is because a young farmer has a lot of opportunities to be granted EU funds"<sup>321</sup>. Hence the findings of survey carried out by A. Sikorska from The Institute of Agriculture Economy show that each year 13 thousand new farms are opened. These are called dwarfs due to their acreage not exceeding 3,7 ha. Thousands of farmers do not grow anything, other 2 thousand works only for their simple needs<sup>322</sup>. As it can be seen small farms (from 1 ha to 5 ha circa 47%) split into even smaller ones. This is because nowadays land is perceived as the best marriage policy. „Having 1 ha of land one can even run small business and avoid paying national insurance premiums. The privilege of pension guaranteed by Farmers' Social Security Fund KRUS made a Polish farmer attached to their land more than anything else. A farmer does not resign from it not to look for uncertain future in a big city (these may be the reasons for farmers' opinions on the further running of a farm—highlighted by J.S. and A.W.W.). And if it happens it is only a temporary job and usually illegal. The most welcomed is work abroad, in the

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<sup>318</sup> *Turystyka wiejska a edukacja. Różne poziomy, różne wymiary.* J. Sikora (ed.). Published by A. Cieszkowski Agricultural University in Poznań, Poznań 2007.

<sup>319</sup> J. Solska: *Skansen Polska*. „Polityka” 2004, No. 30, p. 4.

<sup>320</sup> *Ibidem*, p. 4.

<sup>321</sup> *Ibidem*, p. 5.

<sup>322</sup> *Ibidem*, p. 5.

United Kingdom, Germany or Ireland. This is the most frequently adopted scenario by young farmers. Ironically, when they sing "We will not leave the land we are from" they sing very truth"<sup>323</sup>.

With such a picture of rural Poland there is a great demand for comparison of agriculture and rural area ( picture in farmers' mentality) with future vision described in the report (created on the basis of statistics and administrative data) by means of empiric findings. There is also an appealing need for finding a right place and assigning a role for agritourism in these two realities. We are open for any further discussion and debate on the above subject.

## **MIEJSCE AGROTURYSTYKI W PLANOWANIU DZIAŁALNOŚCI GOSPODARSTWA ROLNEGO. ANALIZA SOCJOLOGICZNA WYNIKÓW BADAŃ EMPIRYCZNYCH**

### **Streszczenie**

Rozwój obszarów wiejskich i związanego z nimi rolnictwa zdeterminowany jest nie tylko obiektywną, materialną pomocą płynącą z Unii Europejskiej, technicznym uzbrojeniem pracy gospodarstw rolnych, ale również stanem świadomości społecznej mieszkańców tych obszarów. Jednym z przykładów takiego rozwoju są różne formy przedsiębiorczości na wsi wspierające lub też zastępujące rolnictwo.

Celem artykułu jest scharakteryzowanie jednej wybranej funkcji zarządzania jaką jest planowanie ukierunkowane na rozwój działalności gospodarstw rolnych. W artykule zwrócono również uwagę na planowanie zamiarów podjęcia dodatkowych form przedsiębiorczości, głównie agroturystyki przez właścicieli gospodarstw rolnych.

Podstawą napisania artykułu były wyniki ogólnopolskich badań ankietowych przeprowadzonych w 2007 r. w środowisku wiejskim przez firmę Research International Pentor oraz materiały wtórne związane z literaturą tematu.

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<sup>323</sup> *Ibidem.*

## **GUIDELINES FOR PAPERS**

- An article should be in English (name of translator should be given);
- Suggested length of paper: ½ of editorial page (approximately 10 pages of A4 size);
- Each paper should be followed by a summary in polish of up to ½ page of A4;
- Papers should be submitted in electronic version along with one-sided, contrastive, laser or ink printout of A4 size, in one copy;
- The rules for computer edition:
  - line spacing: 1,5;
  - margins: 2,5 cm;
  - font size 12 pt; bold and italic allowed but not underlining;
  - tables and drawings can not exceed A3 size (they should be prepared precisely and legibly so they could be copied directly from the paper;
- Illustrations should be submitted as graphic files (e.g. \*.cdr, \*.tif);
- Submitted electronic carrier should be free of viruses;
- Footnotes should contain: the authors of the publication, titles, publisher, place of publishing, year of publishing, pages (bibliographic table of contents should not be included).

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