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# EXPERIENTAL MARKETING IN A TOURISM DESTINATION: SELECTED THEORETICAL ASPECTS

**Abstract**

Tourism businesses for example hotels, restaurants, travel agents are planned and conceived their advertisements or brochures focusing on excitement and pleasure of their services. Because enjoyment, fun, entertainment, amusement, pleasure feelings attract tourists to buy, so that tourism businesses have to understand the tourist behavior and tourism product buying process for being successful to marketing the services. Nowadays researchers emphasize the importance of experiential marketing, customer experience and experience realms, customer feelings about the product. In the buying process of tourism; feelings, emotions, and pleasures about the tourism destinations or hotels are important in tourism consumption. The aim of the study is to offer experiential marketing based musts for successful destination marketing by focusing on the experience realms, experience types and experience providers which influence on consumers decision-making-process when visiting a destination.

**Keywords:** destination marketing, experiential marketing, tourism experience, experience realms, experience types, experience providers.

## Introduction

At the last decade experiences are most important in the tourism industry. Because customer needs have changed and on the other hand customers take care not only their needs but also their feelings when they want to buy a tourism services. For marketing tourism services and destinations tourism businesses and destinations must understand the tourism consumption behavior. The aim of the article is to offer experience based musts for successful destination marketing by focusing on the experience realms and experience providers which influence on consumers decision-making-process when visiting a destination.

So the main purpose of the study is to provide an understanding of the potentials of experiential marketing for the tourism destinations and tourism industry.

More specifically, the study aimed to achieve the following research objectives:

- to determine the potentials of the experiential marketing in tourism industry,
- to determine the experiential marketing strategies in the tourism industry,
- to determine the experience realms, types and providers,
- to offer an experiential marketing model as a marketing strategy for tourism destinations.

First an overview of the various definitions of experiential marketing, experience providers, realms and its types is provided. The study concludes with an experiential marketing model according to the needs, challenges and opportunities faced in marketing tourism destinations by experiential marketing.

The study is organized as follows. In section one experience, experience realms, experience providers, experience types determined. In section two, experiential tourism determined. Section three offers experiential marketing model for the tourism destinations Conclusions are summarized in the last section.

## Experience

Viewing in marketing light, Schmitt (1999) defined that experiences are private events that occur in response to some stimulations and involve the entire living being; they often result from direct observation and/or participation in events-whether they are real, dreamlike or virtual.

**Experience realms**

The Experience Realms focuses on two very important sets of properties, one horizontal and one vertical. The horizontal set shows the level of guest participation. One side represents passive participants, where customers don't directly affect or influence the performance (like watching a symphony). The other side represents active participation, where customers personally affect the event or performance. Skiers, who create their own exhilarating experience while participating in it, are a good example of active participation. The vertical properties help define the kind of connection, or the environmental relationship, that unites the customer with the event. One side focuses on Absorption. Absorption occupies attention by bringing the experience into the mind. The experience literally "goes into" the customer, like when watching TV – it's absorbed inside a person. The other side of the vertical line is Immersion, where you become physically or virtually a part of the actual experience. Instead of the experience going into the guest, with immersion, the guest "goes into" the experience. Think paint ball or Runescape here. The exciting part of this concept is the stuff between each of these dimensions. This is where the four realms of experience come into play – that of entertainment, education, escapism, and estheticism (Pine and Gilmore, 1999).

**Experience Types (Modules)**

Unlike traditional marketing is largely focused on functional features and benefits, which lacks a fundamental basis and insightful understanding of customers, experiential marketing is mainly focused on sensory, affective, experiences, actions and relations. In other words experiential marketing is grounded on psychological (Lin, 2006, p. 26; Tarssanen, 2006). The five types of customer experiences and their description are at the below (Schmitt, 1999):

Experience types:

– sense: to differentiate, to motivate, and to provide value to customers by focusing on the senses,
– feel: to appeal customers' inner feelings and emotions,
– think: to encourage customers to engage in creative thinking that may result in a revaluation of the company and products,
– act: to affect bodily experiences, lifestyles, and interaction,
– relate: to add individual experiences and relate the individual to his or her ideal self, other people, or cultures.

**Experience providers**

The experience providers are (adapted from Lin, 2006, p. 208; Pine and Gilmore, 1999):

1. Communication: Advertisements, brochures, news about the product and public relations.
2. Visual/verbal identity: Name and design of logo about the destinations or services.
3. Product presence: destination design, destination planning, destination nature and history.
4. Branding: Event marketing and sponsorships, partnerships, and destination placement in movies or televisions.
5. Environment: public spaces of destinations, buildings, hotels, restaurants, museums, nature environment, historical spaces.
6. Web sites and electronic media: Corporate sites, GDS and destination web sites, advertisement CD or guide CD about destinations, automated e-mails, online advertisements.
7. People: customer service representatives, local people, tourism industry personnel.

**Experiential tourism**

All customers have different reasons for consuming the tourism products. Some customers who are categorized as utilitarian, view tourism benefits as functional for example to relaxing or having rest. More experiential or hedonic customers, in contrast, define tourism as a highly entertaining, enjoyment, funny, educational activities. This difference between utilitarian and hedonic customers provides an important distinction when looking at tourist segments (Wang, 2000).

And, experiential tourism consumption influenced by cultural (culture, social class); social (reference groups, family, roles and status); personal (age, occupation, economic circumstances, lifestyle and personality) and psychological (perception, learning, beliefs and attitudes) characteristics (Tarssanen, 2007) And the last two decade tourism market changed, some of the new tourism markets are; the adventure market, the sports market, the nature market, the wellness market, the new jet set market, the peace of mind market, the entertainment market, the hyper-tourism market, and the good life market (Bourgeois, 2004).

Experiential tourism is an outgrowth of a global movement toward experiential learning, whereby people create meaning through direct experience. Experiential tourism has become the current term that encompasses a variety of tourism and traveler categories, including the following: cultural tourism, ecotourism, educational travel, experimental tourism, heritage tourism and nature tourism, where activities are environmentally sensitive, displaying respect for the culture of the host area and looking to experience and learn rather that merely stand back and gaze. Experiential tourism involves active participation, involvement, even immersion (http://noto.ca/info_for_your_business/ experiential_tourism).

**Standards for Experiential Tourism**

Smith (2006) developed standards for experiential tourism based on a review of the literature, the following set of standards, in the form of objective sentences, are proposed for consideration and further research. This list of standards might be used as either a checklist, with a simple check to indicate presence or absence of the standard, or as an evaluation form, rating each standard, for example, on a scale of one (little or none of the attribute) to five (full compliance with the standard), for example. This list is in the form of objective sentences. Each can be a consideration for further research (Smith, 2006a; 2006b).

1. People create meaning through direct experience.
2. The experience includes the people met, the places visited, the activities participated in and the memories created.
3. The experience includes pre-departure trip planning and post-trip follow-up.
4. Experiential tourism draws people into local nature, culture and history.
5. Experiential tourism is low impact, low volume, and high yield.
6. Experiential tourism is very personal, unique and individual for each visitor.
7. Quality, memorable visitor experiences are a shared outcome between the visitor and the experience provider.
8. Experiential tourism opportunities allow for personal growth and reflect the values and interests of the individual visitor.
9. Experiential tourism provides diverse experiences that match the visitor's interests and provide a sense of personal accomplishment, thereby creating their own unique memories.
10. The desired outcome of experiential tourism is to achieve a complete participatory experience that provides new knowledge and authentic experiences.
11. Experiential tourism opportunities encourage the meeting and coming together of different cultures, their problems and potential.
12. Cultural elements are shared in an atmosphere of traditional ways of life.
13. Experiential tourism shows rather than describes.
14. Experiential tourism opportunities expand personal horizons.
15. Experiential tourism opportunities should provide personal enrichment, enlightenment, stimulation, and engagement as motivators.
16. Experiential tourism attracts people to places.
17. Experiential tourism attracts markets to merchandise.
18. Experiential tourism engages all five senses.
19. Experiential tourism opportunities include learning a new skill or engaging in a new activity.
20. Experiential tourism includes "the story of the place."

## A teoretical model for destination marketing

Experiential tourism marketing differs from traditional marketing focusing on features and benefits in four major ways these are: 1) focus on customer experiences; 2) examining the consumption situation; 3) customers are rational and emotional animals; 4) methods and tools are eclectic (Schmitt, 1999). Schmitt (1999) proposed the definition of experiential marketing: any consumer experiences some stimulations result from direct observation and/or participation in events, in which generates motivation, cognitive consensus, and purchase behavior (Lin, 2006). Experiential marketing can be used beneficially for destinations in many situations including: 1) to turn around a declining destination brand; 2) to differentiate a destination from competition; 3) to create an image and identity for a destination; 4) to promote innovations, and 5) to induce trial, purchase and, most important, loyal consumption (Schmitt, 1999; Lin, 2006).

Experiential marketing is important for the destinations because experiences; cannot be replicated (copy), removes the price barriers, memorable, creates repeat visits, differentiate the destinations and products. Experience must haves uniqueness, immersion, personal/customized, transforming (Gilmore and Pine, 2002; Tarssanen and Kylänen, 2006).

## Experience Based "Musts" In Destination Marketing

Define the tourist segments:

- analyze the customer needs and lifestyle for the ideal holiday,
- find the right hedonic and experiential niche depend on the destination resources,
- segment the experiential tourism market and aim of the top of range.

Variety (differentiate) with experience realms (Williams and Soutar, 2000):

- entertainment: entertainment means passive absorption in the staged experience – as for example going to the movie theatre, concerts, festivals and cinema and also theatric tours where the tourists themselves are not particular involved.
- education: the consumers actively participate through creative thinking and experimenting. Within tourism an example of this could be hobby

courses, but also making your own jewelry and cooking by campfire or cooking course about local cuisine, handcraft, guides, exhibitions, telling the history and traditions of the destination.
- escapist: escapist experiences demand an actively participating consumer that is absorbed in the experience. An example of this could be safari, adventure tours and sports where the participant becomes part of the story.
- esthetic: the consumer is absorbed in the setting, but leaves it untouched as the experience is very passive. An example of this could be a museum, art galleries, sunset/down locations, theme hotels and restaurants, artistic building and streets.

Individuality:
- flexible special interest tours,
- special diet restaurants,
- pre-post trip surveys,
- special interest courses.

Develop experiential platform at the destination:
- first impression: clean, beautiful streets, friendly people,
- sense evoked: create experiences and memories with sight, sound, touch, smell, taste; promote experiences,
- theme/story: create authentic, rural, historical, natural, different, extraordinary themes/stories about the destination,
- people behavior: hospitality local people, trained, professional workers,
- product features: high quality, original, different, aesthetic, exciting events.

Develop experience types with experience providers in the experiential platform of the destination. In the experience providers destinations marketers must use and develop experience types for satisfying the tourist (Lin, 2006, pp. 20–27).

*Sense*: to differentiate, to motivate, and to provide value to customers by focusing on the senses. *Method*: the S-P-C (stimuli, processes, and consequences) for achieving sense impact through sight, sound, scent, taste, and touch. And to provide aesthetic pleasure, excitement, beauty, and satisfaction through sensory stimulations.

*Feel*: to appeal customers' inner feelings and emotions. *Method*: to understand what stimuli can trigger certain emotions as well as the willingness of the consumer to engage in perspective taking and empathy? Most affect occurs during the consumption.

*Think*: to encourage customers to engage in creative thinking that may result in a revaluation of the company and products. *Method*: to appeal the intellect with the objective of creating cognitive, problem-solving experience that engages customers creatively as well as appeal customers' convergent and divergent thinking through surprise, intrigue, and provocation.

*Act*: to affect bodily experiences, lifestyles, and interaction. *Method*: to enrich customers' lives by enhancing their physical experiences, showing them alternative ways of doing things, alternative lifestyles, and interactions.

*Relate*: to add individual experiences and relate the individual to his or her ideal self, other people, or cultures. *Method*: to appeal the individual's desire for self-improvement, to appeal the need to be perceived positively by individual others, and relate the person to a broader social system, thus establishing strong brand relations and brand communities.

*Communication*: develop and emphasize experience types (sense, feel, think, act, relate) with pictures, videos and text in advertising, public relations and newsletters.

*Visual/verbal identity*: create new names, logos according to the experience types.

*Product presence*: develop and emphasize experience types (sense, feel, think, act, relate) in destination design, planning, nature, hotels.

*Branding*: develop and emphasize experience types (sense, feel, think, act, relate) with pictures, videos and text about destination in event marketing and sponsorships, partnerships, and destination placement in movies or televisions.

*Environment*: develop and emphasize experience types (sense, feel, think, act, relate) in public spaces, buildings, office interiors, hotels, restaurants, museums, nature environment, historical spaces.

*Web sites and electronic media*: develop and emphasize experience types (sense, feel, think, act, relate) with pictures, videos and text in corporate sites, reservations and destination web sites, CD-ROM's, automated e-mails, online advertising and intranets.

*People*: to give training about experiential marketing, customer satisfaction to sales people, customer service representatives, local people, and tourism industry personnel.

Interactive communication:
- interactive web pages,
- search engine marketing,
- e-mail marketing,
- mobile marketing,
- advergaming,
- blogging.

Measure the effectiveness:
- customer satisfaction surveys,
- develop a specific statistical database about tourist, businesses and workers.

**Conclusions and suggestions**

It appears that the value of a tourism experience is an amalgam of different value dimensions. While the functional (utility) value elements of the tour are important components, the social-psychological dimensions also emerged strongly from the groups. Tourism services must design according to customers' value if not marketers could not be successful. Future researchers must focus on the experiential value dimensions and businesses must apply these dimensions to the products.

Events can be planned to benefit tourists, the destination, or its residents. For the visitor, a special event is an opportunity for an experience outside the normal range of choices or beyond everyday experience. They arouse expectations and provide reasons for celebrations. It is precisely because of that feature that events are increasingly used by tourism organizations. They are the privileged tools that can help marketers create the experiences new customers are now craving for. Events are perfectly suited to what Pine and Gilmore (1999) called the experience economy.

According to Pine and Gilmore (1999) the experience economy is a service economy in which mass customized services are sold in a theater setting where products and services have become props. Tourist events have the distinction of offering to their customers a stage where they can become themselves the actors, therefore creating valuable and unforgettable experiences. In what is called "new" tourism, increased attention is devoted to the "experience" (Schmitt, 2003) and events have become in tourism the conduit for offering added value to visitors. A destination must create memorable experiences that are "eventful" so as to seduce and satisfy customers in search of the whoah effect (Dimanche, 2008)!

Traditional destination marketing focusing on the attractions of the destinations is being replaced by communication strategies that promise unique experiences (mass customized experiences) to potential visitors. Destination marketers now rival to offer feelings, emotions, sensations to travelers. Such cases of experiential tourism communication can easily be found on destination web sites and print media (Dimanche, 2008).

In addition to becoming the privileged products of tourism in an experience economy, special events present an opportunity for marketers to help position their destination with products and services (events and their portfolio of activities) that can be tailored to meet the needs of specific target markets. Events are evolving from being cultural expressions of a region to becoming thoughtfully developed marketing tools, used to establish an image and to position a destination amongst its competitors. Special events have the potential to be effective marketing tools for a destination because they appeal to tourists who are truly attracted by the specific qualities of the events, and therefore, they are more likely to satisfy those tourists. However, developing a strong image and a brand for a destination takes years, and for events to contribute significantly to this effort, a coherent and strategic event development approach, consistent with the goals of the destination, should be used (Dimanche, 2008).

To strengthen the development of marketing destinations or web pages in tourism major aims will be:

- first of all, find the right experiential niche, segment the experiential tourists and aim at the "top of range",
- provide a varied product range; wide and flexible choice, a line within the product range offered must respond to customer diversity,
- increase the number of hedonic visitors to destinations or web pages with using experiential, hedonic and utility components in promotion tools,

- increase investment in experiential tourism facilities as rafting, orienteering, dancing, adventure tourism, art galleries, and hobby courses,
- develop a specific statistical database for experiential tourism to help marketing, planning for the destinations,
- develop a strategic plan, which tells the objectives for experiential tourism,
- define the needs of research, training, experiential marketing, product development and innovations for destinations.

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# INFORMATION AND COMMUNICATION TECHNOLOGIES IN TRAVEL AGENCIES

**Abstract**

ICTs (Information and Communication Technologies) have introduced changes into contemporary consumers' lifestyle, since along with the availability of computers, the Internet, mobile phones and other technologies, consumers obtained access to information, products and services, as well as people characterized by similar interests. The objective of the hereby article is to present changes and effects brought about by ICT development in distribution activities of a travel agency. In order to accomplish the set objective it was necessary to review professional literature and perform due observations of business practice.

**Keywords:** travel agencies, organization and intermediary tourism services, communication technologies

## Introduction

Forms of competition on the tourism market have recently experienced significant transformations. While in the 1970s the level of goods and services quality constituted an element of competition, in the 1980s it was marketing which was used as the fundamental component of winning market advantage. In the 1990s the level of consumer service became the decisive and distinctive market factor. At the beginning of the 21st century an important supportive role in customer service is played by the Information and Communication Technologies (ICT). ICT is understood as technologies facilitating automation of business processes in an enterprise and free flow of information both at the level of a company and in contacts with outside environment (Olszewska, 2009, pp. 49–50). Along with the advancement of information and communication technologies the development of tourism services distribution has been observed. These transformations did change the functioning of travel agencies.

An economic entity active in organizing and providing intermediary services in tourism is defined in Polish language as a travel agency, in spite of the fact that Polish legislation describes such an enterprise more extensively (The Act on Tourism Services, 1997). The primary task of a travel agency is to provide services for tourists by offering them easy and comfortable access to tourism packages, or individual services in a specific place and time, which helps in obtaining detailed information regarding these services and opportunities for purchasing them (Michalska-Dudek, Przeorek-Smyka, 2010, p. 160). The above understanding of travel agencies functioning objective is, at the same time, understood as exerting influence on the system of distribution. The complex structure of distribution channels includes all enterprises participating in supplying a tourist with a tourism product, i.e. services providers (hotels, airlines, tour operators) and tourist agents.

