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Asta Aleliūnaitė¹, Ceslovas Christauskas²

CORPORATE GOVERNANCE OF LITHUANIAN LISTED COMPANIES

NADZÓR KORPORACYJNY NAD FIRMAMI NOTOWANYMI NA GIEŁDZIE NA LITWIE

¹MA in Economy and Society, Central European University, MA in Economics, Kaunas University of Technology, Klaipėda State College, e-mail: asta_mail@yahoo.com

²Kaunas University of Technology, e-mail: ceslovas.chirstauskas@ktu.lt

Streszczenie. Niniejszy artykuł analizuje kwestię wiarygodności informacyjnej i dostępu akcjonariuszy do informacji dotyczących nadzoru korporacyjnego nad litewskimi spółkami akcyjnymi, uwzględniając również dostępność popularnych teorii ładu korporacyjnego (teoria agencji, dobrego gospodarza i zależności zasobowych). Autorzy przedstawiają obowiązujące uregulowania prawne w zakresie nadzoru korporacyjnego oraz zwracają uwagę na deficyt badań naukowych w tym obszarze i brak funkcjonalnych modeli dostosowanych do realiów kraju. W artykule przedstawione są wyniki badań empirycznych, opartych na analizie porównawczej dominujących modeli nadzoru korporacyjnego litewskich spółek akcyjnych w latach 2006 i 2010. Ocenie poddano cechy charakterystyczne spółek i zmiany, jakie zaszły w przedziale czterech lat w jednym z obszarów systemu ładu korporacyjnego jakim jest zarząd.

Key words: accessibility and reliability of information, agency theory, corporate governance, corporate governance theories, public listed companies, resource dependency theory, stewardship theory, the board.

Słowa kluczowe: dostępność i wiarygodność informacyjna, nadzór korporacyjny, spółki notowane na giełdzie, teoria agencji, teoria dobrego gospodarza, teorie ładu korporacyjnego, teoria zależności zasobowych, zarząd.

INTRODUCTION

Under conditions of market economy in order to make appropriate investment decisions, guarantees that the invested capital will bring returns or steadily increase the shareholder value are necessary. Practical investigations (The McKinsey Quarterly 2002, ECGI, ISS, 2007, Heidrich & Struggles 2006, 2007) show that the risk of losing invested capital decreases when a corporation distinguishes itself by good corporate governance and having effective control mechanisms in action. It is the corporate governance which defines how vision, mission, and strategic goals of the corporation will be implemented, what place the corporation will take in the competitive market, and what conditions will be created for increasing financial capacities, capital and market share. According to scientists Zahra, Pearce (1989), Bauer et al. (2003), Fahy et al. (2004), Čerka (2004), Adams, Ferreira (2005), the better the corporate governance of a company is, the more probability there is of profitability of activities and growth in market value and return on investments of such a corporation. The importance of corporate governance is emphasised by such international organisations and professional associations as International Institute of Internal Audit, the

World Bank, International Organisation for Economic Cooperation and Development, European Corporate Governance Institute, and International Federation of Accountants.

During the recent decades the importance of corporate governance issues has been increasing. Over the last 20 years special Corporate Governance Codes were adopted; now more than 60 countries all over the world have them. In 2005 the European Commission adopted an action plan for modernisation of corporate law and enhancement of corporate governance. After the world financial crisis of 2008 the issues of corporate governance started being analysed more intensively by practitioners and scientists not only in the framework of the banking sector, but also public listed companies, state owned enterprises and even small and medium sized business. Ruud (2003), Hermanson, Rittenberg (2003), experts at International Institute of Internal Auditors, speak about reasons that fostered the whole world paying greater attention to corporate governance and internal audit of corporate governance.

Firstly, the number of scandals (most known – MicroStrategy, Cendant, Enron, World-Com) caused by the management of big corporations and their bankruptcies is not declining. The most recent scandals in Lithuania related to companies AB “Alytaus tekstilė”, AB “Ekranas”, bank “Snoras” also showed that due to a bad corporate governance each year companies risk going bankrupt. As a result, financial problems are faced not only by the employees and creditors of such companies, but also municipalities and governments having to appoint donations or even increase tax rates to mitigate the consequences of bankruptcies and social problems. Secondly, changes in ownership composition of corporations, especially large ones, are observed. According to Huse (2005), after scandalous events shareholders became much more active and express an obviously greater interest in corporate governance and its quality of companies in which they chose to invest their capital. Thirdly, requirements by regulatory institutions of stock exchange markets became more stringent. Seeking to ensure compliance to corporate governance practice with these regulations, corporations are forced to improve their risk management procedures, corporate governance quality and audit. It is of paramount importance for the public interest companies, for its stakeholders to know on time if the governance of a corporation is appropriate, reliable and ensuring the implementation of corporate goals, achievement of good financial results, efficiency in activities, and promotion of its development.

The main problem examined in the article is the problem of reliability and accessibility of information about corporate governance of Lithuanian listed companies to stakeholders and the shortage of scientific research and practical solutions on this issue in Lithuania. The data officially published in annual financial statements of Lithuanian corporations does not present the full situation of corporate governance quality or risk areas related to corporate governance, and, therefore, does not enable defining reliably if the corporations are able to achieve their goals and strategies in the future.

The topic of corporate governance in scientific literature from foreign authors has been analysed since 1932. Meanwhile in Lithuania, there is lots of scientific work being done in the areas of strategic and operational management, internal audit; however, the investigation of the topic of corporate governance is tenuous. Over the last decade the topic of corporate governance was discussed by such Lithuanian scientists as Belickas (2004), Čerka (2004), Stačiokas, Rupšys (2005), Vazniokas, Darškvienė (2007).

Starting from 2007 Lithuanian public listed companies are obliged to prepare and officially publish a report on how they followed the principles of Corporate Governance Code of Lithuania as a part of annual financial report, a major part of which is composed of questions directly or indirectly related to activities of the board performing the functions of corporate governance. Company reports of 2006 and 2010 revealed that they were not fully informative and did not allow the formation of a reliable opinion about the real quality of corporate governance and, at the same time, hindered the reliable evaluation and forecasting of perspectives and results of a company's activities that are highly dependable on the quality of corporate governance. As Nausėdaitė and Saladžienė (2007), the experts of Lithuanian Securities Commission claim, there is an obvious shortage of information about the real quality of governance of corporations.

Purpose of the study – to perform an analysis of scientific literature on corporate governance and based on the results of it, implement an empirical study in order to find out the prevailing corporate governance model of Lithuanian listed companies as well as to find out and evaluate the main characteristics of their boards which are one of the areas of corporate governance system.

The object of the study – the board of a Lithuanian listed company, its size and composition as well as the quality of presentation of all this information in the annual report about how a company complied with the guidelines of Lithuanian Corporate Governance Code.

Research methods used:

- Content analysis, logical analysis, quantitative and qualitative analysis of scientific literature, legal acts, Corporate Governance Codes of Lithuania and other foreign countries.
- Reconnaissance investigation about the prevailing model of corporate governance system and the main characteristics of the boards of Lithuanian listed corporations.

The concept of corporate governance

The concept of *corporate governance*, or *enterprise governance*, by Lithuanian scientists, legal and audit experts can be translated into Lithuanian in several ways: „korporatyvinis valdymas” (Vazniokas, Darškvienė 2007), „organizacijų valdymas” (Stačiokas, Rupšys 2005), „organizacijų valdomumas” (Dičpetris 2003), „bendrovių valdymas” ir „įmonių valdomumas” (Belickas 2004). In 2007 the board of Vilnius Securities Exchange approved a

Corporate Governance Code of Lithuania, where the concept of corporate governance in the title of the Code is worded as *bendrovių valdymas*.

In search of scientific solutions to the problem, first of all it is necessary to reveal the essence of the concept of corporate governance. As Huse (2005), the author of numerous research, claims, there is no single globally acknowledged definition of corporate governance and points out that every corporate governance definition is biased. Each period and changing business environment dictates new forms and models of governance as well as determining new theories to be created and applied for the examination of corporate governance, so concepts of corporate governance *per se* are being adjusted.

Many world scientists, national and international organisations tried to define corporate governance. For a long time the notion was popular that corporate governance is the interaction among internal, external stakeholders and members of the board which is oriented towards the creation of value within a company. Later Monks, Minow (2001) pointed out that the main participants in corporate governance are shareholders, administration and the board. They treated corporate governance as relationships among all these participants while defining the activities of a company and trends for its development.

Representatives of institutions regulating securities markets looked at corporate governance from the perspective of regulation and risk management in their activities. Levitt (1999), the chairman of the US Securities Commission, described corporate governance as processes that are essential for the existence of effective market discipline. By highlighting the element of financial reporting he claimed that corporate governance is a link connecting the management of a company, its board and the system of financial reporting. The concept of corporate governance, as approved by the Council of Corporate Governance at Australian Securities Exchange (2003), means a system due to which a company is managed and which impacts how the goals of the company are set and implemented, risk is evaluated and managed, and activities of the company are optimised. In 1998 Corporate Governance Commission of *Belgium* (1998) defined corporate governance as a set of rules related to governance and control of a corporation. The board of the corporation is responsible for governance to meet the interests of the corporation and its shareholders as well as in compliance to laws, legal acts and agreements that the corporation is engaged in. Corporate governance, as approved by the *Japanese* Corporate Governance Committee (2001), is a scheme having to ensure that the executive directors responsible for the company perform their functions appropriately; the essence of the board activity, the majority of which is composed of independent members, is a proper oversight and motivation of executive directors and employees.

The most acknowledged concepts of corporate governance are defined by the Organisation of Economic Cooperation and Development (OECD) and International Institute of Internal Auditors (IIA). From the point of view of OECD (2004), good corporate governance has to ensure an appropriate remuneration of the board, directors and managers in order to

achieve the corporate goals the implementation of which is important to shareholders, the board, and other stakeholders as well as to enhance an effective oversight of activities seeking economic utilisation of resources. OECD states that corporate governance is a set of relationships among the management of the company, the board of directors, shareholders and other stakeholders. Corporate governance is grounded on the structure enabling one to define the goals of the company, means in order to achieve these goals, and to describe the oversight of activities of the company.

International Institute of Internal Auditors emphasises that the oversight of organisational risks and assurance that these risks are properly controlled and managed have a positive impact on the achievement of the goals of the company as well as preserving the market value of the company. The Institute of Internal Auditors claim that corporate governance is a system of processes and procedures that stakeholders of a company are directly or indirectly related to in order to ensure risk management and control processes administered by the heads of the company [*International...*].

Referring to the report of International Federation of Accountants (IFAC) prepared in 2004, the essential feature of corporate governance is that in search of successful activities a merely good leadership is not sufficient. IFAC points out two main dimensions based on which corporate governance of a company shall be evaluated – it is conformance and performance (Fig. 1). While evaluating the board which is one of the areas of the corporate governance system, it is necessary to examine not only how ethics, actions, work procedures, structure of the board and each its member complies the laws and codes, but also how the activities, efficiency and contributions of the board are creating added value in the company.

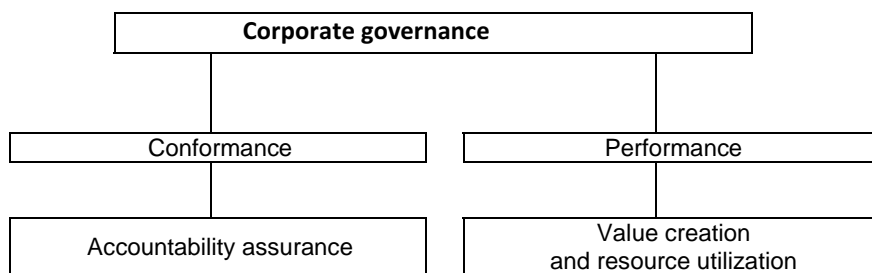


Fig. 1. Corporate governance
Source: IFAC, 2004.

In addition to the dimensions pointed out by IFAC, scientists Fahy et al. (2004) defined a third one – the dimension of the corporate responsibility concerning the issues of protection of intellectual capital of the company, motivation of employees, productivity, management of environmental, social, cultural aspects, ethics, risk management, supply chain management and assurance of supply of resources. In addition, the scientists explain the dimension of conformity as the one that examines internal control, risk management, activity and compo-

sition of the board, organisational culture. Performance dimension, according to them, is related to the system of performance management and processes, indicators and methodologies describing it.

Key theories of corporate governance and their development

Such a variety of concepts of corporate governance and their development was impacted by changing external and internal business environment, corporate governance research performed and theories created under the influence of these changes. British and American scientist were the first to examine the governance of big corporations. In the book "The modern corporation and private property" written by US scientists Berle, Means (1932), attention is paid to the strict division of property and the management in US corporations. The phenomenon was defined by the fact that big corporations were owned by lots of small shareholders, and for this reason, direct management by these shareholders was not possible. New effective management solutions and models were needed.

From the 1970s till the 1990s due to the strengthened positions of chief executive officers in corporate governance, there was lots of dissatisfaction over the extremely high and increasing salaries and other forms of remuneration of CEO's. As noticed by Fahy et al. (2004), the number of cases of dishonest behaviour and malpractice of CEOs increased highly in the US and other countries around the world. Scandals of such corporations as Enron, World.com, Tyco, Xerox, Global Crossing, HIH, Parmalat made experts pay attention not only to shareholders, but also other stakeholders – employees, customers, suppliers, local communities. This enhanced the search for new effective governance solutions and the growing importance of the role of the board – the institution for constraining the powers of chief executive officers as well as oversight and control of their activities. A notion became predominant that the board shall be not a mere "Christmas tree decoration", but shall be active in defining corporate goals, hiring, firing and evaluating a chief executive officer and assigning a salary level to him, in the process of the creation of corporate value and representing the interests of shareholders. In 1992 a commission headed by Sir Adrian Cadbury endorsed a special document "The Report of the Committee on the Financial Aspects of Corporate Governance". One of its main ideas was that a precondition for effective corporate governance is not only a separation between functions of the chief executive officer and a chairman of the board, but also assurance that the majority members of the board are independent. Later, based on this document, lots of countries legitimised the concept of separation of duties of a chairman of the board and a chief executive officer of a corporation.

The end of the 20th century distinguished itself by the processes of globalisation, development of information technologies, rapid changes in market environment, growth in securities markets. As earlier the main attention of shareholders was concentrated on the size of dividends, so from now on the market value of securities became most important for the shareholders. By joining efforts of stock exchange, national and international finance, audit

and other organisations, corporate governance codes were prepared in many countries around the world. Since then corporate governance has been interpreted as the oversight of a corporation that is exercised by its owners. In the 21st century a further development of corporate governance in market economies influenced by changes in their internal and external environment is observed. The main task for the corporate governance system became the constant creation of greater added value and not only the preservation of the present one.

Lots of theories examined corporate governance and other directly or indirectly related issues: stakeholder theory (Freeman 1984), Donaldson, Preston (1995), Friedman, Miles (2002), Phillips (2003), transaction costs theory (Coase (1937), Williamson (1981), information gap theory (Cheong et al. (2004), Ben-Haim (2006), McCarthy, Lindenmayer (2007), theory of the firm (Williamson (1981), agency theory Fama, Jensen (1983), Prendergast (1999), Eisenhardt (1989), stewardship theory (Huse (2005), resource dependency theory (Pfeffer (1972), Boyd (1990), Scot (2003), theory of friendly boards (Adams, Ferreira (2005). In the context of the study presented in this article the mostly important are: resource dependency theory, agency theory, stewardship theory and contingency theory.

Resource dependency theory is one of the classic theories examining corporate governance problems. In addition to the issue of corporate governance it had a great impact on the analysis of optimal organisational structure, selection of employees and board members, production strategy, structure of contracts, and external channels of the organisation. The originators of the theory are scientists Pfeffer and Salancik, who in 1978 published a book "External Control of Organisations: A Resource Dependence Perspective". According to the scientists, a corporation always takes into consideration the needs of external stakeholders, other participants of the market and their negotiating power, if the supply of resources is significantly dependent on them. Besides, the corporation will always try to decrease this dependency as much as possible. The strategy to be chosen by the corporation mostly depends on the external environment and decisions made by the board.

The Resource dependency theory allowed proving why corporations are often forced to create networks of cooperation with other organisations. If resources are rapidly diminishing, directors in order to assure the stability in activities and income earning are forced to increase the number of suppliers and (or) buyers. On the other hand, such networks of cooperation often inhibit the decisions of the management seeking to implement corporate goals. The solution of the resource dependency problem may lead a corporation towards the limiting of or even losing some powers. Success or failure of the company becomes dependent upon other organisations and the decisions of their managers. For example, in the case of a corporation being highly dependent on bank loans, it may choose the president of the bank to be a member of the board. In such a way the board would ensure that in case of need the bank grants a loan under more favourable conditions. However, there is a threat that the bank president being a member of the board may vote unfavourably if the

decisions of the corporation do not coincide with the interests of the bank. The resource dependency theory (Pfeffer 1972) points out the board as a means for co-opting, or including into their internal environment the necessary external organisations and their useful connections and related resources.

Agency theory is based on the concept of separation of roles between ownership and management. For the first time the idea that shareholders of a company are its owners and that the company and its managers, including the board, are the representatives, or agents, of the owners, was raised by Berle, Means (1932). Later Jensen, Meckling (1976) claimed that managers will try to increase the ownership of shareholders only if special corporate governance structures are implemented in the company. Tricker (1994) and other supporters of the agency theory proved that the most important role in corporate governance is played not by the chief executive officer, but by the board. In Tricker's view, the purpose of the board is while working with and through the chief executive officer to perform all four main functions – ensure the right and timely delivery of reporting to appropriate institutions, to create strategies for corporate development and performance, to perform the oversight of processes, systems and mechanisms active in the company, to form policies and monitor the implementation of them. The logical scheme of the board activities as made by Tricker (1994) is presented in Figure 2.

	Ensuring compliance	Implementation of activities
External communication	1. Delivery of reporting to appropriate institutions	2. Strategy creation
Internal communication	3. Stewardship and monitoring	4. Formation of policies
	Orientation towards the past and present	Orientation towards future

Fig. 2. Areas and directions of activities of the board
Source: Tricker 1994.

In difference to resource dependency theory, the agency theory was less focused on examining the relationship of the company and its board with the external environment of the company, but instead focused on one of the biggest internal problems of a corporation – the problem of remuneration of CEOs and their opportunistic behaviour. Williamson (1981), Donaldson, Preston (1995) claimed that in order to ensure the optimal corporate governance it is necessary to separate the functions of the chairman of the board and the chief executive officer as well as to implement special mechanisms to minimise agency costs. It was suggested to apply programs of financial motivation of the chief executives for their good work and to grant more authority to the board which shall control the opportunistic behaviour of CEOs in order to increase shareholder value and protect their interests. Empirical studies revealed that the problem of dualism, when the chief executive officer is heading the board, is much more prevalent in America than in other countries of the world, for example, Japan and Australia (Kesner, Dalton 1986, Hill 1994, Finch 2003). The trend of

increased shareholders' activity that came from the United States over the last twenty years gained the acknowledgement of the agency theory in many European countries. This is testified by Corporate Governance codes endorsed by many European states.

Stewardship theory tried to solve the shortcomings of the agency theory. Donaldson, Preston (1995) stated that research he performed did not support the merits of application of agency theory in corporate governance practice, but rather convinced that the application of principles of stewardship theory in corporate governance creates more benefits to the company and its shareholders. The scientist was convinced that shareholders would have much more benefit not by exercising a stricter oversight of chief executive officers, but by focusing their attention on the adequate remuneration of them. According to stewardship theory (Huse 2005), chief executive officers are not selfish and perform their duties honestly, take care that the assets of the corporation are used economically and effectively for the creation of products and increasing shareholders' ownership.

Burton (2000) noticed that the stewardship theory highlights not control, but active participation, not monitoring, but greater trust in the chief executive officer, supported more the development of activities rather than greater control of costs. Donaldson, Preston (1995) and McConvill (2005) claim that dualism, when the chief executive officer at the same time holds the position of the chairman of the board, is not a weakness but a strength, because this way it is possible to optimise the process of decision making and governance of all the corporation. Obvious differences between agency and stewardship theories are summarised in Table 1.

Table 1. Comparison of agency and stewardship theories

Theory	Agency	Stewardship
Managers as	Agents	Stewards
Approach to governance	Economic	Sociological and psychological
Model of man behaviour	Individualistic Opportunistic Self-serving	Collectivistic Pro-organizational Trustworthy
Managers motivated by	Their own objectives	Principal's objectives
Manager's and principal's interests	Diverge	Converge
Structures that	Monitor and control	Facilitate and empower
Owner's attitude	Risk aversion	Risk propensity
Principal – Manager relationship based on	Control	Trust
Management philosophy	Control oriented	Involvement oriented
How to deal with increasing uncertainty and risk	Greater control, more supervision	Training and empowering people, Redesigning jobs to be more challenging and motivating
Time frame	Short-term	Long-term
Cultural differences	Individualism, Large power distance	Collectivism, Small power distance

Source: Prepared according to Sanchez (2004).

Contingency theory. Both agency and stewardship theories, though being antagonistic, today are still very popular. As a rule, where there are two extremes, there is a niche for a medium solution. Contingency theory was developed which states that there is no one best

way to manage an organisation, and that the structure and sub-systems of it shall comply with the environment. Fiedler (1967), one of the founders of the contingency theory, in 1960–1970s analysed how organisational effectiveness is influenced by different styles of management. According to Fiedler, the main factors of management style are the level of employees' trust in their leader, the structure of tasks delegated to subordinates, and formal authority of the leaders. The scientist thinks that both relationship oriented leadership and corporate governance as well as strictly oriented to the implementation of goals of the company, can fit; however, in each situation a corporate governance style shall be applied to the specific situation in the company.

Based on the contingency theory, effective corporate governance is distinguished by the bodies of governance applying processes, systems and strategies of the company to specific circumstances, internal and external conditions and environmental factors. Huse (2005) points out 6 factors that are most often applied in corporate governance research. In his opinion, these factors are – national, geographic and cultural features, industry and its environment, ownership, size of a corporation, life cycle of the corporation, position and characteristics of a chief executive officer. For instance, by applying the criterion of national, geographic and cultural features, two major kinds of corporate governance can be determined. The first one is Anglo-American governance system, characterised by a flexible labour market, active securities market, domination of corporations having lots of small shareholders. Meanwhile, the second one – continental European governance system is defined by a more concentrated ownership, more settled labour market, a strong dependency on long term loan financing. Accordingly, in the latter one, where large shareholders are dominant, they have a stronger voice in strategic decision making. If there are no managers among these shareholders, the power of the board will probably be strong; and on the contrary, if at least one the controlling shareholders is the chief executive officer, the power of the board decreases.

Forbes and Milliken (1999), the supporters of this theory, do not define the direct correlation between the composition of the board and the financial results of the company, however, they suggest examining boards by analysing their composition, each single member of the board (their experience, competencies), work style, work results, and not as a closed, but rather open, system. They suggest examining the board from four perspectives: board characteristics, board processes, board level outcomes, and firm-level outcomes. However, according to Huse (2005), the activities of the board should be analysed based on how it performs the following functions: production control, behaviour control, strategic control, creation and maintenance of cooperation networks, consulting role, and the role of strategic management.

Recently one of the mostly examined and scientifically discussed research models for activities of the board is the one created by Zahra and Pearce (1989). The model distin-

guishes itself for integrating several different perspectives of corporate governance – agency theory, resource dependency theory, and legal approach (Fig. 3).

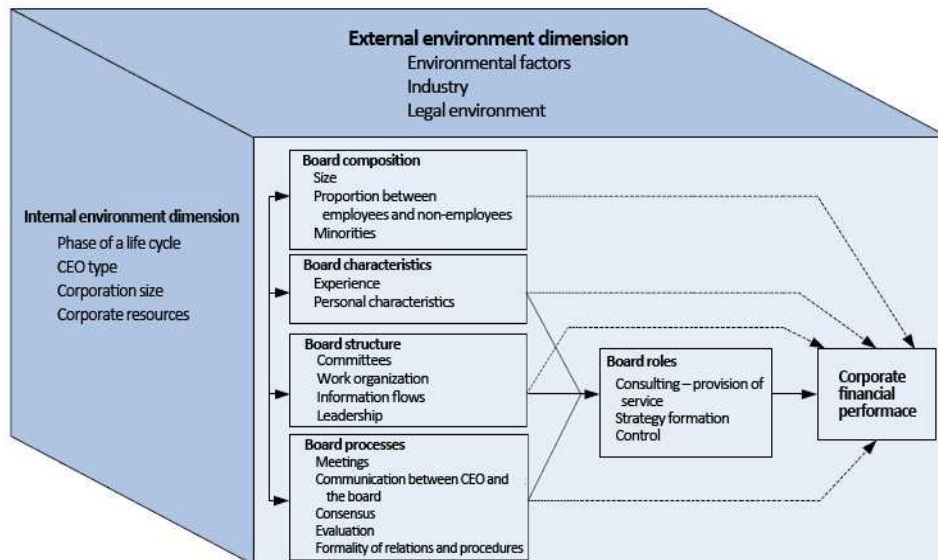


Fig. 3. Model for examination of the board of directors performance
Source: Zahra, Pearce 1989.

The model holds value due to several reasons: first, the qualities and performance of the board are examined from the perspective of various factors of internal and external environment. Second, the model made a distinction between the characteristics and roles of the board and the performance of the corporation, and, singled out their elements. Third, the model enabled the evaluation of the performance from the multidimensional perspective.

Corporate governance codes and empirical studies

Many countries around the world chose the preparation of Corporate Governance Codes as a way to solve corporate governance problems in their corporations. During the last 15 years Corporate governance codes have been prepared more than in 40 European countries. Today the codes are used by more than 60 countries around the world. As Jean-Nicolas Caprasse, the head of Deminor Rating agency performing different corporate governance research stated, “companies try to emphasise the transparency of their activities; this is seen from the increased number of corporate codes in Europe from 44% in 2002 till 74% in 2003. The same trend is noticed in the disclosure of mission of a corporation, when 77% of the investigated companies disclosed it in 2003, while it was only 53% in 2002”.

The codes appeared to have had a direct impact not only on corporate governance, but also the market value of a corporation. The research performed on the opinion of Deminor, McKinsey and other investors (2002, 2004) showed that the majority of investors shall pay a bonus for corporations distinguished by a good corporate governance. The McKinsey research revealed that such an added value of premium amounts to 12–14% in North Amer-

ica, 20–25% in Western European countries, and more that 30% in Eastern European and African countries of the value of a company. Even 15% of investors from Western European institutions give priority not to such financial results as profits or growth potential, but to the factor of corporate governance quality. At present the best known documents in Europe and all over the world are OECD Principles of Corporate Governance (2004), Statement on Global Corporate Governance Principles of the International Corporate Governance Network (2005), and Euro-shareholders Corporate Governance Guidelines (2000). Organisations that on a constant basis perform research about corporate boards are Norwegian School of Management and a consulting company „Heidrich and Struggles” (2007) annually performing corporate governance research together with Marshall School of Business of the University of California (USA). Table 2 presents the overview of corporate governance principles, functions and characteristics of the board which are examined in order to evaluate the quality and effectiveness of the board as they are suggested by Lithuanian and other international organisations.

Table 2. Functions and characteristics of the board

Functions and characteristics of the board	Corporate governance code of Lithuania	ICGN	OECD	Euro-shareholders	Norwegian School of Management	Heidrich & Struggles
Board structure	X	X	X	X	X	X
Board elections	X	X	X	X	X	X
Independency of the board members	X	X	X	X	X	X
Functions and committees of the board	X	X	X	X	X	X
Competence, knowledge and experience of the board members	X	X			X	X
Ethics and management philosophy of the boards	X	X	X		X	X
Board decisions	X	X			X	X
Role of the board in strategic management	X	X	X	X	X	X
Board and risk management	X	X		X	X	
Relations of the board with CEO	X	X	X		X	
Relations of the board with shareholders	X	X	X	X		
Relations of the board with internal and external auditors	X	X	X		X	
The board and its financial policy		X	X	X	X	
The board and its HR policy	X	X		X	X	
Motivation and incentives of the board	X	X	X	X	X	X
Spread of information about the board and the company		X	X			
Evaluation of the board and its members	X				X	X

Source: Table prepared by Asta Aleliūnaitė.

As is seen from the summary table, most often examined characteristics of the board are:

1. Structure and elections of the board;
2. Independency of the board members;
3. Committees of the board;
4. Knowledge, skills, experience and time availability of the board members;
5. Ethics, philosophy and management style of the board.

Regulation of corporate governance in Lithuania

Foreign practice shows that in case of a large number of big corporations, a one-level corporate governance system, composed of the chief executive officer (CEO), the shareholders' meeting and the board, is possible. In the model presented by International Institute of Internal Auditors (Fig. 4) the bodies of corporate governance system are the CEO, the board of directors, and committees accountable to the board – Audit Committee, Nomination Committee, and Remuneration Committee.

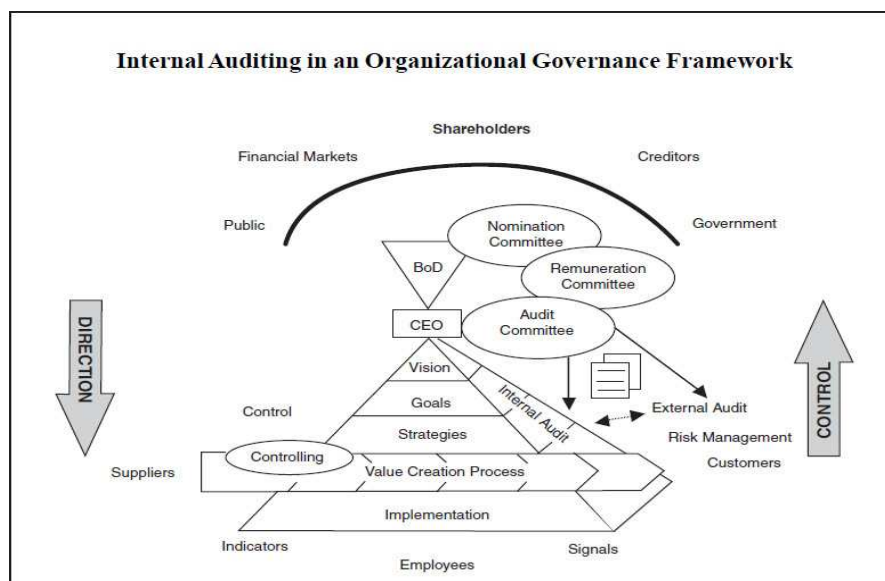


Fig. 4. Corporate governance system
Source: Ruud (2003).

In the case of large global corporations the dual system of governance is more often, when the corporation has not only CEO, the board of directors, shareholder meeting, but also the Steering board.

The present Lithuanian legal basis builds conditions for the existence of companies having as one-tier as two-tier corporate governance system. One of the main legal acts regulating the establishment, management, activity, reorganisation, restructuring, division, merger, liquidation of a company, rights and obligations of its shareholders, also the establishment of branches of foreign companies is the Law on Companies of the Republic of Lithuania.

Article 19 of the law defines two mandatory bodies that each company must have – The General Meeting of Shareholders and a single-person management body – the director of the company. Based on the law, a collegial supervisory body – the Supervisory Board, and a collegial management organ – the Board *may* be formed in the company, which means that they are not mandatory bodies.

Legal regulation in Lithuania enables the establishment and activity of stock companies the shareholder of which is one person, the written orders of whom are of the same legal power as the decisions made by the General Meeting of Shareholders. The exclusive right to select and depose members of the board of Lithuanian companies is granted to the General Meeting of Shareholders. In cases when all the stock of the company is owned by one legal or physical person, the board is selected and deposed based on the written order of the sole shareholder.

By 2008 neither the Law on Companies, nor other Lithuanian legal acts regulated what committees shall or may be established in a company. The audit, nomination, and selection committees were not mandatory at that time. However, in 2008 based on the changes in Lithuanian Law on Audit (2008, No. 82-3233) and decision No. 1K-18 made on 12 August 2008 by the head of Lithuanian Securities Commission, public interest companies (including but not limited to listed companies of Lithuania), have an obligation to establish an Audit committee.

The Civil Code of the Republic of Lithuania defines that “each legal person must have a single-person or a collegial managing body and the general meeting of members, where incorporation documents and laws regulating the activities of a legal person fail to provide a different structure of managing bodies. Laws regulating individual juridical forms of legal persons may establish that an managing body and the general meeting of members may be considered to be the same body of a legal person” (2.82).

Analysis of legal acts revealed that none of them obliges nor prohibits a Lithuanian stock company in addition to the general meeting of shareholders and the chief executive officer to have additional management bodies, special committees or functions, for example, function of internal audit.

Based on the Civil Code of Lithuania, members of *management* bodies of a legal person in Lithuania can be only physical persons, while other bodies may have as physical, as legal personas as their members (2.81). Despite this, recently it is often discussed that not only physical but also legal persons shall be allowed to be selected as the chief executive officer. According to the Civil Code, in Lithuania disclosure of information about members of the management bodies in the Centre of Registers (name, surname, personal code, address of residence) is required (2.66.1).

Following the examples of good practice of older European Union countries and experience in implementing the requirements of their Corporate Governance codes, similar documents were prepared in Lithuania. In 2004 the board of Vilnius Securities Exchange aiming

to improve the governance of stock companies and to disseminate the best practice of corporate governance among the listed companies, approved the *Corporate Governance Code of Listed Companies of Lithuania*. Later on the code was amended and on 21 August 2006 a new edition of it was endorsed. Finally, on 23 January 2007 in the meeting of the board of Vilnius Securities Exchange the Form of Disclosure of how companies followed the principles of Corporate Governance Code was approved. It was for the financial statements of the financial year of 2006 that this form was applied for the first time by Lithuanian listed companies.

It is important to mention that despite the fact that the principles and rules of the Corporate Governance code are of the nature of recommendation, all Lithuanian listed companies are obliged to present the report on how they observed the recommendations of the Corporate Governance Code together with their annual financial reports. In case of a company not complying with some of the recommendations, it has to provide the reasons for that; the principle “comply or explain” is to be followed.

Empirical study of corporate governance of Lithuanian listed companies

The goal of the study – based on financial reports of Lithuanian listed companies that are publicly available on their web sites to find out the prevailing model of a corporate governance system, the main characteristics of the collegial management body – the board of directors, and to evaluate the problem of availability and thoroughness of information about the governance of listed companies in Lithuania.

Objectives of the study

1. To define what models in 2006 and 2010 and compositions of the collegial management bodies (the boards of directors) and collegial supervision bodies (the supervisory boards) were prevailing of Lithuanian listed companies.
2. To examine the number of chief executive officers who held a position of a chairman of the board.
3. To find out and evaluate thoroughness of publicly available information about competence and education of the members of the boards of these companies.
4. To define the number of companies that have at least one member in their board of directors having a degree in the area of finance, banking, accounting and (or) audit.
5. To investigate how Lithuanian listed companies in 2006 and 2010 followed the recommendations of Lithuanian Corporate Governance Code and to evaluate the level of informativeness of the reports on the subject of the board of directors.