## 1. Institutional picture of travel agencies in Poland

Travel agencies,[1] representing professional business entities, which provide organization and intermediary services constitute an important link focused on tourism services supply in the process of tourism market development. Since the intensity of transformations occurring at the market of organization and intermediary services provision persists in close interdependence with the level of a specific tourism market development, so it is related to the relative demand

[1] The travel agency is defined as s company which takes care of all arrangements connected with a trip outside the place of residence (Konieczna-Domańska 1999, p. 16; Łazarek, Łazarek, 2002, p. 220).

and tourism services supply potential, as well as the defined economic system, therefore the scale of changes at particular national markets is significantly diversified. When the process of splitting the paths of organization and intermediary services institutional development was initiated in the developed countries in 1960s of the 20$^{th}$ century and meant the origin of professional companies specializing in travel organization and a large number of retail agents participating in providing intermediary sales of tourism services, in Poland it was not until the second half of 1990s of the 20$^{th}$ century that this process entered its initial phase.

A travel agency performs several functions:

- providing information – presents an offer to a client including terms and conditions of purchasing it, while to service providers the level of demand for services and their expected quality,
- integration – travel agencies combine the sphere responsible for tourism services provision with the sphere of consumption,
- distribution – travel agencies represent distribution channels ensuring the flow of information about an offer,
- prediction – based on the sales of tourism services offer it is possible to forecast the size of tourism services sales as well as make predictions regarding tourism market prosperity.

Starting from mid 19$^{th}$ century, when first travel agencies were established worldwide significant changes occurred in the way of their functioning. These transformations resulted in the diversification of business range, organization form and travel agencies' size. Therefore, at present different types of travel agencies may be listed. When in 1997 The Act on tourism services came into force in Poland (The Act on tourism services, 1997) it introduced order in the scope of travel agencies functioning by distinguishing three groups of entities: tourism organizer, tourism intermediary and tourism agent.

Currently tourism agents represent the most diversified group of entrepreneurs. In Great Britain there are three types of such agents: Multiples – these agencies establish networks cooperating with national or international tour operators, such as e.g.: TUI, My Travel Thomas, Cook; Miniples represent companies characterized by a small number of divisions and function in a defined geographical area, their advantage is an excellent recognition of local market, their sale offer is smaller than that of Multiples, all of their divisions look the same and sell the same product, they take advantage of economies of scale. On the other hand there are Independent Agencies which function individually, they focus on taking over market niches, e.g. on organizing trips for schools, pilgrimages for certain religious groups, they obtain attempted results owing to their flexibility and specialization. Similar division occurs in USA where four types of travel agencies are functioning: Mega agencies (functioning globally), regional agencies, consortiums (networks of independent agents) and independent agencies (UNEP, 2002).

Development of the Internet, as well as information and communication technologies has also resulted in changes of the way agents function. Currently at the market there are present traditional travel agencies and on-line ones, which reach the client by means of a virtual distribution channels. The latter do not present a homogenous group and refer to the forms of functioning following different business models, such as: Agency Model Services – functioning on the basis of agency agreements, i.e. selling services at prices imposed by the producer for which they receive commission; Merchant Model Services – cooperating with producers of individual services and conducting sales in their own name and with a due margin; Opaque Model Services – functioning based on agreements with service producers and searching for the required services in client's name according to specified criteria, including price, without an option to disclose producer's name (Nalazek, 2010, pp. 110–114).

In Poland there are over 3000 travel agencies registered which are listed by Central Register of Tourism Organizers and Intermediaries authorized by the Ministry of Sport and Tourism. Their number keeps changing which is illustrated in table 1. Since 2002 frequent close-ups of travel organizers have been observed owing to termination of permission or refusing permission to conduct business activity, and also bankruptcy. The reason for such situation is an increase in insurance prices for companies active in the sector of tourism, decreasing demand for foreign tourism and their low profitability which brought about a few spectacular bankruptcies of such travel agencies as: Aladin, Big Blue, Selecturs, Orbis Travel. The highest stability regarding their number is observed among travel agencies combining organization and intermediary services in tourism.

Table 1. Travel agencies listed by Central Register of Tourism Organizers and Intermediaries in the period of 2002–2010 (update as of 30.11.2010)

| Years | Poland total | | Organizer | | Organizer and intermediary | | Intermediary | |
|---|---|---|---|---|---|---|---|---|
| | Number | Dynamics w % | Number | Dynamics w % | Number | Dynamics w % | Number | Dynamics w % |
| 2002 | 3650 | 100.0 | 1675 | 100.0 | 1942 | 100.0 | 33 | 100.0 |
| 2004 | 2839 | 77.7 | 792 | 47.3 | 1999 | 102.9 | 48 | 145.4 |
| 2006 | 2689 | 94.7 | 559 | 70.6 | 2080 | 104.0 | 50 | 104.2 |
| 2008 | 2733 | 101.6 | 611 | 118.2 | 2089 | 100.4 | 33 | 66.0 |
| 2010 | 3073 | 112.4 | 684 | 111.9 | 2370 | 113.4 | 32 | 96.9 |

Source: author's compilation based on data from Central Register of Tourism Organizers and Intermediaries (2010).

Table 2 presents spatial structure of travel agencies in Poland. It should be noticed that Mazowieckie, Śląskie and Małopolskie represent regions characterized by the biggest concentration of travel agencies. The dominating position of Mazowieckie region results from foreign agencies representation offices located in Warsaw. The share of travel agencies according to the objective of conducted business activities is diversified by territory. In such regions as Podlaskie mainly tourism organizers are functioning, while in others travel agencies which combine intermediary and organization services are the dominating ones (Świętokrzystkie, Warmińsko-Mazurskie, Mazowieckie, Lubuskie, Małopolskie and Wielkopolskie).

Table 2. Spatial structure of travel agencies and their share according to the objective of conducted business activities following regional arrangement in Poland in 2010 (update as of 30.12.2010)

| Region | Total share of entities | Share of organizers | Share of organizers and intermediaries | Share of intermediaries |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |
| Dolnośląskie | 8.5 | 26.2 | 72.7 | 1.1 |
| Kujawsko-pomorskie | 3.0 | 36.3 | 63.7 | 0.0 |
| Lubelskie | 3.2 | 27.9 | 70.1 | 2.0 |
| Lubuskie | 1.6 | 10.2 | 89.8 | 0.0 |
| Łódzkie | 5.0 | 27.3 | 72.7 | 0.0 |
| Małopolskie | 12.2 | 10.9 | 87.5 | 1.6 |
| Mazowieckie | 19.9 | 9.3 | 89.7 | 1.0 |
| Opolskie | 1.9 | 25.0 | 75.0 | 0.0 |
| Podkarpackie | 3.4 | 10.6 | 87.5 | 1.9 |
| Podlaskie | 2.6 | 94.9 | 5.0 | 0.0 |
| Pomorskie | 6.8 | 29.4 | 69.2 | 1.4 |
| Śląskie | 13.9 | 29.8 | 69.7 | 0.2 |

| 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|
| Świętokrzyskie | 1.8 | 0.0 | 100.0 | 0.0 |
| Warmińsko--Mazurskie | 3.4 | 4.8 | 95.2 | 0.0 |
| Wielkopolskie | 8.2 | 15.9 | 82.5 | 1.6 |
| Zachodniopomorskie | 4.6 | 48.2 | 48.2 | 3.5 |
| **Poland total** | **100.0** | **22.0** | **76.9** | **1.1** |

Source: author's compilation based on data from Central Register of Tourism Organizers and Intermediaries (2010).

Defining the overall group of tourism agents is not an easy task since these entities do not have an obligation of being listed in the Central Register. The Institute of Tourism in Warsaw estimates that there are about 2650 tourism agencies functioning in Poland. The majority of them are small entities employing up to 9 workers (97.3%), private entities (98.5%), run by sole proprietors (70.0%) and civil partnerships (14.5%), single entity businesses (85.0%), these which were established in the period of 1989–1996 (73.3%) (Januszewska, 2003, pp. 191–205).

## 2. ICT influence on the process of travel agencies development

As many as over 13% of plane tickets purchased in Poland in 2009 were booked on-line. 42% of the Internet users choose to pay by means of electronic banking facilities, over 50% of Poles travelling by planes decide to invest in budget airlines, which can be booked only on-line. 40% of the Internet reservations are made outside the hours 10 a.m. – 6 p.m., 15% of on-line bookings are done on Saturdays and Sundays, every second ticket booked on the Internet can be issued completely automatically. The above information confirm the significant role played by ICTs with regard to activities performed by travel agencies and their extensive influence on such entities' functioning.

In 1841 the Englishman Thomas Cook opened the first travel agency. Since that time many changes occurred in the way tourism services have been offered. In the 1960s of the 20s century the first electronic distribution systems were created. In the 1970s Computer Reservation System (CRS)[2] was intro-

[2] CRS represents a computer system established in order to provide adequate conditions for communication between producers of tourism services and their recipients, it is a computer net-

duced, based on which Global Distribution System (GDS)[3] was applied in the 1980s. Global application of the Internet brought about the most extensive changes in the distribution of travel agencies offer. At the turn of the 1990s and 2000s travel agencies established inter-organizational systems and networks based on the Internet, aimed at the improvement of both effectiveness and capacity of travel agencies functioning, as well as their communication with partners and clients. In recent years specialized on-line distribution platforms, metasearch engines and semantic networks have become very active.

It is estimated that the value of travel agencies market in Poland has grown up to about 4 billion PLN in 2009. Major part of this amount originates from selling the available offer by traditional tourism agencies. However, the dynamics of on-line tourism services sales is extremely high. According to performed estimations in 2008 Poles spent about 850 million PLN on purchasing tourism services via the Internet, including about 300-350 million PLN on airfares. It is estimated that in 2009 the value of tourism offer on-line sales amounted to over 1 billion PLN.

Purchasing behaviour of tourists has been changing significantly under the influence of new technologies which may be noticed by following changes in the share of particular distribution channels referring to hotel services. The ongoing research regarding the Internet application in selling accommodation is done by TravelClic portal which lists distribution channels favored by tourists. Due details are illustrated in table 3.

It may be noticed that direct involvement of traditional travel agencies in making hotel reservations keeps dropping from 35% in 2005 to 20% in 2010. The decreasing share of reservations made by means of Call Center is not so rapid and amounts to 7% in the studied period. It is the Internet which is responsible for such market changes, the share of which grew by almost 22%.

work focused on making reservations of products offered by a certain tourism enterprise (agent, tour operator, hotel, airline, etc.) and managed by this enterprise, (Kubiak, 2006, pp. 217–219).

[3] GDS is a macro-version of CRS equipped with professional and systematically improving technology aimed at the distribution of tourism products mainly used by travel agencies, (Giaoutzi, Nijkamp, 2006, p. 24). Among the biggest GDS the following are listed: Sabre, Galileo, Worldspan, Amadeus, which offer tourism packages, reservations and sell accommodation, flight or railway tickets, tickets to important events, car rental and other tourism services. They are of global range and are currently available for both institutions and individual clients.

Table 3. Share of particular distribution channels in making reservations of hospitality services worldwide in the period of 2005–2009 (in %)

| Channel | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|
| Internet | 35.2 | 37.6 | 43.0 | 47.6 | 54.2 | 56.9 |
| Travel agencies | 34.6 | 31.3 | 29.3 | 27.3 | 23.6 | 19.6 |
| Call Center | 30.2 | 31.1 | 28.8 | 25.1 | 22.2 | 23.5 |

Source: TravelClick (2005–2010).

The market of organization and intermediary services, along with the development of communication and information technologies, offers conditions for developing and differentiating travel agencies (Marek, 2009, p. 20). Among new entities the following should be listed: on-line travel agencies (Online Travel Agent OTA), metasearch engines (also called side-by-side or compare engines)[4] which can be referred to as the "tool" saving time necessary for finding best tourism offers. Metasearch engines keep undergoing transformations by creating the, so called, semantic networks.[5] Despite the fact that OTA and TME are quite different, they are interrelated. Any good compare engine presents an offer of different OTA services and an extensive part of activities from tourism focused compare engines are transferred to OTA web sites. At Polish market the most important on-line travel agencies are the following ones: TravelPlanet.pl, Fly.pl, Wakacje.pl, Tourispol.pl, Traveligo.pl and Nestro.pl.

[4] Metasearch machine is a specialist service which sends its user's question to many data bases. The results are aggregated into one list of data which can be filtered by the user e.g. by price, number of stars, location of hotels. It also compares the reviews of clients about a certain hotel, or allows for making direct contact with a client. In Poland their occurrence is marginal. Portal www.hotelcalculator.com was initiated in 2008 and www.obibuk.pl in 2009. CRS and GDS became beneficiaries of these systems. For example Amadeus has a built-in metaserch engine and also initiated the semantic system implementation.

[5] Semantic networks constitute the future. They allow for selecting an offer according to specific criteria. Computers will be capable of combining meanings of words and respond to such enquiries as: "We would like to travel from Cracow to Paris and spend three nights in a 2* hotel in the vicinity of Louvre" and defining additionally the trip budget.

Table 4. Differences between an on-line travel agency (*Online Travel Agent*) and a metasearch engine (*Travel Metasearch Engine*).

| Criterion | On-line travel agency (OTA) | Metasearch engine (TME) |
|---|---|---|
| Goal | Finding an event, hotel, flight, transport requested by the client | Searching through many portals, comparing prices and other conditions of the trip |
| Time | Long time necessary to find an offer | Short time necessary to find an offer |
| Presentation of a web site and its organization | Similar to TME | Similar to OTA |
| Type of business | Tourism company earning by selling in retail | Media oriented company earning by selling advertisements and obtaining commission from transferring clients to web sites of tourism services providers |
| Number of offers | Significantly smaller offer than TME | Very extensive offer |
| Mutual relations | For OTA TME play the role of an advertisement publisher | TME presents such services as OTA and other, as the result clients can compare prices and brands of different OTAs |
| Activity of users | Persons using tourism portals focus on "hunting the best offer" and at the same time look for advice, support, or contact with a consultant | Users of compare engines want to find and book a specific service at the best price |
| Approach to marketing | They establish loyalty by managing relations with clients and creating a unique product. It is also important to create client's trust for OTA as a qualified consultant | Compare engine is a "stage in-between" on the way from finding an offer to its purchasing |
| Target market | Tourists | Travel agencies |

Source: own elaboration onthe basis (Orlewska, 2009).

## 3. ICT tools used by travel agencies in Lower Silesia Province

To make informational technologies working for travel agencies, inhabitants of Lower Silesia Province must have a convenient access to the internet. Lower Silesia Province has a very high level of internet users density. According to Global Marketing S.A. Lower Silesia Province is in second place, behind Mazowieckie, in this matter. Internet Penetration Indicator (IPI)[6] for Lower Silesia is 137%. The research of Gemius S.A. included in Megapanel PBI/Gemius from December 2009 describes the structure of Lower Silesia internet users. It shows that most internet users are between 25–34 years old (32% among men, 23% among women) then in the age group between 35–44 (27% of men and 22% of women). As much as 71% of Internet Users from Lower Silesia use the internet every day. More then 40% look at tourism websites. These sites reported 35% increase in comparison to previous year (PBI Gemius, 2009). Internet users mainly seek information about tourist events. The most popular source of online information about tourist events are the websites of tour operators (Google and OBOP, 2009).

Analysis of using ICT by travel agencies has been based on authors own observations and on the results of quantitative research. The research was completed using standardized questionnaire technique in the time span of three months January – March 2011, in Lower Silesia travel agencies.

Respondents were asked to point out, in a scale from 1 to 10, the areas of travel agencies business which are affected by implementation of information and communication technologies. The results have been shown in fig. 1. Respondents decided that, in the offices they work for, the process of using ICT is slower then in the other entities of their industry. ICT mainly influence the speed of handling, the exchange of information, sale and agency promotion. According to respondents ICT has not got much to do with forming the quality of the product and its price.

By observing travel agencies activities it was found that, there are agencies which operate through the direct contact and trust with customers and they are resistant in deployment of new informational technologies (in some cases they don't even have a website) The other group of agencies builds its future based on ICT.

In the second group agencies use several informational tools which allow operating more effectively on the market of tour operators and tourism intermediaries. The research results in tab. 2. show that the agencies from the

[6] IPI – Internet penetration coefficient is the ratio of Internet users in the province in respect of all Internet users in Poland and the participation of the inhabitants of the region in relation to the total national population. The share of Internet users in the Lower Silesia region is 7.8%, while the share of population to 7.5%.

first group make 47% of all. The second group of agencies presents more complex relations with customers.

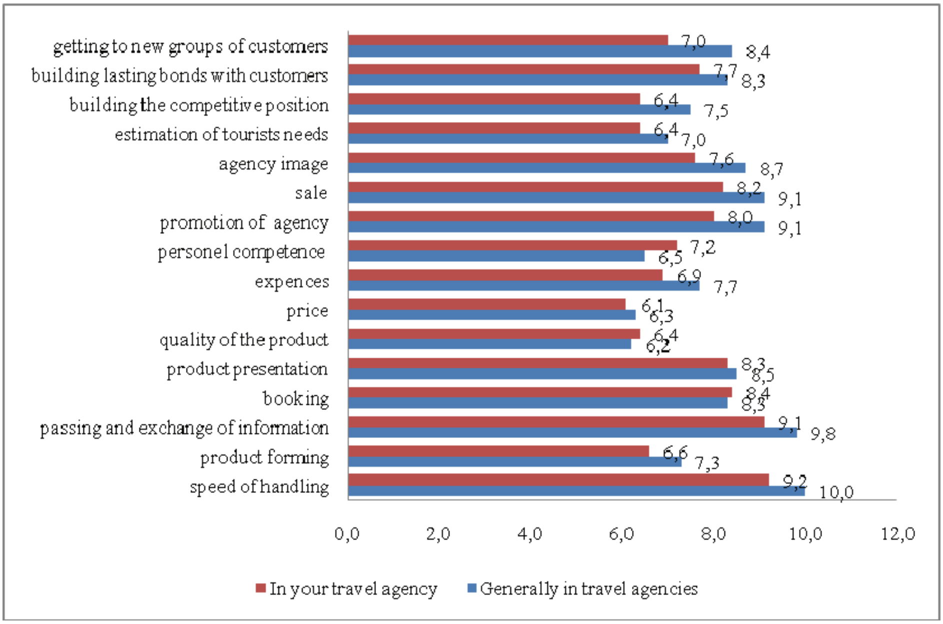


Fig. 1. An influence of ICT on travel agencies activities (on a scale from 1 to 10)

Source: own elaboration.

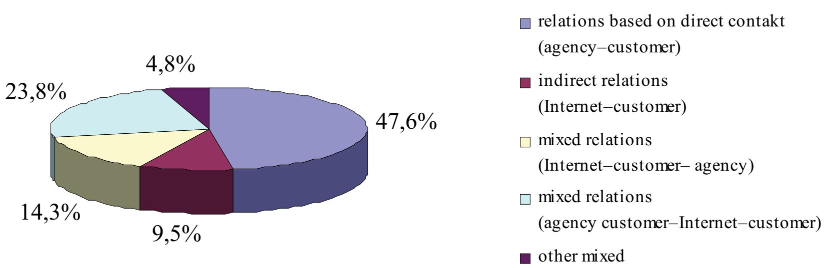


Fig. 2. Differentiation of the process of selecting an offer by a customer in surveyed travel agencies.

Source: own elaboration.

Tools which are included in travel agencies software are presented in fig. 3. It can be notified that all respondents stated that, their agencies possessed tools for internet communication. The research revealed that respondents used mainly the e-mail box and communicators such as Tlen, Gadu-gadu or CRM. Most agencies in the research (85%) use tools to make daily office work easier such as word processors, spreadsheets, relational systems, data bases, software for reading PDF files, graphic software for offer presentation, accounting software, browsers etc. Furthermore representatives of agencies indicated that their computer systems were equipped with a search engines (57.1% of agencies) and CMS (content management system) a web application which allows to create a website and its subsequent actualization and modernization (52.4%), as well as automatic updating of offers (52.4%).

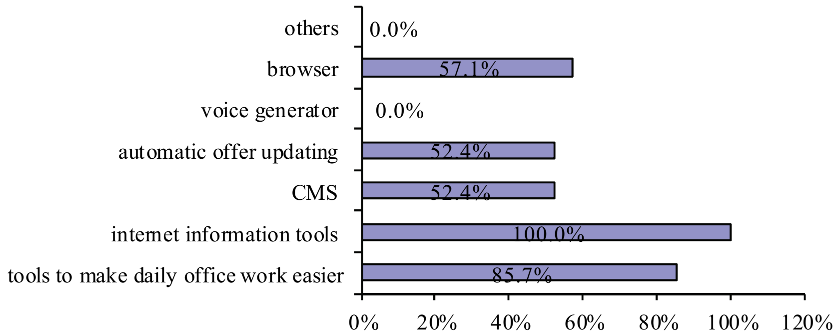


Fig. 3. Tools which are included in travel agencies software

Source: own elaboration.

It can be assumed that, in coming years travel agencies, will more and more use information and communication technologies (ICT). There are several major reasons for this fact:

- information and communication technologies have been developing very dynamically and are widely used by businesses, also those in tourism industry,
- ICT in travel agencies become a measure of innovation and modernity and so attractiveness,
- using ICT has an influence on reducing the operating costs in an office which in turn may lower the price of tourism intermediary services,

- ICT is popular in tourist offer distribution, hence travel agencies must adapt their further functioning to existing trends,
- travel agencies clients have increasingly greater access to the internet and they want regardless of time and place book and buy tourist services.

It should also be noted that the results can be extended to other Polish provinces because the course of this phenomenon in Lower Silesia not different from its shape in other parts of the country.

## Conclusions

Development of ICT has an undeniable impact on development possibilities of travel agencies, on a local scale, as well as globally. Technological sphere since a few years is a source of competitive advantage of tourist agencies. It is mainly achieved by virtualization of their businesses, primarily through the use of internet to promote and distribute the tourist product. Above that, the use of internet and ICT by described entities has had organizational marketing, financial, technological and social effects, on travel agencies functioning as well as on a customer behavior. That has caused the evolution of business model, which created a sphere called e- business.

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# INNOVATIVE HOSPITAL STAFF MANAGEMENT METHODS IN POLAND

**Abstract**

Innovative methods of managing employees, as well as generally implemented solutions concerning organizational innovations in Poland are areas undervalued in terms of changing surrounding conditions. Numerous reforms of the medical care system and consequently also a need to adapt the demand of the medical staff to market requirements, are becoming an increasingly more important area of activity of the management board.

This report presents the results of studies carried out in public hospitals in Poland concerning ways of employing employees, effective time management methods in connection with their work, as well as intergroup and interpersonal relations (among individual occupational groups at the hospital) which are maintained among them. This report is based on studies conducted in Poland in years 2009–2010 and it was part of a large project concerning implementations of organizational innovations at hospitals, which was financed from public funds.

Medical professionals (doctors, nurses, midwives, medical technicians) are an important but at the same time often undervalued element of medical care process in publications and the management practice. They are directly responsible for the effectiveness of treatment, as felt by the patient. Therefore, the implementation of appropriate solutions in relation to human resources management should result in the

shortening of the treatment process and increase the efficiency from the medical and economic point of view.

Organizations implementing staff management innovations must take into consideration technologically advanced material resources and intangible resources (with particular emphasis on staff competence, organizational culture, communication and stereotypes). The analysis is complemented by the information coming from the surroundings, namely patients' needs and preferences, competitors (Cannon, Tanner – in case of hospitals to a minimal degree), services providers and drugs and medication suppliers and the labour market.

Because of the specificity and scope of hospital activity any innovative actions should be implemented wisely, in a long-term way, and first of all, gradually, so that the changes do not cause an incorrect flow of information, stoppages at work and in consequence work dismissals.

In the report we will discuss what preparatory actions should be applied so that the implementation of hospital staff management innovations is more effective. These solutions will presumably be able to be applied also by hospital managers in other countries, in which the degree of responsibility for the staff is high and the impact of the Public Payer on the range of services provided is high too.

**Keywords:** Organizational innovation, hospital, employee, interpersonal relations, intergroup relations

## 1. Polish healthcare in conditions of reforms

Social-economic transformation that Poland has been going through since the 90's of the 20th century until today contributed in a significant way to the change of the structure of education and employment of medical staff. Job-related emigration of doctors and nurses after the opening of the labour market in the European Union countries (mainly in Great Britain, Italy and Scandinavian countries) as well as the transfer of employees to the private sector played a crucial role in this change. The private sector has developed in Poland since 1991, since the Act on healthcare centres (the Act on healthcare centres of 30 August 1991) came into force which created the possibility of opening healthcare centres by institutions and persons referred to in Section 8 (1) (4)-(8). Additionally, a significant proportion of the workforce set up their own businesses, taking advantage of the opportunity that opened up at that time to work as freelancers.

The structure of employment and pay of medical staff is a crucial problem not only for representatives of medical professions but also for the general public. These problems directly affect not only the management of healthcare centres but also they are important to patients because the quality of services expected by them is the outcome of employment opportunities for suitably qualified medical staff, expenses incurred by healthcare centres and also of satisfactory working conditions other than pay by Lighter (2000) and Burek.

Popyt na lekarzy specjalistów, również z dodatkowym wykształceniem menedżerskim, rośnie w Polsce i za granicą, co w połączeniu z atrakcyjnym wynagrodzeniem sprzyja motywacji do dalszego kształcenia się.

According to the Polish labour law, the conditions of remuneration for work and granting other work-related benefits, in respect of employers employing over 20 people, are set out in collective agreements and pay regulations. They are often supplemented by regulations on awarding bonuses and rewards. Principles of remuneration are set out mainly in agreements constituting the basis for employment, such as agreements shaping labour relations and those which are based on civil law governing compensation for the provision of benefits (the Act of 26 June 1974 – the Labour Code).

Employment of medical staff in healthcare centres which signed contracts with the Public Payer (National Health Fund) for providing health services is governed by implementing regulations of the Minister of Health to the Act on healthcare services, setting out the requirements for employed specialists or among other things the hours when services are provided. They are generally referred to as the "basket regulations" (from "basket of guaranteed services"). Meeting these requirements determines the minimum employment required to provide health services, provided that the hospital intends to carry out services under a contract with the Public Payer. If the hospital is not interested in cooperation with the National Health Fund, the requirements described in those regulations do not apply to it. Then the only authority to decide whether it is justifiable to employ or dismiss an employee is the hospital management board taking into account the economic needs.

It is worth noting that legal requirements often diverge from the actual need for specialists in hospitals. In Polish conditions it is often the case that the Public Payer demands than an outpatient clinic employ a doctor specializing in a given area (e.g. an allergist at an allergy clinic), while not agreeing that the patient be seen by a doctor of related specialization (e.g. pneumonologist).

Poland is not a country in which there is a sufficient number of all specialists. In many regions there is a lack of specific medical specialists, therefore such a top-down decision for healthcare centres is very disadvantageous because it makes it necessary to close down a clinic or hospital ward and thus, reduce availability of medical care to patients. These restrictions are absent in the case of facilities which do not sign contracts with the National Health Fund because the decision about the employment of a doctor is made by the board.

The costs associated with managing human resources are a significant burden on the hospital. In some cases, especially in the fields where labour costs are high, they constitute the main business expenses. Hospital executives are not able to determine the full staff costs without additional analyses because in the traditional accounting approach staff costs are only salaries, social security contributions and other benefits to employees. Staff costs should therefore be regarded as the costs of employing staff, but also as the costs of cooperation with medical staff in forms of employment other than a contract of employment. According to M. Nowak (2008) when calculating staff costs, all costs related to the functioning of the HR department and the costs of conducting procedures associated with human resources should be taken into account. A considerable emphasis is placed that as staff costs should be regarded other costs than in a traditional accounting approach, including, costs of materials used by the staff department, depreciation of equipment costs, the costs of space occupied by the staff department, and other costs by category such as representation and advertising costs if they relate to activities not in the consumer market but in the labour market.

In the Polish health sector staff costs are spread across multiple book-keeping accounts due to a very large share of outsourced services, such as medical outsourced services, diagnostic outsourced services, to which remuneration for diagnostic procedures performed by staff not employed at the facility is assigned or the so called impersonal wages and salaries, which constitute a very large share of remuneration (staff employed under a freelance agreement). According to T. Wnuk (2002) salaries generally can be divided into direct and indirect ones. The first ones are used primarily to ensure the continuity of the production process, and their relationship with products is not straightforward. They are budgeted along with other indirect costs of the production process. The latter ones are used in the manufacture of a given product in accordance with its design and technological path and they can be directly related to the product. According to T. Wnuk direct salaries do not include in particular:

- wages and salaries of employees in departments other than basic,
- salaries of auxiliary staff employed in basic departments,
- part of salaries of direct production employees,
- extra pay for work overtime, for work on holidays and for downtime and repairs, also for shortages caused by the employee,
- extra pay for downtime and shortages caused by the employee.

While analysing aspects of human resource management in healthcare centres one cannot omit to emphasize the importance of two entities listed by A. Pocztowski – operations manager and company management board. The participants of this process should of course be adapted to the health sector, in which units do not always resemble companies operating in the market. Assuming that the information available to the operating manager and company management board concerning the analysis of healthcare units are the basis for HR policy making, we can speak of perfectly sufficient entities of the process.

## 2. Tasks of innovative healthcare staff management

The purpose of focusing on human resources is to ensure that the staff conducting activities which affect the quality of the services display adequate competence achieved through education, training, skills and experience, and have awareness of the importance of the work they perform for the achievement of quality objectives (outcomes of services and work performed). The main responsibility for achieving this purpose is taken by the directors and relevant HR and Payroll departments. A number of tasks which the main participants of this process are faced with can be identified, including determining staff policy, determining requirements for the staff to be employed, identifying qualification requirements for managerial and supervisory positions as well as for independent responsible posts, setting requirements and conditions for agreements concerning the employment of specialist doctors, identifying requirements for staff hired by subcontractors who perform tasks related to services provided to patients, verifying the qualifications of the staff for tasks entrusted to them before the relevant contracts are made, the assessment of staff competence by monitoring and reviewing their performance, identifying staff training needs, providing the means to carry out the requisite training, maintaining staff documentation and keeping staff records, including documents confirming their education, training, skills and experience by Łyś (2011) and Karniej (2011).

Innovation in managing the hospital staff begins as early as at the stage of recruitment. Available recruitment solutions can help not only to hire the candidate that is best prepared for work, not only exclusively on the basis of the documentation and qualification, but based on actual competence and willingness to work in the designated position. For several years, many hospitals did not understand the concept of innovation and consequently it seemed that the employee was expected to organize the workplace on his own, to search for areas of professional activity, and finally to develop his own system of control. The efficient use of available models of innovation in management, meanwhile, allows for the effective functioning of the organization.

In order to properly define the expectations for a given post the employer must first of all get to know very well the specificity of the work, know what practical skills must a person working in a particular position possess and what formal requirements are associated with it. It is often the case that in large hospitals the process of recruiting new employees is conducted by resources departments, but in isolation from the people who will in the future cooperate with the new employee. The inclusion of representatives of the organizational unit in the recruitment process as early as at the outset will allow not only to prepare the appropriate expectations, but also to facilitate personal meetings with potential candidates who can be subjected to professional questions and will be able to demonstrate knowledge to the persons with whom they will work in the future.

Adequately prepared job description is the key to success in hiring new staff. This is the starting point for the implementation of human resource management strategy in the organization; it is not only a reference point in the course of the recruitment, but also it is an important element in preparing periodic employee assessments. An adequately prepared description contains three main profiles:

- task-related – assigning tasks to a given position, determining the scope of responsibilities, linking the tasks to the management through objectives,

- competence-related – assigning competence and their hierarchization, the requirements that are set out at a given position and their relation to the tasks being carried out,
- purpose-related – defining the position through short-term and and long-term goals to be achieved, relating them to the efficiency and professional development of the employee (Greene and Burleson).

It is important that the job description document is not rigidly related to current employees, but due to its flexibility it should allow to best adjust the employer's expectations to the competence of the employee. To this end, with expected skills in mind it is worthwhile to consider two factors: education necessary for a given position, and most desirable education. In this way, people conducting the recruitment will be able to decide, not quite freely, but in a limited way, which candidate better than any other meets the expectations.

Innovative methods by which the recruitment can be carried out depend on how we determine a group of potential candidates. One of the new and increasingly used recruitment methods, also in the health sector, is the Assessment Centre. It is a multidimensional method for evaluating an individual or a group of candidates in situations simulating real environment, processes, or real work tasks. A distinctive feature of the Assessment Centre is that the process occurs multidirectionally with several candidates participating at the same time. A group of candidates participate in a variety of exercises observed by a team of psychologists, HR specialists who evaluate the candidate in terms of several predetermined criteria of work-related behaviours. The Assessment Centre participants assume the roles described in detail in the instructions and they are to perform precisely specified tasks while being closely observed and assessed. In order to properly carry out the recruitment on the basis of the Assessment Centre a job description needs to very thorough, with particular emphasis on competence and qualifications, as well as on the role the candidate will have to assume in the organization.

## 3. Field of staff innovations in the hospital

Hospitals are organizations serving the public, constituting the so-called safeguard of health for the society located in the immediate vicinity by

Nowotarska-Romaniak (2008). In particular it applies to district hospitals and provincial hospitals are an example on the regional level.

In order to completely secure medical services and ensure their highest quality, health care units need two factors which are dependent on each other. First, the competence of medical staff must be tailored to the needs, preferences of patients and technological components that increase quality and efficiency of health services. Second, hospitals should have a complete material base consisting of medical tools and equipment.

Deliberations concerning the competence of employees should always be perceived through the prism of individual characteristics of employees analysed in the context of the inner and outside environment of organization. These relations are shaping the range of desired competencies, usually consisting of the group of specialist competence, social competence and company competence. In case of taking occupational group criterion into account competence is divided into qualifications, skills and experience, which are consistent with the specialization and the tasks performed in the hospital. In case of the function based criterion another kind of competence is important. It is more oriented towards knowledge and experience in economics, psychology and management by Hollway (2005) and Kęsy (2008).

The next groups of competence (social and company competence) should be uniform for all employees of the hospital. Not only in order to "better" perform tasks or show more empathy to patients, but also to respect the internal customer, i.e. other employees of a given hospital. The most important component of social competence in a hospital is multidirectional empathy, supplemented with responsibility and selflessness in action.

The most important feature out of the group of company competencies is the identification of the employee with the hospital, rather than only with the representatives of his or her own occupational group, or with the employees from the ward or with the closest colleagues.

The above description instructs which competencies should be taken into account when constructing the competence profiles for a specific position. However, more important component of intangible value of the organization is the aspect of the creation and adaptation of the organizational culture to an existing internal structure of the hospital and its micro-environment by Shortell (2006) and Kaluzny (2006).

In accordance with the definition of the organizational culture by S. N. Herman it is divided into explicit and implicit aspects of Potocki (2006) or in accordance with C. Sikorski it consists of thinking patterns, behavioural patterns and symbols by Potocki (2006).

Given the specificity of Polish hospitals and the above cited definitions, it can be said that organizational culture is made up of action procedures at all levels of managing and team integrity by Shortell (2006) and Kaluzny (2006) and "internal symbolism" apparent in hospitals usually in the form of uniforms and coats.