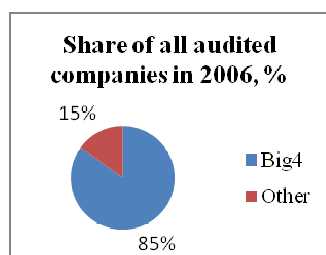
The scope of the research – 46 companies in 2006 and 45 companies in 2010. During the research content analysis of the following documents was performed:

- Audit Conclusions of financial reports of 2006 and 2010,

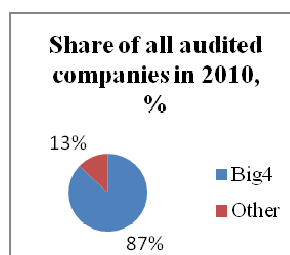
– Annual Reports of 2006 and 2010 and their annexes “Report on compliance with Corporate Governance Code of Lithuanian Listed Companies”.

RESULTS OF THE EMPIRICAL RESEARCH

The empirical research showed that the audit of financial reports of 46 companies in 2006 was performed by 10 different audit companies, while in 2010 the list of audit companies had decreased to 8. It is interesting to observe that the Big4 companies in Lithuania (UAB “PricewaterhouseCoopers”, UAB “Ernst & Young”, UAB “KPMG Baltics” and UAB “Deloitte Lietuva”) in 2006 performed the audits of 85 per cent of all Lithuanian listed companies; meanwhile in 2010 the share had increased to 87 per cent. Auditing of the remaining companies in 2006 was performed by other 6 different audit companies UAB “Auditorių biuras” – 2; UAB “IDG auditoriai” – 1; UAB “Moore Stephens Vilnius” – 1; UAB “Auditas” – 1; UAB “Revizorius” – 1; UAB “Tezaurus auditas” – 1; and in the year of 2010 – 4 audit companies: UAB “Rimess” – 2; UAB “Nepriklausomas auditas” – 2; UAB “Auditorių biuras” – 1; UAB “Revizorius” – 1.



Source: Prepared by Asta Aleliūnaitė.



Source: Prepared by Asta Aleliūnaitė.

The analysis of structure and composition of the management bodies of 46 companies in 2006 revealed that:

- all 46 companies had the General Meeting of Shareholders, collegial management body (the board of directors) and a chief executive officer (CEO);
- though a two-level corporate governance system (composed of the oversight and management collegial bodies) in Lithuania is possible as defined by the law, only 21 companies, which is less than half (46%) of the researched companies, had a supervisory board;
 - the boards of 5 companies (11%) had audit committees;
 - 1 company (2%) had a common audit-selection committee;
 - remuneration committees were formed only in 2 (4%) of the companies;
 - in 14 companies (30%) the chairman of the board was also the chief executive officer of the company;

– 314 persons (including CEO, a steering board members, and the members of the board of directors, but not including the General Meeting of Shareholders) participated in the governance of these 46 companies;

- the number of persons in steering boards fluctuated from 3 to 9;
- the tenure period in a steering board fluctuated from 1 to 4 years (usually it was 4 years);
- the number of persons in the boards of directors fluctuated from 2 to 10;
- the tenure period in the board of directors fluctuated from 2 to 5 years (usually it was 4 years).

Based on the same criteria the analysis of the structure and composition of 45 companies in the year 2010 was performed and it was found out that:

– all 45 companies had the General Meeting of Shareholders, the board of directors and CEO;

– a Steering board was found in 19 companies, which is less than half (42%) of the companies in the research scope;

– even though since 2008 listed companies in Lithuania are obliged to have an Audit committee, the results of the research revealed that only 32 companies (71%) had them. It is also important to notice that there is no unique practice concerning the members of audit committees: in some companies these were selected by a Steering board, in others – made by dependent members of the board of directors and independent external specialists;

– as in 2006, a Selection Committee was not found in any of the companies;

– a separate remuneration committee was formed only in one company, while 3 companies had a common Selection-Remuneration committees;

– in 13 companies (29%) the chairman of the board of directors was also CEO. Additionally it was defined that in 2010 there were 20 companies, where CEO was not a chairman, but a member of the board of directors;

– the number of persons (including CEO, a steering board members, and the members of the board of directors, but not including the General Meeting of Shareholders) participating in the governance of 45 companies was 386, or increased by 20% in comparison to the year of 2006;

– the number of persons in steering boards fluctuated from 3 to 7 (the maximum number decreased);

– the tenure period in a steering board fluctuated from 2 to 4 years (the minimum tenure increased);

– the number of persons in the boards of directors fluctuated from 3 to 9;

– the tenure period in the board of directors fluctuated from 2 to 4 years (usually it was 4 years).

The results of examination of the **composition of the boards of directors** showed that on 31 December 2006:

- 205 persons were the members of 46 listed companies in Lithuania;
- some of these 205 were members of the boards of directors of more than one listed company in 2006;
- there were 30 women and 175 men in the boards. Women made up 15%, and men – 85% of all the members on the boards.

On 31 December 2010:

- 253 persons were the members of 45 listed companies in the scope of research;
- 31 of these were members of the boards of directors of more than one listed company;
- there were 48 women and 205 men in the boards. Women made up 19%, and men – 81% of all the members on the boards.

The examination of information about **education of the members of the boards** disclosed that in 2006 only 2 companies in their annual reports declared full information about the education of their boards members (science institution and degree gained). Only 10 companies (22%) had a member or several in the board with education in finance, banking, accounting and (or) audit.

Based on the situation as on 31 December 2010, 19 companies (42%) in their annual reports disclosed information about education of their board members, whereas full information on the subject was disclosed by 11 companies (24%). 13 companies (29%) had at least one member on the board with a degree in finance, banking, accounting and (or) audit.

The fact of the occupation of the members of the boards in managing an extremely large number of companies was determined. In 2006 among those 205 who were the members of the 46 companies investigated:

- 42 (20%) members participated in the management of 5 or more companies, including not listed ones, and (or) owned more than 25% of capital of different companies.
- 30 (15%) persons participated in management of 7 and (or) owned more than 25% of capital of different companies, including not listed ones;
- there were 7 persons who participated in the governance of 15 or more companies.

To compare, in 2010 out of those 253, who were on the boards of 45 companies in the research scope:

- 20 (11%) persons participated management of 5 or more companies (including not listed ones) and (or) owned more than 25% of the share capital;
- 17 (7%) persons participated in management of 7 and (or) owned more than 25% of capital of different companies, including not listed ones;
- 4 persons participated in the governance of 15 or more companies.

To summarise, it is necessary to highlight that Lithuanian listed companies do not pay sufficient attention to full disclosure about the corporate governance in the reports about how they complied with the recommendations of Lithuanian Corporate Governance Code. Half of the investigated companies did not follow the obligation endorsed by the law starting from 2008 to form an audit committee in the company.

Table 3. Summary of findings

Specification	2006	2010
The number of companies in the research scope	46	45
Including:		
Companies, having a steering board	21	19
Companies, having the board of directors	46	45
Companies, having a separate Audit Committee	5	32
Companies, having a separate Remuneration Committee	2	0
Companies, having a separate Selection Committee	0	0
Number of persons, being members of the governance bodies	314	386
Number of persons, being members of the board of directors	205	253
Share of women, being members of the board of directors	15	18
No. of companies, where CEO is also a chairman of the board of directors	14	13
No. of companies that disclosed information about at least one member of the board of directors having an education in economics, finance, or audit	10	13

Source: Table prepared by Asta Aleliūnaitė.

In addition, the results showed an obvious problem of dualism, when chairman (member) of the board is also a chief executive officer of the company, which means that the chairman of the board was involved not only in strategic management, but also production and operational management.

In the opinion of the authors of this article, a positive trend is the number of persons participating in the governance of the investigated companies which increased by 20%, the share of women in the boards grew as well.

Analysis of the reports on how the companies in 2006 and 2010 complied with the recommendations of Lithuanian Corporate Governance Code, revealed that:

- The comments of the majority of companies, in case they did not comply with some recommendation, are redundant and usually not concrete and informative.

- Companies, the boards of directors of which have no audit, remuneration and (or) selection committees, indicated that questions which shall be solved in these committees are being solved by the Steering board, the board of directors and CEO.

- Article 3 of Lithuanian Corporate Governance Code recommends that in case a company chooses to form only one collegial body, it is recommended that this shall be the Steering board. In such a case the Steering board is responsible for the effective oversight of functions performed by the chief executive officer. However, the empirical study disclosed that in cases when only one collegial body is created, this is not a Steering board, but the board of directors.

- It is defined in the Corporate Governance Code that the remuneration committee shall evaluate the structure, size, composition and performance of the steering and management bodies, provide recommendations to collegial body on how to seek the necessary changes, regularly evaluate the skills, knowledge and experience of each member of the board of directors, and to inform the collegial body about this. It means that if there is no Selection committee, the Steering board performs the evaluation of itself, the board of directors and CEO, and if there is not Steering board in the company, this function shall be performed by

the General Meeting of Shareholders, CEO or the board of directors. It follows that the board of directors shall evaluate its own structure, size and competences. However, the analysis of annual reports revealed that very few companies indicated that the board of directors evaluates its own performance on a periodical basis. There is no information about how this evaluation is performed and what criteria and results of such evaluations are.

– In the reports of 2006 and 2010 none of the companies disclosed that they applied the practice of evaluation and disclosure of the independence of the members of their boards of directors. Also, none of the companies officially disclosed the Remuneration report, even though it is recommended in the Corporate Governance Code.

CONCLUSIONS

The empirical study disclosed that US, British, Australian and Norwegian scientists and such international organisations as International Institute of Internal Auditors, European Corporate Governance Institute, Organisation of Economic Cooperation and Development, International Federation of Accountants, and the World Bank had the greatest contribution in creating and development theories of corporate governance as well as performing corporate governance empirical studies. Meanwhile in Lithuania there were no sound scientific empirical studies on corporate governance or audit of corporate governance performed. The analysis of scientific literature and practical studies showed that Lithuania did not participate in research implemented by international organisations, though information about the neighbouring countries (Latvia, Estonia, Poland) is present. This testifies to low activity of Lithuanian scientists and practitioners in sharing information with international partners, low interest in legal standardisation of corporate governance audit of public listed companies on a national level.

Content analysis of Lithuanian legal acts revealed that the evaluation of the compliance with Corporate Governance Code performed by Lithuanian companies does not guarantee that the principles of a recommendable nature will be followed in the corporate governance for certain. Content analysis of the annexes of annual reports prepared Lithuanian companies disclosed that in case a company does not comply with recommendation of Corporate Governance Code, it is sufficient to indicate the reasons for non-compliance. In addition, the reasons that are indicated are often too abstract and do not allow the formation of a clear opinion about the governance of a company and its internal control mechanisms in action.

The empirical study, the goal of which was to find out the corporate governance peculiarities and main characteristics of their boards of directors, enables the claim that a one-level governance model prevails in Lithuanian listed companies. The fact that a very large number of their chief executive officers also hold the positions of members or even chairmen of the boards implies that the problem of dualism is highly relevant in Lithuania, and may have serious consequences if not solved in time.

The examination of characteristics of the boards of directors of Lithuanian listed companies exposed that the board of directors in 2006, as in 2010, was the main body of strategic

management. All the companies in the scope of this research had boards of directors. Study results, having shown that audit committee, selection committee, or remuneration committee is very rare in Lithuanian companies, mean that the functions of these committees are performed by the board of directors itself, therefore, CEO and the board hold the full responsibility for the quality of corporate governance, corporate performance results, and satisfaction and meeting the expectations of shareholders and other stakeholders.

An obvious shortage of the board members' competence and education in audit, accounting and finance as well as the problem of non-compliance with independent criterion in many of the boards mean the existing risk of poor Lithuanian listed companies' corporate governance in the period of 2006–2010. The members of the boards shall actively participate in raising their qualifications in accounting, finance and audit, attending special training. It is advisable to amend legislation enforcing the Lithuanian listed companies on a periodical basis as well as each time there is a change in the composition of the boards, to provide information to Lithuanian Bank that would approve the new composition of the board only under the condition the board has at least one member with an education and (or) significant experience in audit and accounting.

Watching the trends of globalisation and mergers and growth of Lithuanian companies, the suggestion to simplify the present corporate Governance Code would be premature. Therefore, it is possible to recommend the application of special corporate governance internal audit methods allowing the examination of the real situation of corporate governance and enabling more full and reliable disclosure of it in the reports on compliance with Corporate Governance Code. The companies shall conceive that corporate governance recommendations – are not the bureaucratic burden, but help for companies trying to make their governance more effective and to gain more trust of stakeholders in the quality of management and governance.

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Daniel Messele Balcha

PARTNERSHIPS IN ADDRESSING HIV/AIDS ISSUES IN ETHIOPIA

PROGRAMY PARTNERSKIE W ROZWIĄZYWANIU PROBLEMÓW ZWIĄZANYCH Z HIV/AIDS W ETIOPII

Charles University in Prague, Zvonickova 3, 162 08 Praha 6, Czech Republic,
e-mail: danielmessele@gmail.com

Streszczenie. Opierając się na analizie programów partnerskich, których zadaniem jest walka z HIV/AIDS w Etiopii, niniejsze jakościowe opracowanie podejmuje próbę przeanalizowania działalności partnerstw zawartych z organizacjami państwowymi, prywatnymi i pozarządowymi. Biorąc pod uwagę ograniczone zasoby kraju, pierwszorzędne znaczenie ma koordynacja działań i pozyskiwanie pomocy niezbędnej by stawić czoła problemowi HIV/AIDS. Praca wykazuje, że programy partnerskie mają ograniczony wkład w kapitał społeczny. Fakt ten przekłada się na większą tendencję by polegać na zewnętrznych mechanizmach kontroli, mniejszy udział wolontariuszy w stowarzyszeniach pomocowych oraz zmniejszenie zdolności do rozwiązywania problemów poza sektorem rządowym, co z kolei również utrudnia kwestię mobilizacji środków i zasobów. Ponadto, wewnętrzne priorytety organizacji, takie jak rywalizacja w zbieraniu funduszy, a czasem również kwestie egzystencjalne sprawiają, że znaczenie partnerstw jest umniejszane, zaś organizacje pozarządowe nierzadko powielają swoje wysiłki i działania. Poza tym, sektor biznesu wykazuje się brakiem zainteresowania tą kwestią ze względu na inne priorytety.

Key words: actor-centered theory, common-pool resources, governance, institutionalism, social capital.

Słowa kluczowe: dobra wspólnej puli, instytucjonalizm, kapitał społeczny, teoria aktora-sieci, zarządzanie.

INTRODUCTION

The effect of HIV/AIDS does not stop at the individual level but also affects the family, firms and businesses as well as the macro economy of a country. Due to the magnitude and multisectoral problems associated with HIV/AIDS coordinated efforts to tackle the problem are strongly needed. Although there are encouraging results of the government's approach in training higher number of health extension workers in Ethiopia, there is still a need to increase access to health facilities. The provision of socioeconomic programs for people affected by HIV/AIDS faces a number of challenges. The limited resources available and the lack of efficient coordination among various sectors are the major challenges. Boydell et al. (2007) emphasise that partnerships across government departments, trade unions, community based voluntary institutions and the business sector is essential for the successful implementation of government policies addressing complex problems. Therefore, when answering questions like the following, it is important to understand the relevance of public – business – NGO partnership in addressing the HIV/AIDS issue in Ethiopia. Are the public, business and NGO sectors partnering enough? What kinds of partnership experiences do

they have? Are they benefitting from social capital to mobilise resources? What are the major partnership challenges?

This research paper develops on the hypothesis that there is a lack of governance, which promotes partnerships, ensures and recognises the role of the NGO and the private sector in addressing the problem of HIV/AIDS in Ethiopia. Therefore, the individualistic nature of addressing the problem and even sometimes the manifestation of competitions among some institutions has contributed to inefficient partnerships among different parties. Moreover, the share of the government /GO/, business and the NGO sector is both uneven and insufficient at the policy formulation and implementation stage. Therefore, the study was undertaken to see if this hypothesis is correct by identifying the major factors affecting the partnership patterns among NGOs, business and the public sector in addressing the HIV/AIDS issue. The necessary data has been acquired from representative samples of these sectors by making use of qualitative tools. Hence, the policy outcome proposes improvements on the partnership practice of the NGOs, public and business sector by emphasising governance concepts like self-organisation, interdependence, exchange of resources, and independence from the state (Rhodes 1997). Such a partnership framework is an important step to address the HIV/AIDS issue.

The governance experience, which provides the chance for more coordinated responses while also sharing resources at different levels, is essential to address significant social problems like HIV/AIDS. By its very definition, governance is defined as the way governments interact with other social organisations and also how decisions are made in a complex world (Graham et al. 2003). Based on the experience from the Czech Republic and other Central and Eastern European countries, one of the good governance criteria Potůček (2004) mentions is communication in the public space. He states that the effectiveness of public administration is highly related to a strong civil society, which can contribute to a fair and efficient policy. Therefore, administration carried out solely by a government is unable to respond adequately to the real needs of the people in many areas of public policy. Governments must therefore search for partnership, cooperation, and joint decision making with the civic sector. Therefore, we understand that partnership is important not only while implementing programs but also in the decision making process. Kjaer (2004) states that in public policy formation and implementation partnership networks are important due to the fact that they increase policy-making efficiency. They also help by generating information and greatly facilitate implementation. Hence, exploring how partnership among the various organisations working in Ethiopia is important to understanding the HIV/AIDS governance and its main challenges.

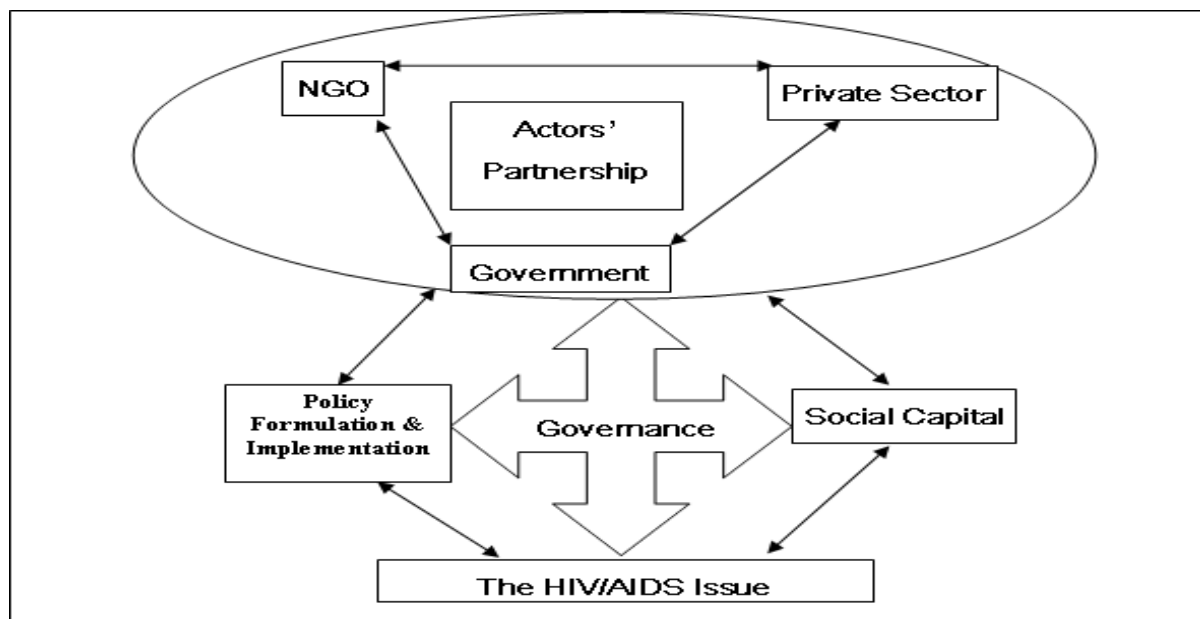
While there is no commonly agreed definition of social capital, the following terminologies are paramount in defining the concept. These are; collective actions, mutual benefits, networks of relationships, mobilisation of resources, coordination and cooperation, gaining access, and common purposes and norms that shape the quality and quantity of a society's

social interactions (Putnam 1995, 2000, Fukuyama 1995, Thomas 1996, Woolcock 1998, Knoke 1999). Putnam et al. (1993) define social capital as an independent variable affecting the dependent variable of institutions which do not include institutions as a form of social capital. That is, trustworthiness, networks and institutions serving as independent inputs to economic and political processes and outcomes. According to the Productivity Commission (2003) one way that policies could be analysed with consideration to social capital is to re-design policies to utilise existing stock of social capital in order to integrate social capital in public policies or to design new policies. The various traditional institutions in Ethiopia can contribute a lot in this regard. Therefore, considering social capital across the most accepted model of policy process is important. This model includes a four-stage model, which includes; agenda setting, formulation, implementation, and evaluation (Potůček et al. 2003).

The model the tragedy of the commons is the exhaustion of a common resource by individuals acting independently and rationally according to each one's self-interest, despite their understanding that using up the common resource is contrary to the group's long term best interests Ostrom (1990). In the same token, Hardin (1968) emphasises that individuals find themselves in a system that forces them to maximize their benefit infinitely in a world that is finite. As a result individuals can cause damage, when they pursue their own best interest. On the other side, the logic of collective action model states that unless there is obligation or some kind of mechanism for individuals to act in their shared interest; rational and self interested individuals will not act to achieve their shared or group interests. That is, common interest is not synonymous with collective representation (Olson 1965). Ostrom (1990) talks about the inadequacies of such models as they are based on the free-rider problem where rational individual resource users act against the best interest of the collective group of users. She states that even if the models are not necessarily wrong, they are based on very specific conditions. That is, they are applicable when many individuals are involved but act independently having no capacity to communicate or to enter into binding agreements and have little mutual trust. The models are also applicable when monitoring and enforcing mechanisms to avoid overinvestment and overuse are not arranged by the individuals involved. As discussed in the previous paragraph, the study looks into these particular factors like trustworthiness, along with networks and institutions as a form of social capital that breeds trust and facilitates collective action.

The actors engaged in the HIV/AIDS work in Ethiopia have diverse characteristics. Scharpf (2000) states that actors include organisations, groups and individuals who actively participate in politics/policy-making. Other important characteristics of actors include their capacity such as amount of power and other resources like money, knowledge, and personnel. The influence of the various actors in policy making and implementation also highly depends on their respective power and capacity. As a result, actor-centered theory defends the belief that policy results from actors who have the capacity (power for) to act independently; and are also able to impose their preferences on other actors (power over). In the

existence of such a diversity of actors, the costs and benefits of coordination strategies are analysed in terms of their effectiveness, efficiency and sustainability (Kemppainen-Bertram 2007). Hence, by making use of the current understanding of the concepts of governance, social capital, partnership, policy making and implementation the study comes up with the following partnership model towards HIV/AIDS in Ethiopia. The model is used to examine the partnership patterns and the participation in policy formulation and implementation of various stake holders (Graph 1).



Graph 1. HIV/AIDS Governance Model
Source: Author.

METHODOLOGY

The research employs qualitative approaches like interviews with key informants of the major actors and document analysis methods. The key informants are all individuals representing the public, business and the NGO sectors as well as representatives from the HIV/AIDS Prevention and Control Office (HAPCO) both at the national level and the three regions selected namely; Oromia Region; Southern Nations; Nationalities and Peoples' Region (SNNPR) and Addis Ababa. Even if HAPCO is a government institution, it is added to the key informants because it coordinates the HIV/AIDS partnership forums. A total of 13 key informants and four others who provided important information were interviewed using semi structured interviews. A combination of both primary and secondary data was used.

The method of thematic analysis is used to identify and analyse the dominant themes. Using these themes as categories of the analysis, partnership practices have been com-

pared so as to understand how partnerships among the public, business and NGO sector work. The relationship of the emerged themes has been reported using a problem tree.

Partnerships in addressing HIV/AIDS issues in Ethiopia

Kemppainen-Bertram (2007) states that in the current world the government sector can no longer be the sole provider of public policies, due to the complexity and interdependence of issues involved. Therefore, in order to be efficient and effective the government needs to partner and network with other stakeholders. This study looks into the three sectors and HAPCO's role in addressing the HIV/AIDS issue. However, in each of these sectors there are a number of actors working to alleviate the problem. Using the suggested governance model, the study analyses the partnership practice. That is, it explores whether these variables exist and how they are empirically interrelated and function in addressing the HIV/AIDS issue. In the following section, the historical development of the HIV/AIDS issue and the significance of social capital to the response have been analysed. Finally, partnership challenges are discussed from the HIV/AIDS partnership experience.

Historical overview

The first HIV case was reported in Ethiopia in 1984, and the first AIDS cases were reported in 1986. In 1985, a national task force for the prevention and control of the HIV infection and AIDS was formed by the government of Ethiopia to respond to a potential AIDS epidemic. By the end of the year, the task force had issued the first AIDS control strategy. Ethiopia developed short and medium term plans in 1987. In the same year, the government established an HIV/AIDS department within the MOH. The following year the MOH drafted a four-point policy statement on AIDS prevention and then convened a 13-member policy drafting committee on HIV/AIDS with the aim of creating a comprehensive national policy. The committee came up with the first draft in 1991 and then forwarded it to the MOH. There were a number of revisions to the policy between 1992 and 1993. However, in the following three years there was little progress on the policy, mainly due to the fact that the Ethiopian government was engaged in significant decentralisation of many of its activities, including health. This decentralisation process led to a drastic reduction in HIV/AIDS technical staff at the MOH. The number of staff decreased from 70 people to only 3 as most functions from the national office were shifted to regional health bureaus. Consequently, the momentum to produce an HIV/AIDS policy declined. However, in the middle of 1996, the MOH revived the effort to prepare the national policy. After further reviews and revisions a national HIV/AIDS policy was finally approved by the Council of Ministers in August 1998. As a result, the National AIDS Prevention and Control Council was established in 2000 and was charged with implementing the Strategic Framework for the National Response to HIV/AIDS in Ethiopia for the years 2000–2004. The overall goals of the strategic framework were to reduce HIV transmission, associated morbidity and mortality; and burdens on individuals, families, and society at large. The council, chaired by the president of Ethiopia and

comprised of members from government, NGOs, religious bodies, and civil society, has declared HIV/AIDS a national emergency (Stover, Johnston 1999, Garbus 2003, Drimie et al. 2006).

In Ethiopia the first draft of the national policy was created in 1991, though not approved until 1998 due to the changes from a centralised political system to a federal system, which resulted in the decentralisation of all public institutions. Though the country started the process of developing a comprehensive national policy much earlier, 1989, than most other countries, the process took much longer to complete than in other countries because of the disruption caused by decentralisation. Moreover, Stover and Johnston (1999) studied the experiences of 9 African countries in policy formulation and stated that the Ethiopian process of policy making was characterised by many rounds of internal government review involving relatively few people and almost no participation by interests outside government.

The establishment of the National HIV/AIDS Council and the National AIDS Council Secretariat in 2000 led to the formation of HAPCO in 2002. HAPCO's responsibilities are overseeing, coordinating and evaluating the national response to HIV/AIDS. HAPCO was first organised under the Prime Minister's Office. The office is currently positioned under the MOH. Ethiopia joined UN Member States in June 2006 at the UN General Assembly to issue the Political Declaration on HIV/AIDS. This included a commitment to moving towards the goal of universal access to HIV prevention, treatment, care and support by 2010. From this time onwards, Ethiopia has updated its planning framework with ambitious targets to achieve universal access (Drimie et al. 2006).

The 2012 Country Progress Report on HIV/AIDS states that Ethiopia is among the countries most affected by the HIV epidemic. With an estimated adult prevalence of 1.5%, it has a large number of people living with HIV (approximately 800 000); and about 1 million AIDS orphans. The application of preventive interventions to avert infection, use of highly active antiretroviral therapy, and sustained global and national commitment continue to register success in response to the epidemic. But there are key challenges like; low utilisation of some services like PMTCT, the emergence of new at-risk population groups like young girls engaged in transactional sex, as well as low coverage of interventions for most-at-risk and/or highly vulnerable populations and ensuring quality of available services.

The National Partnership Forum against HIV/AIDS in Ethiopia (NPFAAE) was established to provide connections among the actors and avoid duplication of efforts. The importance of partnerships is recognized by the National Strategic Plan. Due to the complexity of problems associated with HIV/AIDS, the strategic plan does not clearly state the roles of NGOs and the business sector. As a result this has contributed to inefficient partnership practice among the sectors in addition to the other themes characterising the existing partnership.

Ethiopian HIV/AIDS policy

The current HIV/AIDS policy, which is officially known as the “Policy on HIV/AIDS of the Federal Democratic Republic of Ethiopia” has been in place since August 1998. The policy recognises that HIV has already infected many with a high prevalence rate, which has given the country one of the highest levels of infection in Africa. It clearly identifies the primary mode of HIV transmission in Ethiopia as sexual contact, even so there is a small magnitude of infections due to blood transfusion, harmful indigenous practices and unsafe injections.

According to the MOH (1998), AIDS will have a great demographic, psychological, social and economic impact on both individuals and societies. On top of the worrying stress and death that AIDS causes to the individual patients, the familial, social and economic problems that follow are numerous and diverse. Such problems include divorce, family collapse, orphaned children, etc. While discussing the need for HIV/AIDS policy, the document states that the activities being implemented to alleviate the AIDS effects in the country are insufficient, uncoordinated, and weakly targeted. The policy also recognises that the health care services providing diagnosis and management of HIV/AIDS including psychological support, follow-up and home care are found to be seriously stretched both in quality and quantity. As a result, the policy assumes that these scarce health institutions are expected to be overwhelmed by the fast spreading ‘silent AIDS epidemic’ (Ibid). Another very important factor for the policy is the issue of stigma and discrimination. Experiences show that PLWHA quite are quite often subjected to stigmatisation and social discrimination. Therefore, government policy, counseling services and educational efforts need to address these issues.

Ensuring the full protection of the human rights of PLWHA can be achieved using HIV/AIDS policy. In this regard the policy also recognises the problem of gender inequality in the spread of HIV/AIDS in the country. This includes access to information and services regarding HIV/AIDS and family planning that help women in decision making. Considering the need for a holistic approach in the provision of care to PLWHA and understanding the magnitude of the problem, it is clear that significant resources are needed. Combating the HIV/AIDS epidemic needs due awareness for a concerted multisectoral effort and the human rights of PLWHA. The overall objective of the policy is to create an environment for the prevention and control of HIV/AIDS within the country. The policy clearly states promotion of integrated coordination of government and NGO sectors for the prevention and control of HIV/AIDS, which is the focus of this research. In order to achieve its objectives there are ten general strategies identified. They are IEC; STD Prevention and Control; HIV Testing, and Screening; Sterilization and Disinfection; HIV/AIDS Surveillance, Notification and Reporting; Medical Care and Psychosocial Support; Research and Development; HIV/AIDS and Human Rights; Regional and International Relations; and Policy Implementation and Coordination.

The other prominent policy issue is the development of the Education Sector Policy and Strategy on HIV & AIDS. This policy responds to the education sector challenges of HIV &

AIDS in Ethiopia. According to MOE (2009) the education sector constitutes more than 24% of the country's population. One of the draft strategies of the policy includes involving community institutions in HIV/AIDS prevention activities around local schools. The large number of people in the education community (students, teachers and non teaching staff) represents a strategic opportunity for the national response to HIV prevention, treatment, care and support as well as reduction of stigma and discrimination. This is particularly important in the case of Ethiopia, where its high prevalence rate categorises it as a country with a generalised epidemic. Undertaking such a policy step is important because the trends of the HIV/AIDS prevalence are higher in particular risk-groups that are driving continued transmission. These groups include students, youth and mobile workers (often including teachers). For instance, orphans are likely to face serious difficulties in completing their education. Many of them may be withdrawn from schools and colleges, in response to rising household expenditure, or to provide care to household members. Similarly, HIV and AIDS also reduce the number of teachers and other staff in the sector. Due to illness and death, there is an increasing number of teachers and other staff in the sector who are unable to carry out their work effectively in schools, thereby reducing the number of qualified professionals in the education system. Therefore, these and many other reasons contributed to the development of education policy and strategy on HIV and AIDS that aims at facilitating and ensuring the prevention, care, support, and treatment services for the individuals and community of the sector at large (MOE 2009).

Benefiting from social capital

Social capital is significantly related to public policy because implementation of various government programs eventually depends more on mobilising policy stakeholders, including the beneficiaries than on authority and control. The lower the social capital, the more difficult such mobilisation becomes. At the extreme, in a society with very low social capital, administrators are much quicker to find dependence on authority and control, with resulting low governmental effectiveness. On the other side when there is high social capital a number of issues can be addressed by social networking outside of the government. Even at a time when the government sector is leading some activities, it is possible to mobilise a number of implementing partners.

Recognising the importance of partnerships among different actors and increasing their role at different levels is important in addressing social problems. Baker (1990) defines social capital as, *"a resource that actors derive from specific social structures and then use to pursue their interests; it is created by changes in the relationship among actors"*. In general, social capital facilitates collective actions for mutual benefits. For social capital to occur trust building, accountability and reciprocity is important. Ethiopia has a strong collectivist culture

and traditional institutions like 'iquib'¹ 'idir'² 'debo'³ which can boost social capital. But the extent to which these traditional institutions are used as a basis to encourage partnerships and benefit from the social capital it can bring is almost non-existent except in the use of 'idirs' as partners by some NGOs in their HIV/AIDS work. Here mainly the 'idir' is used as an institution to help the HIV/AIDS work. There is no attempt to either build on the practice of these traditional institutions or replicate their experience in the HIV/AIDS partnership. In some parts of the country 'idirs', in partnership with other NGOs play an active role in prevention, care and support activities. They are also represented in the partnership forums as part of the NGO sector. The benefit from social capital by building on the existing traditions like 'iquib', 'idir' and 'debo' enhances mobilisation of resources and volunteerism, which can help in the mitigation of the HIV/AIDS problem.

HIV/AIDS partnership experiences

Asking the questions as to whether the public, business and NGO sectors partner enough when addressing the HIV/AIDS issue or exploring the kinds of partnership experiences they have, is relevant to understanding the HIV/AIDS partnership experience in Ethiopia. Skage (1996) describes partnership as an activity of doing something together where a relationship that consists of shared and/or compatible objectives and an acknowledged distribution of specific roles and responsibilities among participants distributed to achieve the shared objectives. Partnership involves cooperation. In public policy, it can be defined as cooperation between people or organisations in the public or private sector for mutual benefit (McQuaid 2000). One of the assumptions that McQuaid (Ibid) makes on the definition of partnerships is: the potential for synergy of some form, i.e. *'the sum is greater than the parts'*. Waddell and Brown (1997) discuss partnership as wide ranging inter-organisational collaboration. This is particularly true due to the fact that information and resources are shared and exchanged to produce outcomes that each partner would not have achieved working alone. That is each partner commits itself to working towards shared goals for mutual benefit. Stern & Green (2005) state that partnerships depend on mutual trust, equal ownership, high levels of commitment and common goals.

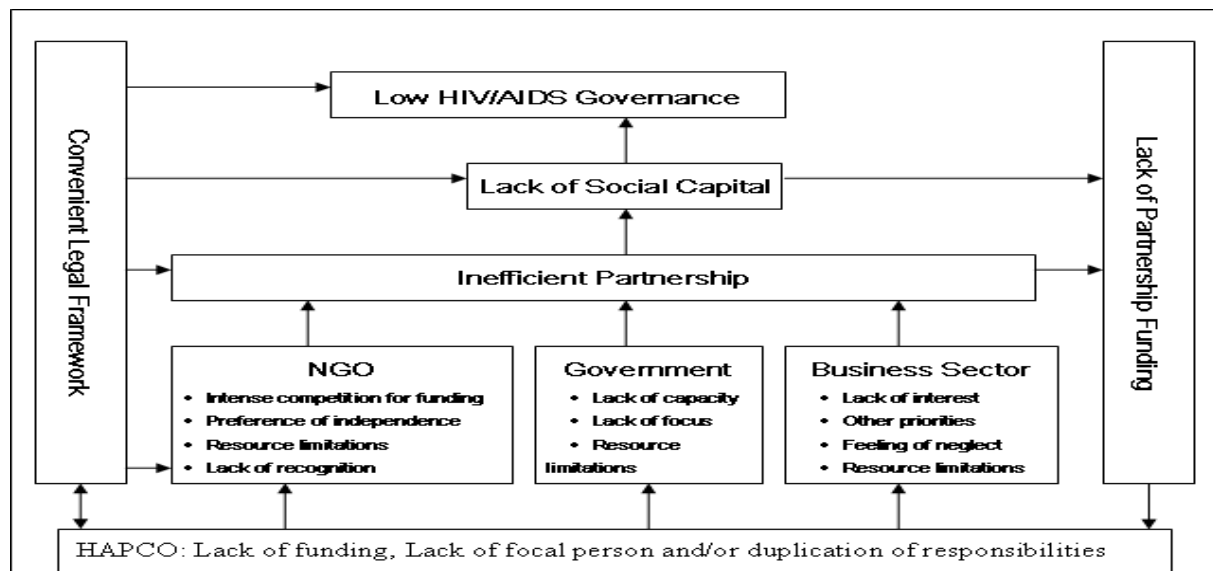
The most frequent themes emerging from the HIV/AIDS partnership experience in Ethiopia as major partnership challenges are; resource limitations in all sectors; the lack of recognition of the NGO and business sectors as important partners and their sense of belonging in addressing the HIV/AIDS issue are all of paramount importance. Diversity and unhealthy competition for resources; as well as the issue of trust and reciprocity are among the major themes characterising the NGO sector. Moreover, high staff turnover, the lack of

¹ 'Iquib' is an association formed by a small group of people in order to provide substantial rotating funding for members in order to improve their lives and living conditions.

² 'Idir' is an association formed by mostly neighbors or employees of the same organization to raise funds that will be used during emergencies.

³ 'Debo' is a tradition of group of people usually neighbors working together during harvesting, etc.

partnership interest, and the lack of accountability to initiate and actively engage in such partnerships are the themes characterising the government organisations. The business sector is predominantly characterised as lacking interest in both; generally taking part in such partnerships and specifically dealing with the HIV/AIDS issue due to other priorities. Partnerships involving the business sector are characterised as partial, since in most cases the business sector engagement is very low. The following graph summarises the thematic summary using a problem tree. The policy objective is presented using the problem tree. The graph summarises the emerged themes that describe their partnership experiences in addressing the HIV/AIDS issue. The themes are presented in their respective category, where they are dominant (Graph 2).



Graph 2. Problem Tree Presentation of the Thematic Summary
Source: Author.

The graph shows that although HAPCO is tasked with the coordination efforts, a lack of funding and focal persons in carrying out partnership responsibilities especially at the regional level means we see significant effect on the initiation and management of partnerships. A lack of interest on behalf the private sector to be engaged in HIV/AIDS related activities and the expectation that their representatives need to focus on other priorities like tax issues contribute to the inefficiency of the partnership in addition to the resource limitations. On the contrary, even if such concerns exist on the part of the business community, the representative feels that they are sometimes neglected in addressing the HIV/AIDS issue.

The mission of government sector institutions, unlike HAPCO, is not only focused on HIV/AIDS issues. The existence of HIV/AIDS mainstreaming contact personnel is encouraging but the problem is that the capacity of the personnel, their focus and resources is not well matched with partnering outside the individual institution. From the side of the NGOs there is diversity, which is revealed in their capacity to act independently; and also to be

able to impose their preferences on other actors. Those NGOs having the capacity to act independently show a lack of interest in partnerships, whereas NGOs lacking capacity are seen in continuous competitions for resources due to the resource limitations that they have. The other interesting finding here is that NGOs do not only lack interest when they have the capacity but even those lacking capacities to act independently lack interest in partnerships. One of the major reasons for this is that NGOs are not measured by their activities in partnerships but rather the number of beneficiaries that they have. As a result, this has led them to compete on the number of beneficiaries as well, which has led to duplication. This correlates with the model of tragedy of the commons, which is the exhaustion of a common resource by individual institutions, acting independently and rationally according to their self-interest (Ostrom 1990). In addition to the rush for resources and the use of one's own expertise and material resources for individual benefits, another way in which we can see the application of the tragedy of commons model is the rush for beneficiaries. Beneficiaries are used as common resources to maximise the chance of getting more funds but this affects the long term interest of addressing the HIV/AIDS issue by avoiding duplication of efforts. This signifies the importance of a mechanism that helps to act in a shared interest.

Public, business and NGO sector characteristics

The NGOs feel that they are neglected. They feel that they are not invited to take part in HIV/AIDS related activities. One reply states, *"From the government side there is lack of interest to engage the NGOs and the for profit sector. The major problem is high turnover. We start initiatives with government representatives but it isn't sustain due to high turnover"*. The government sector is represented in partnership forums at national and regional levels. It suffers from a lack of focus on the partnership forum. Though there are HIV/AIDS and/or Gender Mainstreaming Officers present across institutions, they are barely engaged in partnerships. In most cases they have multiple responsibilities. It has resource limitations and limited capacity to engage in partnerships.

The NGOs working on the HIV/AIDS issue are diverse in Ethiopia. One way of looking at their difference is their financial capacity. While some NGOs have relatively stable financial resources, most of the local NGOs working at the grass root level are in continuous competition to secure funding. Not only the existence of competition for resources among NGOs but also the fact that some NGOs, who are financially independent, would like to carry out their work independently, mean that NGOs lack the interest to partner. From the other side the smaller NGOs, especially those working at the community level, sometimes called community based organisations are the ones continuously seeking financial resources. As a result they sometimes enter into an unhealthy kind of competition, which is manifested by the duplication of efforts. This duplication results from the tendency to register as many beneficiaries as possible, without making the necessary checks to see if beneficiaries could also be getting support from other similar organisations. This in turn encourages beneficiar-

ies to exploit the gap and gain support from as many organisations as possible, while there are many others who do not get any support. As a result, the manifestation of competition among NGOs especially for resources has contributed to the inefficient partnership among themselves. Effective partnerships can obviously rectify such problems but the priority for such local NGOs seems to be survival. That is funding. Moreover, the representatives of the NGOs are concerned that their performance is not measured by their activities in the partnership forum rather as an individual organisation, which is vital for their existence.

Sectoral and areal comparison

HAPCO is tasked with the role of coordinating the HIV/AIDS response. Hence, it should take the lead in initiating partnerships and leading them. However, the office is currently facing a significant decline in funding. This emerged as the major reason for the drawbacks related to the initiation and coordination of partnership forums at all levels. Moreover, a lack of professional focal persons when it comes to partnerships was another challenge. The lack of enough time to focus on partnership forums has also been mentioned. This particularly contradicts the major coordination mission of the institution, having personnel lacking time to work on partnership forums. The other interesting phenomenon emerged is the effect of the legal framework on HAPCO (Oromia Region) itself. That is, the initiatives to form NGO consortium by Oromia HAPCO have failed due to the current NGO law. Therefore, these factors limit HAPCO to influencing the sectors and this contributes towards the inefficiency of partnerships (Table 1).

Table 1. Sectoral Comparison

Items	Public sector	NGO sector	Business sector
Resource limitations	Yes	Yes	Yes
Lack of recognition	No	Yes	Yes
Diversity	No	Yes	No
Unhealthy competition for resources	No	Yes	No
Trust and reciprocity	No	No	No
High staff turnover	Yes	No	No
Lack of partnership interest	Yes	Yes	Yes
Lack of accountability	Yes	No	Yes
Inconvenient legal framework	No	Yes	No
Policy formulation	Yes	No	No
Policy implementation	Yes	Yes	Yes ⁴

Source: Author.

As a result of the high HIV/AIDS prevalence rates in specific regions and in specific age groups, continued work related to prevention, care and support services is needed. However, government, business and NGO sectors report various challenges. Resource limitation has

⁴ The Ethiopian Business Coalition against AIDS (EBCA) is the only institution representing the business sector in addressing the HIV/AIDS issue. It is set up in 2004 as an NGO when local businesses, concerned about the HIV/AIDS problem, agreed to launch a collaborative national business coalition. Even if the coalition is active at the national level, it has no representation and insignificant activities at the regional levels.

been identified as the major challenge across all sectors. This has been mentioned as the major reason for the inefficiency of partnerships. Specifically each institution discusses how that affected them. For instance HAPCO both at national and regional levels currently has a limited funding to strengthen partnership efforts. The NGOs lack the capacity to outsource and support partnership efforts. Due to limited participation and the capacity of member NGOs, partnerships cannot raise enough from membership contributions.

Although the partnership with another (a third) sector is greatly emphasised in research, the NGOs also report that inefficient partnerships resulted due to competition for financial resources, which resulted in competitions for beneficiaries. The business sector reveals neglect by the government as the main challenge. The existence of an inconvenient legal framework is also the most frequent theme that emerged during interviews, especially in the case of NGO sector representatives. This has contributed significantly to not only the inefficiency of partnerships but has also put the member NGOs' existence in to question. This has a had diverse impact on the work on addressing the HIV/AIDS issue. Therefore, the existence of inconvenient legal framework has directly affected NGOs and contributed to the inefficiency of partnerships, lack of social capital and witnessed low level of HIV/AIDS governance (Table 2).

Table 2. Area Comparison

Items	National	Oromia Region	SNNPR	Addis Ababa
NGO sub forum	Yes	No ⁵	Yes	Yes
GO sub forum	Yes	Yes	Yes	Yes
Business sub forum	Yes	No ⁶	No ⁷	No ⁸
Partnership forum	Yes	No ⁹	Yes	Yes

Source: Author.

The participation of the NGOs both at national and regional level is mostly limited to policy implementation. At the regional level NGOs do not as such lobby the government in the

⁵ An attempt by the Oromia Regional HAPCO to establish an NGO partnership forum against HIV/AIDS could not be realised due to Proclamation No. 621/2009 Article 88 No. 1 on administrative and operational costs, "Any charity or society shall allocate not less than 70 percent of the expenses in the budget year for the implementation of its purpose and an amount not exceeding 30 percent for its administrative activities." This law in particular has affected various initiatives in forming partnerships or consortiums of various NGOs working to address the HIV/AIDS issue. Here the law makes running such partnerships as an independently registered organisation difficult because of the limit, which is currently known as 30/70.

⁶ Ethiopian Business Coalition against AIDS (EBCA) is an NGO established at national level to represent the business sector. The business sectors at the regional level have no sub forums established to address the HIV/AIDS issue. Though EBCA claims that they have representatives at the regional levels, there were no institutions or persons, who assumed this responsibility during the search in the field between February and October 2013. This has also been counter checked with information provided by the NGO sub forums, government sub forums and HAPCO. The data from Oromia HAPCO states that they invite the EBCA representative from the national office, when they have some events.

⁷ The data shows no participation of the business sector in the SNNP region sub forum.

⁸ EBCA at the national level speak on behalf of the regional level business sectors mainly in the case of Addis Ababa. That is, the person representing the business sector in Addis Ababa comes from the national EBCA.

⁹ The Oromia region has still not established the regional replica of the National Partnership Forum against HIV/AIDS in Ethiopia/NPFAAE/. During the interview the officials have expressed their plans to establish NPFAAE.

policy formulation process other than jointly requesting government facilitation in the implementation of environment like office space (in the case of Addis Ababa). Otherwise they are passive and only expect guidelines from the government. When it comes to the federal level, even if there were attempts to lobby the government on various issues, including lobbying on the 2009 NGO law, there was no success. This caused frustration among some. As already discussed in the historical overview section, the Ethiopian process of comprehensive HIV policy making was characterised by many rounds of internal government review involving relatively few people and almost no participation by interests outside government.

There is an uneven and insufficient share of the government and NGO sector addressing the HIV/AIDS problem. In August 1998, the Ethiopian government approved the National HIV/AIDS Policy. The policy in general provides an environment for the prevention and alleviation of HIV/AIDS. But there is lack of governance where a unicentric system of government prevails. It places much more emphasis on the structure of government instead of the process of governing. That is, command and control instead of negotiation and cooperation (Bekkers et al. 2007). Thus, less social capital is exhibited. This in turn led to a greater tendency to rely on authoritative controls and as such it is more difficult to mobilise the support needed to address the HIV/AIDS problem. Consequently, a lack of social capital led to a lack of confidence in both the government and other actors involved, which in turn resulted in a lack of interest in partnerships. Therefore, this inconvenient environment for enhancing social capital contributed to less participation in voluntary associations and a lower capacity for problem-solving outside the governmental sector in Ethiopia.

CONCLUSIONS

This case study draws three conclusions. Firstly, the lack of both resources across the sectors and recognition of the NGO and business sector as well as other priorities within the business sector have contributed to inefficient partnerships. Moreover, unhealthy competition for funding, and sometimes existential questions have led the importance of partnerships being ignored and consequently engagement in a duplication of efforts, which affects the common goal of addressing the HIV/AIDS issue. The kind of partnership that exists could be characterised as partial, since in most cases the engagement of the business sector is very low. It also lacks the benefits that partnerships can bring to address the HIV/AIDS issues. Hence, the existing partnership forums have limited benefit from social capital. This led to a greater tendency to rely on authoritative controls and participate less in voluntary associations and problem-solving outside the governmental sector.

Secondly, the study concludes that the participation of NGOs both at national and regional level is mostly limited to policy implementation. At regional level NGOs do not as

such lobby the government in the policy formulation process except jointly requesting the government to facilitate in the implementation of the environment. Otherwise they are passive and only expect guidelines from the government. When it comes to federal level, even if there were attempts to lobby the government on various issues including lobbying on the 2009 NGO law, there was no success. This caused frustration for some. Therefore, when it comes to policy formulation issues the unicentric approach of the government prevails. This is manifested in the interaction between the government and the other sectors as well as the process of decision making. Here it is relevant to note the lack of significant actors who have the capacity or power to influence policy, since the government only is not able and capable to respond adequately to the issue of HIV/AIDS.

Finally, there is an insignificant approach of building on the existing tradition to address the HIV/AIDS issue. In some parts of the country 'idirs' play an active role in prevention, care and support. Therefore, a lack of due recognition of such traditional institutions as social capital and the failure to integrate it with the HIV/AIDS policy has contributed to the inefficient partnership. Therefore, recognising and incorporating such traditional institutions as stocks of social capital results in effective policy, which encourages partnership that results in interdependence, resource-exchange, etc.

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*Eva Cudlínová¹, Ladislav Rolínek², Ivana Faltová-Leitmanová³, Renata Klufová⁴,
Milan Jilek⁵*

CZECH COUNTRYSIDE – STRATEGIES OF REGIONAL DEVELOPMENT

CZESKA WIEŚ – STRATEGIE ROZWOJU REGIONALNEGO

¹ Ekonomická Fakulta, Jihočeská Univerzita v Českých Budějovicích, Studentská 13, 370 05 České Budějovice, e-mail: evacu@centrum.cz

² Ekonomická Fakulta, Jihočeská Univerzita v Českých Budějovicích, Studentská 13, 370 05 České Budějovice, e-mail: rolinek@ef.jcu.cz

³ Ekonomická Fakulta, Jihočeská Univerzita v Českých Budějovicích, Studentská 13, 370 05 České Budějovice, e-mail: leitman@ef.jcu.cz

⁴ Ekonomická Fakulta, Jihočeská Univerzita v Českých Budějovicích, Studentská 13, 370 05 České Budějovice, e-mail: klufova@ef.jcu.cz

⁵ Ekonomická Fakulta, Jihočeská Univerzita v Českých Budějovicích, Studentská 13, 370 05 České Budějovice, e-mail: jilek@ef.jcu.cz

Streszczenie. Praca podejmuje próbę odpowiedzi na pytanie o rolę takich czynników wewnętrznych jak lokalne zarządzanie w procesie rozwoju obszarów wiejskich. Uwaga autorów skupia się na analizie rozwoju wybranych wsi z gmin wiejskich Republiki Czeskiej. Wzrastająca ilość populacji w analizowanym okresie została potraktowana jako wstępny wskaźnik dobrobytu wsi. Wskaźnik ten ujawnia inne informacje gdy zastosowany jest jako połączenie dwóch czynników – wskaźnika przyrostu naturalnego i wskaźnika migracji w badanym okresie. To podejście oparte jest na koncepcji, że mieszkańcy wsi cieszą się dobrostanem, jeżeli zaspokojone zostają potrzeby dotyczące dobrobytu ekonomicznego. Autorzy szczegółowo przeanalizowali rozmowy przeprowadzone z burmistrzami gmin. Wyniki badań wskazują na to, że strategie działania przyjęte przez burmistrzów i działania lokalnych społeczności są czynnikami kluczowymi dla udanego rozwoju wsi i jej dobrobytu.

Key words: factors of development, mayors visions, rural development, rural policy, strategy of development.

Słowa kluczowe: czynniki rozwoju, polityka rolna, rozwój obszarów wiejskich, wizje działania burmistrzów.

INTRODUCTION

The period 2007–2013 is characterised by an emphasis on a common strategy of rural development for the whole EU. In spite of common European and national rural development strategies there is still scope for individual strategies of municipalities and rural areas in terms of their own way of development. We have often seen situations where a number of villages in the same region with almost the same development potential differ in their success in terms of economic and social development. We were interested in the causes of the successes and failures of municipalities. We believe that the villages own and unique strategy and vision of the development of the village plays a key role.

The aim of our study was to find the differences or similarities of villages' strategies with respect to their location in different clusters of villages defined by demographic criterion of prosperity

Although the approach of strategies and strategic management is applied more in the management of enterprises, its basic principles as well as tools are also applicable to governing municipalities. It is caused, among other things, by the fact that municipalities or regions like enterprises compete with each other, especially in raising funds for their development, attracting natural and legal persons as potential employers as well as a source of income. From this perspective, we can talk, just like in business, about the competitiveness which is mainly influenced by a structure of economic activity, a level of innovation, a degree of accessibility of the region and a level of education. Wright, Nemec (2003), Barnett (1996) and Van Gelderen et al. (2002), Whittington (2002). A strategy can be seen as a certain way of achieving objectives. Defining the mentioned term is considerably complicated by the relatively large number of theoretical approaches. (Mintzberg 1990a) In literature we can find the following definition of strategy:

- a method of allocation of resources which depends on the management decision as to which activities and projects will be supported (Porter 1985);
- a position and a method of its creating and maintaining (Mintzberg 1990a);
- a method of allocation of resources which depends on the manager's decision (Buzzell and Gale 1987);
- a plan, behaviour, a concept of development (perspective), or as a specific manoeuvre (Mintzberg 1990b).

Strategies are just the specific fulfilment of local government visions. The vision should be based on the current situation, which means that in the vision the limitations of the internal and external environment, which can be expressed in detail using a SWOT analysis (Strengths, Weaknesses, Opportunities and Threats), are reflected. From the perspective of managing the rural development it is necessary to characterise the internal environment and consequently the factors which affect it as a system manageable by key regional factors. The external environment then stands for a set of factors that must be recognisable by regional factors but at the same time they are only acceptable, i.e. that these factors cannot be practically affected (change in legislation, change in the EU policy, environmental conditions, geographic location, availability of labour market).

METHODS

In our research a combination of qualitative and quantitative sociological and statistical methods were used. Random sampling of villages was used to choose our first set of one

Sociological methods

[illegible]

Out of the hundred villages in which the questionnaire survey was conducted, we chose 20 villages so that about five mayors in each cluster were approached. We tried to maximise the variance of municipalities in terms of their geographical position (Fig. 2). The mayors were addressed due to the fact that their decision-making power, to a large extent, determines the development of the village. Given that the mayor is an elected function, the mayors' strategy should, to a large extent, represent the mood of people living in the village.

The structured interview consisted of three parts. First, we asked the mayors to assess the current situation in their village. The second part of the interview was focused on the visions for the future development of the municipality. The third part of the interview was related to the strategies through which the mayors want to fulfil their visions.

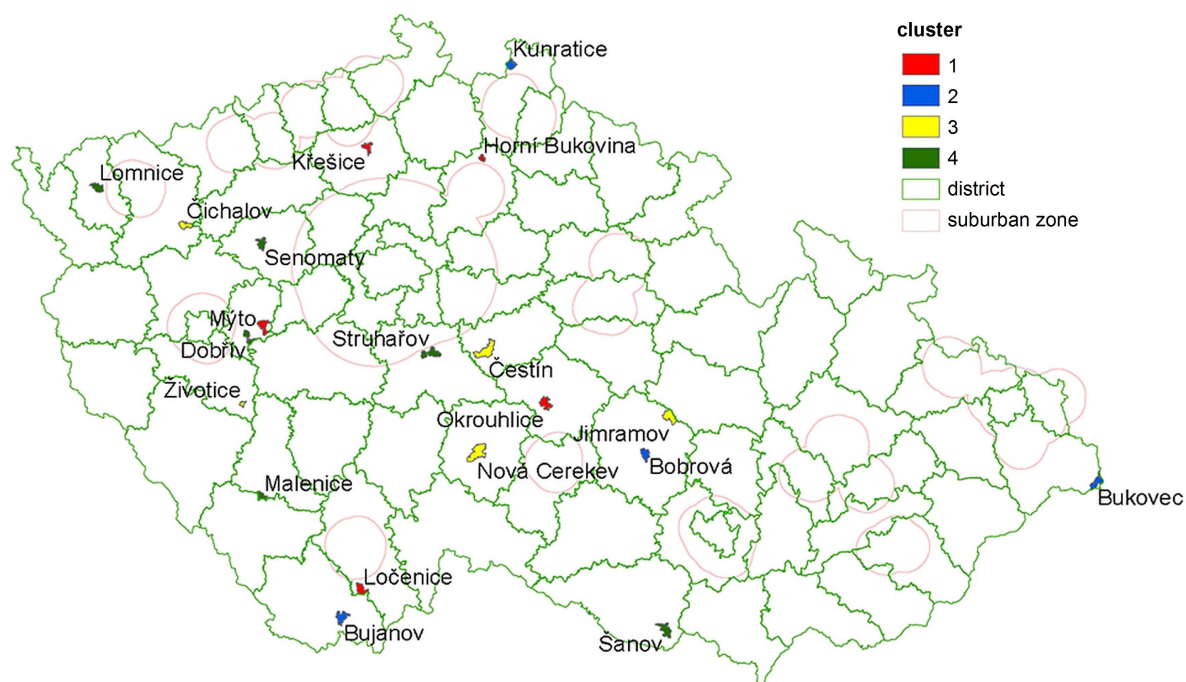


Fig. 2. The selection of municipalities according to the clusters for the structured interviews
Source: own elaboration.

During the interviews with mayors a combined technique of open-ended questions and questions with a choice of expressing preferences in terms of levels of agreement with our proposals was used. The interview always started with an open question on the topic, then the mayors were given a table with our proposals and should use the 1–5 scale to express their level of agreement (1 represented the lowest level of identification and 5 the highest). For our interpretation, we drew on responses indicated with the highest level of compliance (4–5). Evaluation was performed both on the whole set of surveyed municipalities and municipalities placed within individual clusters. Our interpretation of the responses is based on information obtained during interviews with mayors, their answers to open questions and on some of the data obtained from the questionnaires.

Statistical methods

The statistical analysis of the results of the survey was carried out in SPSS program. In the first phase of the evaluation the analysis of dependencies in pivot tables was mainly carried out. Dependence monitored at the two variables can be either symmetrical (mutual) or asymmetric (one-sided). The basic test used to detect the mutual dependence of two categorical features is chi-square test of independence.

To monitor the intensity (power) of dependence various coefficients, which usually take values from the interval $<0.1>$ or $<-1.1>$, where the value 0 means independence, are used.

In other tests the coefficients are zero. If we cannot use the chi-square test in the contingency table, then we used so called the exact tests. e.g. Fisher's exact test (Everitt et al. 2001).

Defining rural areas

There are many approaches to defining rural areas - classifications of rural areas cannot be made without an awareness of the dichotomy of urban-rural areas, which is perceived by many authors rather as a kind of continuum (Cloeke 1977). Some authors have studied the influence of the large urban areas on their background. In this context, the term "urban shadow" was used (Green 1971, Healey, Ilbery 1985, Huigen, Volkers 1989). It is used to express the various ways in which the effect of urbanisation was spreading further beyond the borders of built-up areas which represents the important dimension of any typological classification of the rural areas.

According to the British and Irish schools represented for example by the views of Michael Woods, Keith Halfacree and McDonagh, researchers explain how globalisation affect the rural economy and society (Woods et al. 2011). Some researchers are dealing with the opinions on who actually creates the countryside - villagers themselves, people who moved to the countryside, farmers, landowners, rural workforce, tourists and tourist attractions, visitors, economic policy-makers, the media and academic researchers (Woods 2010). Interest has recently shifted from material aspects of rural areas to the political-economic structures and social construction. This requires new research questions, methodology and opportunities for new interdisciplinary connections. Attention is focused on the features of the rural identity, exclusion and inclusion, and the commoditisation of the rural tourism experience, which were often put aside.

In the Czech Republic the typology created by Radim Perlín (Perlín 1999) is often used. It is based on a specific historical development and current socio-economic indicators and divides the countryside at the district level. The author himself (Perlín et al. 2010), however, mentions the problematic nature of such created typology, caused by a limited data base. Therefore, we should not ignore the currently created typology, which has been created within the project MMRWD-01-07 entitled the Regional differentiation of rural municipalities in the Czech Republic: disparities and development opportunities. By using methods of multivariate statistics (principal components, cluster analysis and many others), at the level of municipalities with authorised municipal office, eight types of rural areas in the Czech Republic were identified.

In the Rural Development Programme of the Czech Republic for the period 2007–2013, which for the classification of the rural regions uses methodology of the OECD, it is stated that from a methodological point of view it would be useful for defining rural areas to present the influence of dual defining of rural municipalities according to two criteria – the number of inhabitants and population density per km². In the programme the rural areas are divided as follows:

– **suburban areas** – rural municipalities in the urban areas or narrowly defined urbanised area (with more than 50 000 inhabitants),

– **remote rural areas** – including particularly the peripheral areas, i.e. the areas with unfavourable socio-economic characteristics of population and settlement, intermediate areas include the rest of the CR.

Hypothesis

The strategy and vision of the municipalities are reflected in the success of community development. In our case, we assume that prosperous and ailing municipalities, defined on the basis of the demographic criteria of natural increase will differ just in their development strategies.

Methodology

Rural municipalities of the Czech Republic were defined on the basis of the commonly used criteria in the period 1995–2009.

– Defining of rural municipalities was carried out according to the modified OECD criteria (population less than 2000 and population density below 150 inhabitants/km²).

– From the set of all municipalities in the CR villages in suburban areas were excluded; the number of rural municipalities without these zones was 3681.

Typology of rural municipalities was based on the fundamental characteristics of population development (gross rate of natural increase and migration balance), which were used for the identification of five distinct groups of municipalities in terms of population development in the period 1995–2009. These groups were identified by using the method of a cluster analysis based on the chronological average of gross rate of natural increase and net migration rates. We are aware that the typology based on demographic indicators shows a considerable simplification of reality, but we believe that natural increase indicator reflects to a large extent not only the economic viability of the village.

Based on the values of chronological average of gross rate of natural increase (chpPP95-09) and net migration (chpMS95-09), the individual clusters, as shown in Table 1, can be called (with respect to the trajectory of their population development) with the following working titles:

1. "municipalities gaining from migration",
2. "municipalities losing to migration",
3. "municipalities naturally shrinking",
4. "municipalities significantly gaining from migration",
5. "unstable municipalities".

Table 1. Classification of municipalities according to the clusters

Cluster	Number of municipalities	Area in hectares	chpPP95-09*	chpMS95-09*
C1	1 369	16 343	-1.75	5.31
C2	843	9 946	-0.67	-6.39
C3	815	8 261	-7.24	0.58
C4	628	5 990	-1.91	16.56
C5	26	308	-40.43	39.54

* Pearson's coefficient.

Source: own elaboration.

– **Cluster 1 – “municipalities gaining from migration”** – includes 1369 municipalities with small natural decreases and above-average migration gains in the long-term which corresponds to the values of the gross rate of natural increase and net migration rates for the year 2009;

– **Cluster 2 – “municipalities losing to migration”** – consists of 843 municipalities, showing negative values of both chronological averages;

– **Cluster 3 – “municipalities naturally shrinking”** – consists of 815 municipalities showing a long-term natural decrease and low migration gains;

– **Cluster 4 – “municipalities significantly gaining from migration”** – consists of 628 municipalities, showing the trend of natural decreases to the year 2004 and significant migration gains since the year 2004;

– **Cluster 5 – “unstable municipalities”** – represents the smallest group of 26 municipalities. This group has an extreme value of natural population decrease and at the same time the extreme migration gains, the largest deviation in the development of two basic components of demographic trends. For this reason, this cluster was excluded from further analyses.

RESULTS AND DISCUSSION

Mayors' visions for municipality development

Our vision, which we submit to mayors for consideration, represented three different types – visions for the development, visions associated with continuing of the current situation without major changes and visions primarily focused on maintaining the population in the village.

1. To **development visions** we can include visions with the working titles:

– **“Immediate financial effect”** – *a short-term effect without thinking about the long-term impact of decisions taken,*

– **“The municipality development”** – *development in the long term perspective of sustainability of community life,*

– **“The prestige of the village”** – *an innovative approach that seeks new opportunities for promotion of the village, differences from others.*

2. The visions that **do not seek change** are visions with the working title:

– **“Maintaining the status quo”** – *maintaining the current good relations in the community and not making big changes,*

– **“Preserving traditions”** – *emphasis on tradition and strengthening their role in the life of rural communities.*

3. Between the visions marked as neutral we included one vision with the working title:

– **“Preventing a population decline”** – *vision that belongs to development visions but also to the visions that want to maintain the current situation of community life.*

In case of the visions we have assumed that the selected clusters of villages will vary according to the representation of development visions and visions rather preserving the status quo. The obtained results are summarised in Table 2.

Table 2. The mayors' visions according to the clusters

Visions – assessment 4 + 5 – total data, data for individual clusters of municipalities – the percentage of identification (%)						
Cluster	The immediate effect	The prestige of the village	Status quo	The municipality development	Preventing a population decline	Preserving traditions
C1	0.00	66.67	50.00	100.00	50.00	66.67
C2	14.29	25.00	33.33	100.00	60.00	100.00
C3	0.00	33.33	66.67	66.67	66.67	100.00
C4	10.0	66.67	100.00	83.33	83.33	100.00
C(1–4) average	12.14	47.37	68.75	87.50	66.67	94.12

Source: own research and calculation.

In the mayors' visions of the surveyed municipalities we can see some trends and preferences common to all municipalities. Across the clusters of villages an emphasis on **“preserving traditions”** (94.12%), such as the community social life, carnivals, and other festivals, which are traditionally associated with the rural areas is dominant. The exception is cluster 1, tentatively named as "municipalities gaining from migration", where the emphasis on keeping the tradition is only 66.67%. These municipalities are economically promising with the predominance of new residents, which is probably the reason for a minor role of traditions, which are usually based on long-term bonds with the place.

The vision **“the municipality development”**, which we defined as development in the long term perspective of the sustainability of community life, is in second place (87.50%). It has the lowest value in cluster 3, tentatively named as "municipalities losing to migration". These are small villages, with a high proportion of retired people, where there is little chance for economic development.

The vision we named as **“status quo”**, which favours maintaining the current good relations in the rural community and maintaining the current quality of life is, in terms of importance, in third place (68.75%). This vision has the lowest support in clusters 2 and 3 tenta-

tively named as "municipalities losing to migration" and "municipalities naturally shrinking". These municipalities are not satisfied with their current situation.

The vision "**preventing a population decline**", which we have identified as a neutral vision, is according to the preference of mayors (66.67%) in fourth place. In cluster 1 – "municipalities gaining from migration" it has, understandably, the lowest value, because the municipalities gaining from migration do not have to face this problem.

The vision "**the prestige of the village**" has received twenty percent fewer points (47.37%) than the vision "preventing a population decline". This vision is primarily supported by clusters 1 and 4, with the working titles "municipalities gaining from migration" and "municipalities significantly gaining from migration". They achieved the same number of preferences of 66.67%. The results correspond to the typology of clusters of municipalities where these clusters represent progressive villages that have good economic and social conditions for development. In last place in the group of offered visions was a vision indicated as "immediate effect" (12.14%).

From the first place position of the vision aimed at preserving traditions, it is obvious that the viability of the village is reflected primarily in the activities of the local people, such as the local theatre group, fire-fighters or local football club. These activities suggest that people actually live in the village and do not go there just to spend the night, pursuing their interests with other residents of the village, and thus strengthen cohesion and awareness of belonging to the community, which is extremely important for the future development of the village. The emphasis on tradition gives evidence of, among other things, a different character of life in the village than in the city. People in rural areas are more closely connected with the place where they live. The questionnaires confirmed that most of the respondents live in the place where they were born or were married into from the surrounding area. These people naturally have a strong relationship to tradition that has been passed down from generation to generation and is a natural part of their lives.

This interpretation is confirmed by the third place of the vision of "**status quo**" (47.37%). It was the second vision out of the group that does not seek any change which the mayors placed in the top three visions. For the rural community stability and maintaining good neighbourly relations is a clear priority.

The second place position of the vision named as "the municipality development" results from the natural role of the mayor whose mission is to improve the community in some way and to provide for its duration. What made the municipalities different were the specific forms of development. One thing, however, they had in common – maintaining or increasing population and improving living standards of people through services and completing the missing infrastructure.

The innovative vision, "creating the prestige of village" requires a creative way to the perception of community development in the broader social and economic context. Supporting this vision is just typical for clusters 1 and 4, which are tentatively named as "municipali-

ties gaining from migration and municipalities significantly gaining from migration". They are thus progressive communities in terms of development and demographic conditions. This includes the municipalities that build prestige and exclusivity on a significant native, using history e.g. gold trail, but they are not afraid to set an example as for the management style of the village, which is based on inspiration from Austria.