The process of adjusting the organizational culture can be improved by starting the diagnosis and remedying the communication process at the interpersonal level, intergroup level and first of all at the intergroup level, as well as by eliminating or neutralizing the stereotypes perpetuated in hospitals.

## 4. The actual conditions at hospitals

The hospital employees for the purpose of the survey were divided into 4 occupational groups: doctors, nurses, administrative and technical staff. The original survey was carried out from July to October 2010 in five large hospitals employing at least 750 employees. The main survey tool was a survey questionnaire, supplemented by observations made on the spot in the hospital.

The most important factors to be taken into account when choosing the qualitative research of "market leaders" of hospital units were the number of employees in the organization, complex, multi-specialty organization structure and location of the hospital.

In order to compare and build a more complete picture of the actual situation of creating change in the management of senior managers it was necessary to conduct research in organizations whose healthcare units are overseen by the Marshal's Offices (pl. urzędy marszałkowskie). The Dual nature of control of the Ministry of Health and the parent body forces managers to act effectively and improve the quality of services.

Due to the limited time, human studies have been limited to the most developed and most heavily therapeutic entities. The scientists have assumed that increased competition on the market forces positive change and is a stimulus for creative, qualitative and economic activity.

On the basis of secondary data, the most widely represented included the following provinces, from which the researchers chose one representative: Wielkopolskie – Hospital A, Dolnośląskie – Hospital B, Małopolskie – Hospital C, Śląskie – Hospital D and Mazowieckie – Hospital E.

It was assumed that the subject of the survey will be 20% of employees, selected at random, taking into account the occupational group criterion. The employment data, at the onset of the survey showed that the following numbers of people were employed at the hospitals: hospital A – 750, hospital B – 940, hospital C – 830, hospital D – 1050 and hospital E – 946. In accordance with the accepted survey guidelines every fifth employee was selected at random to participate in the survey. The questionnaire has been distributed to 903 people (including 96 doctors, 426 nurses, 186 administrative workers and 195 technical workers). The questionnaires have been correctly filled by 748 people out of 903, constituting 82,8% of all the questionnaires.

Deliberations concerning the relations inside the hospital must take into account the present attitude of the hospital staff to the exchange of ideas and observations at staff meetings.

The results are provided in table 1 and they refer to four most frequently raised issues of concern at staff meetings.

Table 1. Frequency of hospital staff meetings and topics discussed

| | Hospital strategy | | Organizational changes | | Staff issues | | Current issues | | Other | |
|---|---|---|---|---|---|---|---|---|---|---|
| | in numbers | in percentage | in numbers | in percentage | in numbers | in percentage | in numbers | in percentage | in numbers | in percentage |
| Once a week | 35 | 4.8 | 42 | 5.7 | 21 | 2.8 | 152 | 21.4 | 27 | – |
| Once a month | 158 | 21.6 | 182 | 24.9 | 105 | 14.2 | 328 | 45.3 | 21 | – |
| Every half a year | 174 | 23.8 | 194 | 26.6 | 152 | 20.7 | 151 | 21.2 | 14 | – |
| Once a year | 178 | 24.3 | 146 | 20.0 | 134 | 18.2 | 57 | 8.1 | 13 | – |
| No | 120 | 16.4 | 85 | 11.6 | 181 | 24.6 | 21 | 3.0 | – | – |
| I don't know | 67 | 9.1 | 82 | 11.2 | 144 | 19.5 | 8 | 1.0 | – | – |

Source: primary data from the surveys carried out in selected hospitals.

The results shown in Table 1 show that in terms of frequency and importance of the discussed issues, staff meetings most often concern current issues, organizational issues, staff issues, or the hospital strategy issues. The frequency of these meetings varies. According to 66.7% of the respondents, meetings concerning current issues are held at least once a month. Next, in order of frequency are the meetings concerning organizational changes (at least once a month – 30.6%). The third type of meetings arranged at the hospital focus on the strategy of the organisation and according to 26.4% of the respondents they are convened at least once a month. Meetings discussing staff issues are the least frequent, in this case only 17% of the respondents attend meetings which deal with this topic at least once a month.

High frequency of meetings focussing on current issues may indicate that the management and middle management focus mainly on operational activities while other matters also relevant to the operation of the hospital are discussed minimally.

Creating a good atmosphere at the workplace requires the involvement of all the hospital staff.

Table 2. The existing stereotypes and the sources of conflicts in the hospital

| | Division of employees into medical and auxiliary staff | | Inferiority complexes in hospitals | | Influence of divisions on interpersonal conflicts | |
|---|---|---|---|---|---|---|
| | in numbers | in percentage | in numbers | in percentage | in numbers | in percentage |
| Yes | 493 | 65.9 | 457 | 61.1 | 530 | 70.9 |
| No | 123 | 16.4 | 77 | 10.3 | 58 | 7.7 |
| I don't know | 132 | 17.7 | 214 | 28.6 | 160 | 21.4 |

Source: primary data from the surveys carried out in selected hospitals.

65.9% of the staff under survey confirmed the view that in hospitals there is a division into medical staff and auxiliary staff. The negative effect of the existence of such a kind of divisions is the existence and depeening of inferiority complexes in administrative staff, and even to a greater extent in technical staff. 61.1% of the respondents confirmed that inferiority complex phenomenon does exist in hospitals and 91.7% of the administrative and technical staff confirm this view.

An interesting result from the survey, which refers to the existence of the inferiority complex phenomenon in hospital employees is data obtained from the doctors' group of whom 96% do not notice inferiority complex in other hospital employees. It can result from rare contacts with representatives of those occupational groups, showing no consideration for them or feeling superior to other employees of hospitals.

Ann addition to these considerations is the analysis of the influcence of the divisions and inferiority complexes on personal conflicts. In this case, it proved correct that the existing divisions are a source of personal conflicts among the staff.

Conflicts occur at every workplace. However, it is important which type of conflicts is dominant. Conflicts over professional issues should occur because they are beneficial for the company while personal conflictual situations over personal matters, i.e. concerning interpersonal relations should be avoided.

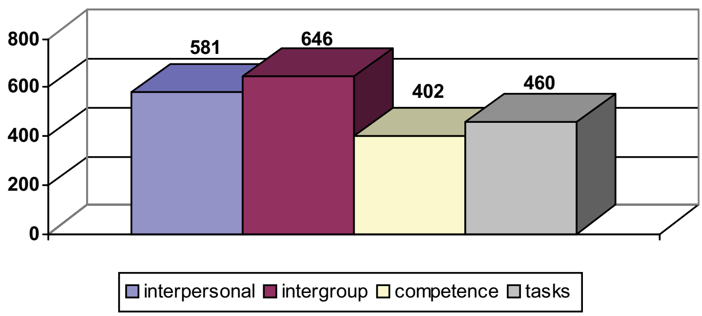


Fig. 1. Sources of conflicts at work

Source: primary data from the surveys carried out in selected hospitals.

In accordance with the results obtained, most conflicts are of intergroup nature (30.9% respondents) and of interpersonal nature (27.8%). These are typical emotional or personal conflicts. In addition, the frequency of intergroup conflicts indicates that the stereotypical attributing negative characteristics to the representatives of other professions, is a frequent phenomenon in hospitals under survey. Conflicts desired by the organization, which strengthen its creativity and development occur less frequently. Conflicts about competence or tasks were shown respectively by 2% and 22% of the respondents. The results obtained suggest that conflicts at organizations negatively affect the organization of work.

During the survey the employees were divided into 4 groups. This was the basis for the analysis of relations at the level of the group and among the individuals.

Table 3. The quality of communication in the hospital

| | At intergroup level | | At interpersonal level | |
|---|---|---|---|---|
| | in numbers | in percentage | in numbers | in percentage |
| Very bad | 18 | 2.5 | 4 | 0.5 |
| Bad | 132 | 17.6 | 87 | 11.6 |
| Neutral | 313 | 41.8 | 281 | 37.6 |
| Good | 265 | 35.4 | 332 | 44.4 |
| Very good | 20 | 2.7 | 44 | 5.9 |

Source: primary data from the surveys carried out in selected hospitals.

On the basis of empirical data it can be said that the results for both types of relations are similar. Bad relations with representatives of “foreign” occupational groups were indicated by 20.1% of the respondents. By contrast, at the level of interpersonal skills fewer respondents indicated bad relations (12.1%). The people maintaining at least good intergroup relations or interpersonal relations constitute a group of 38.1% and 50,3% of the respondents.

While examining the level of communication within the organization one should take into account the participation of employees in the integration meetings, which can be viewed as a manifestation of their desire to contact with other employees and identifying with the organisation.

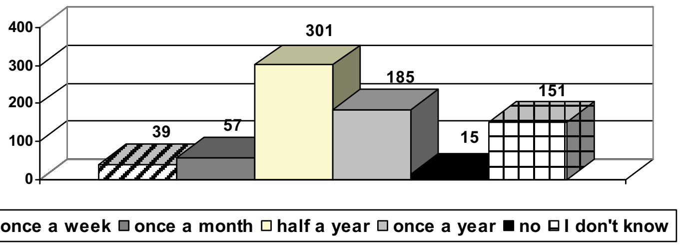


Fig. 2. Frequency of integration meetings

Source: primary data from the surveys carried out in selected hospitals.

On the basis of the data under analysis it can be concluded that employees do not maintain social contacts and if they do occur they are maintained with occupational groups, or possibly, with the representatives of the two groups: doctors and nurses. 67% of the staff under survey said that the meetings were held, at most once every half a year, or even that they were not held at all. 20.2% of the respondents do not know whether such meetings are arranged at all. This points to the almost total isolation and lack of social contacts with other employees, on a less formal basis.

These results show a group of people who are not a team, who pursue their own subjective goals, not identifying themselves with other members of the team.

Figure 6 is the summary of the primary results and it presents the respondents' view on the influence of the existing relations on the operation of the organization.

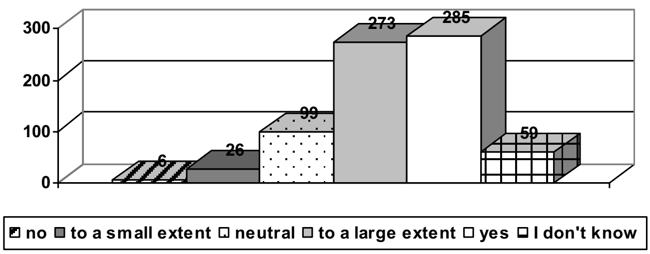


Fig. 3. The influence of the relations on the quality of the operation of the hospital

Source: primary data from the surveys carried out in selected hospitals.

The results of the survey are consistent with the theoretical knowledge. 74.6% of the hospital staff confirmed that the level of interpersonal relations affects the quality of the operation of hospitals.

## 5. A proposal to carry out some activities prior to the implementation of hospital staff innovations

Because of the nature of the services provided in hospitals changes must be made in a very thoughtful and prepared manner, in particular regarding the aspect of human resources. Making staff innovations in hospitals should begin with improving interpersonal and intergroup relations. Following these actions, it is necessary to employ measures to neutralise negative stereotypes and strengthen positive ones. Providing that the above actions have been taken, staff meetings should be started to be organised, but outside the premises of the organisation. And it is important that this type of meetings are held outside hospitals and at the beginning, together with the partners, in order to strengthen the sense of security and understanding.

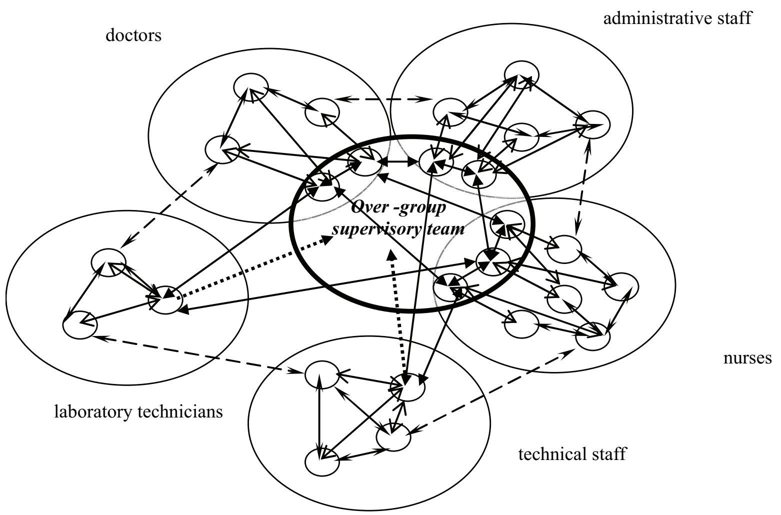


Fig. 4. An example of the process of neutralizing negative stereotypes and improving intergroup and interpersonal relations

Source: based on: M. Kęsy, *Rola procesu komunikacji w zarządzaniu pracownikami szpitala (The role of the process of communication in the hospital staff management).* In: *Innowacje organizacyjne w szpitalach (Organizational innovations in hospitals)*, J. Stępniewski, P. Karniej, M. Kęsy (eds.). Warszawa 2011, pp. 402–435.

Neutralization of negative stereotypes, improvement of intergroup and intepersonal relations can be obtained by creating cross-group teams with representatives from groups of doctors, nurses and administrative staff as members. In the case of laboratory and technical staff the membership would be temporary, i.e. one or several employees would perform tasks for the cross-group team but they would not permanently form the structure of the team.

The purpose of the membership to the cross-group team is to improve the way members from other occupational groups are perceived. It is about the direct perception of the described individual.

Another "step" will be to share one's own experience to colleagues from the same occupational group. Following this will be the exchange of information within occupational groups, being the result of the direct communication from the members of the cross-group teams.

The last and the most important part of the action will be the exchange of experience of direct and outsourced employees of the hospital with various occupational groups. The above described process in the longer perspective will eliminate the existing divisions among occupational groups and improve the efficiency of the tasks carried out.

Positive characteristics will be passed on to other members of this occupational group. At the end, the employees having no direct contact with the members of cross-group teams will give an account of their own observations to others, including not only people from their own group but also to acquaintances from other occupational groups.

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# THE ROLE AND COMPETENCIES OF LOCAL AND REGIONAL AUTHORITIES IN SUPPORTING INNOVATION PROCESSES

**Abstract**

The challenge of building knowledge-based economy requires partnership of many stakeholders. As in triple helix concept, business, science and public entities have to be involved to support innovation system. As there are many barriers in cooperation processes between those partners, innovation support organizations play a special role. Nevertheless, public authorities should create friendly environment for innovation, although it is not always their statutory task. This paper concentrates on capabilities and obligations of polish local and regional authorities to support innovation system.

**Keywords:** innovation, local government, public private cooperation

## Introduction

Innovation processes and entrepreneurship have been widely analyzed from economic, social and management perspective both in foreign and Polish literature. The role of Polish regional authorities in terms of innovation fostering is quite common in literature. Nevertheless there is a literature gap referring to the analysis of legal aspect of self-government in Poland in the field of innovation support. Jasiński et al. (2010) present regions as key actors in regional innovation processes. Nowakowska et al. (2009) describe innovation capacities of Polish regions. Among the others, Rogut and Piasecki (2009) analyze regional innovation system. Matusiak (2006) describes entrepreneurship and innovation entities in Poland. For example Stawasz (2010) presents key factors of enterprise development in Poland. As regards the instruments of management in self-government, the literature mainly narrows to widely understood public services. The goal of the paper is to present the role and competences of local and regional public authorities in supporting innovation processes as well as the best practices which can be implemented. The author uses descriptive method – legal regulations analysis and case studies of good practices in the field.

## 1. Public authorities and innovation processes

Innovation processes, which constitute the core of modern economies, take place in a specific system of interconnections between businesses, scientific research institutes, non-governmental organizations, citizen initiatives and public sector. The role of the local and regional environment, in which enterprises are to operate, is growing. Therefore public sector, especially local and regional public administration can and should focus on innovation processes.

To characterize the environment conducive to innovations, the concept of a triple helix can be applied. This idea assumes that the efforts of partners from three spheres, i.e. business, science, and administration, are combined to build the innovative capacity (Etkowitz, 2002). Representatives from each of the spheres bring specific resources and capabilities to the process, expecting measurable benefits in return. However, the cooperation between partners does not proceed peacefully, and there is a whole range of barriers and tensions, causing interference in the process (Matusiak, 2010, p. 212). In such circumstances, bridge entities, institutions that support the socio-economic partnership to build the knowledge-based economy, which are the innovation centers, have developed (Matusiak, 2010, p. 212). These organizations bring into the partnership such valuable elements as: initiative, ideas, contacts, coordination and the knowledge of the environment's needs.

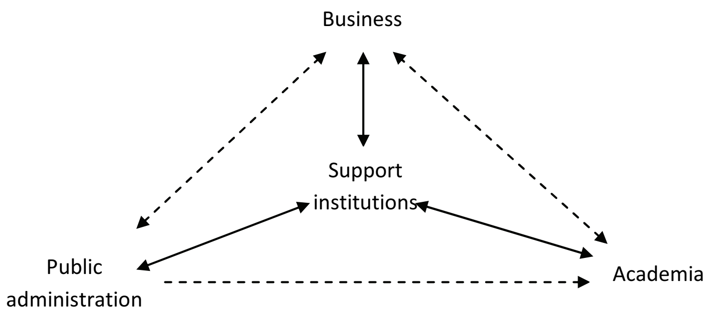


Fig. 1. Partnership for the development in the knowledge-based economy

Source: K.B. Matusiak (2010). *Budowa powiązań nauki z biznesem w gospodarce opartej na wiedzy.* Warszawa: SGH, p. 211.

The importance of the policy of public authorities, which are able and should create favorable conditions for shaping the environment conducive to innovativeness of the subjects, is also emphasized. As a result, to ensure a smooth implementation of such economic policy, the efforts of all the levels of public authority should be channeled into organizing the innovation process, and creating the institutional infrastructure to facilitate it. Therefore, supporting centers become the object of attention. Polish system of technology transfer and the commercialization of knowledge is now institutionally well-developed. However, there still exist certain limitations in terms of effective functioning of the innovation centers. A significant part of these restrictions is connected with their relations with government entities in the country, region, or local environment. A low level of public trust and lack of partnership in mutual relations can be identified in particular.