The vision "immediate effect" is often associated with the sale of land or other property of the municipality, to repay debt or reduce other financial burdens of the municipal budget. Such visions appeared in only two clusters – in clusters 2 and 4. It shows the responsible attitude of the municipalities to their property and thinking in the long term. It is also confirmation of the importance of traditions and maintaining the current good situation, which is hardly compatible with the risk-taking behaviour associated with focusing on short-term financial gain.

Development strategies of municipalities

The mayors of municipalities had the opportunity to express their preferences to the offered strategies. Each strategy was evaluated on the 1–5 scale, similarly to the assessment of visions. The higher value meant that the appropriate strategy is more applied. The results are summarised in Table 3.

The mayors of all municipalities across clusters 1–4 place the greatest emphasis on the efficient use of financial resources (80%) and on creating and participating in social networks (75%) in their strategies. The exception is cluster 2, with the working title "municipalities losing to migration" where the emphasis on funding is only 50%. Support for the creation of socio-economic networks is the weakest in cluster 1, "municipalities gaining from migration" (50%). Given that the strategies of municipalities more or less correspond with each other (but for the exception), the interpretation applies to all municipalities across the defined clusters.

Table 3. Mayors' strategies according to the individual clusters

Strategy – Assessment 4 + 5 – total data, data for the individual clusters (%)									
	Development of human potential	Unique Services	Transport Services	Promoting socio-economic networks	Promoting entrepreneurship	The use of financial resources	The use of natural resources	The use of specific differences from other cities	The use of a favourable location
C1	50.00	0.00	100.00	50.00	50.00	100.00	50.00	0.00	100.00
C2	50.00	50.00	50.00	75.00	0.00	50.00	25.00	50.00	50.00
C3	25.00	25.00	25.00	75.00	0.00	100.00	50.00	75.00	0.00
C4	20.00	40.00	80.00	100.00	0.00	100.00	80.00	60.00	80.00
C(1–4)	33.33	31.25	62.50	75.00	7.14	80.00	50.00	57.14	60.00

Source: own survey and calculation.

The strategy of the effective use of financial resources (80%) and creating and participating in social networks (75%) are closely related, because participation in social networks like local action groups (LAGs) and the Association of Municipalities is the main means of raising finance in the form of subsidies. Another supported strategy is the strategy of transport services (62%), which relate to the promotion of employment and keeping people in the village, where there are no jobs and most people are forced to commute to work. The use of the favourable location of the municipality (60%) is again related to the possibilities of commuting (location at the border or in the vicinity of large cities). The use of differences from other cities (57%) is associated with the attractiveness of the village for tourism – history, famous natives, cultural heritage, traditions, etc. The use of natural resources – forests, soil – means in case of a forest financial benefit and attracting new residents to build houses due to cheap land. Cheap housing in the village and working in the city, is today's strategy for smaller communities which protect themselves from the loss of inhabitants but they cannot create jobs by themselves (50%). The smallest emphasis is placed on the development of human potential and providing unique services (33%).

CONCLUSIONS

Despite certain differences we failed to find sharp boundaries between the defined clusters of municipalities in terms of visions and development strategies. We assumed that municipalities in clusters 1 and 4 (called as municipalities gaining from migration) would have different visions and strategies for their implementation than municipalities in clusters 2 and 3 (called as municipalities losing to migration). In other words, the result of a different demographic situation, which reports on the viability of the village, will be a reflection of a specific strategy. However, our hypothesis was not confirmed.

The interviews show that in visions of mayors emphasis on maintaining traditions, such as the social life of the community, fairs, feasts and other festivities, which are traditionally associated with rural areas is prevalent. Focusing on preservation of traditions shows that the vitality of the village is mainly reflected in the activity of the local people and associations; such as a local theatre company, fire brigade or a local football club. These activities show that people actually live in the village, it is not only the place where they spend their night, but on the contrary where they share their interests with other residents of the village and thus strengthen community cohesion.

An interesting finding in terms of a vision of development is the fact that most municipalities rely on tourism and recreation which reflects a new style of life in the countryside which is no longer associated with traditional agriculture.

Within strategies which should help to achieve the visions most mayors put emphasis on the effective use of financial resources (80%) and building and participating in social net-

works (75%). These two strategies are closely linked and interconnected, since membership in social networks, such as LAG (local action groups) and the Associations of Municipalities is the primary means of raising funds in the form of grants.

Through open-ended interviews we learned that the construction of housing for new inhabitants of the village is another important strategy. Cheap housing will attract and keep residents in the municipality, which currently seems to be much more important than the creation of employment opportunities. Career opportunities at a distance of 20–50 km from the village of respondents are considered acceptable. This distance can be covered by car with a comparative advantage in the living conditions in the village with lower cost in comparison with the city.

Rural areas, based on the analysis of our interviews, appear to be a space in which people are tied to the place where they live and where they were also usually born. This corresponds to the importance of maintaining traditions and community way of life. The questionnaires, however, showed that in contrast to the traditions, interest in participation in the political life of the village, such as working for local government and participation in the meetings is relatively low. There is some discrepancy between the traditional functioning of the rural community and neighbourly relations and the perception of political representation of the village.

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Bazyli Czyżewski

SURPLUS DISTRIBUTION IN POLISH AGRIBUSINESS*

PRZEPŁYWY NADWYŻKI EKONOMICZNEJ W GOSPODARCE ŻYWNOŚCIOWEJ W POLSCE

Department of Education and Personnel Development, Poznan University of Economics,
al. Niepodległości 10, 61-875 Poznań, Poland, e-mail: b.czyzewski@ue.poznan.pl.

Streszczenie. Problem rozszerzania się nożyc cenowych w rolnictwie ma charakter ponadczasowy i wynika z zawodności mechanizmu rynkowego objawiających się niskimi współczynnikami elastyczności cenowej popytu i podaży w sektorze rolno spożywczym. Zjawisko to silnie oddziałuje na alokację nadwyżki ekonomicznej w gospodarce żywnościowej, uniemożliwiając internalizację w rolnictwie rent z tytułu wzrostu realnej produktywności. Problem ten nie jest dostatecznie rozpoznany w badaniach empirycznych. Głównym celem artykułu jest oszacowanie wartości i kierunków przepływów rent ekonomicznych między rolnictwem i pozostałymi sferami gospodarki żywnościowej w Polsce związanych ze wspomnianymi sztywnościami cen. Autor stawia hipotezę, że podział rent ekonomicznych w gospodarce żywnościowej w Polsce (rozumianych jako nadwyżkowe dochody z tytułu wzrostu produktywności realnej) deprecjonuje rolnictwo w długim okresie pomimo retransferów w ramach wspólnej polityki rolnej (WPR) Unii Europejskiej. W badaniach zastosowano rachunek nadwyżki produktywności całkowitej przeprowadzony na bazie tabeli przepływów międzygałęziowych z baz danych GUS'u i Eurostat'u. Interesującym wnioskiem z badań empirycznych, który częściowo zaprzecza postawionej hipotezie, jest obserwacja, że subsydia z WPR niemalże całkowicie kompensują w długim okresie wspomniany drenaż nadwyżki z rolnictwa. Nasuwa się jednak pytanie, co z opłatą dóbr publicznych dostarczanych przez rolnictwo? Jeżeli WPR w Polsce wyłącznie koryguje zawodności mechanizmu rynkowego, to jej cele zwiane z rozwojem zrównoważonym stoją pod znakiem zapytania.

Key words: agriculture, economic rent, input-output tables, price gap, total productivity.

Słowa kluczowe: nożyce cen, produktywność całkowita, przepływy międzygałęziowe, renta ekonomiczna, rolnictwo.

INTRODUCTION

The problem of the widening price gap in agriculture is well known in the subject literature (Brelík, Grzelak 2011). The worsening of the sectoral *terms of trade* for agriculture is not a market failure in itself, however, it results from low supply and demand price elasticity in agriculture. In the modern economic trends, low elasticity is placed among the main market failures (Bludnik 2010). The low price elasticity of food and agricultural raw materials means that reducing any supply or demand imbalance results in more than proportionate price changes in order to achieve market balance. For example, in the case of rigid production of agricultural raw materials, a negative demand shock, causing supply imbalance, forces significant reductions of the raw material prices. Therefore they are called “volatile

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prices" (Tomek, Robinson 2001). Analogically, the supply shock caused by e.g. crop failure, creates demand imbalance and with rigid demand for food (and agricultural raw materials) the prices have to increase more than proportionally in order to balance the market. Therefore, during periods of weak market performance, the price gap widens in the agricultural sector – a fall of the global demand leads to an over-proportionate reduction of prices of the agricultural raw materials. However, rigid supply in agriculture decreases the demand for materials for agricultural production to a relatively lower extent and forces a certain reduction of its prices. In the short term, this reduction is corrected through the adjustment (fall) of those means of supply since it is price-elastic (in so called 1st sphere of agribusiness). Nevertheless, the reasons for the mentioned failure are, on the one hand, the obligation of consumption, and on the other hand, the biological conditions for agricultural production. To sum up, the price elasticity in the 2nd, 3rd and 4th spheres of agribusiness (agriculture, agri-food industry and consumption of agricultural products, respectively) are responsible for a specific mechanism of the economic rent distribution which could be called "surplus drainage" since it depreciates agriculture. The purpose of the article is to estimate the value and directions of economic rent flows in agribusiness within Poland resulting from the above mentioned market failure. The author formulates a hypothesis that a distribution of economic rents (recognised as above-average part of surplus) in agribusiness within Poland is unfavourable for agriculture in the long term despite the subsidies from the common agricultural policy (CAP). Thus, the research task is to define and valorise an economic rent and then to estimate its flows in the different phases of the business cycle.

METHODOLOGY

On the basis of the dynamic analysis of the sectoral output-input matrix, it is possible to assess the structure of economic rent flows in a given year and the changes of their values in time. If the values of inputs and outputs are deflated, it will be possible to value changes of the real productivity Sulmicki (1959). Higher real productivity of a sector, resulting from e.g. technical or organisational innovations, should bring additional (above average) and proportional benefits to the owners of resources in the sector, and lower productivity should bring a residual loss. If this is not the case, it leads to the surplus drainage, i.e. the sector does not increase sums of the realised economic rents despite the real productivity growth. Thus, a change of economic rents of single purchaser (ΔA_B) and supplier ($\Delta A_{i,S}$) can be defined as (Czyżewski 2011):

$$\Delta A_B = \left[\frac{Q_{i1} \cdot P_{i1}}{p_{GDP}} - Q_{i1} \cdot P_{i0} \right] \cdot -1 \quad (1a)$$

$$\Delta A_S = \frac{F_{j1} \cdot R_{j1}}{p_{GDP}} - F_{j1} \cdot R_{j0} \quad (1b)$$

and for a whole sector:

$$\Delta A_{SEC} = \left[\sum_{i=1}^n \left(\frac{Q_{i1} \cdot P_{i1}}{p_{GDP}} - Q_{i1} \cdot P_{i0} \right) \right] - \left[\sum_{j=1}^m \left(\frac{F_{j1} \cdot R_{j1}}{p_{GDP}} - F_{j1} \cdot R_{j0} \right) \right] \quad (2)$$

where: Q_{i1} – quantity of output i in a period t_1 ,

F_{j1} – price of input j in the periods t_1 and t_0 ,

P_{i1}, P_{i0} – price of output i in the periods t_1 and t_0 ,

R_{j1}, R_{j0} – price of input j in the period t_1 and t_0 ,

p_{GDP} – GDP deflator,

$\Delta A_B, \Delta A_S, \Delta A_{SEC}$ – respectively: a change of purchaser's rents, supplier's rents, sectoral rents in a period t_1 .

The above equations were used to calculate the flows of economic rents from the agricultural sector to the purchasers of its outputs and to the suppliers of its inputs (based on sectoral input-output tables for agriculture).

The surplus drainage from one sector means that other sectors (purchasers or suppliers) gain profits unjustified by the changes of the real efficiency. The surplus drainage is usually cyclic and linked with fluctuations of the economic condition. The outflow of rents in certain periods can be compensated by their inflows in the subsequent phases of the cycle. If in the long term (e.g. in a closed business cycle) the drainage and inflows do not balance, an asymmetrical distribution of rents appears. In this case, symmetry would mean division of the economic development effects between entities of the national economy adequate to their contribution in the increase of productivity in real terms.

In the research, the method of the *total productivity surplus account* integrated with the sectoral input-output tables was used. That method and its assumptions were described in details in a different paper (Czyżewski, Mrówczyńska-Kamińska 2010). Rent flows in agribusiness have been examined on the basis of supply and use tables according to the Central Statistical Office of Poland (GUS) and Eurostat, with regards to the "agriculture and hunting" sector. This sector constitutes the 2nd sphere of the agribusiness. The analysis included all spheres of the food economy according to the traditional division: industry producing intermediate means and services for agriculture (1st sphere), agriculture (2nd sphere) and food industry (3rd sphere). Moreover, for the analysis of rent flows, the 4th sphere was distinguished, i.e. final demand for agricultural products and so-called "supporting spheres" (labor supply, foreign trade, national state).

In the input-output matrices prepared by GUS, the heads contain sections according to the Polish Classification of Activities (PKD), and the side-headings contain products according to the Polish Classification of Products and Services (PKWiU). The demand account according to GUS is presented in basic prices, and the consumption account is presented in the purchaser's prices in the years 1995–2007 (calculations were made on the basis of:

GUS 1995–2007, 2009, Eurostat 2000–2007, GUS 1996–2008, GUS 1999, 2004, 2009, GUS 1996–2010a, GUS 1996–2010b, GUS 1996–2010c).

From the point of view of the surplus distribution issue, long term assessment of the changes of the real productivity and accompanying changes of economic rents flows is the most important. It enabled the identification of the timeless, in my opinion, mechanism of distributing economic rents and determining the role of the agricultural policy in this system. The directions of the rent flows from agriculture to the environment and back to agriculture, and their dynamics are also important. The values of these flows for the subsequent years should be interpreted as a result of changes of the real productivity of agriculture and price changes. Therefore, some sectors realise rents at the expense of losses in other sectors, as a result of the effect of volatile prices. Such a phenomenon is proof of the existence of the market mechanism failure. According to the law of optimal allocation, the total rents realised by a given sector should be equal to the surplus of the real productivity obtained by it. As mentioned above, the problem should, however, be assessed in the long term since the market failures working to the “disadvantage” and “advantage” of a given sector may balance. It is assumed that the sources of mentioned disturbances are nominal (price) variables, i.e. price fluctuations, taxes and subsidies.

To sum up, the quantification of rent flows comes down to the following algorithm of conduct – for example analysing the output side of agricultural sector we answer two questions:

- how much, realistically, did the volume of sold products change in comparison with the previous year (we calculate the “volume index”)? Therefore, the calculated volume constitutes the production in “the prices from the previous year”,
- what is the real value of sold products in the sense of its purchasing power “in PLN from the previous period”? We realize the production in the current prices with the use of the GDP deflator.

As you can see, in the account there are two types of price variables analysed – sectoral deflators, i.e. indexes of prices of products sold and purchased by a given sector, which are responsible for the phenomenon of the widening price gap, and deflators at the level of the national economy, i.e. GDP deflator illustrating a change on the purchasing power of the Polish zloty. Therefore, the *total productivity surplus account* is only a more detailed analysis of the process of the widening price gap. However, precisely this process constitutes the market failure which, above all, is responsible for the drainage of the surplus (Czyżewski, Mrówczyńska-Kamińska 2011).

RESULTS AND DISCUSSION

In 1995–2007, two sub-periods of the business cycle are clearly visible: 1995–2002 and 2003–2007. Not only is this conclusion drawn on the basis of the barometer of business activity analysis developed by the Research Institute for Economic Development in the Warsaw School of Economics (Gorzelać, Periodical tests – Business activity in agriculture, access 13.03.2012, www.sgh.waw.pl/instytut/irg/aktualnosci/rolnictwo), but also on the basis of the data concerning the “price gap”. Until 2002, the price gap index equaled 0.93 per year on average. Since 2002, it has improved to 1.03 per year on average. In both of the periods, the distribution of economic rent progressed differently. Therefore, it is justifiable to observe that the rents distribution mechanism in Poland is of a cyclic nature connected with the phases of the business activity cycle. There are no grounds to think that in the subsequent cycle the rent allocation trends will not be repeated. After all, they stem from immanent features of the demand for food and the supply of agricultural raw materials. It is all about the market failures in the form of the price elasticity (supply and demand) described earlier (see full results’ input-output Table in Czyżewski 2013).

Another observation is an interesting fact that the real productivity of agriculture grows during the period of weak economic performance, and falls in the boom phase. What I mean here, are the changes in the relation between the inputs and outputs volumes. In 1995–2002, the value of increase of the real productivity is estimated to have equaled +11.9 bn PLN, and the value of decrease in 2003–2007 over – 4.8 bn PLN. Therefore, in the entire examined period the balance is still positive, i.e. the technical efficiency of agriculture in Poland increases.

The most important conclusion is that the drainage of rents through price relations takes place in the long term (and not only in the crisis phase). Therefore, we deal with asymmetry in the rent distribution. Thus, in 1995–2002 the real productivity of the agricultural sector in Poland increased by approx 11.9 bn PLN (without the subventions from the CAP). However, the economic rent flows balance amounted to – 20.5 bn PLN (without the subventions from the CAP). According to the adopted assumptions, not only did agriculture not receive the “gained” 11.9 bn PLN of rents, but it additionally lost approx. 20.5 bn PLN due to the widening of the price gap (without the subventions from the CAP). It means e.g. that in practice farmers received lower payments for the same products year by year (taking into consideration changes of volume and inflation), although on the whole they paid the same or more for materials and services. Therefore the total value of the drainage in 1995–2007 is estimated at the level of –32.3 bn PLN, which means approximately 12% outflow of the surplus in current prices per year (–22% in the period of weak economy performance per year, and +12% in the boom phase per year). In the conditions of improved economic situation, the market returns the economic surplus, and the failures “balance” to a certain extent. In 2003–2007 the real productivity fell by approx 4.8 bn PLN (without the

subventions from the CAP). Nonetheless, agriculture realised approx 11.9 bn PLN of additional rents (without the subventions from the CAP). Therefore, the rent flows balance amounted to +16.7 bn PLN, although it is still less than the total decrease of the realised rents in 1995–2002. This is the above-mentioned problem of asymmetry in the distribution of rents by the market mechanism and a long-term process of depreciation of agriculture with regards to its environment.

Therefore, the drainage depends on the agricultural policy, in the sense that the CAP does not improve the market mechanism, but only, to a certain extent, retransfer the economic surplus lost by agriculture. The question is whether it is sufficient. And here is the answer which requires rejection of a part of the hypothesis formulated at the beginning. Only through the direct payments did there occur in Poland the total compensation of the drainage from the years 1995–2007. Moreover, there are funds for the Rural Development Programme (RDP) left.

However, as for the means from the RDP, the interpretation is not so self-evident. Admittedly, they increase arithmetically the examined surplus since GUS includes them in the global production. In reality, however, they are largely “forcibly” invested (and not e.g. consumed). Moreover, they demand their own contribution. Therefore, they constitute the part of the rent which is accumulated in agriculture and contributes to the sustainable development working for the entire society’s benefit.

The description of the mechanism of rents distribution in food economy is supplemented by the analysis of directions of their flows in the subsequent phases of the business activity cycle. Also in this case, certain regularities are visible.

As the price relations worsen, the drainage of rents gets stronger and stronger. During the phase of weak economy the biggest “beneficiaries” of the drainage from agricultural output side is food industry and the final demand (consumption) – 20 and 21%, respectively, of the total outflow of rents from agriculture in 1996–2002. The drainage correlates with the increased productivity of agriculture. It is not, however, about the King effect (Pohorille 1972) since, as mentioned above, this increase results from savings in intermediate consumption and not from increasing production volume. Therefore, it is possible to expect that in this situation the increasing productivity in the sense of more effective use of inputs is a rather defensive action against a widening price gap.

Similarly, in the phase of improving price relations in 2003–2007, the food industry and consumption are in the first place – this time, however, it is about “supplying” rents to agriculture (31 and 34% respectively of the total inflow of rents to agriculture in 2003–2007). What is interesting is that there is no long-term asymmetry in the case of these spheres (and if there is, it is very small but in favour of agriculture). However, asymmetry is clearly visible in the scope of the 1st sphere’s intermediate demand for agricultural products (it may concern e.g. production of the animal feed) and the demand for non-agricultural products produced in agriculture. It is, probably, about the direct sales of food products or trade ser-

vice (Mrówczyńska-Kamińska, Czyżewski 2010). Analogically to the weak economic phase, the inflow of rents seems to correlate with a fall of the real productivity of agriculture. It may be the effect of introducing the system of direct payments in the conditions of an improved economic situation, when there are no strong pro-effectiveness stimuli.

Interesting conclusions arise on the basis of the analysis of the directions of rent flows concerning agricultural inputs (Mrówczyńska-Kamińska, Poczta 2009). In 1996–2002, the drainage occurred mainly through margins connected with agricultural products (approx. 32% of the total rent outflow in this period). After eliminating inflation processes, the real value of margins (retail and transport) for agricultural and hunting products rose significantly faster than it would result from the increase of agricultural commodity production. These were margin beneficiaries, mainly food industry, who profited from it. It can be assumed that the agricultural sector is a recipient of these rents to a minimum extent. Above all, farmers lose as consumers of raw materials and food products, and incur costs of the lost profits (opportunity costs) since the nominal increase of margins could, theoretically, become agriculture's share in the processing margins (Poczta, Kiryluk 2004). Next in the "ranking" of the directions of the drainage are employment costs (of hired labour), purchase of fuel and energy, and all services. It is explicable since the prices of these production means rose faster than inflation. It concerns, in particular, the employment of the "foreign" labour force in agriculture, whose outlays increased on a constant basis while the payment rates rose as well. However, much more surprising are the inflows of rents during the weak economic phase in the scope of inputs from the food, chemical and engineering industries, as well as from imported materials. Partially, it could result from lower price dynamics in these sectors due to a fall in the global demand.

The last element of the analysis is the rent flow in the scope of the inputs during the phase of improving economic situation in 2003–2007. It is clear that the asymmetry in the distribution of rent to the detriment of agriculture occurs in relationships with fuel suppliers and margin "beneficiaries". These sectors depreciate agriculture regardless of the economic situation. Moreover, it needs to be underlined that contrary to the previous assumptions, the asymmetry in the relationship with the food, chemical and engineering industries acting as suppliers of production means, develops in favour of agriculture.

CONCLUSIONS

Therefore, we can confine to the conclusion that the EU common agricultural policy in its current form fully compensates the market drainage of the surplus in Poland. It proves its effectiveness. One question arises: what about the payment for public goods supplied by agriculture? If from the above we can draw a conclusion that the CAP only corrects failures of the market mechanism, its main goal since the Agenda 2000 has not been realised in

Poland at all. Finally, it can be stated that the RDP's funds constitute this payment. However, is it sufficient?

The theory of the land rent (Czyżewski 2013) proved that higher capital productivity in agriculture is connected with the unpaid utilities of the land factor in the form of public goods. The relation between the surplus and the investment is relatively high, partly due to support from the CAP. The support may be treated as an attempt by the institutions of the CAP to value public goods. However, it appears that only a small part of the support may fulfill this role and the rest, after eliminating the influence of price factors, drains from agriculture to other sectors. From this point of view, the CAP is not effective. If the 1st pillar of the CAP compensates the price mechanism failures to a significant extent, and the 2nd pillar would theoretically constitute the public goods cost, what about the disparity of the remuneration for the family farm labour? Therefore, in reality, the public goods compensation is consumed by households in agriculture (and not accumulated in investments in land), which is in contradiction to the concept of the sustainable development.

The above data does not confirm the "exploitation" of agriculture by monopolistic structures in agricultural and the food industry, both in terms of demand and indirect consumption. Nevertheless, agriculture is mostly affected by the opportunity costs concerning margins (transport and trade) on agricultural products. Similarly, the suppliers of inputs – chemical and engineering industry – also do not realise monopoly rent at the expense of agriculture. However, an asymmetric distribution of economic rents to the detriment of agriculture in the scope of the 1st sphere's demand occurs (it concerns animal feed industry) and the purchase of inputs from all the sectors characterised by above average dynamics of prices, i.e. production of fuels and energy, and transport, financial, insurance and hired labour services.

To sum up, there is no doubt that without the CAP, market failures would depreciate agriculture. Moreover, it is debatable to what extent the applied instrumentation solves this problem since the valuation of public goods supplied by agriculture is problematic. It is, however, impossible to count on a significant increase of "Polish envelope" from the CAP in the EU budget. Nonetheless, the support structure should be optimised by changing proportions between the pro-equality and pro-efficiency types of support (Czyżewski, Stępień 2009).

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Krzysztof Drachal

ANALYSIS OF THE PROPERTY MARKET IN SLOVAKIA

ANALIZA RYNKU NIERUCHOMOŚCI NA SŁOWACJI

Faculty of Mathematics and Information Science, Warsaw University of Technology,
00-662 Warszawa, ul. Koszykowa 75, Poland, e-mail: K.Drachal@mini.pw.edu.pl

Streszczenie. Celem pracy jest przedstawienie obecnej sytuacji na rynku nieruchomości na Słowacji. Przeanalizowane zostały ostatnie zmiany cen mieszkań. Przedyskutowano także pewne podstawowe wskaźniki makroekonomiczne w kontekście rynku nieruchomości. Przeanalizowano także wybrane finansowe wskaźniki dla gospodarstw domowych. Wyodrębniono specyficzne cechy słowackiego rynku nieruchomości na tle innych państw Grupy Wyszehradzkiej, krajów Europy Środkowo-Wschodniej i całej Unii Europejskiej. Na podstawie analiz stwierdzono, że słowacki rynek nieruchomości charakteryzuje się dość niskim poziomem ryzyka. Jednak pomimo pozytywnych transformacji na przestrzeni ostatnich lat Słowacja wciąż nie posiada skutecznej polityki socjalnej. Natomiast bardzo pozytywną cechą słowackiego rynku okazuje się brak przegrzania.

Key words: housing loans, mortgages, property prices, real estate market, Slovakia, Slovak Republic.

Słowa kluczowe: ceny nieruchomości, kredyty hipoteczne, pożyczki mieszkaniowe, rynek nieruchomości, Republika Słowacka, Słowacja.

INTRODUCTION

The average price per square meter of property in 2002 was 592 euro in Slovakia. In 2008 – the year before the adoption of the euro – it was 1511 euro. Whereas in 2012 it is estimated to be 1237 euro. Property prices have increased more than twofold since 2002. It can be noticed that the peak was in 2008 – just before the Slovakian accession to the Eurozone. Prices were increasing between 2002 and 2004. Then a short period of decrease in property prices was noticed in 2004 and afterward the prices were continuously increasing until 2008. Since 2009, property prices have been slowly decreasing. However, the prices of flats with five or more rooms or villas have not dropped as much as average property prices recently. Their prices have even increased in 2012 (NBS, 2013a).

There may be various sources of such a rapid increase in real estate prices. Although the most important are thought to be the strong economic growth, low interest rates, legislative changes and anticipation of the adoption of the euro. The increase in prices could be noticed especially in poor regions. This is because these regions strongly benefited from foreign direct investments (FDI). It is important to notice that the initial house price boom started in regions, which benefitted greatly from FDI (Car 2007).

However, it is not commonly agreed exactly which factors have driven the property prices boom in Slovakia. Some researchers argue that the increase in property prices is due to

highly optimistic expectations rather than a genuine change in macroeconomic fundamentals (Ciarlone 2012). Without doubt the positive situation on the market was initiated by Slovakia's aspiration to EU and Eurozone. It was reinforced by structural reforms, privatisation, development of financial sector, reduction of unemployment and inflation. Nevertheless before 2000 Slovakia did not benefit from FDI as much as other Visegrad countries. On the other hand, FDI in Slovakia in 2011 were one of the highest in CEE. The most important sectors were the electronics industry, automotive industry, chemical industry, machine industry and IT. Recently the R&D sector has also benefited (Liptajova 2012) – Table 1.

Table 1. Property prices changes, unemployment and inflation

Year	Price in euro per square meter	Change in %	Inflation adjusted change in %	Unemployment rate (Dec.)	Inflation (Dec.)
2012	1237	−1.1	−1.1	13.7	3.5
2011	1251	−3.1	−3.0	13.5	4.1
2010	1291	−3.9	−4.0	14.4	0.7
2009	1344	−11.1	−11.0	12.1	0.9
2008	1511	22.1	21.3	8.4	3.5
2007	1238	23.8	23.2	8.0	2.5
2006	1000	16.8	16.2	9.4	3.7
2005	856	−10.3	−9.9	11.4	3.9
2004	954	15.4	14.5	13.1	5.9
2003	827	39.7	36.3	15.6	9.3
2002	592			17.5	3.4

Source: Own elaboration based on NBS, 2013a.

For example it is estimated that the increase in the new office space was 22% in 2011 in comparison to the previous year, making c.a. 70 000 new sq meters of the office space. However, a 35% decrease in office space transactions in 2011 in comparison to 2010 was noticed. The biggest demand (c.a. 45%) is generated by the IT sector (Liptajova 2012).

Analysis

The average real GDP growth in EU-27 between 2002 and 2011 was 1.4% per year. Whereas in Slovakia it was as much as 4.8%. The maximum growth was in 2007, when it was as much as 10.5%. In 2009 a decline of 4.9% was observed, but generally over the period of 2002–2011 the real GDP growth was positive and usually over 4% per each year. Such a situation represents the highest dynamics of GDP growth in EU-27. Only two other countries were able to keep the average real GDP growth over 4% per year in this period, i.e. Lithuania and Poland (EUROSTAT 2013).

It is also very interesting that despite such a high dynamics Slovakia has not suffered much from the recent global crisis. In 2009, the real GDP declined by 4.9%, but it was the only decline in real GDP between 2002 and 2011. The other countries whose GDP grew with large dynamics noticed a severe recession in this period (e.g. Estonia, Latvia, Lithuania, Romania, Slovenia, etc.). Moreover, GDP per capita increased greatly in Slovakia between 2001 and 2011. Labour productivity in Slovakia is also relatively high. It is the highest amongst “new” EU members (EUROSTAT 2013).

It has been found that the most important factors connected with the increase in property prices are: the size of the population of 25–44 year-old, GDP growth, growth in households disposable income, the average level of interest rates on housing loans and mortgages to households. Also the lack of sufficient supply for a long period after the economic transition is sometimes mentioned (Car 2009).

Slovakia passed tax reforms in order to clarify and simplify its business environment. The responsibility of municipalities to develop strategic development plans has been improved with one of the law amendments (Spirkova 2008). But still there is a lack of a well-working social policy (Spirkova, Ivanicka 2012).

It is also important to mention that interest rates systematically declined before Eurozone accession. In 2002, the basic interest rate of NBS was 7.75%. In 2008 it was reduced to 2.50% (NBS 2013c). Moreover, access to the Eurozone resulted in declining business risk in Slovakia. Euro adoption and the stabilisation of interest rate risk may result in a further increase in the demand for new house loans.

Loans for house purchases constituted the majority of total retail loans in 2012. Despite the recent crisis, the ratio of non-performing loans in Slovakia is small. Moreover, the non-bank financial sector in Slovakia is relatively small. House purchase lending rates have dropped systematically. Since 2008, there has not been any significant increase in mortgage loans although the amount of less legally-regulated, so called “other housing loans”, has increased with great dynamics. In 2010, they surpassed traditional mortgages (Valdes, Dorsey 2012). At the end of 2012 the total amount of mortgage loans was over 6.3 bln euro and the amount of housing loans was over 13 bln euro (NBS 2013b).

In Slovakia, the maturity of a mortgage loan must be between 4 and 30 years. Loan to value ratio is set at 70%. In 2009, only three banks played a major role on the mortgage and other housing loans market, dominating over 50% of the entire market (Muckova, Hrnčiarova 2010). In case of “pure” mortgage loans Tatra bank and VUB accounted for over 60% of the mortgage market, so the concentration is high (Kelemenova 2012).

Slovak households are one of the least indebted in the EU, despite the fact that since 2003 the mortgage market has developed rapidly. Household debt has been growing faster than the Slovakian GDP, but the proportion of housing loans to GDP for Slovakia is one of the smallest in the EU. Moreover, the share of housing loans among bank loans has been quite stable since 2003 (Rychtarik 2012).

As a result of economic transformations, the real estate market attracted not only domestic investors but also international ones. For example the most important property investments in Bratislava (the capital city) in 2009 came from Dutch, Irish and English investors (Spirkova, Ivanicka 2009).

The question of whether prices in the capital represent the average situation for the whole country is a delicate one. At first sight property prices in Bratislava change in line with the country average, but tests reject the hypothesis of co-integration for period of 2005–2010 (Jelinek 2011). It is also interesting that there are regions of the country with low and high property prices, but generally there is no convergence in house prices to the equilibrium price (Stehlikova, Panik 2012). According to data from 2011 and 2012 for Bratislava, the most popular dwellings were 2 or 3 room flats (Zajicek 2012).

One of the significant consequences of the privatisation process in the 1990s is that the private rental market is not well-developed in Slovakia. The privatisation process allowed tenants to purchase properties with very large discounts. This resulted in the fact that private dwellings increased from 12% in 1991 to 70% in 1998 as a share in total dwellings in Bratislava (Hufner 2009).

The majority of dwellings in Slovakia are flats or detached houses. Each of them constitute c.a. half of all dwellings. In the Czech Republic there is also a significant number of semi-detached houses. Whereas, generally in EU-27 flats, detached houses and semi-detached houses play an equally important part of the whole property market. Flats dominate the property market in Latvia, Estonia, Spain, Switzerland whereas in Ireland flats are a marginal part of the market in comparison to houses (EUROSTAT 2012).

In case of tenure status over 82% of all dwellings in Slovakia are owner occupied and without outstanding mortgage or housing loan. In the whole EU-27 only Romania, Bulgaria, Lithuania and Croatia have this ratio at higher level. For example in the Czech Republic it is 61.3% and in Poland 74.5% (EUROSTAT 2012).

Owner occupied dwellings with a mortgage or loan have one of the highest housing cost overburdens in EU-27 at a rate of 21.1. While the average for EU-27 is 8.2. It means that over 21.1% of households living in their own dwellings must spend over 40% of their incomes just on housing expenses. For owners without any mortgage or house loan this ratio is only 5.7, which is slightly below the EU-27 average value of 6.0 (EUROSTAT 2012).

Nevertheless over 90% of all dwellings in Slovakia are owner occupied (with or without a mortgage or loan). As for the EU-27, only in Romania, Lithuania and Croatia this ratio is higher. For example in EU-27 countries, owner occupied dwellings are only c.a. 30% of total dwellings (EUROSTAT 2012).

Unfortunately housing consumption as a share of total household consumption was the highest in the EU in 2007. And this ratio has been increasing since 2000 (BMWFJ 2010). On the other hand household disposable income increased by approximately two times between 2002 and 2012. Despite the recent financial crisis, real wages increased in Slovakia

before 2010. However, this increase was driven especially by the wages of managers and professionals and mostly in the case of full-time contracts. Part-time workers' real wages have significantly decreased after 2010 (Kordoova, Bednarik 2012). After 2010 real wages generally declined and forecasts are rather pessimistic. No significant increase in nominal wages is expected in the near future (Hagara et al. 2013). However, it is expected that inflation will be kept low and real wages will continue to increase slowly with a stable (but very small) dynamic. As a result, from 2015 it is expected that real wages will increase by over 2% per year (MF SR 2013, EC 2012). Nevertheless, such forecasts are very uncertain, because they depend on various internal and external economical factors. Especially the uncertainty of workers about the future, unemployment rate, GDP growth, etc. (Lennerova 2012).

Since 1997 the number of population aged 25–34 has increased every year. (The greatest increase was in 2003). Since 1996, the share of 25–34 year-old people in the total Slovak population has been increasing. As a consequence it is not possible to definitely state whether current prices of properties are the result of a bubble or correspond to fundamentals (Beka 2007).

Although the whole population size is increasing slowly, single person households are characterised by quite dynamic growth. It is correlated with the increasing divorce rate especially in the age group of 30–44 year-old. These people are the driving force of demand in the private sector of real estate market (Car 2009).

The total population is expected to continue to increase until 2015 although it is also generally agreed that the total population will decrease by 2025. Nevertheless, it is expected (even in quite pessimistic scenarios) that household numbers will be increasing until 2025, with especially rapid movement around 2015 (MVRR SR 2007) – Table 2.

Table 2. Price to income and mortgage as % of income

Year	Price to income	Mortgage as a % of income
2012	7.86	62.22
2011	9.41	76.57
2010	10.64	86.03
2009	15.10	114.64
2008	11.84	56.46
2007	10.49	54.25
2006	9.10	61.31
2005	8.46	49.05
2004	10.29	41.50
2003	9.83	30.18
2002	7.48	26.41

Source: Own elaboration based on NUMBEO 2013 and Statistical Office of the SR 2013.

It can be observed that the price to income ratio has almost halved recently. Moreover, an average mortgage is currently c.a. 62% of the average income, while in 2010 average mortgage was higher than average income. The current values of these indexes are one of the best for the region (NUMBEO 2013).

Nevertheless, by analysing the housing affordability ratio (property price to wages) and price to rent ratio Slovakia can be perceived as quite expensive country in comparison to the whole CEE region (Hildebrandt et al. 2012). However, only considering the price of sq meter and comparing this to other EU countries it may be concluded that the Slovakian property market is one of the cheapest in the EU. Comparing prices and rents it can be estimated that the average property investment will pay for itself in just 20 years, which is a very short period for EU (GPG 2013). Such an attractive market together with relatively high prices for domestic investors may be a source of the interest to international market players.

When forecasting the future of the real estate market in Slovakia, sociological aspects also have to be taken into consideration. Not only because the Slovak economy underwent the transition mentioned earlier, but also because there is still a transition process in the field of the perception of goods, adoption of the western lifestyle, etc. It is not only connected with the post-communist background, but also with globalisation processes. It is also important to notice that after rapid development of some urban regions the growth of local regions may be stopped by a lack of skilled workers (Hudcovska 2009).

Generally, the Slovak property market is quite healthy. For example the severe housing deprivation rate in 2009 was similar to that in Austria or Portugal. It is currently still higher than average in EU-27, but lower than those of Latvia, Lithuania, Estonia, Poland, Romania, Bulgaria, Italy, Greece, Hungary, Slovenia and Czech Republic. On the other hand the overcrowding rate in Slovakia is above average for EU-27. This rate represents in percentages the share of total population living in overcrowded households. An overcrowded household is defined as one that does not have at its disposal a minimum number of rooms equal to: one room for the household, one room per couple in the household, one room for each single person aged 18 or more, one room per pair of single people of the same gender between 12 and 17 years of age, one room for each single person between 12 and 17 years of age and not included in the previous category, and one room per pair of children under 12 years of age. In Slovakia this ratio is 39.5% but it is systematically decreasing. Nevertheless, it is still significantly higher than, for example, the Czech Republic but lower than in Poland or Hungary. Moreover, the share of the population with certain problems or deprived of some housing items (such as leaking roof, problems with bath or shower, flushing toilet, suffering darkness) is very small in Slovakia. It then may be concluded that the standard of buildings is one of the highest one in EU-27.

Unfortunately in residential areas almost 22% of population suffer from noise, 24% from pollution and 12% from crime. The problem of noise is, however, similar to EU-27 average but the pollution problems are significantly higher. On the other hand crime rate is low (Ryb-

kowska, Schneider 2011). It also has to be remembered that on average CE-12 compared to EU-15 is characterised by a slightly larger average household size, significantly smaller number of dwellings per inhabitants, significantly smaller usable floor area per person, much smaller city GDP per capita, almost twice the unemployment rate, over five times smaller average monthly gross salary and over four times smaller residential debt to GDP (Sztejter, Turpin 2008). In these statistics Slovakia seems to be the positive leader of the region.

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Urszula Grzega

INCOME AND CONSUMER EXPENDITURE OF RURAL HOUSEHOLDS IN POLAND IN THE YEARS 2000–2011

DOCHODY I WYDATKI KONSUMPCYJNE WIEJSKICH GOSPODARSTW DOMOWYCH W POLSCE W LATACH 2000–2011

Department of Consumer research,, University of Economics in Katowice, 1 Maja 50,
40-287 Katowice, Poland, e-mail: ugrzega@ue.katowice.pl

Streszczenie. Na obecny obraz warunków życia wiejskich gospodarstw domowych w Polsce złożyło się wiele czynników i uwarunkowań. Wśród nich szczególne znaczenie miały procesy transformacyjne, integracyjne oraz ogólnoswiatowy kryzys gospodarczy panujący w Europie i w Polsce. Poszczególne uwarunkowania wpływały na sytuację panującą na polskiej wsi różnokierunkowo i z różnym natężeniem. Wywoływały one zmiany tak w poziomie, jak i w strukturze dochodów rozporządzalnych i wydatków konsumpcyjnych wiejskich gospodarstw domowych w Polsce. Na podstawie przeprowadzonej analizy można stwierdzić, że w latach 2000–2011 zmniejszyły się różnice pomiędzy warunkami życia gospodarstw miejskich i wiejskich mierzonymi ich sytuacją dochodową oraz wydatkami konsumpcyjnymi. Nadal jednak gospodarstwa wiejskie dysponują niższym, w relacji do gospodarstw miejskich, dochodem rozporządzalnym przypadającym na jedną osobę. Mniej także wydają na cele konsumpcyjne. Różnice dotyczą także struktury wydatków konsumpcyjnych. Gospodarstwa wiejskie stosunkowo więcej wydają na dobra i usługi zaspokajające potrzeby podstawowe, mniej zaś na te, które zaspokajają potrzeby ponadpodstawowe.

Key words: available income, consumer expenditures, rural households.

Słowa kluczowe: dochód rozporządzalny, wiejskie gospodarstwa domowe, wydatki konsumpcyjne.

INTRODUCTION

Rural households are the households located outside of urban areas. Typically, they show a simultaneous contribution of human and material resources in commercial and consumer activities associated with meeting the consumers' needs, while at the same time having a high level of self-supply and a strong relationship with land (Spychalski 2005). These households should not be thought of as the households of farmers as they are of a multifunctional nature, which involves, among others, the development of non-agricultural business and a move away from the stereotypical image of the rural area, which is implementing basic functions associated with food production. When speaking of farmers' households we mean that their prevailing source of income comes from agriculture (they are identified with their profession and the main source of income). A rural household, like any other household, operates in terms of its purchasing power resulting from the income situation that determines the upper and lower limits of consumer expenditure. The socio-economic changes, which occurred in Poland in the first decade of the twenty-first century, caused a significant change in the operating conditions of rural households. These households were

affected by different types of challenges and developmental problems associated with the use of the land and labour resources.

For the last few years the economic crisis that has been visible since 2008 has been of great importance. The crisis in question has affected consumption entities' capacity to satisfy their needs. The impact of this crisis on the economic situation of households seems to be objective, indirect, deferred in time and immeasurable. The deterioration of the labour market in Poland is of particular significance in this context as well. Such a difficult situation translates into the relative income positions of households, particularly those affected by unemployment. It is also important to remember issues of general stagnation of available income, employment uncertainty and "a fear of tomorrow".

The aim of the study is to understand and assess the income situation and consumer expenditure of rural households in Poland in the years 2000–2011.

The spatial scope of the research covers the area of Poland. The time scope covers the years 2000–2011. The study used secondary data obtained from the Central Statistical Office. The applied research method can be described as a descriptive analysis coupled with elements of a quantitative analysis.

THE INCOME SITUATION OF RURAL HOUSEHOLDS

When analysing the income situation of a household, different categories of income can be used. The category most accurately describing current financial budget, available to a given subject, is the category of available income. Available income is the sum of the current income from all individual sources, reduced by advances on direct taxes and social and health insurance contributions. Available income consists of cash and non-monetary income, including personal consumption and the goods and services received free of charge. It consists of income from hired work, private farm in agriculture, self-employment, professional services, ownership, social insurance benefits, social assistance benefits, other income (including gifts and alimony). Available income is spent on expenditure or saved (Household Budgets ... 2012).

Available income of rural households may come from a variety of sources (see Table 1). The largest part, as in the case of urban households, is the income from hired work. In second place is the income received in the form of domestic retirements and pension payments. Income from private farm in agriculture is only the third source of income for rural households. The biggest change in the structure of rural households available income, to be observed in the years 2000–2011, was the increase in the share of income from hired work – by 10 percentage points. The share of income from self-employment increased by 2 percentage points, and the share of income from domestic retirement payments increased by 1.5 percentage points. The share of income from domestic pensions resulting from incapac-

ity for work, however, decreased from 10% in 2000 to 3% in 2011, and the share of income from private farm in agriculture decreased from 16% to 11% respectively.

Table 1. The structure of the average monthly per capita available income in the years 2000, 2005, 2010 and 2011 (rural-urban diversity)

Income	Rural				Urban	
	2000	2005	2010	2011	2000	2011
From hired work	37.6	37.5	46.5	48.0	52.3	57.1
From self-employment	5.2	5.5	7.3	7.2	10.2	9.6
From private farm In agriculture	15.7	14.1	12.9	11.2	0.6	0.3
Retirement payments and pensions	27.8	27.4	22.0	22.4	23.2	22.3
Other social benefits	8.9	10.2	7.7	7.7	7.4	5.4
Other income	4.8	5.2	3.4	3.2	6.3	5.3

Source: Socio-economic situation of households in 2000–2011. Urban-rural diversity, Central Statistical Office, Warszawa 2013.

Analysis of the data on the structure of rural households according to socio-economic groups confirms these findings. The dominant group of rural households are the households of employees (45% in 2011). In the years 2000–2011 there was more than a two-fold increase in their share of the total number of rural households. It should be noted, however, that in 2000 Polish statistics isolated a separate group of households – employees using farms (every fifth rural household belonged to this group). As many as 80% of rural households listed as employees are households of employees in manual labour positions. The second largest group are the households of retirees and pensioners (34% in 2011), while more than 1/4 of all rural households are the households of retirees, and 8% are the households of pensioners. It is worth noting that in the years 2000–2011 in villages there was a considerably stronger drop in the share of the households of retirees and pensioners, by 4 percentage point, than in the cities. These households, including the employee's households, were, however, nearly 80% of all rural households in 2011. Every ninth one was a farmer (and it was 1 percentage point less than in 2000), and every seventeenth was of a self-employed (1.6 percentage points more than in 2000) (Situation ... 2013). In general, in the years 2000–2011 the rural population increased by more than 378 thousand people (in the cities it decreased by almost 500 thousand) and, at the end of 2011, the share of rural population in the total Polish population was 39.3% compared to 38.2% in 2000 (Statistical Yearbook ... 2001, 2012).

Table 2. The level of average monthly per capita available income in rural and urban households (total households income = 100)

Years	Total	Rural		Urban	
	PLN	PLN	%	PLN	%
2000	611	483	79.1	695	113.8
2005	762	593	77.9	867	113.8
2010	1193	953	79.9	1342	112.5
2011	1127	975	79.5	1384	112.8

Source: Socio-economic situation..., op. cit., p. 24.

The data in Table 2 shows that from 2000 to 2011, the average monthly per capita available income in rural households doubled (from 486 PLN to 975 PLN). Throughout the entire period analysed a much higher income, in relation to the total households income, was obtained by urban households. This level was 12–14% higher than the national average, while in rural areas it accounted for 78–80% of the national average. The available income of rural households was at the same time approximately 70% of the income earned in the cities. The biggest difference in the levels of income could be reported in 2005 when the income of urban households was 46% higher than the income of rural households.

Table 3. Gini coefficient* for the years 2003, 2011

Households	2003	2005	2010	2011
Total	0.343	0.345	0.342	0.338
Rural	0.326	0.336	0.339	0.337
Urban	0.330	0.333	0.323	0.317

* Coefficient is calculated on the base of available income per capita in household.

Source: Household budget survey in 2011 r. 2012. Warsaw. Central Statistical Office, p. 275.

Analysis of the Gini coefficient that is used to evaluate inequalities shows that in the years of 2003–2011 there was an increase in the level of income inequality of rural households (Table 3)¹. It is also necessary to add that in the group of total households and urban households at that time a decrease in the value of this coefficient was reported. Generally, rural households are characterised by higher income diversity when compared to urban households and total households.

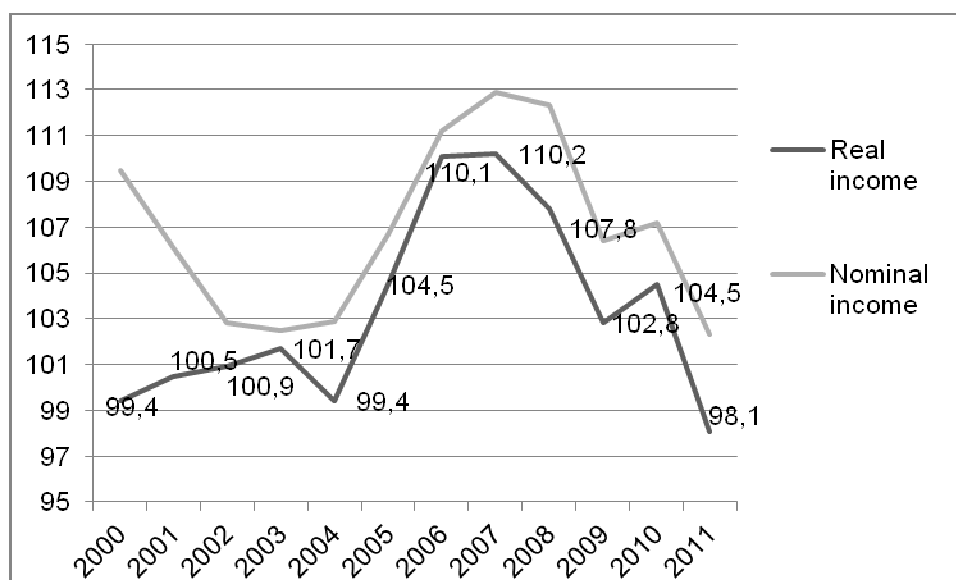


Fig. 1. Dynamics of average monthly per capita nominal and real income in rural households in the years 2000–2011

Source: Socio-economic situation of households in 2000–2011. Urban-rural diversity, Central Statistical Office, Warszawa 2013, p. 76–77, 80–81.

¹ Value of the Gini coefficient ranges between 0 and 1 – the higher, the value, the higher the inequality scale.

The consequence of the level of nominal income and the changes of price indicators of goods and services were the changes in the real income of households. The data in Figure 1 shows that nominal growth of the rural households income was accompanied by a real increase in their value. In the early years of the analysis, i.e. in 2001–2003, this increase can be described as slight. After this period, the year 2004 brought a slight decrease in the real value of the available income of rural households. Yet, the following year brought a significant improvement (4.5%). The largest, exceeding 10%, increase in the real value of income of the rural households was recorded in 2006–2007. The years 2008–2010 also brought a significant improvement in this regard. It was not until 2011 when the real value of rural households average income decreased (about 1.9%).

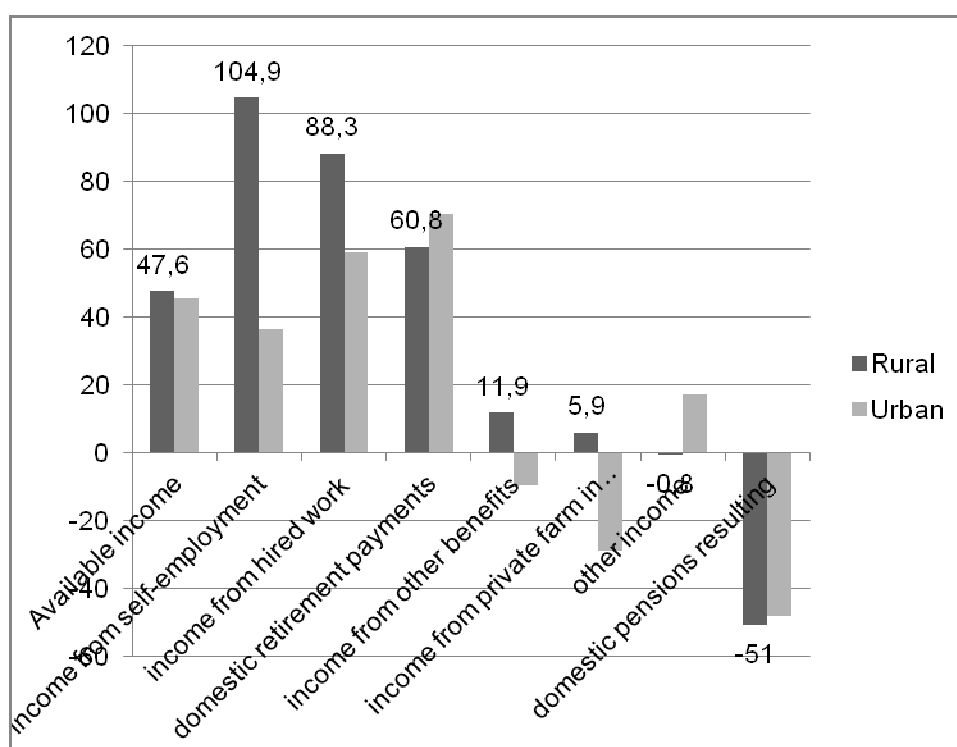


Fig. 2. Real changes of average per capita available income in the country and in the cities in 2011 compared to 2000

Source: Socio-economic situation..., op. cit., p. 28.

Generally, however, Figure 2 shows that in 2011, compared to 2000, there was a real increase in available income of rural households of 47.6%. The most favourable situation in terms of the change rate was observed in the case of the income from self-employment (more than a 100% increase) and the income from hired work (almost double real increase). An increase was also observed in such sources as: domestic retirement payments and income from other benefits, and income from private farm in agriculture. Simultaneously, there was a significant decline in average real income from domestic pensions resulting from incapacity for work.

CHANGES IN THE CONSUMER EXPENDITURE OF RURAL HOUSEHOLDS

Household expenditure is a derivative of available income. It includes expenditure on consumer goods and services and so-called other expenses (such as gifts to other households). Consumer expenditure is an essential part of the household total expenditure (around 96%). It is designed to meet the needs of the household. It includes goods and services purchased for cash, with a payment or credit card, on credit obtained free of charge, and consumption (Household Budgets ... 2012).

Table 4. Average monthly per capita expenditure in rural and urban households and in grand total households (total households expenditure = 100)

Years	Total	Rural		Urban	
		PLN	%	PLN	%
2000	zł	466	79.8	662	113.4
2005	584	550	79.7	778	112.8
2010	690	806	81.3	1107	111.7
2011	991	825	81.3	1133	111.6

Source: Socio-economic situation..., op. cit., p. 29–30.

In the years 2000–2011 the value of the average monthly expenditure of rural households increased from 466 to 825 pln. In 2011, expenditure on consumer goods and services in rural areas reached 793 pln (Table 4). Simultaneously, the difference between expenditure in urban and rural areas decreased. In 2000, the average monthly expenditure in rural areas equated to 70.4% of the expenditure in cities, while in 2011 the share of expenditure in the country equated to 72.8% of the expenditure in cities. This represents an increase of 2.4 percentage points (Situation ... 2013).

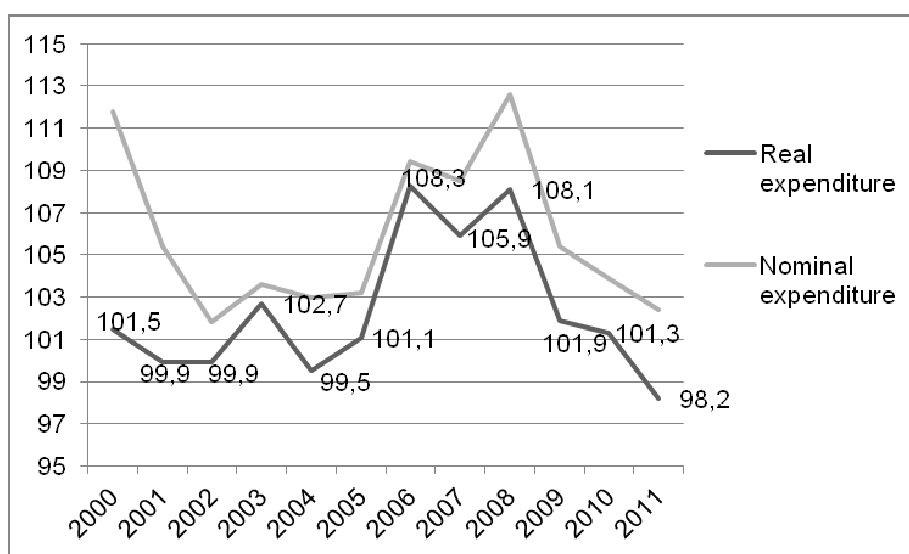


Fig. 3. Dynamics of average monthly per capita nominal and real expenditure in rural households in the years 2000–2011

Source: Socio-economic situation..., p. 98–99, 104–105.

The direction of the real expenditure development was in line with the direction of nominal expenditure development (Fig. 3). However, the pace of change was uneven. The real expenditure of rural households increased annually by 2.4%. In general, the beginning of the twenty-first century and stagnation in the Polish economy was reflected by a slight reduction in the real value of expenditure of rural households. A significant increase could not be reported until the years 2006–2008. This concerned all socio-economic groups of households. On the other hand the period of 2009–2010 witnessed a decrease in the growth dynamic. In 2011 the value of rural household expenditure decreased by 1.8%. However, Figure 4 implies that in 2011 there was a real increase in rural household expenditure by 29.5% (i.e. by 4.4 percentage points more as compared to urban households) when compared to 2010. The highest increase in the country related to expenditure on communication (more than two and a half times), clothing and footwear, as well as restaurants and hotels. Real growth of expenditure was also observed in other groups of consumer goods and services, including expenditure on transportation, furnishings and household management, health and housing maintenance. A decrease (4.8%) was observed only in the case of food expenditures.

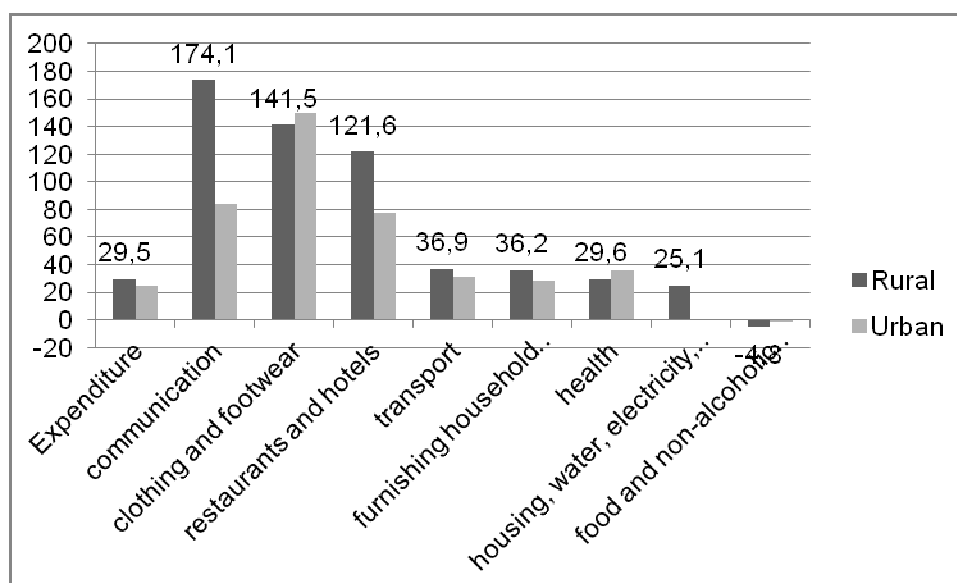


Fig. 4. Real changes in average monthly per capita expenditure in the countryside and in the cities in 2011 compared to 2000

Source: Socio-economic situation..., op. cit., p. 35.

A change in the level of the consumer expenditure of rural households was accompanied by a change in their structure. In the years 2000–2011 there was a decrease in the share of food expenditure and increase in the share of non-food expenditure (Table 5).

The share of food expenditure of rural households decreased in total expenditure from 38% in 2000 to 29% in 2011. It was, however, much higher compared to urban households (29% in 2000 and 23% in 2011). Still this expenditure was the dominant group of rural

households expenditure. Higher values of food indicator, compared to the national average and urban households, demonstrate a lower standard of living of rural households. A steady decrease in the value of the presented measurement shows a gradual improvement in the analysed issue. By the law of E. Engel, a decrease in the share of food expenditure means an increase in the level of wealth and standard of living, and vice versa.

Table 5. The structure of the average monthly per capita expenditure in rural and urban households in 2000, 2005, 2010 and 2011 (total expenditures = 100)

Expenditure Years	Food	Clothing and foot- -wear	Housing	Health	Transport and communication	Recreation, culture and education
RURAL						
2000	38.2	5.6	20.8	4.5	11.9	5.5
2005	33.6	4.9	23.0	4.9	14.0	5.8
2010	28.9	5.0	24.9	4.5	14.6	7.0
2011	29.0	4.8	25.2	4.6	14.1	7.2
URBAN						
2000	28.6	5.7	24.8	4.6	12.8	9.1
2005	25.7	5.1	25.3	5.1	14.3	9.2
2010	23.0	5.4	25.5	4.9	13.6	10.4
2011	23.2	5.2	25.7	5.1	13.6	10.2

Source: Socio-economic situation..., op. cit., p. 88–89, 92–93.

The greatest non-food expenditure is related to housing maintenance, energy, furnishing and household management (these account for ¼ of the total expenditure of rural households). The largest share in this group is attributed to fixed estate fees. In the years 2000–2011 there was a significant increase in the share of housing expenditure in total – from 21% in 2000 to 25% in 2011. In second place among non-food expenditure is expenditure on transport and communication. In this case, there was also an increase – from 12% to 14%. Expenditure on recreation, culture and education also increased (by 1.7% percentage points) and reached the level of 7% for the studied period. Expenditure on clothing and footwear decreased (by 0.8 percentage points), and expenditure on health stabilised at the same level (both accounting for less than 5% of the total expenditure of rural households in 2011).

Generally speaking, the relation of average monthly per capita expenditure in rural households to the national average in 2011, compared to 2000, slightly increased for most expenditure groups. However, significant differences in the span of expenditures between rural and urban households were still visible. The largest differences related to expenditure on recreation and culture, education, restaurants and hotels. In rural households they accounted for only 50–64% of the national average, but it should be noted again that the span of this expenditure between urban and rural areas has decreased. As for the span of expenditure on housing, energy and communication, it significantly decreased between the country and the city. Expenditure on housing and energy in the rural areas in 2011 accounted for 80% of the national average (68% in 2000).

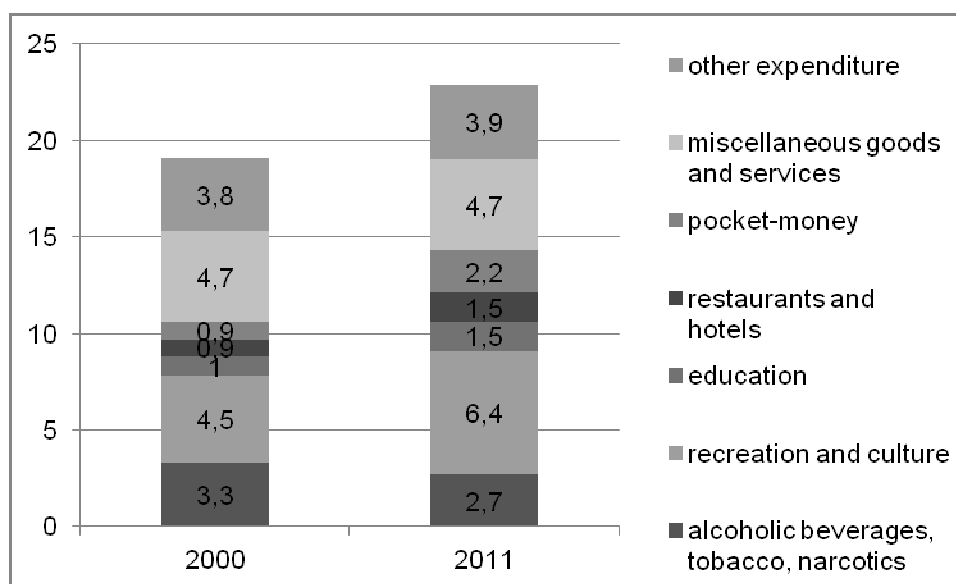


Fig. 5. The structure of expenditure free choice of rural households in 2000 and 2011

Source: Socio-economic situation..., p. 92–93.

A positive change that could be observed in the years 2000–2011, indicating an improvement in the situation of the rural households was an increase in the expenditure of free choice (Fig. 5). This expenditure meets the secondary needs of households. Incurring them is not necessary for normal functioning, and excluding them does not negatively affect health, life and social functioning. Free choice expenditure includes expenditure on alcoholic beverages and tobacco, recreation, culture and education, restaurants and hotels, pocket-money and the so-called other expenditure. In the years 2000–2011, the indicator of expenditure of free choice in the total rural household expenditure tended to increase. In 2011, it reached 22.3% compared to 19.1% in 2000 (in urban households, respectively, 27% in 2011 and 23.7% in 2000). This demonstrates the progress that has been made in the structure of consumer expenditure of rural households.

In conclusion, it should be noted that the structure of consumer expenditure of rural households still differs from the structure of expenditure of urban households and grand total households. First of all, food expenditure becomes a much greater part. Rural households also spend more on transport and communication, and alcoholic beverages, tobacco and narcotics. However, much less is spent on recreation and culture, education, health, clothing and footwear. The closest part of the structure of consumer expenditure between urban and rural households is housing and its equipment.

CONCLUSIONS

The current picture of the living conditions of rural households in Poland has been affected by a number of factors. Among them, those of particular importance were the trans-

formation and integration processes, and the global economic crisis in Europe and Poland. Different factors affected the situation in the Polish countryside in different respects and with different intensities. Generally speaking, in the years before Polish accession to the European Union, the changes associated with the need to adapt to the requirements of market economy and rising unemployment levels were particularly unfavourable. In the past few years, for instance, the crisis and the related deterioration in the labour market, slowing the wage growth were factors limiting the development of the rural households consumption. An undoubted factor stimulating its development was, however, Polish accession to the EU, which entailed, among others, modernisation of the countryside, measurable financial assistance in the form of subsidies, grants, credit availability.

Based on the analysis, it can be concluded that in the years 2000–2011 the differences between the living conditions of urban and rural households, measured by their income situation and consumer expenditure, decreased. These differences related to both the level and structure of income and consumer expenditure. Still, rural households have less available income per capita. This income equates to about 80% of the national average. In the analysed period, the structure of the income was changing in the country, more than in the cities. The share of income from hired work and self-employment increased, while income from agriculture and domestic pensions decreased. The structure of consumer expenditure of rural households changed due to a decrease in the share of food expenditure and an increase in non-food expenditure. This generally demonstrates an improvement of the economic situation of the subjects studied. The biggest differences between the situation of urban and rural households, to the detriment of the rural ones, were observed in relation to higher expenses. In general, the relatively high share of basic expenditure (i.e., food and housing), and a low, in relation to urban households, share of secondary expenditure (clothing and footwear, recreation and culture, restaurants and hotels) indicates a worse standard of living in rural households. It should also be emphasized that expenditure with elementary characteristics is generally more resistant to an adverse (or even declining) income situation than secondary expenditure where low values in the structure of total expenditure indicate savings made out of necessity, and thus a lower level of meeting the total needs of the rural households. The worse situation of rural households when compared to urban households is also confirmed by an increase in income inequalities.

To conclude, it is necessary to add that the level, dynamic and structure of income and expenditure of households is largely determined by the geographical location of the domicile. For instance, if a distribution of voivodeships in Poland in 2011 is taken into account, the most beneficial income related situation could be observed in case of households located in mazowieckie voivodeship (32.3% higher income than the average). The lowest incomes were reported in podkarpackie voivodeship (23.6% lower income than the average).

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Arjeta Hallunovi¹, Elidiana Bash²

QUALITY AS AN INVESTMENT: ADVANTAGES AND CHALLENGES

JAKOŚĆ JAKO INWESTYCJA: KORZYŚCI I WYZWANIA

¹Faculty of Business, "Aleksander Moisiu" University, Durres, Albania, e-mail: arjeta26@yahoo.com

²Faculty of Economy, "Luigj Gurakuqi" University, Shkoder, Albania, e-mail: elidianapema@yahoo.com

Streszczenie. W 1950, gdy dopiero zaczynano myśleć o jakości jako takiej, badacze nie pojęli, że będzie ona miała tak istotny wpływ na zarządzanie. W obecnych czasach świat biznesu zmienia się w dużo większym tempie niż miało to dotąd miejsce. W XXI wieku takie sprawy jak globalizacja, konkurencja, zmiany w zarządzaniu i specyficzne sytuacje rynkowe stają się najważniejszymi wyzwaniami dla menedżerów. Odpowiedzi na te wyzwania przy staraniach o jednoczesne utrzymanie wzrostu zyskowności coraz częściej upatruje się w jakości i zarządzaniu, jako kluczu do sukcesu i wydajności firmy. Zarządzanie Jakością uważane jest za narzędzie pomocne w osiągnięciu wydajności i jakości pracy oraz gwarantujące, że każde zadanie czy proces realizowany jest w sposób uporządkowany i staranny, od pierwszej realizacji zadania po te, które nastąpią w przyszłości. Aby odnieść pożądaną skuteczną, zarządzanie jakością powinno być traktowane jako metoda zarządzania angażująca wszystkich: pracowników, klientów, dostawców, akcjonariuszy i społeczeństwo. W wielu badaniach empirycznych jakość analizowana jest przede wszystkim w kontekście aspektów technicznych, a rzadziej pod względem ekonomicznych aspektów zarządzania. Fakt ten wiąże się ze zmieniającą się w ostatnich latach koncepcją jakości, dynamiką rozwoju norm ISO i wymogami międzynarodowego handlu. W kontekście przedsiębiorstwa, które dąży do zrównoważonego wzrostu lub do zwiększenia rynku eksportu, nie tylko konieczne, ale wręcz niezbędne jest zrozumienie jak ważna jest kwestia jakości i norm ISO. A zatem, jaka koncepcja jakości została przyjęta przy formułowaniu norm ISO i ile wiedzy na temat wdrażania norm mają przedsiębiorcy? Niniejszy artykuł skupia się głównie na wszystkich aspektach zarządzania jakością, analizując je z perspektywy norm ISO 9000. Ujęcie teoretyczne zostało uzupełnione o wskazanie konkretnych problemów, zidentyfikowanych w czasie wywiadów, z jakimi borykają się w Albanii menedżerowie zatrudnieni w przemyśle mięsnym i firmach produkujących sery.