Nevertheless, public administration, both government and territorial, plays an important role in developing the knowledge-based economy. A number of instruments, which enable the public sector to create conditions favorable for innovation processes is available.

## 2. Statutory functions and powers of territorial government to support innovation processes

The principles of subsidiarity and the presumption of competence regulate the tasks of local government. Therefore, they have a strong impact on the regulations relative to tasks, competencies, and capabilities of various levels of local government administration: municipality, poviat, region.

### 2.1. Municipality

Under Act on Local Self-government (1990) "the scope of the activities of the municipality is public tasks of local importance, not stipulated by law for any other public bodies". Among the obligatory functions of Polish municipality, there is neither direct mentioning of the tasks related to supporting innovative entrepreneurship, nor functioning innovation centers. There is, however, a record, saying that obligatory tasks of the municipality include inter alia cooperation and activities for the non-governmental organizations and entities engaged in charitable activities, such as innovation centers.

### 2.2. Poviat

Poviat is the intermediate level of self-government in Poland. It performs the tasks that go beyond the statutory tasks of the municipalities because of territorial or financial reasons (the spatial specificity of a given phenomenon or high costs, such as county roads or secondary education). Poviat is also required to cooperation with and action for public benefit organizations. With reference both to the municipalities and poviats, it is not explicitly stated, to what extend this cooperation and action should take place.

### 2.3. Region

The regional government in Poland has the broadest capabilities and competencies in terms of the innovativeness support.

The regional government deals with the matters of regional importance. These include: tasks related to defining and implementing the development strategies, pursuing the development policy, and tasks of regional importance

(Stawasz, 2001, pp. 29–30). In the act containing regulations for functioning regional governments (Act on Regional Government, 1998), there are rules directly related to the innovation processes. According to these, it is the regional government that is required to stimulate economic activity and raise the level of competitiveness and innovativeness of the region by implementing its development strategy. According to the Act, the government of the region pursues the development policy, which includes inter alia promoting the development of science and cooperation between the science and economy, promoting technological progress, and innovation. The regional government, while formulating the regional development strategy and the implementation of its development policy, is obliged to cooperate inter alia with non-governmental organizations (and organizations engaged in public benefit activities, which are not the non-governmental organizations), universities, and scientific research units.

The regional governments also play an important role in budgeting of the EU Structural Funds. It is an important element of the regional economic policy that the decisions regarding the scope and manner of the distribution of the EU funds aimed at supporting economic development and innovation, are made at the regional level. Undoubtedly, it is important for all the stakeholders of the innovation system to participate in preparing the programs regarding the use of the financial resources, thus, promoting projects profitable from their perspective.

The regional governments are also responsible for shaping and implementing the Regional Innovation Strategy (RIS). In each of the program periods they are facing new challenges, which are the consequence of the availability of the EU funds for such activities. The processes of creating and implementing RIS programs require partnership, cooperation and collaboration.

## 3. Instruments of local governments to stimulate innovation

### 3.1. Financing pro-innovation activities

The most common display of the local governments' involvement in the financing of pro-innovation is the creation of innovation centers. Local authorities and public institutions are often the founders or stakeholders of such centers. An example is the Lodz Regional Science and Technology Park and many others in Poland, such as Wroclaw Technology Park, whose stakeholder is the city, or the Pomeranian Science and Technology Park (the operating of the Pomeranian Science and Technology Park is coordinated by Gdynia Innovation Center, which is the city budget unit).

Unfortunately, the limited municipal budgets are not capable of generating funds to support the institutions which do not operate directly in the areas of the municipality's tasks. The access to municipal finances for the centers that are functionally unrelated to the municipality is then restricted.

Nonetheless, self-governments can create the space for the functioning of innovation centers in the currently undeveloped land held by the municipalities. Certainly, an instrument that will guarantee taking into account the specifics of the centers' buildings – which is especially important for these buildings which require large space and the possibility of territorial expansion, such as technology parks – is the local land management plan. In this case, the centers, which are property owners independent of municipality, can benefit from the favorable local plans records, such as taking into account the specifics of the center while planning the functions in the areas adjacent to it, the above mentioned expansion requirements, and the characteristics of the buildings planned by the centers. Not to mention the fact that the municipalities are often in possession of such areas that are not developed, degraded or even devastated at present and do not bring any benefits to the community; however, they can be easily transformed into prosperous industrial areas by creating innovation centers. There can be identified regeneration activities, which are aimed at developing innovation centers on the brownfield sites. An example of good practice both in terms of effective changes in the local plan and the revitalization of the urban tissue, is district @22 in Barcelona. Some necessary changes were introduced to the land management plan so as to cover the need to enlarge the area devoted to the new innovation center. This industrial area was designated in a newly formed innovation district, established in place of an existing industrial area of the city. The need for more public space, green areas, and modern building sites was also included. The former industrial district has been transformed into the area of activity for various pro-innovative institutions, initiatives, and businesses. The revitalization of the brownfield district Priest's Mill (Księży Młyn) in Łódź is another good example. Revitalizing urban fabric, it is important to remember about areas of creative activity which was done in Łódź while creating Art_Inkubator. The brownfield architecture is characterized by buildings that are perfectly suitable for artistic endeavors (high storeys, large volumes). It is also the characteristic of the post-industrial area in Łódź, a city with strong tradition of film and art.

It is much easier to establish effective cooperation with the local authorities by involving them into the project implementation (especially when the project provides a separate place for them), than to receive financial support for the current operation of innovation centers. An example of such an action is the participation of the Poznań authorities in the local pro-innovation initiative. The Major of the City was the first in Poland to announce a competition for funding research projects carried out by workers of Poznań University. Additionally, it was planned to develop an effective model of cooperation between the city and the academia. Many such initiatives come from InQbator of Poznań Science and Technology Park Adam Mickiewicz University Foundation (PPNT FUAM).

Joint ventures of the innovation centers and public administration are beneficial not only for local governments but also for the centers themselves. As a consequence of such cooperation, local authorities increase their awareness of innovation processes and gain the knowledge on the activities of the innovation centers. Besides, the centers gain a partner for joint initiatives in subsequent actions. Representatives of the local or regional authorities, including civil servants, become "friends from the project". Working relationships established this way, consequently, make their joint actions more efficient and increase synergy. Therefore, joint initiatives form a basis for building the regional innovation system and provide an opportunity for the creation of sustainable support systems.

It is also very important to promote location of financial institutions, especially those that can finance innovative ideas, including venture capital funds. It requires proinnovative awareness of local authorities, diplomacy and attractive location conditions.

## 3.2. Organizational and legal instruments

### 3.2.1. Public procurement

Local governments can create the demand for innovations directly – through public procurement. Public procurement accounts for some 17% of the GDP of the European Union (EC, 2010a, p. 16). It represents a potentially important market for the innovation. However, the present formula of the public procurement does not lead to innovative solutions, but it rather inhibits the whole innovation initiative. The simplest solutions are adopted, such as using the price criterion for selecting the tenders. The description of the subject matter is often insufficient to achieve above-standard solutions. Nevertheless, public procurement is an area where innovative ideas can be taken into account. Unfortunately, among the representatives of public entities there is still a lack of awareness about such opportunities. The new plan of the European Commission Innovation Union indicates that the areas of activity of the public sector such as: health, transport, and energy, are especially predisposed to implement innovative solutions (EC, 2010a, p. 17). This plan assumes that from 2011 Member States and regions should establish budgets for pre-commercial procurements and public procurements of innovative products and services.

Innovative procurement is a situation when a public institution places an order for a product or system, which does not exist at the time, but it can be assumed that it could be developed within a reasonable period of time (Edquist, Hommen, 2000 cited in Nowak, 2011, p. 117). The specificity of the innovative public procurements lies in the fact that the innovation is the object of the contract itself, which means that it may be difficult to accurately determine the object at the very stage of the procurement notice. This fact alone implies the need for introducing some significant changes in the existing procurement procedures which are widely described by Panasiuk and Kłoda (2010).

A particularly important, though still a virgin area not only in Poland are pre-commercial procurements, which open the way for innovative solutions in the public sector. Pre-commercial procurements concerns the Research and Development (R&D) phase before commercialisation (EC, 2007 cited in Nowak, 2011, p. 335). They include activities such as research and design of solutions, prototyping, the development of a limited, trial quantities of new products or services. The pre-commercial procurement requires sharing of risk and benefits of the research between the contracting public entity and the provider of the contract.

### 3.2.2. Involvement external entities for public task implementation

Local self-governments can promote innovation using selected organizational and legal solutions, mainly in performing their own tasks. In accordance with statutory regulations, they may delegate some tasks to the external entities, like innovation centers. Sometimes the outsourcing of public tasks is advisable, for instance, due to more efficient and faster execution of the contract, or a better knowledge of a specific task by the external entity. The innovation centers can perform the tasks related to education; promotion; investor service and advice for local authorities; support for projects on the regional or local development.

The area in which innovation centers can be enabled is the promotion of local or regional economic potential. Owing to the fact that they have better, than the local authorities, knowledge about the needs for innovativeness in the local or regional business environment, the centers can be assigned to perform promotional activities. The ingenuity of the innovation centers' employees, mixed with the financial and prestigious support of the local governments, provide a chance to give the critical mass needed to achieve their common goals.

Local governments compete for the investments. For this reason, they perform various actions such as organizing the land, equipping it with the necessary infrastructure, tax incentives, or the opening of so-called "investor service points" etc. Innovation centers can successfully perform such tasks; and consequently, it may strengthen their own activities. Gathering and disseminating the information about the economic entities in the local environment and the appropriate management of business processes, including innovation processes, are actions of interest to local governments, as well as to innovation centers. Innovation centers can also perform tasks related to attracting foreign investors through the packages of "soft landing" services, offering the support to foreign investors on the following: market research, marketing, legal assistance, search for the sources of financing, accounting, advice on intellectual property laws, translations, and so on.

The innovation centers can certainly be engaged in the tasks related to culture, since innovative activity is not only of technological nature. Many strategic documents of the European Commission emphasize the role of so-called "creative industries" in building competitive advantages among the local and regional bodies. The cultural and creative industries, which flourish at the local and regional levels, offer a strategic potential to connect the creativity and innovation. They can stimulate local economies, start new projects, create new and sustainable jobs, have positive impact on other industries, and increase the attractiveness of regions and cities (EC, 2010b). Companies from the cultural and creative industries could become much more effective implementers of the cultural mission than the local governments, as being the business entities, they are able to respond to the needs of local communities more flexibly and effectively (Matusiak, Guliński, ed., 2010, p. 76). With the financial support of local governments, clearly defined targets, and with the involvement of bridge institutions, the needs of the community can be better satisfied (thereby the public purpose is achieved), as well as the new innovative ideas can be better implemented in this sector.

Involving the private sector in public service and performing the tasks of investment is reflected in the position of the European Commission, which postulates the cooperation of the local self-government with their private partners, spreading the idea of public-private partnership (PPP). This form of public service has already gained many supporters in the world, mainly as a form resulting in higher quality and efficiency of public services, and – what may be more important – enabling faster and more convenient conditions than on bank credit, to generate the capital for the implementation of costly infrastructure investments. That is to say, the public sector cooperates with the private sector, combining their efforts on the basis of common interest. The public-private partnership brings, in principle, considerable benefits.

PPP can also be used to stimulate the innovativeness in the area of public services. Areas especially predisposed to such activities, as in the case of the innovative public procurement, are health, energy, smart cities, or transport.

### 3.3. Creating social awareness of the innovation processes

Increasing the level of innovativeness of Polish economy requires long-term and comprehensive activities at various levels. One of the major areas of activity is the sphere of social awareness, which is the basis for all actions of both individuals, and local communities. The organizations supporting innovation system should play a key role in this process. They can demonstrate the best knowledge of regional and local markets, including the direction and the level of development of individual industries, as well as barriers and constraints being faced by the entrepreneurs. What is more, innovation centers gather specialists of different sciences, who are capable of promoting the ideas of innovation among the entrepreneurs, scientists, and officials.

The involvement of innovation centers in the process of raising and shaping the awareness of pro-innovation, both at the local and regional levels, is another area of possible cooperation with the local government. With their valuable contacts in the spheres of business and science, the innovation centers play a crucial role in shaping the pro-innovative attitudes. They are an important link in these processes; therefore, local authorities should delegate them to perform such tasks.

One of the instruments that can be used in the process of creating social attitudes may be organizing various competitions and quizzes, which promote pro-innovative attitudes both among the entrepreneurs, and the companies themselves.

An example of joint activity of an institution from the business environment and local authorities in the area of shaping the pro-innovative attitudes, is an educational program, implemented in the south-eastern Poland, which is known for its aviation industry and pilot training centers. In cooperation with the Association of Aviation Valley company, local authorities carry out educational programs aimed at developing children's interest in science, starting from the level of primary school, so as to enable them to work in the aviation industry in the future.

More and more often, local governments themselves ask for the innovation centers' help in training their own staff in the departments of development and innovation. Given a high staff turnover and a very rapidly changing economic conditions (the development of new technologies, changes in social structure – a higher level of education of the society), among the personnel of the local government, there exists virtually permanent demand for acquiring necessary competences in innovation and regional development. This activity of the centers is equally important as the activity in the areas of business or science, because without the pro-innovative officials, the innovative economy cannot be developed.

### 3.4. Network relationships

In the process of creating a system to support innovation at the regional level, the attention of local governments must be focused on building the cooperation networks between the entrepreneurs and institutions of various kind, to promote innovation processes in Polish companies. The network approach to the innovation process with the participation of many interdependent actors is gaining the importance. The process of applying the knowledge and innovation is determined by the cooperation and coordination of many actors, and the innovation itself is a derivate of interactions that resulted from the network cooperation. New "science-absorbing" products and services are the result of many complex interactions between economic subjects, public sector and para-public subjects. In this context, while preparing the strategic plans or programs of public and the EU spending to support innovation, the benefits of combining potentials of various entities for the implementation of the planned tasks, should be taken into account. This in turn, indicates the need to change the current policy in this regard to support multi-subject projects that promote cooperation, including the support for cluster structures (Matusiak, Guliński, ed., 2010, pp. 73–74). But it should rather not be the public structures that lead such actions. They have neither the competence, nor the knowledge of regional environment, both being vital for efficient operating in this area. Innovation centers are the best performers of such actions. The role of the local government should be reduced in this area to regulating the activities and creating the environment conducive to such initiatives.

An instrument to create a relationship network is among other things, organizing conferences and seminars devoted to innovation, on which representatives of the regional environment interested in strengthening innovation capacity of the region would meet.

Another way of producing networking is the construction of local projects, involving in their implementation representatives from various disciplines and areas of activity. For this purpose, the best are infrastructure projects (in towns), or recreational and cultural activities.

In the EU countries, there are examples of efficiently-functioning regional networks supporting the innovation in the region. Such a network is Madri+d, which creates a space for cooperation in research and development between former competitors. Another example is the French network J'innove, which by the continuous development of competence and service delivery, increases the synergy between the participants of the regional system. Its operation is supported by the regional authorities, as in the case of the network Madri+d.

## Conclusions

The paper aims to present the role and competences of public authorities in Poland in terms of innovation fostering. Author analyzes legal regulations and best practices in the field. The knowledge-based economy requires the active involvement of all participants in the innovation system. Public administration, because of its organizational, procedural and jurisdictional specificity is able to support the innovation processes on a limited basis. The role of the public sector should boil down to control processes, and its institutions should not perform tasks that can be better accomplished by other stakeholders of the innovation system. Despite the barriers existing at the interface between external entities and public administration, it is possible to create a forum for cooperation and partnership. A crucial element is, however, a mutual trust and a conviction that each side strives to achieve common goals.

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# POLISH INTERNET USERS' OPINION ABOUT THE MODERN WEB ADVERTISING – SURVEY RESULTS

**Abstract**

Purpose of the article was to demonstrate the results of surveys about the perception of Internet advertising among its users. The work contains information about how individual forms of web advertising are assessed and what are the expectations of website visitors to the ads used on the Internet. The development is based on the studies of questionnaire research done on the Internet in 2010.

**Keywords:** Internet, marketing, promotion

## Introduction

Despite the relatively short history of the new medium, the Internet had developed many various forms of advertising. Both on your own and the websites of other network users, you can use various forms of advertising. When choosing the best form of advertising we should be aware how it is received by the market.

Therefore, entrepreneurs often carry out the tests, which will help to increase the level of acceptance and match broadcast ads. The main objective of this paper is to demonstrate the results of the perception of web advertising by Internet users. Due to the limitation of the volume of this publication only selected portions of the research process will be presented.

## 1. The subject and the methodology of presented surveys

Web advertising is one of the most dynamically developing methods of advertising (Sokołowski, 2005, p. 8). The Internet has become not only an addition to marketing campaigns, but often it is the main medium of communication with clients. Two views of internet role can be seen on modern market (Kramer, 2003, p. 14; Adamczyk, et alt., 2004, p. 12). On the one hand, high effectiveness, and on the other disappointed customers – these approaches make it appear doubts regarding the actual image ads on the Internet. The most important are the opinions of the Internet users because they are the recipients of advertising messages and are becoming potential customers.

The aim of this research was to assess the true relation of the internauts to web advertising in Poland. The surveys included the issues that are in the interest of all Internet advertisers that is, the overall ratio of customers to the web advertising, the positive and negative aspects of it in the eyes of the respondents, as well as the most popular form of advertising.

In order to establish the problem of the research we carried out a preliminary analysis of the situation on the basis of which were adopted two assumptions: web advertising is too aggressive and web advertising is not adapted to the preferences and needs of consumers.