Key words: advantages, challenges, ISO 9000, management, productivity, quality.

Słowa kluczowe: ISO 9000, jakość, korzyści, produktywność, wyzwania, zarządzanie.

INTRODUCTION

In 1950, when the thinking regarding quality began developing, researchers never thought that quality would have a significant impact on management. The most drastic change is regarded to be orientation of quality: from the production to the client. Moreover, the way of thinking based on the system, the focus on advanced technologies, and the confidence in the role and the impact of human resources, have had a significant impact on the current concept of quality management. If before, the focus was mainly on the technological aspects of product quality, now it is extended to the organisation's flexibility and reliability. In fact, today quality is equal with the total business performance in the context of relations with all the stakeholders of the company. Quality management is considered to be a tool that can help us to achieve performance in a way, that any work or any process would be

conducted in an orderly and accurate way, in the first instance and in the future. To be successful, quality management should be considered as a management method that involves everyone: employees, customers, suppliers, shareholders and society. It should be considered as an internal strength of the organisation, rather than imposed from the outside. In this context, the reputation of an organisation, public or private, large or small, is built on the quality and performance of the products or services, which it produces. The ISO 9000 standards are based on eight quality management principles, which can be used to improve the performance of an organisation: leadership, the involvement of the people, the approach of the process, customer focus, system approach to management, the continual improvement, the mutually beneficial relationships with the suppliers and the factual approach to the decision making (ISO Secretariat 2000) (Fig. 1).

The model of service quality improvement and profitability

Currently, there are many discussions about the link that exists between quality and productivity. The following scheme aims to give an idea about the relationship that exists between quality and the economic benefits.

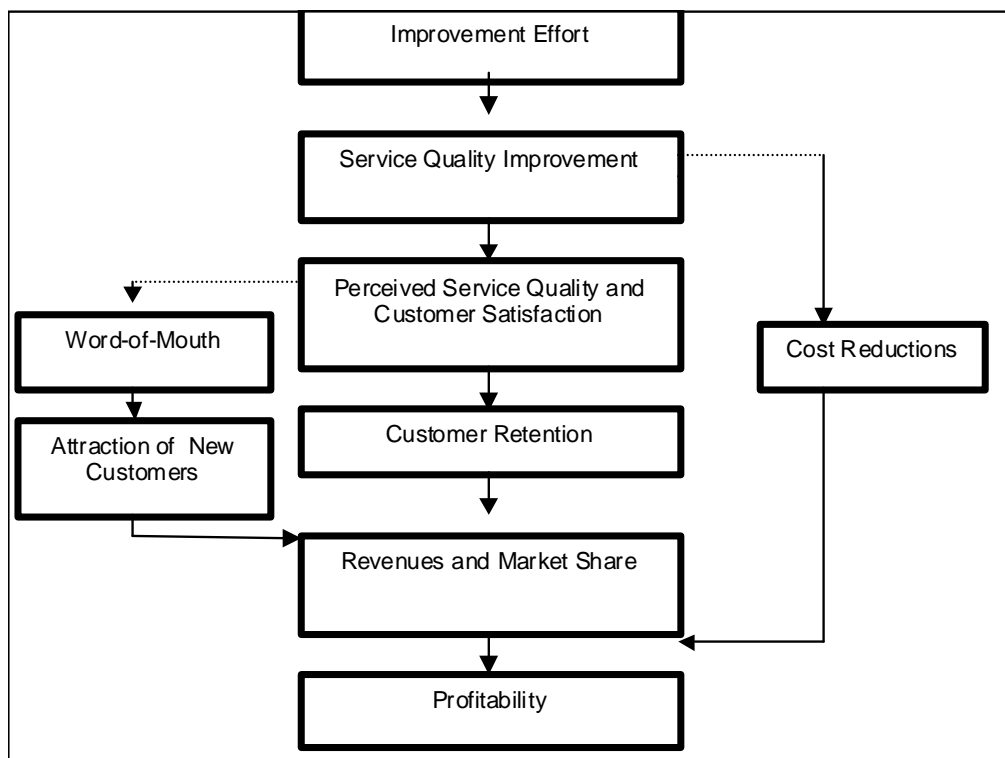


Fig. 1. A model of service quality improvement and profitability¹

Source: Roland T. Rust, Anthony J. Zahorik, and Timothy L. Keiningham, Return on Quality (ROQ): Making Service Quality Financially Accountable, *Journal of Marketing*, April 1995.

¹ Garvin (1984), gives a different conceptual framework, which shows that the sources of profits, arising from the quality.

If an organisation aims to improve quality, and it works for this, then there will be improvements in product level (how the product meets the customer's needs), as well as in the level of process (how a product is produced). In these conditions, the benefits come from inside and outside the organisation, which both lead to increased economic benefits. So, as far as the external environment of the organisation, the improvement of product quality and process means an increase in the number of customers and their satisfaction, so, they will continue to buy the organisations' products. At the same time the price of the product may be low, due to gain efficiency in the production process. Both of these serve to increase the market share of the organisation. Whereas, within the organisation, the productivity growth happened due to the fact that the manufacturing process became more efficient. This leads to a reduction in production costs, which consequently leads to an increase in the profits. At the same time, the increase of the market share contributes to internal company profits. The diagram below reflects the four main components of the economic benefits model, illustrating the idea, how quality can directly affect the level of profit (Fig. 2).

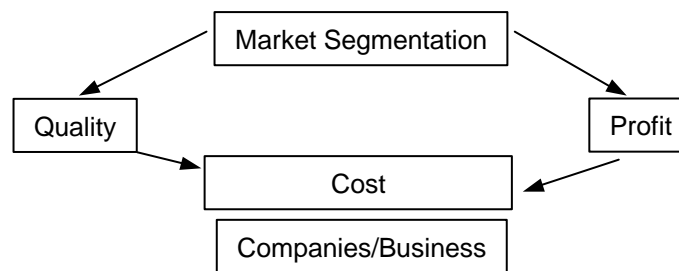


Fig. 2. A simplified version of four main components of the economic benefits model

Source: The Strategic Planning Institute and the National Institute of Standards and Technology – Boston, USA.

In this simplified version, it is noted that an increase in quality, leads to the increase of the market share and the reduce of costs. According to Barnes (1998) any company can be competitive, if it uses the ISO 9000 guideline in the proper way. According to Sroufe and Curkovic, (2008) the implementation of ISO principles can often give some advantages, as follows:

- increase the profit, productivity and customer satisfaction;
- motivate the employees and develop the international trade;
- improve the customer service;
- can be attractive for the investors;
- reduce the audits, wastes and operational expenses.

Measuring the benefits of the ISO 9000 standards implementation is very difficult (Symonds 1998).

Disadvantages of ISO 9000. According to Wade (2002) ISO 9000 is an effective guideline for companies, but it does not help companies to think about their own quality standards. Below are listed some disadvantages about the ISO standards:

- achieving the certification for ISO is a very costly process for small firms;
- as Meyer (1998) argues, there are many documentation requirements for the ISO standards which companies must fulfil;
- business owners that have made the registration process for ISO principles, warn that it is a process that takes many months to be completed.

The major criticism of the implementation of ISO standard is that the registration of the companies in this guideline does not guarantee the improvement of the product quality within the company (Lewis 2001).

Quality and ISO? – The Usage of ISO 9000

– In the publication of the ISO 9000, the possibility to move from the conforming process to the performing process (Hoyle, Thompson 2002) is provided for organisations. The keys to success of the export are: the introduction and understanding of the markets for the regular product, accurate and effective distribution and promotion. In this context, the access to markets is conditioned by: trade agreements, standards and certification, through transport links and an effective procedure to be followed by the client. In recent literature the problems of the ISOs and the requirements for their application are discussed. Thus, the new version of ISOs:

– Now the quality has nothing to do with the following of the procedures, inspections and regulations, but mainly has to do with determining the exact needs of the clients, the coherent definition of objectives to meet those requirements, performance measurement and the continuous improvement of the capacity to meet the needs of all stakeholders.

– According to Hoyle, Thompson (2002), The Internal audit will not be considered as a routine action but “A real opportunity to become a tool that aims to increase the improvement of an organisation's real value”. The new standards require a major change to create the basis for a management system. A review of the ISO 9000 series will confirm that only a small part – about 12% of its content – is “auditable” (Wade 2002).

– The publication of new ISO 9000 series, instructs organisations to pass, from the conformity to the performance. The focus will not be on documenting the procedures to demonstrate the conformity to the requirements of ISO 9000 in order to receive the “medal”, but in building processes that bring the real benefits to sustainable business.

In this context, the question that often arises is: ISO 9000 – The Business as usual or is it a real challenge?

There is a group who believe that ISO 9000 standards have significantly damaged businesses, by forcing more bureaucracy upon them, that have no added value. Seddon (2000) argues that when the company is more interested before, in certification than in quality, it is

prone to failure. There are others who think and believe that it is necessary and sufficient to have the name of ISOs and the labels, and they do not have further need to learn about the importance of the impact of ISOs. This group only wants: "Let us know, what to do". But the worst thing is that ISO 9000 is understood as a process which does not bring significant changes, then it is indeed possible, that it may be used improperly and brings greater cost, which has also been noticed in recent years. Here we can mention the phrase, "If we continue to do things in the same way that you have done before, then you'll continue to get, what you always get". As it is known, the ISO was born in the defence industry which had a long tradition of the order and control. Consequently, ISO 9000 has followed the same path of imposing requirements to prevent defects, despite the fact that experience has shown that this method is ineffective in the terms of providing a high quality product. Today in the world there are still many scientists and businessmen who think that this is the only way to achieve high quality. Meanwhile, there is another way. By considering ISO, more as a way on the basis of which can be built a successful organisation, rather than as a way to narrow the necessary requests, major benefits can be achieved. Such great benefits can be achieved if the company is considered as a set of interrelated processes between them, and is focused on achieving the goals that are set from an assessment of the needs of the customer and other interested parties.

The purpose of the previous version of ISOs, was mainly focused on the documentation of everything that was related to quality assurance. Because, it is believed that the quality of the product was achieved through quality assurance. Given that the quality of the product depends not only on elements related to security, it is understandable that the implementation of this version was accompanied with many problems in the implementation process. It was thought that through the documentation, the capacity of the company to the customers in terms of their ability to produce quality products could be easily demonstrated. But in practice, the real goal of the documentation process, missed its target. In the ISO 1994 family, there were major shortages mainly in terms of a clear misunderstanding of the role of documentation in the production of a quality product. A change in company culture was necessary, but it was left as the certification meaning that it is enough to have a manual and a set of procedures.

Corrigan (1994) says that this wrong image of the Quality Management has been improved through a new version of ISO 9000, which encourages enterprises in terms of:

- the determination of customer needs and expectations, as well as of the interested third parties;
- setting policy and environmental objectives necessary to motivate the organisation to meet these needs;
- designing, data sources and managing a system of interrelated processes which are necessary to implement the policies and achieve objectives;

- measurement and analysis of the adequacy, efficiency and effectiveness of each process in fulfilling its purpose and objectives;
- tracking of continuous improvement of the system by an evaluation of the performance objective.

This in some way, clearly summarises the requirements of ISO 9000, by having a clear line from the mission to the results. In this context, if we want to understand and think about the quality, we should not imagine that in terms of procedures, inspections, rules and regulations. The main thing is to think about how to place the needs of those, who will be served, setting goals and objectives to meet those needs, performance measurement and continuous improvement towards achieving needs. Unfortunately, it is not enough information about industry experience with ISO 9000 standards, partly because there is limited published information available from the companies involved (Askey, Dale 1994).

All of the above concepts can be found inside a standard, if we look at each element in its relation with another. If we proceed to dealing with the requirements of each standard in particular, then we can say that there will be no benefit from the application of ISOs 9000. In this context, we should see the new standards, compared with the current situation of the company and then take concrete steps. The introduction of a quality management system brings changes to the previous system of management of the company. These changes relate with the concept of management, particularly at secondary and highest levels.

According to Juran (1994), the list of management assignments are as follows:

1. Vision: (the company policy and the quality policy). Company leaders must have a vision of how the company will develop the quality of its services, processes and organisation facing global competition. Based on this vision, the company executives must formulate and represent the quality policy, which is an integral part of the general policies of the company.

2. Development of the concept of Quality. The company executives should select or develop an appropriate concept for quality, which will create opportunities for policy implementation of quality and will enable efficient handling of the requests by relevant interest groups within the company and the market. The Quality contains products, services and processes (Magd, Curry 2003).

3. The harmonisation of the quality policy and the culture of quality. The culture of a company is a powerful element, therefore it is necessary to talk about the quality of a company's culture. The company executives should clarify the relationship between politics and the dominant culture of quality, and to modify the culture of the quality through the development of this relationship. The quality policies formulated by the company executives should be applied in all fields and strategic planning (Instil the quality policy.) This mainly includes quantitative guidelines to improve products and processes, assessment and remuneration of managers taking into account the results of the quality policy.

4. The implementation of the concept of quality through a flexible system of quality management. According to Krajevski and Ritzman (2000), quality is more important than the

cost within management of the materials, especially in the decisions regarding the selection of a supplier. The company executives must apply the chosen concept of quality, either directly or through an appropriate model, with an adopted system for a complete quality management. The quality management system, should be an integral part of the overall management system. This system is not static, and it must developed dynamically.

5. The overall organisation of the company should support the implementation of the quality policies and the strategy. Different organisational rules should be applied for the protection of the quality management system, i.e. the appointment of a quality management representative.

6. The creation of a program for continuous improvement. All of the measures for improving the quality, which serve to develop the relationship between managers and employees should be included in a program by the company executives.

From time to time, company executives should participate directly in operational activities, in this way, they will show all employees their interest in the quality process.

CONCLUSIONS

Referring to the theoretical treatment of ISOs problems, the problems of perception of concepts such as certification or promotion of a quality management system, as well as, the fact that ISO certification is a voluntary private initiative driven by market and international competition, it could be said that:

- The introduction of the Quality Management System based on ISO standards, brings advantages not only for the company but also for the client and society in general. The success of this initiative depends to a large extent on the recognition and respect of the right to ISO requirements and their adaptation to specific requirements of a company.

- The introduction of the Quality Management system brings changes in the organisation of the company. The process of documentation remains a difficult stage for any company but in no case should be considered as the goal in itself. The management of this process from the highest executives of the company remains of strategic importance for the success of this initiative.

- In the Albanian context of the small and medium enterprises a lot remains to be done in terms of information dissemination, because businesses are still unprepared. Therefore, although the use of the terms and the connection, quality/ISO/export is relatively well known, it is stated that there was a confusion regarding the correct recognition and as well as the report of the concepts of certification with ISO, accreditation, the increase of Quality Management System and the vision of the company in the short and long term. Of course it is different and relates to the level of education of the owner of the company. Meanwhile, it is time for Albanian businesses to finance the cost of these services themselves.

– Unfair competition. Due to the existence of several unfair mechanisms on the market, the entrepreneurs spent a good part of the time trying to cover the budget that starts from the relationship with the tax and customs, and trying to spend the time on getting accurate information in a timely manner.

– The preparation of Quality Local Experts, who can transfer their knowledge to the business with a relatively low cost compared to foreigners. But what remains problematic, is the specialisation of experts, in specific sectors of the economy such as the food sector, the leather sector, footwear sector, etc.

In this context, it is necessary to stimulate the creation of instruments with private funding and subsidies from the state. During the first stage the establishment of Albanian units of certification, which will facilitate the coverage of the cost of certification for small companies and medium enterprises.

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Joanna Hernik

LOGO AS A VISITING CARD OF A THEATER – A NEW APPROACH IN A COMPETITIVE ENVIRONMENT

LOGO JAKO WIZYTÓWKA TEATRU – KONIECZNOŚĆ NOWEGO PODEJŚCIA W KONKURENCYJNYM ŚRODOWISKU

Department of Marketing, West Pomeranian University of Technology Szczecin, Żołnierska 47,
71-210 Szczecin, Poland, e-mail: Joanna.Hernik@zut.edu.pl

Streszczenie. Teatr to nie tylko miejsce, gdzie zaspokajane są potrzeby kulturalne widzów, gdzie wybitne jednostki mogą realizować swoje wizje i zamierzenia (teatr jednego aktora), ale także na przykład sfera, gdzie mogą uzewnętrzniać się różne poglądy polityczne i społeczne. Mimo tego, że liczba teatrów w Polsce nie maleje, w ostatnich latach obserwować można silną konkurencję między nowoczesnymi kinami, telewizją „na żądanie” i innymi formami rozrywki. Konkurencja ta obejmuje też teatry. Stwierdzić więc można, że rynek kultury się zmienia, stąd też funkcjonujące na nim podmioty winny analizować zachodzące przemiany i odpowiednio dostosowywać swoje strategie marketingowe. Obecnie najistotniejszymi wyróżnikami teatrów są repertuar i wybitni aktorzy, ale istotne są także nazwa i logo - elementy wyróżniające dany obiekt wśród innych. Niniejszy artykuł przedstawia analizę marek polskich teatrów z punktu widzenia ich struktury. W części empirycznej pracy zastosowane analizę porównawczą, a zbada-
dana próba objęła 60 teatrów, co stanowi 43% wszystkich obiektów tego typu funkcjonujących w Polsce. W artykule stwierdzono, że współcześnie teatry w części przynajmniej muszą się zachowywać jak podmioty biznesu, szczególnie w zakresie komunikacji z otoczeniem. Oznacza to, że menedżerowie muszą wziąć pod uwagę istnienie komunikacji masowej i odpowiednio do niej dostosować znaki i symbole, jakimi posługują się teatry. Może to oznaczać istotne zmiany w dotychczas realizowanej koncepcji.

Key words: branding, communication of value, competition in nonprofit sphere, culture.

Słowa kluczowe: branding, komunikacja wartości, konkurencja w sferze kultury, organizacje non-profit.

INTRODUCTION

The idea of marketing gave birth to a variety of issues which are vitally important today, including, to name a few, an entity's image and identity, its philosophy and behavioral patterns, system of values, mission etc. There is still no compromise on what elements comprise the organisation identity mix (company identity tools), though it is partially agreed that an image is mainly created by anything that can be noticed by the naked eye (Melewar, Karaosmanoglu 2006). This initial approach had undergone a few transformations until it developed into the contemporary concept which emphasizes the role of an entity's nature and character rather than its visual elements. Nonetheless, it cannot be denied that the name, logo, richness of colors used, slogans, different forms of advertising, and Internet sites can be distinguishing marks which create the image (Bosh et al. 2006). The issue is associated with corporate identity functions, which: 1) provide the organisation with visibility and recognisability; 2) are a source of information for stakeholders about the image and

reputation; 3) reflect employees' identification with the organisation as a whole and/or the specific departments for which they work.

In case of a non-commercial organisation, the issue of how to build a good brand/image is more pressing than in the case of companies which can use their diversified offer, intermediaries' support, or advertising campaigns. Such possibilities are usually out of the scope of nonprofits potential, because they do not have the ability or resources for such activities, although they have to reach a much more complex milieu: local authority, potential donors, grant-making organisations, beneficiaries and society as such.

The main aim of the article is to examine from what organisations make up their logos, and what values they communicate to their external environment. The empirical part was created by a comparative analysis of brands of Polish public and private theatres (the sample of 60 represents 43% of all theatres in Poland). But it must be mentioned that among the studied brands, 22 (almost 37%) have been built using words or letters only, without any graphical elements, therefore the analysis will encompass 38 examples (27% of all Polish theatres).

The subject of the analysis undertaken, the logo structure, mainly concerns the examination of colors and shapes used, which can represent **universal, cultural or conventional symbols**. Universal symbols include all signs which are perceived in the same way all around the globe, e.g. a bird represents freedom. Cultural symbols are those understood only in a given culture, which include letters, words or symbols connected with the tradition prevalent in a given area (colors, religious symbols, etc.). The last group of conventional symbols is comprised of abstract shapes that do not awaken any associations but have been promoted by given organisations.

The essence of logo

In the analysis of an organisation or product brand symbols, the concept of a logo is defined as a graphical reflection of the trademark. Since the majority of brand symbols are a combination of words and graphics, the name of an organisation quite often consists of verbal and graphic elements which constitute its logo. If a brand symbol is based on combinations of words and letters of peculiar shape, then it is called a 'logotype' (Hernik 2009). Since words and symbols awaken certain associations, logo patterns, colors or even the kind of font used influence the way the organisation is perceived by its external environment. Surely, logo is a critical component of brand aesthetics and influences our senses and evaluations (Walsh et al. 2010), so – as it was mentioned – is important in commercial and nonprofit activity.

All the aforementioned terms concern the commercial aspect of business. A question can be raised whether – based on the assumption that organisations operating in the same field are competitive with each other – nonprofit organisations behave in the same way as other entities in the competitive market and they lay the foundations of communication by

creating their logo. One might want to ask: why should a theatre have a logo? One of the most important reasons should include the fact that widely known and respected brands are a base of trust. This means that in case of a nonprofit activity, where a profit is not a foundation of existence, trust is a crucial element that drives stakeholders.

The positive results of well-known brand possessed in a nonprofit activity can be observed in several areas: 1) in fundraising activity and obtaining donations, 2) in common efforts of managers believing in brand values, 3) in better efficiency (bigger scope of impact), 4) in a stronger internal identity, 5) in improving competences of an organisation (Kyllander, Stone 2012). Furthermore, a good brand of noncommercial entity can serve as a support for another, commercial brand which is just being introduced into the market. Thus widely known brands can be a kind of a catalyst of market acceptance. Certainly a good brand (with a well-known name and distinct logo) means better market authority, but to create such a brand an organisation must rethink the core values it delivers as well as its visible symbols. Moreover, it's very important that a name and logo – through content and characters used in communication – should bring really positive values, which will be associated with a given activity.

Theatre as the market entity

On the market there are institutions involved in creation of the art and its dissemination. Theatres, appointed to carry out cultural activities, belong to the latter category. By the term *theatre* one can understand a special building, designed to show plays and drama, consisting of two basic elements: a stage and audience (Glossary of the art 2003). Theatre is also – alongside orchestra, opera or philharmonic – a form of market cultural activity. Such forms are established by central or local state agencies, whose duty is to organise cultural sphere in a given area. Theatres may be set up also by individuals and nongovernmental organisations. In both cases, according to Polish law, activity in theatre sphere is not a commercial activity and institutions that own theatres must subsidise them. While discussing public theatres, it's worth adding that the level of support does not fully cover the costs of activity and maintenance; therefore theatres (and other cultural organisations) have to run their own financial matters and cover all costs to earn money.

While reforming the system of institutions of the culture in Poland, it was assumed that resources from the state budget would decrease, while revenues from sponsors and donors would gradually grow, but this postulation has not been fulfilled (out-of-budget funds, for example from tickets or rooms rental, bring about 30% resources). That is why today theatres have to face a really difficult challenge: staying on the market. According to the Polish Main Statistical Office, in 2010 there were 139 theatres in Poland; among which dramatic theatres prevail (85), on the second stage there are puppet theatres (29) and next music theatres (25), as shown in Figure 1.

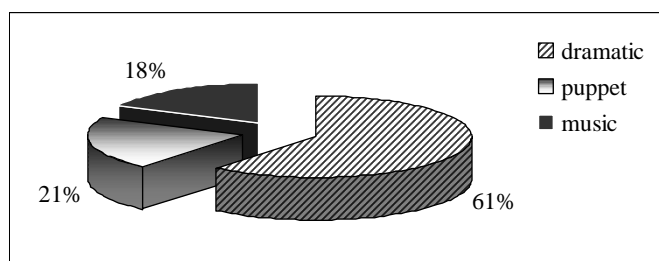


Fig. 1. Main types of theatres in Poland in 2010

Source: Own study based on Polish organisations of culture activity (originally: Działalność instytucji kultury w Polsce), <http://www.stat.gov.pl>

In theatre category some forms can be singled out, such as music theatres (opera, operetta), theatre of movement and dance, dramatic theatres, as well as ballet and alternative theatres. Today, the majority of theatres belong to the state, so they are managed by governmental agencies or local authorities. However, as mentioned, the owners do not want to subsidise theaters 100%, therefore they must compete for visitors, customers. The data shown lets one form a conclusion, that theaters have to compete not only with new forms/institutions of entertainment, but also between each other.

Logo analysis

As mentioned, 60 brands of theatres were included in the analysis: 27 dramatic, 16 music and dance, 14 puppet theatres and 3 alternative. However, as 22 theatres have no graphical part/element, ultimately 38 brands were studied (Fig. 2).

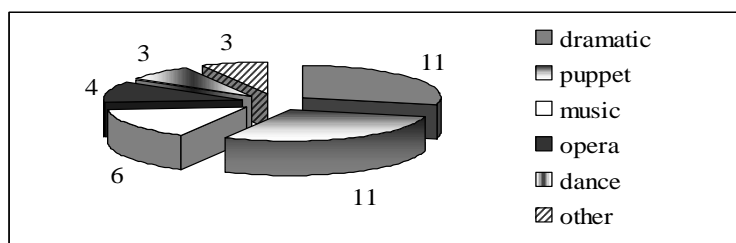


Fig. 2. Structure of the analysed theatres

Source: Own study.

Looking at an organisations' brand, human perception always notices colour and shape first. Colour is actually a reflected light that is perceived by the sight, and from a physics point of view it is a dose of energy, but received in small portions. As every type of energy, colour can stimulate or soothe, inspire or discourage, always influencing the mood. The influence of theatre (art) can be discussed in the same way, so one may merge functions of theatre with the sense of color.

In the analysis of chosen brands (logo), colors were present in two spaces: in the background and as an element of a logo, therefore hues are divided into two groups (Fig. 3 and 4).

In the first one, two colors dominate: white and black (50% of logos were designed in such hues). Next, colors like red, blue and green appeared (Fig. 3).

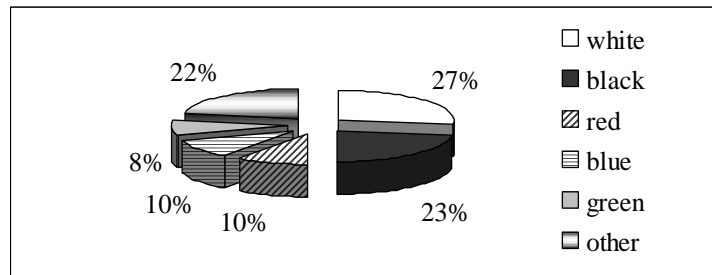


Fig. 3. Colour as an element of a logo
Source: Own study.

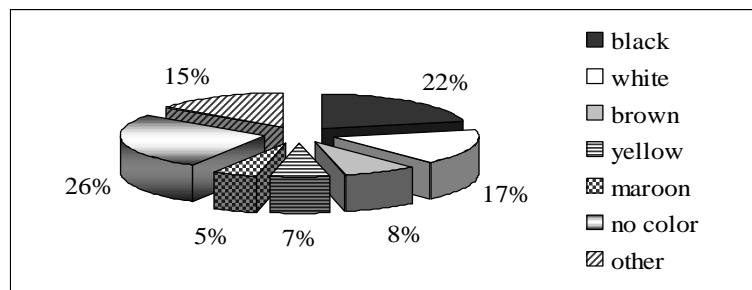


Fig. 4. Colour in a background of logo
Source: Own study.

In ancient times, white, black, red and yellow were typical dyes of Greek art, so they formed the canon of aesthetics. In the middle ages, white, black, red and green prevailed, and – interestingly – black and purple were used interchangeably. Even then some importance was attributed to colours: according to pope Innocent III, green was the colour of hope, blue – the colour of heaven, red was the colour of love to others, and white – the colour of peace and moderation (Rzepińska 1983). It is worth mentioning that yellow was the colour of cowardice, treachery and deceit, but also the colour of warning and attracting attention. Black is instead a conservative colour, in most Western countries connected with grief and funerals, but – on the other hand – for young people it is the colour of rebellion. Besides, it is used for dyes or shapes separation and for highlighting contrasts. Today black is also the colour of elegance and sophistication (black tuxedo, for example).

The usage of white and black in analysed logos can also often be connected with the need to demonstrate good and evil, which can be shown in a theatre (white angel and black devil; the good character wears white while the bad wears black). Many associations and references can probably be found.

For a long time, colours were connected with a temper of a man and given following meanings:

- white – phlegmatic person: usually cheerful, reliable, objective in assessments, patient;
- black – melancholic: someone inclined to reflection, but also tending to be hesitant and nervous;
- red – sanguine: sociable person, carefree, imposing and also dominant;
- yellow – choleric: someone excitable, often dissatisfied, aggressive and stubborn (Rzepińska 1983).

In order not to limit a message to one kind of a temper, black and white should be mixed with other colours, red for example, which was quite often the case with the surveyed logos. In spite of this, dramatic theatres usually reduce colours to two dyes only: white and black, sometimes replacing black with grey or purple.

Looking for the roots of colours in today's logos one has to state that we need to turn to ancient and Middle Ages, despite the fact that we live in the 21st century – colours as well as used shapes mostly refer to classic models. The main graphical form (42%) is a shape of human body (Fig. 5), or a part of it (an eye or a foot for example) while the shape of a circle can be found in 16% of the analysed logos (the shape of a triangle or square is even more rare).

Human silhouette refers to the receiver of an art – a man is a measure of all things, as a classic says, everything happens for a man, and his well-being, a state of his soul, of his aesthetic sensitivity is an issue that a theatre is interested in, hence the symbolism used in logo. For this reason we will not find the influence of geometric abstraction for example, so popular in the beginning of 21st. c., when circles, triangles and squares dominated everything – it seems to be too young, too fresh to use in a theatre brand.



Fig. 5. Human figures in a logo of theatre
Source: <http://teatr.polsl.pl/>

As well as human figures some other symbols were used in logo (Fig. 6), such as animals (a horse, Pegasus, siren); buildings (a tower, castle) or symbols that refer to a theatre as such (a stage, curtain, mask). In case of theatres offering performances for a younger audience, a symbol of a doll/puppet was also used (Fig. 7).

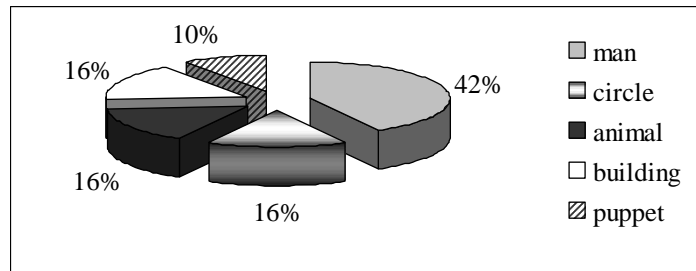


Fig. 6. Human figures in a theatre logo
Source: Own study.



Fig. 7. A doll in a theatre logo
Source: Own resources.

The theatre ought to be perceived as a place for spending a pleasant time. Such symbols as a castle or a tower can convey the idea of leisure, being metaphors of extraordinary places; an eye – as a symbol of watching and spying; a doll – a sign of a joy for a child; a cock and kite – marks of enjoyable time in nature; finally, a figure of a dancer symbolising fun. It should also be mentioned that some logos use a mask with a smile, which is the promise of a good fun. So, the logo of a theatre can show the pleasure waiting for the visitors inside.

As stated before, many brands are based on words or individual letters. They are often written in simple fonts, but sometimes refer to some trends in the art, like secession, which uses flexible lines reminding of plants (Fig. 8).



WARSZAWSKA OPERA KAMERALNA

Fig. 8. Logo composed of words (logotype)
Source: Internet sites of theatres.

Such stylised logo refers to the time of the late 19th and early 20th century, when artists were looking for new forms, separated from the classics. Logo in such a style means a break with the classic drama and a turn toward a lighter, more entertaining version of a theatre. This example proves that a logo can help art receivers to understand the essence, the spirit of an organisation activity (Lange 2010).

Analysing universal, cultural or conventional symbols in logos, one can state that theatres using brands built on words/letters, actually utilise cultural symbols, as such a logo will be understood only in a given society. Colors are also an example of cultural symbols, because black and white are not understood in the same way all around the world. Into the group of universal symbols, undoubtedly human figures can be classified; this group will also include symbols of animals, and symbols of nature (like the sun). It is really difficult to find conventional symbols, which were promoted by a theatre and now are well known. It can result from the fact that theatre, acting usually as a nonprofit entity, does not decree adequate resources and cannot advertise itself like companies. Thus, it can be stated here that theatres usually use cultural and universal symbols in their logos.

At present, theatres should watch carefully what kind of symbols they use, since too often they utilise words/letters only, while today's culture is a culture of a picture (Mayfield, Mayfield 2012). And this means that the time for change has come.

CONCLUSIONS

The most significant elements which constitute the identity of a theatre, include the name and logo, (and the repertoire, of course); they are the most vital tools of communication between an entity and its external environment. 38 theatres' logos were analysed. The results show that: 1) white and black are the most often used colours, which may be connected with the idea of showing the good and the bad sides of life. Quite often black and white are mixed with other colours, but it does not happen in the case of dramatic theatres. 2) The most popular shape is the human figure or a part of it, but also symbols of some animals are used. 3) Theatres too often use only words/letters in their logos. Summing up, Polish theatres usually create a logo based on cultural (language) and universal (human figure) symbols. The third group, conventional symbols, actually do not appear. So, a first suggestion refers to lack of symbols that could lead a potential visitor to certain associations. Moreover, today's theatres keep traditional solutions sometimes unclear to contemporary visitors.

A good name and logo are crucial as they symbolise a promise and build trust. This becomes more and more important in a competitive market, and although the number of theatres in Poland has not changed radically, today they must compete with 'on demand TV', modern cinemas and other ways of spending free time. Therefore, theatre managers ought to redefine their offer and use the correct name and logo, which should answer today's audience expectation, and be adapted to existing competition.

In the article it was mentioned that nowadays, theatres have to behave like companies in terms of communication and offer, mainly because today's culture market is more complex and demanding. Unfortunately, some managers think that the mission of a theatre and

its role in a society is so big that the idea will sell itself. They forget that modern culture recipients have wide access to information and know how to find the best proposal. This means that theatres must improve the level of their offer as well as ways of communication. It should be mentioned that such an approach (assuming that theatre will defend themselves without effort) is named the effect of Titanic – managers ignore the environment and lead the organisation into difficult situation (Zaltman 2003). Some managers also believe that marketing is unworthy of the high art and they will not use it (Laberschek 2012); however, they should notice also that marketing prompts how to communicate with the milieu effectively and how to attract new audience is a method of better functioning on the market.