Respondents who participated in this survey, were elected by the method of accidental selection. The message asking for taking part in the study, together with a link to the questionnaire has been placed on the various thematic forums. In addition, a large number of messages with that information have been sent to randomly selected people who had a profile on popular social networking sites. This was the only way to reach the people of different views and different socio-demographic profiles without establishing cooperation with professional firms carrying out surveys on the Internet. So the selection of the sample is purposeful and unrepresentative, but could shape the opinion about the characteristics of the population. A survey questionnaire did not offer any awards for participants, which guaranteed the exclusion of "the sponsor effect".

Studies have been conducted using a questionnaire, which helped to collect of data necessary for the analysis. Survey questionnaire was created using the tools made available by the Web portal moje-ankiety.pl. Studies have been carried out on 21. February – 25. May 2010. During that time, 685 people started completing the questionnaire. 350 of them (exactly 51%) replied to all the questions. The remaining 335 people stopped filling the questionnaire out at different stages. The average time to fill the whole questionnaire out was 10 minutes 21 seconds.

## 2. Characteristics of the test population

Respondents represented persons with diverse gender, age, professional activity and place of residence. Slightly more men than women took part in the survey (this is one of the characteristics that describe Internet in Poland, men slightly dominate among the Polish internauts).

Taking into account the age structure of surveyed people, it can be noted that persons aged 16 to 40 years constitute a total of 90% of the sample. The group certainly is not representative for the whole of society, but can be considered satisfactory from the point of view of the topic research. Assuming that the probability of the use of the Internet decreases with age, it can be concluded that most active Internet users likely will be in the age range from 16 to 40 years.

Almost half (45%) of surveyed Internet users were from the towns bigger than 500,000 inhabitants. Inhabitants of cities smaller than 500,000 represented 2/5 of the respondents. Village inhabitants accounted only for remaining 15%.

In regards to the duration of use of the Internet we can see that a large group of respondents are people staying on the Internet on average from 1 to 4 hours per day (over 6 to 30 hours per week), representing a total of 48% of all respondents. In addition, 1/3 of respondents spent on the Internet more than 30 hours per week on average, which means more than 4 hours per day. These people (almost 80% of respondents) form a large group of potential recipients of advertising – they spend a lot of time on the Internet (thereby increasing the probability of contact with the web advertisement).

## 3. The opinions of respondents about the advertising used in the Internet

The main conclusion of the study is that the majority of respondents (80%) believes that advertising on the Internet appears too often. Moreover, none of the more than 300 respondents indicated the response that web advertising is too rare on the Internet. Among the respondents there were also just over 15% of the people for whom the frequency of the appearance of the ad is optimal. There were slightly more men presenting this opinion.

Our analysis of the attitude towards advertisements revealed that only 10% sees this type of advertising positively. Just over 1/5 of the group perceive it as neutral. High lack of acceptance is probably the result of the way of emissions of some specific forms of advertising which, through their insistent display make the recipient angry. 66% of people have negative or even strongly negative attitudes to ads on the Internet. The negative response was slightly more showed by women. Men more frequently expressed their neutral role in relation to the web advertising. Taking into account the age of the respondents – most of the negative experience associated with the advertising appeared among the people up to 24 years of age. While the type of residence did not have the smallest impact on the opinion of the respondents about the web advertising.

To examine which of the web advertisements induct the most negative emotions the respondents were asked to present the opinion about forms of advertising that are the most frequently used in Internet marketing campaigns. The results of the analysis are presented in table 1.

Table 1. Opinions of users of the Internet about web advertising

| Kinds of advertisements | "This kind of ad makes me nervous" | "I like this form of web ad" | "I do not mind this form of ad" |
|---|---|---|---|
| Interstitial | 73 | 3 | 23 |
| Watermark | 48 | 9 | 43 |
| Scyscraper | 45 | 9 | 46 |
| Floating ads | 88 | 3 | 10 |
| Sponsored paper | 33 | 17 | 50 |
| GPT | 50 | 7 | 44 |
| Pop up, pop under | 80 | 1 | 18 |
| Context advertisements | 35 | 23 | 43 |
| Mailing | 68 | 7 | 25 |
| Sponsored link | 36 | 15 | 48 |
| Expand billboard | 75 | 5 | 25 |
| Billboard | 48 | 10 | 42 |
| Baner | 35 | 17 | 48 |

Source: own research of the authors.

The most annoying kinds of advertising were: floating advertising, pop-up and pop-under, interstitial or expand billboards. The worst feelings emerged just in contact with these invasive forms of advertising which, moreover, not without reason, received the name. All of these types of ads appear or move on the screen without the consent or even any action of the user. They surprise users using the whole or at least significant part of the visible site, calling the same negative feelings.

It is worth noting that quite heavily disliked by the respondents is also mailing which received 68% of negative opinions. Most likely this is due to excessive quantities of unwanted messages routed by advertisers.

While analysing the aggressiveness of advertisements attention should be paid to the types of ads that have been positively assessed by the respondents. The most liked ad is contextual advertising, based on matching content to the interests of the user. It is true that it creates many concerns about privacy of browsing on the Internet, although this has the most positive opinion among Internet users. Other widely accepted forms of ads are: the sponsored paper, banner or sponsored link. They don't appear surprisingly and don't open unexpectedly, but integrating with the website become nearly imperceptible part of it. So they do not cause the negative emotions in the internauts minds. In conclusion, the aggressive advertisements were considered to be the most annoying by respondents, and the less invasive forms of ads gain more positive or neutral opinions. Avoiding intrusive form of advertisements should become a guideline for companies wishing to conduct marketing activities on the Internet.

In the next question respondents were asked to identify the characteristics of web advertisements. Internet users answered questions about how they consider the web advertisements as an effective advertising (2.9), graphically attractive (2.89), interesting (2.89), reliable (2.77), comprehensive (4.66) and making nervous (the highest score – 5.74). The results, on a scale from 1 to 7 are given in parentheses.

To get as many opinions as possible about the ads presented on the Internet respondents were asked to write the various features which should have an ideal web advertisement. Internet advertising should not distract users and impede the achievement of the objective – purpose for which he uses the Internet. Excessive animation, colorful graphics, flash elements or completely hated by respondents sound in ads, although attracts attention, leaves after itself a very negative impression. Internet users get especially angry when they are forced to follow a cross, which constantly fleeing prevents them from turning off ads.

Internet users want ads which will be discrete, integrated in the appearance and content of the website, which will not cover its content or discourage them from using of the website. Should be in some way “not visible”, small size, and “have their place” on the webpage. Warm colors, good picture and interesting password – this is missed in today’s advertising. Aggressiveness of advertisements often influence in a manner completely opposite than intended. Their impudence makes visitors remember the brand or company, but bind with them only negative emotions and it becomes practically certain that, in the future, they will not use services or will not purchase any product of these advertisers.

Increasingly gaining in importance for the internauts is context-sensitive advertising, which is confirmed by the many responses of respondents. Behavioral positioning becomes the key to creating effective advertising communications.

As an example of good marketing communication, several respondents pointed to the ads placed on the Facebook webpage. On this portal, the ads appear in only one place, are always the same, small size, containing only a small image, short title and a few words of interesting information. If the advertisement does not fit to the internaut’s interests he can switch it off (giving the reason of doing that). This behavior allows for accurate matching of job ads to specific users, and thus increases the chance of winning new potential clients.

To summarize the answers of the respondents is drawn up table (table 2.) containing the most commonly recurring features, what should be ideal advertising website.

Table 2. Expectations of the internauts to website advertising

| Internet advertising should (be)... | Internet advertising should not (be)... |
|---|---|
| easy to follow, fun, shouting guard in the eyes, silent, present in memory, creating interest, creating a positive emotion, humorous, inform, teach, adapted to the expectations of the user, graphically clear, narrow action, convincing have their place on the website, short, “invisible”, small size, descriptive | impudent, aggressive, disturb, do not discourage the use of the service, frustrate, blinking, have sound effects, cover the content of the site, anywhere, misleading, impractical, threatening, offend, mislead, distracting, therefore the content of the site, anywhere, misleading, impractical, threatening, enforce comments, offend, mislead, distracting, integrated in the appearance and themes of the website, large size, banal, abuse of sexuality |

Source: own research of authors.

## 4. The impact of advertising for Internet respondents

In the study it also was found that almost 40% of the respondents claimed that they did not pay attention to web advertisements. Others (213 persons), however, declare that web advertising (to a lesser or greater extent) attracts their attention.

This group has addressed the question about what elements of ads attract their attention (table 3).

Table 3. Features of advertisements attracting internauts

| The component of ads | Completely agree | Rather agree | I have no opinion | Rather not I | Totally do not agree |
|---|---|---|---|---|---|
| Sound/music | 30 | 35 | 21 | 32 | 95 |
| Humor | 93 | 86 | 17 | 14 | 3 |
| Animations | 37 | 64 | 40 | 56 | 16 |
| Attractive women/men | 30 | 51 | 28 | 65 | 39 |
| Color graphics | 44 | 72 | 45 | 34 | 18 |
| Promotions and reductions of prices | 42 | 85 | 43 | 35 | 8 |
| The content integrated with the website | 42 | 75 | 51 | 34 | 11 |
| Interesting content of advertising | 64 | 83 | 27 | 30 | 9 |
| Well-known brand/company | 43 | 103 | 34 | 29 | 4 |
| A product that is useful for me | 68 | 103 | 26 | 14 | 2 |

Source: own research of authors.

At first sight we can see the feature which became the most important in attracting attention of the internauts. The humor is acting for almost 85% of the respondents. Witty ads allow to temporarily detach from reading the web site, and through an element of entertainment, stay for a longer time in memory of the recipient. Brilliant slogan or funny animation may become the key to the creation of effective communication, which certainly goes to the customer. This confirms also the number of votes cast for "intriguing slogan" that can attract the attention of almost 70% of the respondents.

Little less attention of the surveyed affects product showed in the advertisement. It is clear that no company will change drastically produced assortment, so it becomes important to reach the appropriate client who will be interested in presented product or service.

Once again the question appears about behavioral positioning. It very rarely happens that the internaut purchases a product which he only noted in advertising (he did not need it earlier or he did not plan a purchase of that). The most important in this situation is to find the websites thematically related to the promoted product and place ads on these pages. A user who wants to buy usually first looks for a variety of information about the subject. If during the data collection he hits for advertisement of the product he is looking for, then he may be interested in it. It means that probability of purchase significantly increases. As can be seen, context-sensitive advertising begins to play an increasingly important role in the web promotion, becoming slowly something obligatory in website marketing activities.

Watching ads respondents often pay attention to the well-known company or the brand whose products they have, believe it and would not have anything against the purchase of something more. Advertising of the favorite company, combined with the promotional offer or pricing reductions may also become a key to the increased effectiveness of communication.

It is worth to pay attention to a quite big group (60%) of respondents who deny that any sound effects from advertisements attract their attention. Spectator, watching television, is prepared for different kinds of sounds coming from the TV set. However, the internaut, who is going through websites usually does not expect any “loud” ads. The ads with sound are usually the reason of anxiety and fast searching for the mute button. If advertising is a video file, it should activate without any sounds and sounds can be turned on only after your own request.

Interestingly, a fairly large group of respondents informed us that placing an attractive woman or a man in advertising does not increase their attention (sex of the respondents did not have a significant impact on this response). Often within the abovementioned open question, excessive human sexuality has been mentioned as a feature of the web advertising, which definitely should not have been present. Of course everybody accept discrete usage of the strengths of the female or the male body, but the abuse of sexuality in advertising is not a good idea to create effective advertising communication.

Note also that color graphics or animations are not the only items which attract the attention of the Internet user. It is the fact, that the excessive quantity of colors and their expressiveness are very tiring for the human eye. Almost certainly the behavior of the website user will be to leave such website as quickly as possible, because of too many shining colors, flickering banners or other forms of advertising carried out in a similar style. Advertising should be, at most, the addition to the website, and not through their flashy colors or excessive moving activity preventing the Internet user from peaceful use of websites.

During this study, 12% of the respondents confirmed that because of the website advertising they became aware of an interesting product or service. Nearly half of the respondents is not sure, whether after watching advertisements became aware of an interesting product and service or not. This may indicate a total lack of clever advertising slogan. Most of the ads on the Internet are vague, similar to the others, old graphs This is the perfect way not to fall in the memory of the audience. Among such interesting products and services respondents have pointed mainly to cosmetics, new websites, information about promotions of sales and customers notifying them and the different kinds of individual products of everyday use. There were slightly more men among the people who have indicated specific subjects.

A very large group of the respondents (63%) claims that never occurred to them to buy any product advertised on the Internet. Almost 1/4 of the internauts, which is uncertain (or at a given moment it looks like it) replied that never have used the services of advertisers operating on the network. Probably the people that purchased the product under the influence of advertising on the website, but do not remember it may be in this group too. This may also indicate a bad manner of remittance of commercials which even if sometimes are effective, are not stored in memory of the respondents and do not cause long-term effects on the recipient.

Only 13% of respondents claimed that bought under the influence of website advertising. Among products bought in this way appear mainly various kinds of electronic equipment, clothing, books and CDs, and cosmetics. Several answers were also related to the services, like tickets to the cinema and for some cultural events.

## Conclusion

As can be seen from the research, in general Internet users have strongly negative attitudes to advertisements. They consider that advertising on the Internet appears much too often. Additionally, the surveyed don't like the excessive use of invasive forms of advertising. That simply prevents them from the convenient use of the Internet. Advertisers should limit the use of intrusive forms of communication, and pay bigger attention to the frequency of the broadcast advertising as their excess can easily cause negative associations among the internauts.

Respondents prefer advertising humor, eye-catching, interesting but not misleading slogan or interesting graphics. They very often pay attention to the marketed product or service. Companies can build a positive image on the Internet also by placing greater emphasis on the appearance of the individual forms of advertising. Modern, not commonplace graphics, well-chosen but delicate colors, limited animation and eye-catching headline will attract new customers and increase the credibility of a company's network.

Especially advantageous for advertisers may be the total abandonment of the use of invasive advertising forms and to base their actions on the contextual advertising. This kind of advertising was evaluated by the internauts as the most attractive form of advertising. Respondents expect that communicates addressed to them would be tailored to their preferences and needs. It is a good idea to put ads on portals that are thematically linked to the offered product or service. Every positioning makes website users safety doubtful, but slowly becomes the key to creating effective advertisement. Thanks from that advertiser get the opportunity to acquire new customers.

In summary, Internet, despite its relatively short existence, was quickly brought under control by advertisers who, unfortunately, by their casual action contributed to many negative opinions about advertisements presented on the Internet. Companies wishing to build their credibility and positive image on the Internet, before any action, should accurately and with a plan prepare a strategy to build brands using the Internet. Only a smart use of the benefits offered by this medium can significantly contribute to an increase of the number of customers.

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# IMPACT OF COMPETITIVENESS ON THE LEVEL OF PROFITABILITY IN THE EXAMPLE OF THE TWO MARKET COMPETITORS: LOTOS AND PKN ORLEN

**Abstract**

The ability of companies to generate profits is determined by the ratio of analysis based on determining the level of indicators as follows: *Return On Sales* ratio, *Return On Assets* ratio, *Return On Equity* ratio. It is commonly believed, that the level of profitability determines such factors as sales volume, the size of assets and funding structure. However, the profitability of the company also depends on factors that have taken place in reality and not recorded in the financial statements. These factors undoubtedly are the level of competition in the sector and the factors affecting competitiveness, which M.E. Porter (1992) describes as ‘five competitive forces’.

The aim of the article was to characterize the profitability and competitiveness of business and show the influence of competitiveness on the level of profitability, with an example LOTOS GROUP and PKN ORLEN (on the basis of Porter’s five forces).

**Keywords:** competitiveness, profitability, duopoly, oil market

## Introduction

The main objective of the business (except for non-profit enterprises) is the realization of tasks given to multiply capital. Such actions are natural, because the generated profit guarantees maximum satisfaction of company as a whole and thus is a source of capital appreciation and asset growth, however is not a measure of wealth. So not the nominal size of the profit shows the company's efficiency but the profitability defined as relationship of profit relative to investment (Dudycz, 2000, p. 124). Profitability is a concept understood differently and variously defined, usually it is believed that its level depends on the changes taking place within the company. These changes, such as sales growth, changing the structure of assets and the change in capital structure are illustrated in the financial statements and their volumes are the basis to determine the level of profitability ratios. However, profitability also depends on the nuances, that can not be expressed in numerical form and can not be determined on the basis of financial analysis. These are external factors or events, that took place in reality, however, have not been registered in the balance sheet or profit and loss account. These factors undoubtedly include the type of market, in which the company operates and competitiveness within the sector.

## 1. Profitability

The profitability of companies, defined by Burzym (1971, p. 38) as the relative size of the financial result reflect a profitability of business is determined by profitability ratios. The level of indicators indicates:

– firm's ability to generate benefits from sales of products (determined by *Return On Sales* ratio, abbreviated ROS),
– the ability of assets to generate profit (determined by *Return On Assets* ratio, abbreviated ROA),
– the ability to get the benefits of capital contributed to enterprises (determined by *Return On Equity* ratio, abbreviated ROE).

Arrangement of profitability ratios and their division into groups makes it easier to show the factors, that influence the level of profit, which was recorded in the financial statements. However, the profitability ratios are synthetic, so the "formation of their size is affected by a series of events which in turn can be described by other indicators, a lower degree of generality" (Chrostowski, Szczepanowski, 1998, p. 278) To determine the profitability of the company based on indicators should be made a careful division of synthetic indicators into sub-indicators. Such distribution of indicators (for example, using a Du Pont pyramid) allows for consideration of profitability in several dimensions and to define factors that have a direct and indirect impact on profitability. These actions are part of the financial analysis and expressed profitability in numerical form. The appearance of profitability in numerical form is important for investors and company managers. However, to determine all factors affecting the profitability is good to exceed the framework of the balance sheet and profit and loss account. This means, that to determine the causes of low or high levels of profitability should be also taken into account the type of market, in which the company operates and competitiveness within the sector. Just the competition is the *sui generis* driving force of business development and occurs between the companies (Hamel, Prahalad, 1999, p. 224) . This means, that in the realities of the modern economy, competition is becoming one of the most important determinants of performance evaluation on the market and is seen as a determinant of the development (Stankiewicz, 2002, p. 22).