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Robert Jurczak¹, Artur Zimny²

THE SOCIO-ECONOMIC CONDITIONS OF THE DEVELOPMENT OF RURAL BORDER AREAS

SPOŁECZNO-EKONOMICZNE UWARUNKOWANIA ROZWOJU PRZYGRANICZNYCH OBSZARÓW WIEJSKICH

¹Faculty of Economics, West Pomeranian University of Technology, Szczecin, Żołnierska 47, 71-210 Szczecin, Poland, e-mail: rjurczak@vp.pl

²Faculty of Social and Technical Studies The State School of Higher Professional Education in Konin, Przyjaźni 1, 62-510 Konin, Poland, e-mail: artur_zimny@tlen.pl

Streszczenie. Celem przeprowadzonych badań było ustalenie wpływu społeczno-ekonomicznych czynników, w aspekcie transgraniczności, na rozwój lokalnej gospodarki wschodniego pogranicza oraz na aktywizację społeczno-gospodarczą obszarów wiejskich. Obszarem bezpośredniego zainteresowania był pas przygraniczny północno-wschodniej Polski, który terytorialnie pokrywa się z obszarem Euroregionu „Niemen”. Badania zostały przeprowadzone w latach 2007-2010 w 30 gminach wiejskich i miejsko-wiejskich Euroregionu „Niemen”. Zakres tematyczny i wieloaspektowość problematyki badawczej wymagała łączenia analizy ilościowej i jakościowej. W związku z tym zastosowano szereg metod i technik badawczych, pozwalających osiągnąć postawiony cel. Należy w szczególności podkreślić, że przeprowadzone zostały badania ankietowe wśród rolników, przedsiębiorców oraz przedstawicieli samorządu terytorialnego. Obiekty do badań dobrano w sposób celowy. Rezultaty przeprowadzonych badań i analiz pozwoliły na sformułowanie szeregu wniosków i spostrzeżeń. Po pierwsze, lokalizacja gmin w Euroregionie „Niemen”, przy granicy północnej lub wschodniej kraju, ma wpływ na rozwój przedsiębiorczości w przygranicznych regionach wiejskich. Po drugie, uwarunkowaniem rozwoju obszarów wiejskich jest czynnik ludzki, a w szczególności poziom wykształcenia i wiek. Po trzecie, ekorozwój Euroregionu „Niemen” jest wymuszony niedoinwestowaniem gmin i pauperyzacją społeczeństwa, a nie świadomością ekologiczną mieszkańców, przedsiębiorców i rolników. Po czwarte, gminy powinny wykorzystać fakt, że coraz więcej ludzi (zwłaszcza zamożnych), stara się osiedlać z dala od centrów miast, w pięknych okolicach cennych przyrodniczo, których jest sporo w Euroregionie „Niemen”. I wreszcie po piąte, na rozwój obszarów wiejskich pozytywnie wpływają takie czynniki makroekonomiczne jak prawodawstwo unijne i zwiększony dostęp do nowych rynków zbytu oraz do nowych technologii, natomiast negatywnie wpływają takie czynniki społeczno-ekonomiczne jak sytuacja gospodarcza na świecie, prawodawstwo krajowe, słaba dostępność wykwalifikowanej kadry, czy ograniczona dostępność do zewnętrznych źródeł finansowania.

Key words: border areas, rural areas, socio-economic development.

Słowa kluczowe: obszary przygraniczne, obszary wiejskie, rozwój społeczno-gospodarczy.

INTRODUCTION

When Poland acceded to the European Union the importance of border areas increased since they have become the border of the EU. These areas have had socio-economic problems for a long time which are reflected by low incomes, poor enterprise and an aging population (Szamrej-Baran 2010, Final report 2012). These conditions are very dangerous for development and as such there have not been any technological processes undertaken.

There is a threat that the eastern areas of Poland will continue to be left at the margin of main developmental changes (Report 2012). Most of the concerns are about the country and agriculture. These are being solved by local authorities but specific national policy toward agriculture and the country development is essential. It is also necessary to ensure greater coherence at international, national, regional and local level, mainly through the development of technical, social and touristic infrastructure (Siekierski 2006).

Simultaneously, the importance of eastern border areas is increasing since they have become an important space between the European Union and Eastern Europe, which involves special organisational and political solutions. The European Union attaches significance to stimulation of cross-border cooperation and to the elimination of the syndrome of peripheral location (Szczegłowa 2010). Therefore it is worth examining the backwardness of eastern border areas and identifying the conditions of their development.

The aim, the scope of research and methodology

The fundamental aim of research was to identify the influence of socio-economic conditions, relating to cross-bordering, on the development of the eastern borderland's local economy, and on socio-economic activation of rural areas; on the development of enterprise based on local sources in particular. The area of north-eastern borderline of Poland, which covers the area of "Niemen" Euro region, was of special interest. This Euro region constitutes, on the Polish side "Niemen" Euroregion Association and local governments who declared their participation, encompassing the regions of Podlasie and Warmian-Mazurian voivodeships; on the Lithuanian side Alytus, Mariampol and Vilnius regions; on the Belorussian side the grodziński; on the Russian side Czernichowski, Gusiew, Oziorsk, Krasnoznamensk and Niestierow regions (Kaliningrad region) – Fig. 1.

The research was carried out between 2007–2010 in 30 rural and urban-rural communes of "Niemen" Euroregion. The subject was broad and the problem multi-faceted therefore both qualifying and quantifying analyses were necessary. As a result various methods and techniques were used to achieve the aim. It should be underlined that the survey was carried out among agriculturalists (408 farm owners), entrepreneurs (228 firm owners) and representatives of local authorities (30 voyts and mayors).

The individual questionnaires with vivid and hidden questions, taking into account experience gained from previous pilot studies, were prepared for each group of respondents. The questionnaire for the farm owners from the area municipalities of the Euroregion "Niemen" included the following issues: information about the respondent and the farm, assessment of running the farm, sources of financing of the business, opinions about farms' development opportunities, the issues of the border areas and natural environment. The questionnaire addressed to the owners of the companies operating within the Euroregion was divided into the following thematic categories: information about the respondent, the company and its business activities, assessment of running the company, issues of the bor-

The map illustrates the Euroregion Pomerania, which spans across the Polish voivodeships of Pomorskie, Warmińsko-mazurskie, and Mazowieckie. It also includes parts of the Lithuanian counties of Marijampolė, Alytus, and Utena, and the Belarusian district of Hrodna. The map shows the following administrative divisions:

- Polish Voivodeships:** Pomorskie, Warmińsko-mazurskie, Mazowieckie.
- Polish Counties (Powiaty):** Chojnicki, Bytowski, Sępolecki, Żuromski, Kwidziński, Lidzbarski, Iłkowski, Giżycki, Olsztynski, Braniewski, Powiat Żuławy Wiślane, Powiat Żuromski, Powiat Sępolecki, Powiat Bytowski, Powiat Chojnicki.
- Lithuanian Counties:** Marijampolė, Alytus, Utena, Šakių, Vilkaviškio, Trakų, Vilniaus, Šalčininkų, Ašmenos, Smarthon, Astravc, Ukmergė, Sirvintos, Širvintų, Vilkaviškio, Marijampolė, Alytus, Lazdijai, Varena, Voranava, Lida, Navahrudak, Karelicy, Dzjalava, Masty, Želva, Slonim, Vaŭkavysk, Hrodna (Grodno), Hrodziŭski, Biełski, Hajnowski, Siemiatycki, Białystok, Białostocki, Białski, Białystok, Białostocki, Białski, Hajnowski, Siemiatycki.
- Belarusian District:** Hrodna (Grodno).

The map also indicates the boundaries of the Euroregion and the areas belonging to the two Euroregions (Pomerania and Pomerania).

Source: Euroregions within Polish borders in 2007, Statistical Office in Wroclaw, Wroclaw, 2007.

The data was analysed with appropriate statistical tools. The analysis of variance, Kruskal-Wallis analysis of variance by ranks, gamma rank correlation were used as well as and post-hoc test of last significant differences (Aczel 2000, Luszczewicz, Słaby 2001). If a question in the questionnaire was worded so that individual responses were laid in a graduate order (ascending or descending), or the numerical data did not meet the condition of homogeneity of variance, the non-parametric analysis based on a comparison of ranks was used. In such cases other possible answers were accepted (e.g. for the question "how do you assess...", there were choices: a) excellent, b) good, c) satisfactory, d) bad, each respectively assuming the following grades: 4, 3, 2, 1). The analyses based on ranks test were chosen because they are equivalent to parametric tests, which in this case could not be used because of non-parametric test assumptions. In the analysis of rank tests the two kinds were used: the Kruskal-Wallis Rank analysis (the equivalent of a parametric one-way

ANOVA) and gamma rank correlations (a parametric equivalent of the product-moment correlation Pearson coefficient).

The subjects of the survey (farm owners, firm owners, voyts and mayors) were chosen deliberately. As far as the farm owners are concerned, the farms with the best development and products which are related to agribusiness, which have successful cross-boundary cooperation with Lithuania, Russia, and Belorussia were chosen. In case of entrepreneurs, the firms located in rural areas were selected first and those located in towns second, both of these being in agribusiness or closely related to it; and all of which cooperate successfully with Lithuania, Russia and Belorussia. As far as the voyts and mayors are concerned, 30 representatives of communes located in "Niemen" Euroregion took part in the survey. The communes, however, have been divided by location into northern (the influence of northern border with Lithuania and Russia) and eastern (border with Belorussia and some area of Lithuania). Although in the case of intentional selection of respondents it is difficult to talk about the representativeness of the sample, however, according to the authors it does not rule out the credibility of the essential conclusions of the research survey. In addition to the survey a wide range of the available documentation from the municipalities, banks and agricultural advisory centres was used for the analysis. In addition, a number of observations, interviews, conversations and discussions with farmers, advisors in the field of agriculture and agricultural market experts, etc., were conducted that allowed the formation of an opinion on the phenomena, and thus supplementing the information obtained as a result of the survey.

The location and its influence on the development of border rural areas

The results of the survey show that the location at the northern or eastern borderline of the country has a significant influence on the economic development of border rural areas. It can be stated that in the northern area bordering with the Kaliningrad region and Lithuania public limited companies were established much earlier than in the area at the eastern borderline where the first companies were created after 1990. In the northern area, production and trade companies slightly dominate whereas in the eastern area service companies prevail. The production companies were established mainly in the 1980s and 1990s. Later chiefly trade and service companies were created (Fig. 2).

The significant disproportion between the two regions in question is related to the location scope of the companies. Almost 29% of the companies in the northern area declared their territorial scope as being the whole country and abroad, but in the eastern area only 6.45% made this declaration. The fact is that in the eastern area there were more service and trade companies, performing locally to fulfil the needs of residents and agriculturalists in the region. However, in the northern area production companies did business both domestically and internationally. Compared to the eastern area there were more companies established by a natural person (90% of all companies).

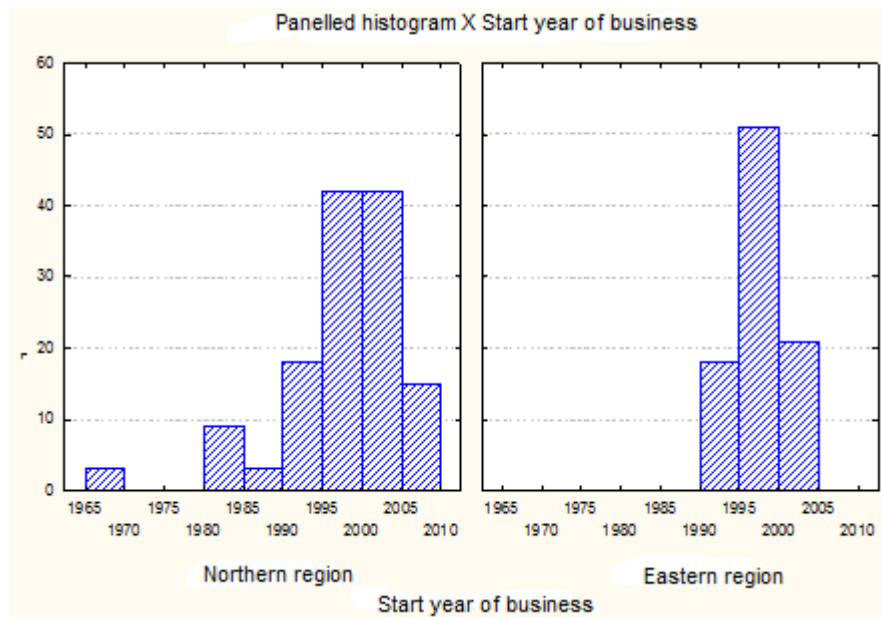


Fig. 2. The start year of business by firms included in the study
Source: Data obtained in the survey.

The influence of cross-border cooperation on the development of border rural areas

It would seem that the boundary location is a major asset for the residents of border areas. Especially for those entrepreneurs who want to enter new markets which are more attractive than the Polish market. They have mentioned the issue in the survey themselves, planning to go outside Poland with their business. Whereas as the results show only 18.86% of respondents think that boundary location influences their business. They only mention new foreign clients, less aggressive competition and possibility of trading their products and services abroad. Other entrepreneurs could either not answer the question or think that bordering with Lithuania, Belorussia, and Kaliningrad has no effect on their business. The results show that every fifth entrepreneur has some connections with foreign partners. The small group of people declaring their willingness for cross-boundary cooperation are those located in the northern area.

As far as the agriculturalists are concerned only 40.20% think that euroregions should be created. An interesting thing is their opinion on the local authorities' cooperation with bordering countries. Most respondents (57.84%) consider the cooperation to be wrong. The respondents from the northern areas assess cross-border cooperation the worst. Only every third agriculturalist discerns positive aspects of the boundary location. Other merits of such location can be better trade, cheaper product availability (including production resources) and cultural cooperation.

To sum up, in light of the survey cross-border cooperation has had little effect on the socio-economic development of border rural areas.

The influence of human factor on the development of border rural areas

Many authors dealing with issues of local development draw attention to the role of human resources as a key and often underestimated factor of local development (Kozera 2006). This is confirmed by studies conducted in “Niemen” Euroregion. The results show that people constitute an important factor determining the development of the area in question especially the entrepreneurs’ and agriculturalists’ age and education. The analysis of the data indicates a relationship between the age and education of respondents and their opinions on possibilities of expanding their business across the border of Poland. Investments in bordering countries are planned mostly by young respondents, however, the owners with higher education are more expansive (Fig. 3). Moreover, a higher education affects respondents’ plans related to an increase of their business profitability. A positive attitude can be seen in educated owners who graduated from agricultural or non-agricultural schools (Fig. 4).

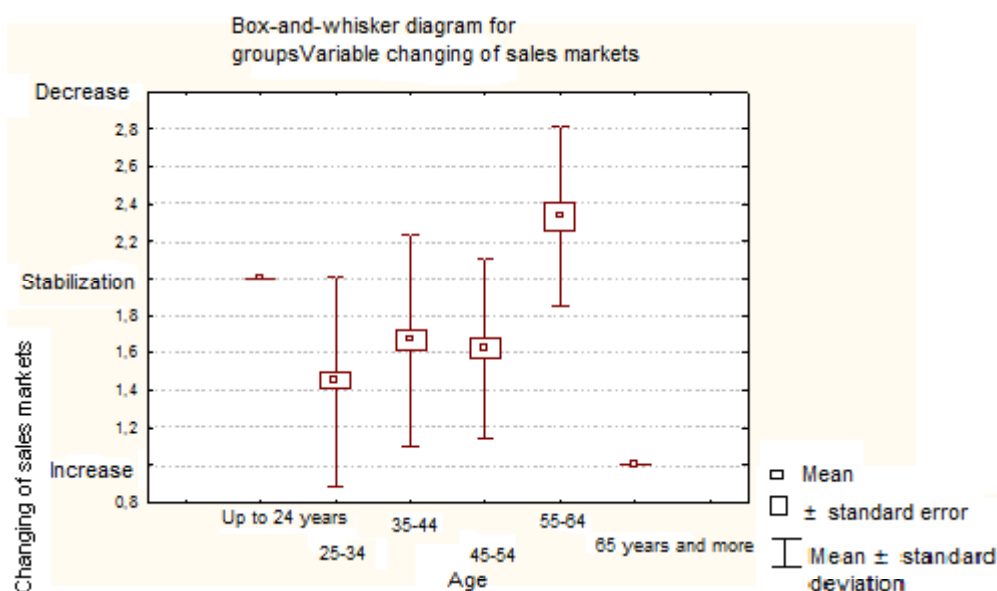


Fig. 3. The influence of the respondents’ age on the activity plans outside Poland
Source: Data obtained in the survey.

Higher education also determines respondents’ beliefs about green development of rural areas. The results indicate that ecological awareness is identified with entrepreneurs with a higher education¹. Education of agriculturalists also significantly affects their interest in non-conventional production methods. The higher the education respondents have the higher their interest in integrated agriculture is.

Education significantly influences the way of raising money for environmental investments. As the results show only educated respondents collect money from various sources and do not only use their reserves. The level of education also determines the development

¹ The results are amazing due to the fact that most environmental investments were made by the group of the oldest respondents, and later by a bit smaller group of people at the age of 35–44.

of farms thus the better educated and more enterprising, enlarge their farms instead of only inheriting them from their parents. The level of education also influences the way in which they take over a farm. The results show that educated respondents became farm owners through purchase or lease. Education also influences diversification of the family income. Additional activities are undertaken by all educated respondents, especially non-agricultural graduates. Education is an element stimulating the development of rural areas and enabling changes in income system so as that agriculture is not its main source.

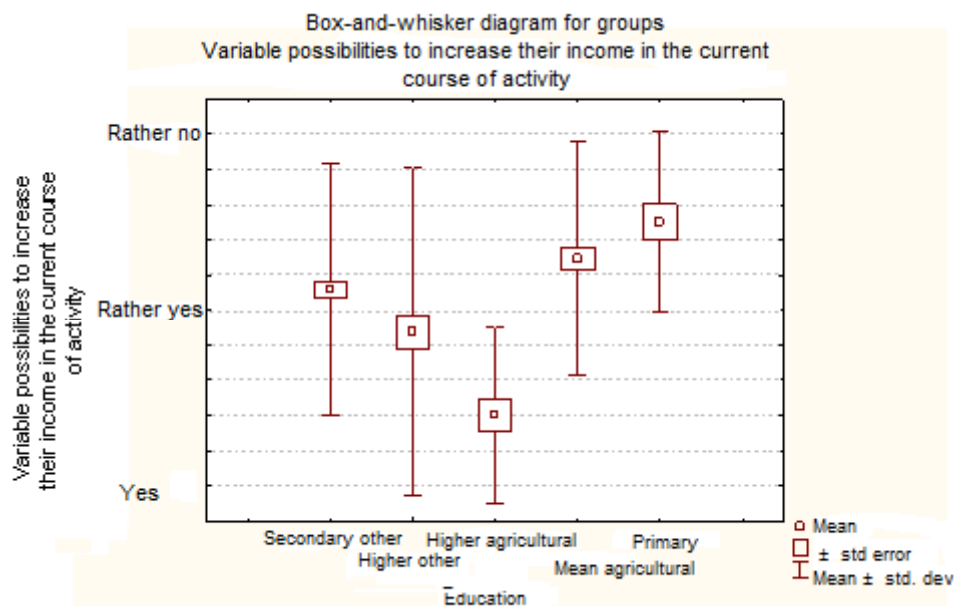


Fig. 4. The influence of the respondents' education on opinions concerning the possibility of increasing profitability of firms

Source: Data obtained in the survey.

Generally, younger and better educated people are more enterprising and willing to take advantage of the benefits of cross-bordering of "Niemen" Euroregion. It can be stated that education and access to education are significant favourable elements in the development of border rural areas (Czerna-Grygiel 2010).

Balanced development of border rural areas

According to local authorities the "Niemen" Euroregion aims to develop (balanced development) as a result of its natural value. The voyts and mayors indicate the following advantages: landscape and natural values and tourism (natural opulence and farm tourism). It should be underlined that the local authorities appreciate the existence of areas of great natural interest. They are aware of the fact that restrictions imposed on users of this natural asset are not a barrier but an unquestionable advantage. It has to be noticed that many communes became popular only when a restricted area had been appointed there. For many of them a national park has become a flagship of the area as well as free promotion.

According to the survey, the majority of the agriculturalists (87.75%) run traditional, conventional farms. Only 9.31% of respondents are engaged in ecological organic farming, crucial in terms of environmental preservation and green development. Only 16.91% are willing to shift to organic production and most are from the eastern border areas. The overwhelming majority is not interested in any change at all. They mention the barrier of low profitability. Additionally, only 5.39% of respondents have implemented some of the packages of the environmental management scheme and 9.80% were interested in them. The others can be divided into those who have knowledge about the scheme but are not interested in it (30.64%) and those who know nothing about the scheme. Unfortunately, the last group is the largest.

The fact that the “Niemen” Euroregion is heading slowly towards green development is confirmed by data obtained from the agriculturalists. Little more than a half of the respondents were planning investments on their farms. Most of the changes are related to environmental preservation and they include firstly, building manure pads and; at smaller range farm tourism development, building an onsite sewage treatment plant and then buying agricultural equipment.

Barriers to the development of border rural areas and methods of their overcoming

Development of any area depends on its opportunities as well as problems it deals with. According to the voys and mayors the main barrier in the communes is a lack of financial sources (40%) – Table 1. An administrative reform set local authorities new tasks. The condition of education, health service, and local development will depend on the budget of a particular commune. A deficit in the budget will be reflected in low expenditure on the technical infrastructure. The conclusion can be drawn that the green development of the “Niemen” Euroregion is the result of the underfunding of communes and poor population rather than ecological awareness of the residents, entrepreneurs and agriculturalists. Another problem is caused by unemployment. The problem is very serious in the area. The communes are characterised by greater unemployment due to relatively small (or non-existent) job market other than in agriculture. This problem has already been noticed by many authors who believe that the issue of utilisation of surplus labour that cannot be adequately managed in efficient agricultural production is the most important challenge of the Polish rural areas (Spychalski 2005).

Another important issue is the policy of commune authorities aimed at overcoming existing barriers and stimulating the development of rural areas. The fundamental task of a commune is, according to respondents, to raise money from outside sources. The authorities want to achieve it by attracting investors from outside offering them tax relief and exempting them from some payments. Other actions (ideas) are related to the creation and modernisation of technical infrastructure and better expenditure of financial resources coming from foreign financial aid programmes. The improvement of infrastructure is strictly related to attracting new

investors. The improvement of infrastructure depends on raising financial resources, which again is related to new investors who will not appear without infrastructure (Table 2).

Table 1. Barriers to the development of the communes according to the voyts and mayors

Specification	Response rate
Lack of developed infrastructure	22.2
Lack of land development plan	4.4
Financial barriers	40.0
Lack of stabile economic policy	2.2
Unemployment	13.3
Lack of tourism base	4.4
Lack of investors	2.2
Environmental preservation	4.4
Ineffective condition of agriculture	4.4
Lack of promotion of communes	2.2

Source: Data obtained in the survey.

Table 2. The methods of overcoming barriers to the development of the communes according to the voyts and mayors

Specification	Response rate
Gaining new outside financial sources	32.2
Farm tourism	5.4
Implementing financial aid programmes	13.5
Modernization of technical infrastructure	16.2
Change in systems of funding communes	5.4
Exempting from taxes and payments	2.7
Promotion of landscape and natural values	5.4
Development of specialist agriculture	5.4
Creating new jobs	2.7
Attracting investors	10.8

Source: Data obtained in the survey.

Table 3. Evaluation of influence of macroeconomic conditions on the commune development according to the voyts and mayors

Specification	Positive influence (response rate)	Negative influence (response rate)
Economic condition in the world	1.06	19.80
Qualified staff availability	6.38	16.44
EU legislation	20.21	7.53
National legislation	2.13	19.18
Access to new markets	26.60	3.42
Access to new technologies and innovations	20.12	7.53
Access to outside financial sources	8.51	15.07
Institutions supporting business	14.89	10.96

Source: Data obtained in the survey.

Commune authorities believe that the macroeconomic conditions in most cases negatively influence the local development except for European Union legislation and a greater access to new markets and new technologies (Table 3).

CONCLUSIONS

The results of the survey and the analysis have enabled the authors to formulate a number of conclusions and observations. The most important are presented below:

- Localisation of communes in the “Niemen” Euro region at the northern or eastern border line has an influence on the development of enterprise in border rural areas; in the northern areas production and trade are slightly dominant whereas in the eastern areas service and agriculture prevail;

- Cross-bordering does not greatly affect the development. According to residents of bordering areas cross-border cooperation is not good; in the areas in question the worst level of cooperation is with bordering countries in the northern areas; the advantages of the location of the “Niemen” Euro region are better trade, cheaper products (including production resources) and cultural cooperation;

- The human factor is one of the conditions of development, especially the level of education and age; people with higher education are more enterprising, more willing to use rent possible to gain from cross-bordering; education and access to education is an important condition stimulating development of border rural areas; a greater interest in integrated agriculture and organic farming is determined by the level of education of agriculturalists; education significantly influences the diversification of family income;

- The “Niemen” Euroregion's aim to develop (stable development); the green development of the “Niemen” Euroregion is the result of underfunding communes and pauperisation of residents rather than their ecological awareness;

- The commune authorities take care of the environment, attract investors from outside offering them tax relief or exempting them from some payments; the communes should benefit from the fact that more and more people (especially wealthy people) are trying to settle down far away from city centres in beautiful, valuable in terms of nature areas, which are so common in the “Niemen” Euroregion;

- Macroeconomic factors which positively influence commune development are: EU legislation, greater access to new markets and new technologies; negative effects on the rural areas development are caused by; socio-economic conditions namely economic situation in the world, national legislation, no qualified staff available, limited access to outside financial sources.

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Tetyana G. Kaminska

INFLUENCE OF THE INFORMATION (POST-INDUSTRIAL) STAGE OF PRODUCTIVE FORCES DEVELOPMENT ON CAPITAL CYCLE FLOW NATURE

WPŁYW ETAPU INFORMACYJNEGO (POSTINDUSTRIALNEGO) W ROZWOJU SIŁ WYTWÓRCZYCH NA CYKLE PRZEPŁYWÓW KAPITAŁU

National University of Life and Environmental Sciences of Ukraine, email: ktg8@yandex.ru

Streszczenie. Niniejsza praca bada wpływ etapu informacyjnego w rozwoju sił wytwórczych na cykle przepływów kapitału. Celem pracy jest określenie zmian, które powinny być uwzględniane w cyklu kapitałowym będącym w procesie przejścia od etapu przemysłowego w rozwoju sił wytwórczych ku etapowi postindustrialnemu (informacyjnemu). W pracy poddano analizie elementy, trendy rozwojowe i znaczenie cyklu przepływów kapitałowych. Zwrócono również uwagę na podstawowe zmiany w cyklu kapitałowym zachodzące pod wpływem sił wytwórczych, jak i na wynikające z tych procesów korzyści i niekorzyści. Ponadto, autorka przeprowadziła analizę cech charakterystycznych cyklu kapitałowego.

Key words: capital cycle, information society, post-industrial economy, productive forces, scientific and technological progress.

Słowa kluczowe: cykl kapitałowy, gospodarka postindustrialna, postęp naukowy i technologiczny, siły wytwórcze, społeczeństwo informacyjne.

FORMULATION OF PROBLEM

At any stage in the development of humanity an economic essence of “capital” category and the nature of its cycle are unchangeable. However, quality changes of productive forces and production relations’ improvement cause fundamental changes in the capital cycle process. The development of globalisation, information technology improvement, transformation of information into an important factor of production, legalisation of new forms of business are influential factors that demand a new vision of the capital cycle and give the possibility to broaden its conception considerably.

The concept of capital and its cycle in various aspects are actively being studied by scientists. However, the problems of the influence of information technologies, up-to-date communication and other achievements on progress on capital cycle flow are being insufficiently studied.

The aim of this research is to find out the changes that should be taken into account in the capital cycle under the influence of transition process at the industrial stage of productive forces into postindustrial (information).

METHODS

During the study the following theoretical generalization methods were applied – analysis and synthesis, induction and deduction, systematic approach, comparison, analogy,

abstraction. Methods of theoretical generalization and comparison are used to research changes in the capital turnover. Historical and systematic approaches are used to research the historical background of the emergence of the concept of capital. The graphical method used for visual display transformation of capital in the cycle, used methods of mathematical statistics – to assess the market value of the capital turnover.

THE ANALYSIS OF RECENT RESEARCH AND PUBLICATIONS

Both terms – postindustrial and information society that come from the west are distinguished by an inaccuracy in their literal interpretation. What does the term “postindustrial society” mean literally? How can society exist without an industrial base? A society needs quite a powerful industry to survive and develop. Could we arrange society's essence and nature and its productive forces to information, as it is becoming more and more important? Of course, we could not. Moreover, on the one hand, collection, processing, generation of information and organisation of its flows should serve the goals that are not arranged into information and on the other hand rely on material basis developed industry.

The term “information and industrial stage of productive forces” proposed by professor M.I. Butynets, M.P. Voinarenko, S.F. Holova, M.S. Pushkar, Ya.V. Sokolov, V.F. Paliy, V.D. Bazilevich and V.V. Ilin fairly points out that: “Transition from industrial to spiritual and informative society, transformation of economic development models under the influence of economy globalization, labour intellectualization, production dematerialization and capital change into the dominant factor of economic development result into fundamentally new problems that need other conceptual decision and reconsideration of a number of profound theoretical and methodological principles and concepts of economics (Bazilevich, Ilyin 2008) A. Buzharin and A. Kolhanov note”. Globalisation occurs as an immediate reaction to the previous development: the capital having reached the maximum limits of its concentration within the national boundaries strives for its realization in a wider spatial economic continuum and transforms into a global capital in such a way (Sidenko 2008). In the formative and industrial stage of productive forces, development is a new quality stage of society's material and technical base meeting the requirements of both the economic and social system of a brand new quality and economic mechanism. Determination of the essence, nature, principal direction and forms of future societal development runs into the definition of quality novelty in three fundamental parameters: productive forces (material and technical base); economic and social system; economic mechanism. Yu. Ishikava relying on K. Marx's theory researched the changes in the capital cycle in XX century. In his opinion, the transition from industrial to financial and investment capital is being observed and this caused the transition from the production capital accounting paradigm to loan or fictitious capital paradigm and results in the separation real and fictitious capital cycle (Golov 2007).

The transition to a new quality stage of society and its productive forces development as we can see on the example of the developed countries of the west is realizing in its own manner in the Ukraine but some unreasonable economic reforms impede it. Despite the development of this process at present, only separate features and tendencies of information and industrial society formation can be determined.

RESULTS OF RESEARCH

Referring to a new quality social and economic system establishment in society the opinion of I. Larionov seems to be the most acceptable. He specified it according to the peculiarities of modern times. I. Larionov thinks that it is necessary to create a social and economic system aimed at the revelation of a person's creative potential and based on the continuity of national and historical traditions. They, in their turn, affect the post-industrial stage of development that ensures the synthesis of civilization and culture in the future and develops informative and ecological economy. It consists of the best features of both market and capital and planned and distributive economies (Larionova 2001).

In addition, the process of integration of national states into common society and national economies into a common world economy is seen not in the form of states and their economies merger into common nonstructural unit but in the form of the synthesis of national states and economies into certain integral community and with the national states integrity, accordingly concerning separated national economies taking into account objective differences of national and state interests of world countries.

Obviously the specific nature of any country should be traced in economic mechanism. General principles and regularities of economic mechanism at the stage of eco-humanism (from ancient Greek οἶκος – house, home and Latin *humanitas* – humanity); some authors equate this concept with the postindustrial or informative stage of society's development (Ekologicheskaya filosofiya) also occur and demand thorough study. New quality money, informative by its nature and electronic be its bearers (Larionov, Timerbulatov 2000), as well as a corporate economic mechanism with an advanced technologic orientation, is among the basic principles that have an important meaning (Motylev 1990).

The elements, development tendencies and peculiarities that have fundamental importance for the examination of capital cycle flow can be distinguished concerning informative and industrial stage of productive forces development.

1. The meaning of the informational component (constructions and technological realization of research and developments projects) greatly increases in the use value of finished products.

2. Research and development projects and organisational and administrative developments play a leading role in the process of production; while the process of material production is changing into materialisation of intellectual and informational activity.

3. Real values are produced by labour in the sphere of material production. Intellectual and informative labour itself is not able to produce real values despite being connected with the sphere of material production it is able to be a factor (multiplier) of a product value (cost) raising it in the succession of chances by tens, hundreds, thousand etc. times.

4. Science, education and management become not only the sphere of productive activity but transform into a leading factor of productive force development.

5. The introduction of a new quality sample of machinery and technologies causes a sharp intensification and acceleration of moral depreciation of fixed capital particularly machinery and equipment. Accelerated replacement of machinery and equipment become predictable according to this fact.

6. A bigger part of the population is moving into service industries especially consumer services and tourist and entertainment services with the increase of social labour efficiency and the increasing displacement of direct labour from the real sector of economy. The mechanisms of state regulation providing redistribution of value that are produced in a real sector of economy into the service industry and should be created.

7. The informative and intellectual component is becoming a more and more important part of product cost and price.

8. The level of payment for labour among the most qualified workers in the sphere of information and management is increasing by several times.

9. Use of certain types of intellectual and information flows and services should be popular and free of charge. This is needed for rapid and sustainable development of a society and its productive forces. The use of other types of intellectual and information flows and services should be paid, those being needed for material reward of those who generate intellectual and information values and maintain the functionality of the infrastructure of their storage and distribution. According to each stage of development of society and its productive forces, one should observe the balance between free and paid use of products of intellectual and information labour.

10. A product of intellectual and information activity has a social value including price in the case of its sale, only at the highest quality level and recent achievements. If tangible goods, because of their scarcity and deficit, are needed by the society not only in their best specimens but in mediocre ones (for example, the best clothes and shoes are not available for all residents, but everybody should have shoes and clothes), then the intellectual and information product reasonably should be used only in its best quality as it is relatively easy to copy and distribute. For example, if a more advanced machine is designed or a better technology is developed, the "good" being at a lower level of engineering and technology

are unnecessary (if the access to a higher level engineering and technology is closed for the part of their potential consumers).

11. The main and leading value in society is the predominating part of social wealth that comes from information, that is understood in its broadest sense ranging from discoveries, invention, technical and technological developments a number of information.

12. Introduction of a more perfect intellectual product depreciates the value (and cost) of the preceding product according to the function of intellectual and information product, no matter what this value (cost) was before its depreciation.

13. Labour or a labour product in the humanitarian sphere, culture and art being a (variety) of intellectual and information labour and its products plays an increasing role in the basic development of all branches of society's life including the field of industrial and economic activity.