## 2. Competitiveness

Competitiveness has a double meaning, because on the one hand it is a characteristic of companies, which better than others can adapt to changing environmental conditions, on the other hand, these are relationships that occur between companies operating within the sector. The level of competition within the sector depends on many factors but the most popular in accordance with the position of M.H. Porter are so-called driving forces of competition within the sector ("5 forces competitive" or "5 forces of Porter"). These competitive forces are shown in the diagram below.

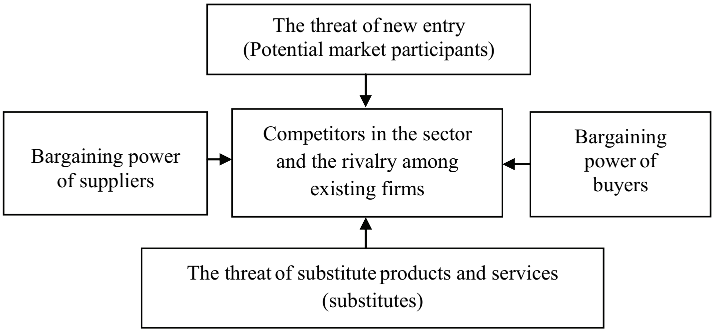


Fig. 1. Scheme showing the 5 forces of Porter

Source: M.E. Porter (1992). *Strategia konkurencji. Metody analizy sektorów i konkurentów*. Warszawa: Polskie Wydawnictwo Ekonomiczne SA, p. 22.

The five competitive forces, namely: the threat of new entry (1), the threat of substitution (2), the bargaining power of buyers (3), the bargaining power of suppliers (4) and the rivalry of existing competitors, (5) reflects the fact that competition in the sector goes far beyond the current participants in the game. Competitors of companies are customers, suppliers, substitutes and prospective newly forming. Depending on the specific conditions they may play a greater or lesser role. All five forces determine the intensity of competition in the sector and at the same time the profitability of companies in the sector and the profitability of the all sector (Porter, 1992, p. 23).

## 3. Characteristics of the five forces of M. E. Porter

**Strength 1**, the threat of new entry it is a risk associated with the possibility appearance of new competitor in the sector. Due to the fact, that the so-called newly entering to the sector can bring new production capacity, significant resources or cheaper products, companies already operating in the sector begin to analyze their position in the market and thus prepare a strategy to become a leader in the sector or at least maintain its position. Unfortunately, such activities often associated with interference in the prices of traded goods. Fear of new entrants and desire to become a competitive (better) strengthens competition (rivalry) in the sector and may prompt the company to unreasonable price reduction. Such actions may cause an increase in current costs, which in turn affects the level of profitability. However, the entrance to a particular sector is not easy, because it is connected with overcome so-called barriers to entry. The barrier of entry, means a specific cost which the company must bear wanting enter to the industry or to the market. Therefore this cost is not borne by a company already operating in the sector (Duraj, 1993, p. 151). The first very important barrier is the market model, for which wants to enter a ‘potential incoming’. The market, in which competition is perfect, i.e. is a large number of small competitors, puts the weakest barrier. Different from indicated structure is the market, where is oligopoly (only one giant company) or monopoly, where is a small number, e.g. two (duopoly) or several manufacturers. Under conditions of monopoly, oligopoly or duopoly because of the need to dispose of large capital or due to technological or legal barriers, entry of new firms into the sector is significantly more difficult or impossible. In Poland, an example of a captured market by two key competitors (PKN ORLEN and LOTOS GROUP) is the oil market. PKN ORLEN is a Polish company engaged in crude oil processing and distribution of petroleum products, including of fuel. The company was formed by the merger Petrochemia Plock SA with headquarters Petroleum Products (CPN). The PKN ORLEN includes: refinery in Plock, refinery in Trzebinia, refinery in Jedlicz, three refineries in the Czech Republic and a refinery Orlen Lietuva (located near the town of Mažeikiai). In turn, the LOTOS GROUP is a vertically integrated petroleum concern, which deals with the exploration and production of oil, its processing and wholesale and retail high quality petroleum products. This is a leading manufacturer and supplier of, inter alia, unleaded petrol, diesel and aviation fuel, as well as a leader in the production and sales in Poland inter alia: motor oils, modified bitumen and paraffin. LOTOS Group is owner  a nationwide chain of gas stations functioning under the brand LOTOS (Profil korporacyjny LOTOS, 2008). Analyzing the set of characteristics and the specificity of the activities of companies operating in the oil market can be stated, that the entry of the oil market are in the need to invest substantial financial resources, which for so-called newly entering firms may be associated with inability to enter into the sector. Thus, high barriers to entry on a such market model can minimize the threat associated with the appearance of a new competitor. This situation is very comfortable for companies already operating in the sector. Enormous barriers to entry give them a strong sense of security and thereby minimize the degree of rivalry (competition), which translates directly to a high level of prices of products and high profitability.

**Strength 2** is defined as the bargaining power of suppliers, which depends on the market situation of suppliers 'and the relative importance of their supply in the sector' (Porter, 2001, p. 33). Thus, the bargaining power of suppliers is a big if:

- supplier provides a unique product or at least diversified,
- supplier does not have to compete with other suppliers for sales to the sector,
- supplier creates a credible threat of forward integration, that is the risk of trespassing on the activities of the sector, which limits the opportunity to negotiate better conditions of purchase,
- sector to which the supplier delivers products or services is not a key customer for the supplier (Porter, 2001, p. 33).

Suppliers can use their bargaining power against the participants in that sector. This means that key suppliers may affect the degree of competition within a specific market segment as well as an increase or decrease the profitability of the sector. Generally speaking, if the sector is an important customer for the supplier, the supplier's fate will be closely related with the fate of the recipient, then the provider will protect the customer by establishing reasonable prices and by granting an aid in such activities as research and development or acquisition of political support (Porter, 2001, p. 33). So powerful supplier through their actions can indirectly contribute to increasing the profitability of the recipient but also can 'stifle' profitability by increasing prices or significant impediments to delivery. Analyzing the market model involving such participants as LOTOS GROUP or PKN ORLEN can be stated, that the supplier is characterized by a high bargaining power and having most of the features of a strong supplier is Rosneft and Transneft. Rosneft (*Роснефть*) is a Russian oil company, which by the Friendship Pipeline (also had been referred as the Druzhba Pipeline – *Дружба*) provides an effective material that is oil REBCO (Russian Export Blend Crude Oil). In turn, Transneft (*Транснефть*), a Russian corporation responsible for the transport of oil from Russia. Both Rosneft and Transneft belong to the companies labeled as very large and their turnover in the year 2010 were as follows:

Table 1. Rosneft /Transneft – turnover attributable to the year 2010 (mln EUR)

| Category of company | Very Large | Very Large |
|---|---|---|
| Turnover (2010) | Rosneft | Transneft |
| Operating revenue | 47,184 | 10,990 |
| P/L for period | 7,987 | 3,081 |
| Total assets | 70,221 | 40,558 |

Source: own calculations based on data contained in the Amadeus database.

Due to the fact, that oil is a unique product any difficulties in delivery (especially on the part of such powerful companies as Rosneft and Transneft) may affect the profitability of buyers (in this case, PKN ORLEN and LOTOS GROUP). An example would be an event that took place in 2006. In mid-December 2006, PKN ORLEN took over controlling stake in Lithuanian refinery located near the town of Mažeikiai. In the same year, "the Russian Transneft has suspended oil supplies to the Mažeikiai refinery explained, that the pipeline segment, through which the Russian oil flowed to the acquired by PKN ORLEN refinery is damaged. In this situation, oil to refineries Orlen Lietuva, (formerly Mažeikių Nafta) had to be supplied by tankers and rail" (Biznes Gazeta Prawna.pl, 2011). This situation has worsened the financial condition of the refinery, reducing the results of PKN ORLEN as indicated the following indicators of profitability (Wnp.pl, 2011).

Table 3. ORLEN Lietuva – profitability ratios from 2004 to 2010

| Consolidated profitability ratios (%) | 31.12. 2010 | 31.12. 2009 | 31.12. 2008 | 31.12. 2007 | 31.12. 2006 | 31.12. 2005 | 31.12. 2004 |
|---|---|---|---|---|---|---|---|
| Return on share-holder funds | –2,274 | –2,558 | –0,504 | 0,480 | 10,326 | 51,200 | 48,377 |
| Return on total assets | –0,929 | –1,067 | –0,225 | 0,195 | 4,877 | 21,496 | 22,615 |
| Profit Margin | –0,296 | –0,452 | –0,058 | 0,103 | 1,713 | 9,004 | 10,830 |
| Gross Margin | 4,784 | 5,102 | 3,153 | 5,545 | 7,622 | 16,612 | 19,595 |
| EBIT Margin | 0,194 | 0,011 | 0,534 | 0,852 | 1,536 | 9,419 | 10,929 |
| ROE | –4,153 | –4,487 | 2,727 | 4,351 | 10,009 | 45,149 | 40,864 |
| ROA | –1,697 | –1,872 | 1,217 | 1,767 | 4,728 | 18,956 | 19,102 |

Source: own calculations based on data in EUR contained in the Amadeus database.

Table 4. PKN ORLEN – profitability ratios from 2004 to 2010

| Consolidated profitability ratios (%) | 31.12. 2010 | 31.12. 2009 | 31.12. 2008 | 31.12. 2007 | 31.12. 2006 | 31.12. 2005 | 31.12. 2004 |
|---|---|---|---|---|---|---|---|
| Return on share-holder funds | 12,666 | 6,637 | –14,200 | 13,312 | 12,646 | 27,646 | 26,003 |
| Return on total assets | 6,002 | 2,931 | –6,206 | 6,525 | 6,009 | 15,984 | 16,555 |
| Profit Margin | 3,641 | 2,082 | –3,631 | 4,933 | 5,103 | 12,261 | 7,643 |
| Gross Margin | 10,379 | 10,613 | 7,827 | 8,039 | 14,227 | n.d. | 40,775 |
| EBIT Margin | 3,703 | 1,586 | –1,997 | 4,266 | 4,814 | 11,361 | 6,801 |
| ROE | 10,130 | 5,990 | –12,306 | 10,966 | 9,546 | 24,014 | 21,396 |
| ROA | 4,801 | 2,645 | –5,379 | 5,375 | 4,536 | 13,884 | 13,622 |

Source: own calculations based on data in EUR contained in the Amadeus database.

Another factor that affected according to M.E. Porter on competitiveness and profitability of the company is **strength 3**, that is, bargaining power of buyers, which is a set of characteristics that have a buyer within a specific sector. Very rarely it happens, that all purchasers of which acts in a particular sector have the same bargaining strength. This means, that the power of buyers depends on the characteristics that determine the market situation of a company compared with situation of the other companies within the framework of the sector. Thus, the bargaining power of buyers is powerful if the company has the following features:

- buyer purchases a large quantity of products, compared with the size offered for sale,
- purchased products are a serious part of the cost or procurement volume buyer,
- purchaser contributes to the emergence of a credible threat to integrate backwards, it means the possibility of accession by the purchaser to carry out the manufacturing phase in the production cycle of the product group,
- buyers have full information about demand, current market prices, and even the cost of delivery (Porter, 1992, p. 42).

Having all the above features (or at least some of them), gives the company an advantage on their rivals at the same time offers the possibility to negotiate prices with the supplier, which in turn can affect profitability. Analyzing the case of LOTOS GROUP as the purchaser of crude oil comes from suppliers in Russia can say, that it is a buyer having a relatively high bargaining power. Additionally, due to the fact that LOTOS Petrobaltic (a company owned by LOTOS GROUP) deals with the exploration and extraction of oil, it can be concluded, that the LOTOS Group as a buyer creates a real threat of backward integration. LOTOS Petrobaltic as (granted by the Polish Ministry of Environment) permission to conduct work related to exploration and extraction of oil on the Polish sea area covering nearly 30 thousand square kilometers, equivalent to over 9% of Polish territory. It should be noted, that the bargaining power of buyers depends on the type of industry, in which the firm operates. The case of PKN ORLEN and LOTOS GROUP is special, because from the time of the largest oil giant, which was the Greek Arytstoteles Onassis, who owned few dozen of refineries and several hundred of oil production stations (mainly in the Pacific), petroleum has become a symbol and a source of great wealth. Oil is recognized as a unique product and expensive, additionally the access to the oil reserves is not simple, hence also the bargaining power of both buyers and suppliers is very high and has a decisive impact on profitability.

Another force affecting the profitability and competitiveness of enterprises is **strength 4**, defined as the threat of the emergence of substitute products and services. The sudden appearance within the sector of substitute goods or services can significantly affect competition within the sector. Fear of falling demand for existing goods increases competition, which in a decisive manner may jeopardize profitability. However, low risk of substitutes makes the competition (understood as a competition between the participants in the sector) is low while profitability high. Thus, the refinery sector includes companies engaged in exploration, extraction and processing of crude oil and petroleum products distribution in this example, fuels, oils, bitumen, lubricants, paraffin, currently has one (available for large-scale) substitute. These are the biofuels, that is transport fuels produced from organic material such as biodiesel (made from vegetable oils) and bioethanol (made from sugar and starch crops). At present the threat from these substitutes is not strong enough to affect the profitability and increased competitiveness in the refining sector. In addition, the environmental benefits that result from the production of biofuels, mainly from rapeseed oil, palm and soybean was considered doubtful when the German *Frankfurter Allgemeine Zeitung* has revealed details of the European Union report. Data from the report (by the European Commission's announcement) will be published in spring 2012, together with legislative proposals on biofuels.

According to *Frankfurter Allgemeine Zeitung*, the report shows that greenhouse gas emissions from palm oil, soybean, rapeseed and sunflower oil is higher than that of fossil fuels, and the lowest from the oil obtained from sugar cane, sugar beet and corn (Deutsche Welle, 2012). However despite this, PKN ORLEN has launched sales of the new fuel (BIO85) natural origin. BIO 85 is a biofuel that contains from 70% to 85% ethanol mixed with 15–30% of gasoline. This fuel is intended for use in vehicles equipped with a Flexifuel engines. It emits about 25 percent less carbon dioxide than petroleum fuels (Money.pl, 2011).

The final factor (**strength 5**) affecting the profitability/competitiveness of enterprises and the level of profitability/competitiveness of the sector is the degree of rivalry among existing competitors. The degree of intensity of competition between firms affected by many factors. One is the market model, in which the company operates. For example, in an oligopoly or duopoly situation of a particular company depends in part on the behavior of his rivals. Choosing the right competitive move involves the selection of such solutions, which the effects will be quickly apparent and as far as possible be consistent with the interests of the company (Porter, 1992, pp. 104–105). This may mean, that the objective of the LOTOS GROUP and PKN ORLEN, which almost at the same rate are increasing and decreasing of fuel prices may be avoiding the destabilizing and costly war (for all participants in the sector) as well as maximizing the profits by using so-called game of cunning. Such actions do not enhance a competition between rivals, but affect the level of profitability, especially at the level of profitability of sales.

## Conclusion

It would seem, that the profitability and competitiveness are two different concepts, that do not have nothing in common. However, the intensity of competition between firms within the sector and the factors influencing the level of competition causes a series of events, that indirectly affect the level of individual indicators of profitability and ultimately the profitability of the enterprise. The emergence of new entrants in the market or the appearance of substitute goods may cause a drop in demand for goods offered by existing companies already operating in the sector. Decline in demand is a negative trend, which causes a decrease in business revenue and consequently a decrease in profitability. To prevent this phenomenon, the current members begin work to improve their market position and improve profitability. These struggles take the form of competitive process based on a specific strategy, that can be based on lower prices buying new assets to improve the production technology or use of the financial leverage. These actions are associated with positive or negative change in the financial result (profit and loss account), what have an impact on decrease or increase the profitability of the company. It should be noted, that each market participant, regardless of whether it is a supplier or the recipient has a bunch of features, that makes them stronger. Hence also we talk about the bargaining power of suppliers and bargaining power of customers. Bargaining power of suppliers and customers is a set of characteristics that distinguish a particular market participant from the other and yet decide on its competitiveness. The so-called strong suppliers or customers could significantly affect the market position of your partner. This means, that they can contribute to the increase or decrease in its profitability. Therefore, analyzing the firm's ability to generate profit we need to remember that profitability depends on internal factors (determined on the basis of financial analysis) as well as external factors such as competition within the sector in which the firm operates.

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# STRATEGIES OF POLISH ENTERPRISES IN THEIR INNOVATION ACTIVITY

**Abstract**

Strategic orientation of the organisation may play the key role in determining the structure of its activities and initiatives undertaken. The research aimed, among others, at obtaining the answer to the questions whether enterprises surveyed undertake planned activities in the field of innovations and whether they apply, and with what frequency, strategies in innovation activities. On the base of the survey conducted it can be concluded that functioning in the growing market and concentration on products of one industry as well as possessing the research and development unit are the factors inducing entrepreneurs to undertake more expansive innovative activities.

**Keywords:** innovation, strategies, enterprises

## Introduction

Although studying innovation management is of quite recent date, innovation, on the contrary, has been studied for many years. According to Schumpeter (1939) any doing things differently in the realm of economic life can be considered innovation. These things can vary with regard to their degree of difference and their location in economic life. Innovation derived from invention is mostly referred to as radical innovation. Innovation that is not new to the world as a whole has a lower degree of intrinsic newness. Such innovations are referred to as applied or incremental innovations. They frequently occur after a radical innovation has been established, being more or less extension of the major innovation. Innovation can be also defined as the process of transforming the ideas or inventions which are the point of departure into reality, which means:

– the transformation of an invention into a market product,
– the implementation of an idea for new market behaviour,
– the conversion of new knowledge about the production process into a change in that process.

The activity of enterprises in the field of innovation offers them the best chances for securing increase in their competitiveness. As presented by the experiences of the highly developed countries, without introducing new and improved old products and services the enterprises would not be able to compete effectively as their survival and success depend increasingly on the attractive market offer. Small and medium enterprises in the developed countries are significant creators of numerous innovations. Innovative activity, as a consequence, is the key condition for competitiveness of enterprises and the increase in innovativeness of the enterprise should not be the result of incidental activities but the consequence of the purposeful innovation strategy (Poznańska 2001). Many researchers analyse also the correlations between strategies of enterprises and their innovativeness and introduction of new products (Jaworski, Kohli 1996; Paladino, 2008). The strategic orientation of the organisation may play the key role in development of the structure of its activities and initiatives undertaken (Kickul, Walters 2002).

Innovation has been generally studied either from an industrial economy perspective or from a business management perspective. Vega-Jurado, et al. (2008) state that studies in the field of industrial economy explain the level of innovation in the firm in terms of the structural characteristics of the industry in which it competes. It is also possible to find general patterns of technological change associated with specific industries, or with broad industry categories (Souitaris, 2002). Studies in the field of business management focus on identifying the internal characteristics of firms that affect their innovation behaviour. In many of these studies is adopted resource-based view, which highlights the heterogeneity of firms and the role played by internal attributes in business strategy (Wernerfelt, 1984). Chaffee (1985) suggests the view of strategy that is interpretative steering instrument for management. The strategy is developed as an interpretation of market development. Sundbo (2001) states that the strategy concept in the strategic innovation theory is a combination of a market-oriented competition approach (Porter 1980, 1985) and an internal-process approach (Mintzberg 1994).

The article aimed, among others, at obtaining the answer to the questions whether enterprises surveyed undertake planned activities in the field of innovations and whether they apply, and with what frequency, strategies in innovation activities. The survey was conducted in innovation enterprises that, according to the Oslo[1] methodology, were enterprises that introduced at least one new or significantly improved product and/or one new or significantly improved technological process to the market within the last 3 years.

## The nature and types of innovation strategy

From the perspective of the general definition, the innovation strategy is defined as the long-term action plan prepared for the purpose of managing innovations that is the process of searching for such types of innovations, on the base of the available resources, which would increase the market effectiveness of the enterprise (Pomykalski 2001). Organisations that focus on rapid response to changes and adapt the innovation strategy may identify new opportunities and ideas necessary for their operation better. Such organisations conduct continual search for the place in the market for new products. They invest more in research and development work as well as marketing activities. They also focus more on the new opportunities for product development. Organisations possessing innovation strategies are creators of changes in the industries in which they operate. Their functioning is based to a large extent on monitoring the environment for the purpose of identifying new opportunities necessary for their success (Lescovar-Spacapan, Bastic 2007).

[1] Published in the international methodological guidelines called the Oslo Manual, which is commonly accepted as the international methodological standard applied in all the countries conducting statistical research in innovation.

Strategic orientation of the organisation may play the key role in determining the structure of its activities and initiatives undertaken (Kickul, Walters 2002). Organisations that focus on rapid response to changes and adopt the innovation strategy may identify new opportunities and ideas necessary for their functioning better. Such organisations conduct continual search for the place in the market for new products. They invest more in research and development work as well as marketing activities. They also focus more on the new opportunities for product development. Organisations possessing innovation strategies are creators of changes in the industries in which they operate. Implementation of innovations is becoming one of the strategic goals of the enterprise while negligence of innovations would result in market failure sooner or later. Strategic initiatives, however, should have the formalised formula because effective implementation of the innovation strategy that would offer decreasing the costs and achieving competitive advantage is time-consuming, frequently requires costly research and qualified personnel. Otherwise the innovation implementation may end in failure because of, e.g. extensively long time of preparation for production or not appropriately considered marketing and promotional activities. In various situations and for different enterprises the theories of innovation may have different meanings. Implementation of the strategic innovation theory is important in case of companies with significant customer focus, e.g. service organisations, low technology enterprises, flexible production businesses. According to Lescovar-Spacapan, Bastic (2007) this is the most common type of enterprises nowadays.

The firm can behave in two different ways in relation to the market and the environment. The first way is called offensive strategy, the second – defensive strategy. Nystrőm (1990) stated that the offensive strategy is chosen by more innovative and flexible firms, whereas defensive strategy is used by more stable, low tech firms. When the offensive strategy is used, the firm decides to take step forward in growth and development. It intends to initiate hard competitive behaviour by increasing its own market share and reducing its competitors, or intends to create a new market by innovating. When using defensive strategy the firm is in a good market position: it sells well, but the competition is increasing. The firm will attempt to maintain its market position, at least for a while, without taking any risk. The offensive strategy involves innovations and is more risky (Sundbo, 2001).

Table 1. Different possibile strategies

| Offensive | Defensive |
|---|---|
| **Produkt renewal** | **"A little bit better" (minor improvements)** |
| Radical or ralatively radical product innovations. Perhaps also the introduction of new quality standards | Small improvements of products, processes, organization etc. or minor quality improvements |
| **Professionalization** | **Price leadership** |
| More knowledge-based and professional production. May involve recruitment of new professionals | Reducing costs and profit to sell more |
| **Opening new markets** | **Merger** |
| Finding markets that have never existed before, or adopting radically new market behaviour | Merger and acquisition to create larger, more efficient units |
| **Market segmentation** | |
| Definition of new segment that can be aggressively worked on | Withdrawal to a smaller segment of the former market with less competition |
| **Image creation** | |
| A new image that signals aggressive selling behaviour | Repairing "scratches in the image" |
| **Political action** | |
| Getting the political system to introduce standards and other regulations to one's own advantage | Removing regulation barriers to further growth |

Source: J. Sundbo (2001). *The Strategic Managemnt of Innovation*. Edward Elgar, Cheltenham UK, Northhampton, MA, United States, p. 80.

Thus applying the criterion of activity, we can identify two basic groups of innovation strategies:

– offensive strategies – mainly of dynamic character that assume four variants, i.e. the cost-price advantage strategy (applied when the company wants to decrease the costs as a result of technological or organisational development), the qualitative advantage strategy (applied when the company wants to produce luxury goods), the market niche strategy (applied when the company wants to find a market niche) and the differentiation strategy (applied when the company wants to change its range of products through innovative activities),
– defensive strategies – mainly of static character that assume 3 variants, i.e. the survival strategy (applied in crisis situations), the protection strategy (applied in the situation of using external aid) and the bureaucratic strategy (the company has a strategy that it is not implementing formally).

The situation is similar in case the criterion of novelty is applied, in which case we deal with the:

- pioneer strategies – being the driving force of economic development, based on so far unknown inventions and all kinds of innovation type solutions in the areas of the applied technologies and organisation,
- imitation strategies – of adaptive character that use already established solutions represented mainly by purchase of licenses, patents and implementation of improvement projects.

The realized strategy often becomes different from the originally formulated strategy. However, changes should be guided by top management, which will include it in an adjustment of the original strategy. Thus an actual strategy, of which management is aware, will always exist.

The concept of strategy in the strategic theory of innovation represents a combination of the approach focused on market oriented competition and the approach focused on the internal processes. No exhaustive and systematic evaluation that could provide the answer to the question of which factors – internal or external – are of the top importance for creating innovations in industrial enterprises has been conducted so far. The results of such evaluations would probably differ between industries. Sundbo (2001) believes that the need for interpretation and transforming the external factors into actions that result in innovation within the organisation, even if such influence of external factors is very strong provides the argument in support of the importance of the internal factors as factors of key importance. If the internal transformation processes do not function properly no innovation is created.

## Methodology of the own survey

The empirical survey aimed at obtaining answers to the following questions:

- do small and medium innovation enterprises undertake planned actions in the area of innovation,
- do they apply, and with which frequency, the strategies in their innovation activities.

The survey was conducted in May 2011 in 24 Polish enterprises from Warmińsko-Mazurskie, Mazowieckie and Pomorskie voivodships. The survey questionnaire containing closed question was the tool applied.

Nonprobability purposive sampling was applied selecting the entities participating in subjective way so that they could be the most useful or representative. The following selection criteria were applied:

– enterprise size – enterprises defined according the classification by the GUS (Central Statistical Office) as small and medium employing from 10 to 250 employees were considered,
– innovation of the enterprise – the survey was conducted in innovation enterprises that, according to the Oslo methodology, were enterprises that introduced at least one new or significantly improved product and/or one new or significantly improved technological process to the market within the last 3 years,
– majority capital, which in case of the organisations surveyed was domestic.

According to the Statistical Classification of Economic Activities in the European Community (NACE) the enterprises surveyed belonged to the following sections:

– section C – Manufacturing (the survey was conducted in enterprises manufacturing: food products and beverages, furniture and wood products, garments as well as machines and devices) – 10 firm,
– section F (Construction) – 6 enterprises,
– section H: (Transport and storage) – 3 enterprises,
– section I (Accommodation and food service activities – the survey was conducted at hotels) – 3 enterprises,
– section P (Education – the survey was conducted at language schools) – 2 enterprises.

The majority of the organisations surveyed have been in the market for over 10 years (10 enterprises) or over 20 years (11 enterprises) and 14 of the organisations surveyed view the market in which they operate as mature, 9 as a growing market and one enterprise creates the market.

Almost one third of the enterprises surveyed possess research and development department or unit. Slightly more enterprises declare that the budget for innovation activities representing in the majority of enterprises up to 1% of the enterprise turnover has been established.

## Results

Majority of the enterprises surveyed possess long-term plan of operation encompassing innovation although they declare at the same time that current activities concerning innovations that represent the response to the market needs are also undertaken. Eight of the organisations surveyed, however, treat innovations on current bases only reacting to the current market needs.

Enterprises with strategic orientation on innovations are in continual search for innovation opportunities, which results in the higher probability that they will get involved into innovative activities. As a consequence, they may achieve a higher level of skills in creating novelties and lasting competitive advantage as compared to organisations with strategic quality and cost orientations. As a consequence the answer to the question of whether the enterprises possessing the long-term action plans prepared for the needs of managing innovations placed more stress on innovative products and technologies in the process of competing was important. The survey conducted indicates that possessing a strategic action plan concerning innovations involves stronger perception of the innovative technologies, products and marketing activities as factors of competition in the market (Table 2).

Table 2. Degree to which the enterprises surveyed compete in the market employing different factors

| Factors of competition in the market | The enterprises, which possess long-term plan of operation encompassing innovation | The enterprises, which do not possess long-term plan of operation encompass-ing innovation |
|---|---|---|
| quality | 4.6* | 4.2 |
| innovative technologies | 3.4 | 2.1 |
| price | 3.6 | 3.8 |
| innovative products | 3.7 | 2.0 |
| logistic activities | 3.3 | 2.9 |
| marketing activities | 3.1 | 1.8 |

* scale: 0–5, where: 0 – not at all, 5 – to a very high extent.

Source: own work based on the survey.

Creating innovations is one of many methods in striving of the organisation for its survival and development and that method can be substituted by other ones. The direction of activities other than implementation of innovations may be appropriate in various situations, e.g. during competition on price, costs or quality. Reduction of costs or the strategy of operational excellence requires systematic improvement of operations in the enterprise without introduction of radical innovations. In that case effectiveness and continuous improvement are the most important while the focus is on improvement of the existing operations (Beaty, Schneider, 1997). Organisations with strategic focus on quality and/or costs try to maintain relatively safe market position offering a relatively unchanged product, lower prices, higher quality or better services than the competitors. They use established ideas and methods avoiding high risk. According to Lescovar-Spacapan and Bastic (2007) such organisations are characterised by centralised decision-taking, high level of control, rigid scopes of responsibilities of the employees. Studies conducted by Zduńczyk and Blenkinsopp (2007) aiming at determination of the extent to which companies in Poland support innovation and creativity indicate that enterprises with total or partial foreign capital operating in Poland showed much more propensity for creativity and innovation than companies with entirely Polish capital.

Enterprises analysed implemented the costs reduction strategy in most cases (Table 3). They, in most cases focused on products of one industry, which is characteristic for small and medium enterprises. Acquisitions or mergers with other companies were also highly infrequent. Manufacturing enterprises created innovations on commission from other companies more frequently than others. The majority of organisations surveyed sometimes or frequently applied the strategy of copying or imitating the ideas of competitors and never acted the leaders in innovations. The enterprises surveyed rarely cooperated with the institutions of higher education or research and development units and also rarely purchased licenses. This can be compared with the results of surveys covering the SMEs conducted during the years 2004 and 2006 on the representative sample of one thousand enterprises that also showed clearly that a large proportion of the small and medium enterprises covered did not collaborate with the external partners and those that got involved in such collaboration usually did it with other business partners (Żołnierski, 2009).

In the survey the influence of the market in which the enterprises operated on the frequency of implementation of the strategy in the area of innovations was also analysed. They results indicate that all the enterprises surveyed the respondents from which declared operation in the growing market always focused on the products of one industry. The majority of enterprises operating in the mature market search for markets attractive for them without the exclusive focus on their current markets. Organisations operating in the growing market much more frequently applied strategies of attracting specialists from competitor enterprises; they were the leaders in the field of innovations more frequently and also less frequently created innovations on commission from other enterprises as compared to the enterprises operating in the mature markets. The perspective of market development then is the motivation for higher expansiveness of enterprises in the field of innovation.

Table 3. Frequency of innovation activities in the production, construction and service enterprises surveyed

| Innovation activities | production enterprises | construction enterprises | service enterprises |
|---|---|---|---|
| We copy innovations fully | 0.4* | 0.7 | 1.3 |
| We copy but we make minor changes in the product | 0.8 | 1.0 | 1.3 |
| We copy the idea but we change the characteristics significantly aiming at wider application | 0.5 | 1.7 | 1.3 |
| **We look at innovations by others and use them as inspiration for creating our own ones** | **1.3** | **1.3** | **1.8** |
| We do not imitate in any way being the innovation leader | 0.6 | 1.0 | 0.3 |
| The innovations we create involve high risk but also high profits | 0.8 | 0.7 | 1.3 |
| The innovations we create involve low risk and low profits | 1.0 | 1.0 | 1.0 |
| **We reduce costs** | **2.3** | **2.0** | **2.5** |
| We purchase licenses | 0.6 | 0.3 | 0.3 |
| We create innovations on commission by other businesses | 1.3 | 0.3 | 0 |
| We cooperate with higher education institutions and research and development units | 0.8 | 0 | 0.3 |
| **We focus on products of one industry** | **2.2** | **2.3** | **1.5** |
| We avoid competing with the direct competitors | 0.8 | 0.7 | 0.5 |
| We make changes to the product that substitutes for our earlier product | 0.9 | 0.7 | 1.0 |
| We attract specialists from competitor enterprises | 0.4 | 1.0 | 1.0 |
| We purchase other businesses through acquisitions and mergers | 0.2 | 0 | 0.3 |

* evaluation of activities according to the scale: 0 – never, 1 – sometimes, 2 – frequently, 3 – always.

Source: own work based on the survey.

Concentration on products of one industry was declared by all the enterprises possessing the research and development unit (Table 4). Those organisations, declared much more frequently than enterprises possessing no research and development units that they did not imitate the competitors in any was being the leaders in the field of innovations.

Table 4. Frequency of innovative activities in the enterprises surveyed

| Innovation activities | R&D unit exists | absence of R&D unit |
|---|---|---|
| We copy innovations fully | 0.80* | 0.60 |
| We copy but we make minor changes in the product | 0.40 | 1.20 |
| We copy the idea but we change the characteristics significantly aiming at wider application | 0.40 | 1.10 |
| **We look at innovations by others and use them as inspiration for creating our own ones** | **1.40** | **1.42** |
| **We do not imitate in any way being the innovation leader** | **1.60** | 0.20 |
| The innovations we create involve high risk but also high profits | 1.40 | 0.70 |
| The innovations we create involve low risk and low profits | 1.00 | 1.00 |
| **We reduce costs** | **2.00** | **2.42** |
| We purchase licenses | 0.20 | 0.60 |
| We create innovations on commission by other businesses | 1.00 | 0.75 |
| We cooperate with higher education institutions and research and development units | 0.40 | 0.60 |
| **We focus on products of one industry** | **3.00** | **1.70** |
| We avoid competing with the direct competitors | 0.60 | 0.75 |
| We make changes to the product that substitutes for our earlier product | 0.80 | 0.92 |
| We attract specialists from competitor enterprises | 0.60 | 0.67 |
| We purchase other businesses through acquisitions and mergers | 0 | 0.25 |

* evaluation of activities in a scale: 0 – never, 1– sometimes, 2 – often, 3 – always.

Source: own work based on the survey.

Sundbo (2001) states that the R&D department or other established organization cannot limit its activities to research. Some intrapreneurship (promotion and struggle to get the innovation accepted) is needed for the innovation to be accepted and successfully implemented in the organization. The results of study conducted by Vega-Jurado et al. (2008) show that the higher the firm's technological competences, the higher level of cooperation with scientific agents. This result supports the idea that in-house R&D activities not only generate new knowledge, but also promote the use of external sources of scientific knowledge. The research found that cooperation with industrial agents (customers, suppliers, competitors) constitutes a decisive factor for the development of new products. The size of the firm loses importance as a determining factor, especially when the firm has a high level of technological competences.

## Conclusion

The survey conducted indicates that possessing a strategic action plan in the area of innovation is correlated with stronger perception of innovative technologies and products as well as marketing activities as the factors of competition in the market. However, the declaration of possessing a long-term action plan is not the factor sufficient for implementation of the innovation focused strategic orientation. On the base of the survey conducted it can be concluded that the factors motivating entrepreneurs to take more expansive innovation actions include operation in the growing market and concentration on the products of one industry as well as possessing a research and development unit.

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