14. The importance of the ecological factor in industrial and economic activity concerning nature, but also man, is increasing extraordinarily. The latest technologies should simultaneously support nature conservation and revival and meet the requirements for lifestyle and human creative potential.

15. The latest technologies meeting the information and industrial stages of production force development enable the simultaneous increase of the level of social labour in times and not only conserve environment but also revive and ennoble it.

All this leads to the formation of new accounting and control objects. Taking into consideration the above mentioned processes in the transformation of material and technical base of the society, consider the influence of these processes on capital cycle under the conditions of the formation of information and industrial stage of productive forces development.

The capital goes through the following stages in the process of a complete cycle:

1) at the first stage capital in the form of money (C_m) is invested into specific factors of production – the means of labour, objects of labour, that are transforming into productive form;

2) at the second stage productive capital (C_{pr}) is gradually converted into commodity form that includes the form of produced services in the process of production;

3) at the third stage commodity capital (C_c) is converted into monetary capital.

At the third stage of capital cycle ($C' - F$), the excess over the invested value ($F - M$, M_p , L_f) at the beginning of the capital turnover, can be clearly seen and is expressed in the creation of value added product.

This process is expressed as:

$$C' = C + m \quad (1)$$

$$F' = F + f$$

where: C , C' – commercial commodity after turnover;

F , F' – funds invested into production and obtained as a result;

M_p – means of production;

Lf – labour force;

M – materials.

The formation of information and industrial stage of productive force development cannot avoid influencing the nature and structure of additional products, trying to identify the nature and mechanism its cost of this effect.

In this case the basis of the additional product is the combinative economic effect that is often called synergic or synergetic economic effect (Larionov, Timerbulatov 2000, Motylev 1990, Motylev 2001).

V. Motylev distinguishes quantitative and qualitative economic growth in social reproduction system conforming to conditions of quality growth. An additional product is formed in the form of synergetic economic effect, that is defined as the difference between the integrated value (cost) of all production factors and the finished products and the mechanical amount of the same factors provide their effective combination in the reproduction process (Motylev 2001b).

The term “synergetic effect” or “synergic” (from the word “synergetics”) came to economics from cybernetics. We think it is better to use the term combinative economic effect, although we do not dispute the above mentioned term.

Combinative economic effect (CEE) is a surplus value (cost) of the finished product over the mechanical amount all factors of production consumed in the manufacture of these products, though while assessing these factors value of labour is taken into account instead of labour force (cost) (Marks 1960).

Combinative economic effect (CEE) is sure to arise only under the effective combination of production. The phenomenon of anti-effective production occurs by their ineffective combination, when the value (cost) of the finished products is lower than the mechanical sum (amount) of all production factors consumed in their manufacture including the labour value (cost).

An additional (extra) cost such as the difference between the value created by a worker labour and the cost of his labour force also occurs in the social reproduction system and is realised according to the mechanism exposed by K. Marx in his “Capital”. However, our conflict with K. Marx is that we do not consider the production and appropriation of additional (extra) cost based on the exploitation of hired labour as general-purpose situation that takes place under the option of a worker hired in capitalist production. We consider employment to be this type of hiring a worker. Other options of hiring a worker can be the following: payment for labour; payment for the results of labour; payment of expenses and payments for labour results simultaneously. The following items may be the basis of additional product depending on the nature of labour force hiring and the efficiency of production factors combination:

- 1) only the additional (extra) cost (in the sense exposed by K. Marx in the “Capital”);
- 2) only combinative economic effect;

3) partially added value, partially combinative economic effect, moreover, depending on the specific economic situation with the domination of one or another.

The difference in the sources of education of added product can be represented by Figure 1.

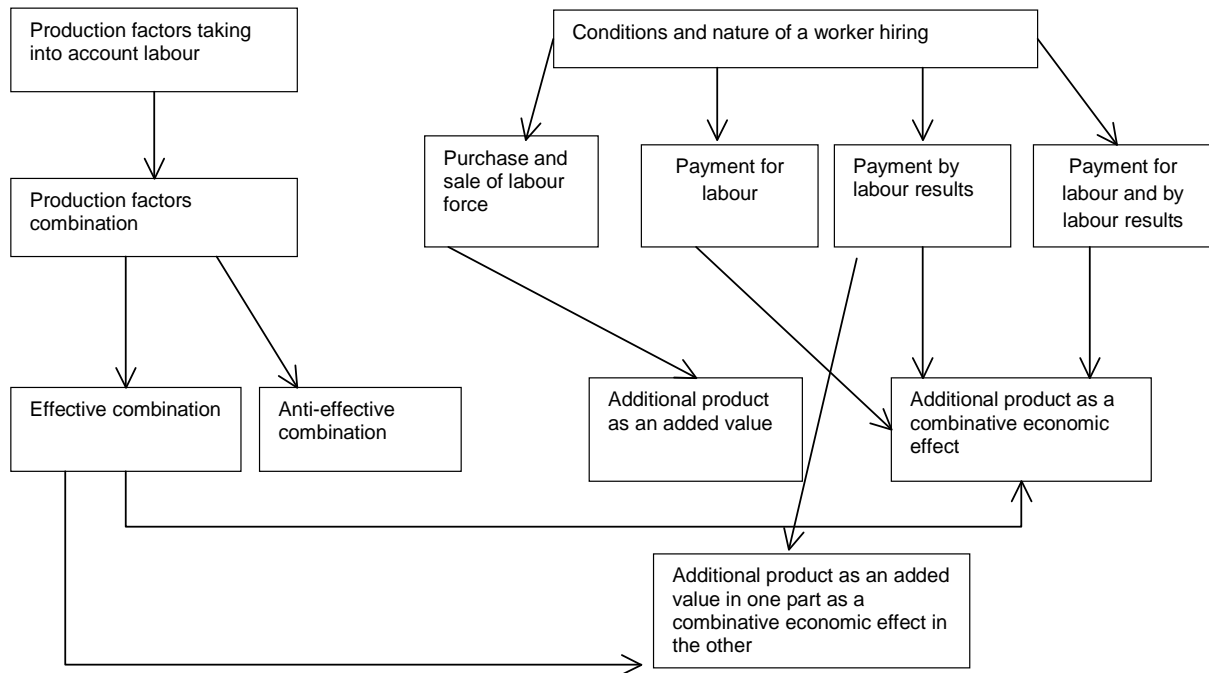


Fig. 1. The formation of an additional product in the production process

Source: own study

Analysing the given scheme should mean that the result of labour is not of equal value to combinative economic effect that occurs precisely as a result of combination of all production factors, labour included. The labour itself as one of the production factors, even the leading one, has its own efficiency or productivity, which is inherent to it as a production factor. For example, one worker can produce 100 articles, and the other – 120. Obviously, efficiency (productivity) of labour is different. But this difference is not a distinction in the creation of combinative economic effect, determined by the combination and interaction of all production factors, without exception and not only labour in the production process.

The possibilities of production factors combination and moreover the possibilities of their more effective combination are increasing at times during the information and industrial stage of productive forces development.

The rise of society as a whole through the stages of social maturity is taking place with the formation of information and industrial stage of productive forces development; namely: a) the strengthening of a workers' position on the labour market; and, b) the increase in the degree of a person's social protection. Both these factors cause the tendency to the displacement of the purchase and sale of the labour force by the process of its hiring by the

payment for labour and by results. Accordingly, the share of added value in the value structure of added product is reduced with the increase of the added product value amount due to the growth in it. The share that is the result of combinative economic effect.

Taking into consideration the above mentioned, the elements of the cycle formula (1) are specified:

$$\begin{aligned} C' &= C + \delta (Adv \Rightarrow 0; CEE \Rightarrow \infty); \\ F' &= F + f (Adv \Rightarrow 0; CEE \Rightarrow \infty), \end{aligned} \quad (2)$$

where: *Adv* – added value,

CEE – combinative economic effect.

The combinative economic effect occurs as a result of highly skilled labour realizing its creative potential primarily in two spheres – science and management. Information and combination of organization and management that are understood in the broadest sense are the products of these spheres.

As already mentioned, society needs the combination of free of charge egalitarian access and addressed payment while consuming a specific product of these two kinds of labour that along with labour in the spheres of education, culture and art all play a decisive role at the information and industrial stage of development.

Concerning science, the element of free of change in the information circulation is obvious and concerning organisational and managerial labour, it is necessary to pay attention to the fact that society scale consumption of a number of organisational and managerial decisions is free of change while paying expenses.

The central problem of the capital cycle is dialectics of continuity and interruption of capital cycle stages nation and industrial epoch this dialectics is laid over by the dialectics of payment and free of change provision of labour results in the fields of science and organization and management combination.

The capital cycle formula is specified as follows (Fig. 2)

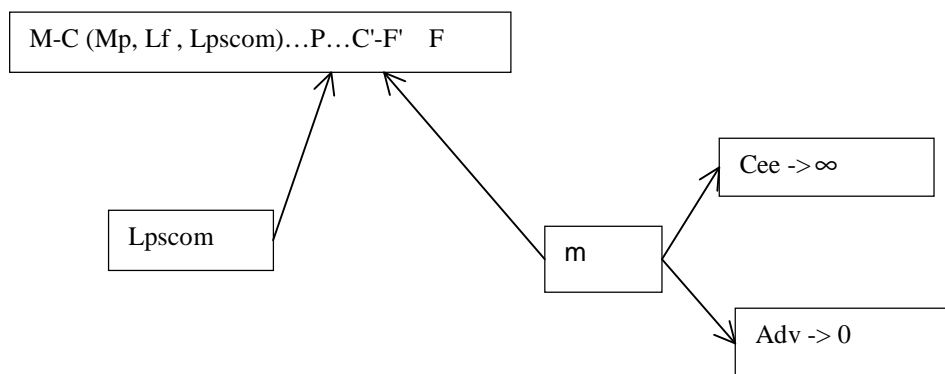


Fig. 2. Specification of capital cycle

where: *Lpscom* – labour product in science and combination of organization and management.

Source: own study.

While the share and the absolute value of CEE in the structure of an added product value is increasing with growth corresponding to its value, the monopoly concerning a small part of highly qualified staff who has creative potential resulting in exclusively high payment for their labour is simultaneously increasing. However, such payment, as a rule, is compensated with excess by the value of combinative economic effect generated by their labour.

Scientific and technological progress, the rate and scope of which are considerably growing at the information and industrial stage of productive forces development creates the following elements of material and technical progress.

Firstly, not only mechanisation but also automation of loading and unloading operations are provided.

Secondly, the favourable storage of material assets and corresponding high level of safety are provided.

Thirdly, transport vehicles are becoming more technically advanced, reliable and economic.

Fourthly, the amount and quality of road networks, their infrastructure and air and water transport are expanding.

Fifthly, the movement of production goods and wholesale consumer items consignments are fully and thoroughly computerised based on computers and computer programme improvement.

The above mentioned elements of scientific and technological progress in commodity circulation influence capital cycle:

1. It is becoming more profitable to concentrate production stock and finished products not in warehouses of consumers or producers enterprises but in big, technically highly equipped warehouses and depots. It enables one:

a) to provide high stock mobility; b) to use the most effective technologies of goods loading and unloading, storage and transport; c) to save on the expenses of production goods and finished products storage, transport, loading and unloading, correspondingly pay the share of these savings in the form of profit to big warehouses and depots and the other share of funds can be spent on the reduction of expenses of enterprises turnover.

2. Every enterprise is surrounded by the network of specialised warehouses and depots supplying it with the necessary production goods and as well network of other warehouses and depots accepting its products to supply to enterprises – consumers, retail chains or for export. Thus, mezeoeconomic network is practically created around each enterprise. The network includes specialised depots, warehouses and transport enterprises with (correspondingly) adequate infrastructure and industrial and agricultural enterprises.

3. The enterprise's capital turnover included into above characterised mezeoeconomic network is increasing considerably, while monetary capital turnover and real movement of goods are also accelerating.

The process of production is intensified due to a better organisation of product delivery and as a result its volume increases at the same production capacities and with the same worker's contingent.

The development of marketing methods on the basis of computer monitoring of sales demand and development flow combining with the development of flexible technologies enable the production of the most desired consumer products with its address delivery to a buyer. The following trends are developing on this basis along with the improvement of goods movement process based on the scientific and technological progress:

1) The relative number of production stock and finished products in society as a whole is reducing with regard to volume of production not only at the warehouses of producers and consumers but also at warehouses and depots serving a lot of enterprises.

2) Interindustrial (mezo-economic) capital cycle is increasing considerably and due to this flow of fund is accelerating at all cycle stage and each enterprise.

3) The period of the introduction of new technologies and scientific developments is significantly reduced.

The unwise, from the position of social interests, use of scientific and technological progress with the initial stages of information and industrial society leads to significant deformations of capital cycle at all levels: micro (an enterprise), mezzo (chains of interbranch connections), macro (national economy), mega (world economy).

The computer revolution as well as its various positive effects on the economy, caused two huge negative consequences.

Firstly, the enormous economic impact of computerisation (relates) to the fact that costs of the new generation of computer technologies decreased and the efficiency increased in times was substantially used as a trademark of speculative and brokerage operations that began to snowball. At the beginning of the third millennium the volume of production in the world (total GDP) was 49 trillion USA dollars annually and speculative and brokerage operations in the form of purchase and sale of various kinds of securities reached a sum 10 times greater about 500 trillion dollars (Mirovaya ekonomika).

Secondly, computers have been used as a material and technical basis of speculative and brokerage operations, their internationalisation that has increased the volume of speculative and brokerage capital.

Both absolute and relative growth of speculative and brokerage capital effects the development of the real sector of the economy in the following way:

- 1) by diverting capital from production investment reducing the real investment level;
- 2) by reducing the capacity of mass solvent market that also reduces volume of production regarding the possibilities possessed by the society.

In this case a unique combination of negative trends of human societal development is observed.

The Ukraine is entering the mainstream of world progress as a result of the reform of the past two decades. Science, innovation, education and technology have become the priority branches of development at the postindustrial stage. Unfortunately, these branches in the Ukraine are slowly developing testifying that our country is just approaching the post-industrial epoch. These conclusions are based on the analysis of the given below tables.

Table 1. Financing of scientific and technological work according to activity sectors

	2000		2005		2009		2010	
	hr.ths	%	hr.ths.	%	hr.ths	%	hr.ths	%
Total	2 046 339.0	100.0	5 160 399.8	100.0	7 822 209.8	100.0	8 995 893.9	100.0
Government sector	740 980.3	36.2	1 556 935.1	30.2	3 025 558.4	38.7	3 274 433.9	36.4
Business sector	1 202 417.1	58.8	3 359 716.8	65.1	4 284 503.7	54.8	5 156 185.7	57.3
Higher education sector	102 836.4	5.0	243 747.9	4.7	511 935.4	6.5	565 054.2	6.3
Private non-profit sector	105.2	0.0	–	30.2	212.3	0.0	220.1	0.0

Source: Naukova ta innovatsyina diyalnist v Ukrayini: statystychnyi zbirnyk. 2011, s. 81.

Analysing the data in Table 1 we can see that the financing of scientific developments has increased more than fourfold in the recent 10 years while the business sector is the dominant financing structure.

Table 2. Average staff monthly earnings according to the types of economic activities in 2010

Branches of economy	Average earnings	
	UA hrivna	per cent according to average in economy
Total	2239.0	100.0
Education and science	1889.0	84.3
Financial activities	4601.0	205.5
State administration	2747.0	122.7
Industry	2580.0	115.2
Construction activity	1754.0	78.3

Source: Naukova ta innovatsyina diyalnist v Ukrayini: statystychnyi zbirnyk. 2011, s. 39.

Table 2 provide data about proportion of average monthly nominal gross payroll to education, science, state administration, construction staff and financial and credit organization to average level of wages salaries in the Ukraine.

The wage level in education and science should be substantially higher than the average level of wages, since the progress of human society and productive forces development depends mainly on these spheres. Respectively, a higher salary should not only reward the labour in these branches but also attract the most talented and active people into the sector. The opposite situation has developed in the Ukraine. In 2010 the level of salary in education was 84.3% of the average salary level of the Ukraine. Salaries in finance, industry was in 1.5–2 times higher than in education and science. This leads to the highly qualified staff turnover from science and education into different business spheres that does not assist the development of the former (Table 3).

Table 3. Number of people employed in scientific organisations (ths. person)

Years	Full-time staff	Specialists involved in research and scientific and technological activities			Support personnel	Part-time staff involved in research and scientific and technological activities
		total	out of whom			
			Doctors of sciences	Candidates of sciences		
1991	449.8	295.0	3.4	27.8	103.1	36.1
1995	293.1	179.8	4.1	22.9	62.8	41.7
2000	188.0	120.8	4.1	17.9	35.6	53.9
2005	170.6	105.5	4.2	17.0	32.0	68.5
2010	141.1	89.6	4.5	17.0	26.0	69.4

Source: own study.

Staff numbers involved in research and developments has decreased more than three times (from 295.0 ths to 89.6 ths persons) over the last twenty years. Keeping this tendency may affect the future development of science and education in the Ukraine.

CONCLUSIONS AND PROSPECTS OF FUTURE RESEARCHES

The development of productive forces and production relations cause fundamental changes in the nature of the capital turnover. In today's world, the basis for the creation of added value is not labor, and synergy effect. It causes more attention to capital and combining factors of production, innovation and integration of science and production.

Thus, the Ukraine has been building an information and industrial society in the process of the market reforms of the last two decades. The results of these reforms have been obtained and at present the Ukraine is entering the direction of universal progress. However, a lot of problems have not yet been solved, including the necessity of technical and technological re-equipment of enterprises focusing more on science and education development. And this, in turn, accelerates the capital cycle, increases its efficiency that will improve enterprises' profitability and satisfy social needs. Further development of productive forces and its influence on capital cycle may be the subject (objects) for future researches.

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Edlira Llazo

SMALL SCALE FARMING AND AGRICULTURAL PRODUCT MARKETING IN ALBANIA

MAŁE GOSPODARSTWA ROLNE I MARKETING PRODUKTÓW ROLNYCH W ALBANI

Department of Marketing, Aleksander Moisiu University Durrës, Albania,
e-mail: edlirallazo@uamd.edu.al

Streszczenie. Historycznie, rolnictwo zawsze odgrywało ważną rolę w gospodarce Albanii. W związku z przejściem do gospodarki rynkowej oczekuje się, że sektor rolniczy przyczyni się do rozwoju gospodarczego kraju. Dzięki posiadanym zasobom rolniczym, potencjalnie konkurencyjnemu przemysłowi rolnemu i zasobom ludzkim, Albania posiada potencjał by wykorzystać rolnictwo jako podstawę do rozwoju i wzrostu gospodarczego kraju. Biorąc pod uwagę najistotniejsze problemy przed jakimi stają systemy produkcji rolnej gdy wdrażane są w kontekście gospodarki rynkowej, niniejsza praca podejmuje próbę określenia systemów produkcji, które sprzyjają integracji rolników z rynkiem oraz czynników wpływających na poprawę ich sytuacji. Praca skupia się na opisanu działalności komercyjnych gospodarstw rolnych. Badaniem objęto trzy lokalizacje, w których funkcjonują gospodarstwa specjalizujące się w produkcji rolnej nastawionej na rynek. Z zastosowanej analizy regresyjnej wynika, iż w gospodarstwach rolnych nie występuje silna korelacja pomiędzy kapitałem a zyskiem. Wyniki wskazują raczej na to, że zyskowność gospodarstwa zależy od przyjętego modelu prowadzenia biznesu, z czego z kolei wynika fakt, że gospodarstwa, które się wyspecjalizowały i wzięły pod uwagę potrzeby rynku są bardziej dochodowe.

Key words: agriculture, Albania, market, specialised farm.

Słowa kluczowe: Albania, rolnictwo, rynek, wyspecjalizowane gospodarstwo rolne.

INTRODUCTION

Through the transition to a market economy, economic improvement of Albania is expected to come from the agricultural sector. Albania has the potential to use agriculture as the basis for economic growth and development based on agricultural resources, a potentially competitive agro-industry and human resources.

In the longer term agricultural production should be guided by constructive policies that favour effective farm systems, encourage land allocation processes, provide support schemes and offers in farming and agriculture (livestock and agriculture), through the development of marketing systems, etc.

Agriculture over the last 20 years has undergone a long and slow transition from the level of merely meeting needs to that of living in a commercial system. But while other sectors of the economy have increased significantly, the contribution of agriculture to the GDP has not reached the same level. Albania has been experiencing economic growth since

2000 (excluding 2010, 2011, 2012). This growth averaged 7% while the growth of the agriculture sector was only 3–3.5%.

Agricultural production must increase by 7–8% per annum in order to meet the requirements for food growth, job creation, provision of raw materials for agro-industrial development, and supporting the development of regional investment creating a market exchange. This optimistic view puts Albania's agricultural and livestock production levels on par with neighbouring countries.

The development of the sector is an important and complex problem. Its importance stems from:

1. The growing development of the agribusiness system.
2. The need to increase agricultural production and livestock farms above subsistence production for the market and increase their reproductive abilities.
3. The current problems that face agriculture in terms of WTO membership, Albania, etc.
4. The continuous increase in the standard demanded as a condition for the country's EU membership.

The level of complexity is increased by the fact that the solution requires the analysis and evaluation of important aspects such as:

1. The level of development of agriculture and farming systems and agribusiness systems that support their development.
2. Possible alternatives to improving the production systems by developing comparative advantages of agriculture and livestock by area.
3. Support and protection of agricultural and livestock producers while at the same time protecting the consumer.
4. Competition in regional and inter-regional markets, as well as future trends in their development, etc.

This study aims to focus on the perfection of production systems aimed at developing comparative advantages in agriculture as areas that will lead to a better integration of agricultural products on the market.

An overview of the development of the sector in recent years

The concept of small farms can be approached from a variety of perspectives. Small scale agriculture is often, although not always correctly, used interchangeably with smallholder, family, subsistence, resource-poor, low-income, low-input, or low-technology farming (Heidhues, Brüntrup 2003). The following definitions illustrate the diversity of conceptual approaches to the term:

- Lipton defines family farms as “operated units in which most labour and enterprise come from the farm family, which puts much of its working time into the farm” (Lipton 2005);

- The World Bank's Rural Strategy defines smallholders as those with a low asset base, operating less than 2 hectares of cropland (World Bank 2003);
- A recent FAO study defines smallholders as farmers with "limited resource endowments, relative to other farmers in the sector" (Dixon et al. 2003);
- Narayanan and Gulati characterise a smallholder "as a farmer (crop or livestock) practicing a mix of commercial and subsistence production or either, where the family provides the majority of labour and the farm provides the principal source of income" (2002).

As a result of the implementation of economic reform in agriculture, new structures were created for production and marketing. In 1993 Albania had about 560,000 small farms, in 2000 there were about 472,000 farms, and today there are about 360,000 farms. Nation-wide agricultural area per capita is about 0.338 ha, which varies according to the geographical area from the minimum of 0.118 to the maximum of 0.634 ha. However, not all of the agricultural land is arable. Referring to statistical data, it appears that the average farm size in Albania varies between 0.3–3.5 ha, with an average of 1.5 ha/farm.

Farmers have their farm made up of, on average, between 4–6 plots, the distance between the farmhouse and these plots is between 5–9000 meters and the distance from the market is between 10–20 km. These factors inhibit the use of large scale and modernised agricultural inputs, transport, irrigation and the use of agricultural machinery.

The farm structure is as follows:

1. family farms with no or little land, that make a living from other sources;
2. family farms that deal mainly with livestock;
3. family farms involved in many activities that produce for self-consumption;
4. family farms with mixed activity, producing for self-consumption and to sell surpluses;
5. family farms that produce mainly for the market (commercial farms).

The third and fourth group account for the largest share, while the fifth group is small, but more or less consolidated.

Empirical analysis shows that the majority of farms are more inefficient and more than 50% of the variation observed in farm production is attributed to differences in technical efficiency. The average technical efficiency of smallholder farmers is around 28%.

A characteristic of family farms in Albania is their overcrowding. The total number of rural households ranges from 1 to 15 with an average of 6 members. Including the head of household, the number of adults in the average farm is 5 and the average number of children 2. The contribution of family labour is more important in rural areas in Albania than non-household work. Urbanisation and migration have led to a reduction of the labour force in agricultural and rural areas.

Low levels of crop yields and livestock show low levels of agricultural productivity (the ratio of farm output/input unit) and labour productivity in agriculture.

In Albania, farmers in rural areas require a minimum capital to produce, this capital is used in relation to land and the rent of work services. Currently many farmers use income from abroad for the repair or construction of houses and the purchase of agricultural machinery and other inputs which are used in the production process.

Few farmers have tractors or other vehicles. Most farmers use rented mechanical farm machinery for processes such as plowing, planting, etc. In lowland areas it is necessary to use tractors with a large capacity and as such there is a need for long-term loans for the rental of agricultural machinery, which is considered by some farmers to be profitable.

Marketing of agricultural products and the improvement of agricultural production systems

Analysis of the market and the quality of Albanian products, shows that there is a growing potential for greater commercial success as neighbouring countries are seen as potential target markets. A large number of farms are being directed towards foreign markets.

Vegetable and fruit products have the best chance, compared with cereals, and their increasing trend can be interpreted as a move towards market-oriented production, as well as this the number of large livestock farms is increasing. This shows that the sector is layering in stable operations, which can be specialised, stratified and commercialised.

"In a rural development frame, the area of land cultivated may not be the significant criterion for defining a small farmer. One ha. of irrigated land can be very productive" (FAO 1997). The potential for increased productivity is often larger on smaller farms because of their efficient use of family labour.

Another research paper by the World Bank about Albanian agriculture states, "our results suggest that land fragmentation has far-reaching economic consequences. Yet, most of the effects seem to arise not because a large number of fragments are too small to be viable economically but because, as a result of defects in the land tenure regime, productive land is left idle (World Bank 2012, Land Fragmentation, Cropland Abandonment, and Land Market Operation in Albania", Policy Research Working Paper).

Virtually all households in rural areas are, by preference, both producers and consumers, buyers and sellers; and many sell agricultural produce and buy their food at different times of year. However, rural households which, for one reason or another, are unable to interact with these markets are prevented from using these diverse livelihood strategies; and indeed, in many parts of the world, rural poor people often say that one reason they cannot improve their living standards is that they face difficulties in accessing markets.

Rural incomes will not be substantially increased by exclusive emphasis on subsistence food crop production; rather, more market-oriented production systems are needed. These require the intensification of agricultural production systems, increased commercialisation and specialisation in higher-value crops.

And these must be built on the establishment of efficient and well-functioning markets and trade systems – that keep transaction costs low, minimise risk and extend information to all players, and that do not either exclude, or work contrary to the interests of, the poor – particularly those living in areas of marginal productivity and weak infrastructure"(FAO 2003).

Agriculture is a key element of their strategy; however, many are also engaged in non-agricultural activities, including microenterprises such as agro-processing, trading and other off-farm occupations. The agricultural and agro-processor sector has large potential in Albania, not only in supplying the local market, but also in exports. Despite this potential, data shows that exports are still poor. The possibilities for Albanian agricultural and processed products are limited for several reasons:

1. The low level of agricultural production and agro-processing industry.
2. A lack of marketing facilities (management, packing of products).
3. Low level of market competitiveness of Albanian agricultural products, because of the low quality and the elevated prices.

Marketing of foodstuffs, generally, forms an essential contribution to a country's economy. This is detectable in the contribution that is given to agriculture, food processing, food trading in large or small amounts, social food etc. In the inner brute production, if we refer to statistics, for different countries, this index varies from 15 to 50%.

The improvement of agricultural production systems is primarily related to the application and respect of standards in all processes, which can only be accomplished by those subjects that have a total quality management (Kolnikaj et al.).

The improvement in the quality of agricultural and farming products and those processed from the food industry is connected to the application of standards, such as; ISO 9001: 2008, ISO 14001, ISO 22000, HACCP, etc. In Albania there is a lot of work to be done.

From the modern viewpoint of the quality chain, it can be said that; if the raw product does not have the quality that the client expects, no processing can improve that quality. Damage to a product during transport is also a consideration. So, in all cases full cooperation between farmers, brokers, processors, wholesalers and retail dealers to guarantee the quality of agricultural and farming products is required. Taking this into consideration, it can be seen that the farmer and the client lack the efficiency and effectiveness of producers, wholesalers, and retail dealers.

METHODOLOGY OF RESEARCH AND THE RESULTS

The objective of this study is, to identify the systems of production that increase the level of integration of the farmers in the market. For that:

1. The actual manufacture systems are analysed and identified.
2. Profitable agricultural and farming activities are identified in the studied zone, based on denomination analysis and the secured income.

For the completion of this research, there are three localities to the area of study:

1. Tiranë,
2. Lushnje,
3. Durrës.

This study aims to show the activity of the commercial farms. In each locality, farms specialised in agricultural and farming products manufacture, in which the main feature is the market will be tested.

In all cases, municipalities were chosen in cooperation with specialists from the Department of Agriculture, Food and Consumer protection and in cooperation with specialists from the Agricultural Technology Transfer Centre in Fushe Kruje and Lushnje.

In the comparison of the agricultural and farming activities, the aim is to give the actual situation of farming in the country compared to five farming and manufacturing ways of the average manufacture as well as technological ways, which are habitually found in almost every country.

Details of exponential factors of the development of the farms and their structure in the studied localities are given below in Tables 1 to 3.

Table 1. Farm size and the average size of parcels

District	Farm's size	Average size of the parcels
Tirana	1.28	0.27
Durrësi	1.13	0.29
Fieri (Lushnja)	1.70	0.37
Shqipëria	1.26	0.27

Source: Ministry of Agriculture, Food and Consumer's Protection, 2011.

Table 2. Work days in the farm divided by activity

District	Agriculture	Farming	Arboriculture	Total	Work days out of the farm
Tiranë	268	83	206	557	334
Durrës	161	65	133	360	342
Fier (Lushnje)	163	71	119	353	158
Albania	161	64	156	381	166

Source: Ministry of Agriculture, Food and Consumer's Protection, 2011.

Table 3. The income to the farm according to the annual statistical activity 2011

District	Income from plants	Income from farming	Total Income
Tiranë	127.760	174.681	302.441
Durrës	130.819	156.196	287.015
Fier (Lushnje)	167.774	192.410	360.184

Source: Ministry of Agriculture, Food and Consumer's Protection, 2011.

In the analysis the following points are considered:

- Vegetable product in the plastic greenhouse with central heating (1 yard),
- Vegetable product in open field (1 yard).
- Fruit product (1 yard).
- Milk and meat product /cow (1 head – to 1 yard supplying capacity with food),
- Corn production (1 yard).

The aim of the study is to identify production units which increase the possibility for integration in the market together with factors that influence their improvement. In order to do this regressive analysis will be used to ascertain the connection between capital and the profit in some types of farms directed at the market.

Hypothesis 0. There is a strong relation between the capital of the farm and its profit.

Hypothesis 1. There is a weak relation between the capital of the farm and its profit.

Table 4 shows the correlation between capital and profit according to the farm activities and the kind, and level of production, aiming an econometric model.

Table 4. Capital and profit of farms

Activity of farm	The average capital of the Farm (Lek)	Net profit (Lek)
Vegetable product in the plastic greenhouse with central heating. (1 yard)	50.000.000 (20.000.000 greenhouse, 30.000.000 land)	7.819.700
Vegetable product in open field (1yard)	30.000.000 (land)	1.351.834
Fruit product (1 yard)	50.000.000 (20.000.000 trees, 30.000.000 land)	324.500
Milk and meat product/cow (1 head – to 1 yard supplying capacity with food)	30.000.000 (land)	155.900
Corn production (1 yard)	30.000.000 (land)	(net loss) – 100.200

Source: own study.

The data in the above table presents the actual common workings carried out in the farmers daily course of activities and not theoretical lists of activities. The data used is an average of farms of this type (Table 5).

Coefficient of correlation:

$$r = \frac{\sum (X_t - \bar{X}) \cdot (Y_t - \bar{Y})}{\sqrt{\left(\sum (X_t - \bar{X})^2 \right) \left(\sum (Y_t - \bar{Y})^2 \right)}} = \frac{n \sum X_t Y_t - (\sum X_t)(\sum Y_t)}{\sqrt{\left[n \sum X_t^2 - (\sum X_t)^2 \right] \left[n \sum Y_t^2 - (\sum Y_t)^2 \right]}}$$

The data shows processes based on an analysis of the regressive correlation to obtain the result, compared to the average of the farms at the national level. Information from the Ministry of Agriculture, Food and Costumer Protection and INSTAT Albania has been considered as a reference (Table 6).

Table 5. Capital and profit for each farm

No.	Capital (Xi)	Profit (Yi)
1.	50.000.000	7.819.700
2.	30.000.000	1.351.834
3.	50.000.000	324.500
4.	30.000.000	155.900
5.	30.000.000	–100.200
Average	38.000.000	1.910.346

Source: own study.

Table 6. Regression data

X_t	Y_t	$X_t \cdot Y_t$	X_t^2	Y_t^2
50.000.000	7.819.700	390.985.000	2.500.000.000.000.000	61.147.708.090.000
30.000.000	1.351.834	40.555.000	900.000.000.000.000	1.831.518.711.000
50.000.000	324.500	16.225.300	2.500.000.000.000.000	105.300.250.000
30.000.000	155.900	4.677.200	900.000.000.000.000	24.304.810.000
30.000.000	-100.200	-3.006.120	900.000.000.000.000	10.040.040.000
190.000.000	9.551.743	449.436.380	7.700.000.000.000.000	63.118.871.901
Average 38 000 000	Average 1 910 346			

Source: own study.
 $r = 0.00035887642$.

The coefficient of correlation results is very low. This shows that there is no connection between the capital in the farm and the profit, but it can be understood that the a connection exists to the business model.

All the farms in the analysis (and also in all the nationwide farms) show that land is the largest contribution to capital. In the 1 yard that is considered in the analysis, with the total price 30.000.000 Leke, gives 3.000 Leke/m² of the agricultural land (average price),but the highest profit is of those farms that specialise inproduction targeted at market (greenhouses, plants, milk).

According to regression, the equation of the straight is $Y = a + b \cdot X$ (see Figure 1) and, coefficients a and b are found by the formulas:

$$b = \frac{n \sum X_t Y_t - (\sum X_t)(\sum Y_t)}{n \sum X_t^2 - (\sum X_t)^2}, b = 0.000583 \text{ and } a = 1.910.346 - 38.000.000 \cdot b$$

$$a = 1.910.346 - 38.000.000 \cdot 0.000583 = 1.888.192$$

Arguing the case of dairy farming, it results that if the breed of the cows is improved,the production of milk increases, which obviously increases the profit. As a conclusion we can say that the Hypothesis H_1 is not true and H_0 is proved.

Information that makes the achievement of this study possible is obtained from different sources such as.

The data from the official institutions, and other independent resources such as : Department of Agriculture,Food and Consumer Protection in these regions and the Centres of Transfers and Agricultural Technologies in Fushe Kruje and Lushnje.

Direct interviews with leaders of faming organisations, farmers at a national and regional level were carried out, together with interviews with farmers who were selected in three regions and 6 municipalities.

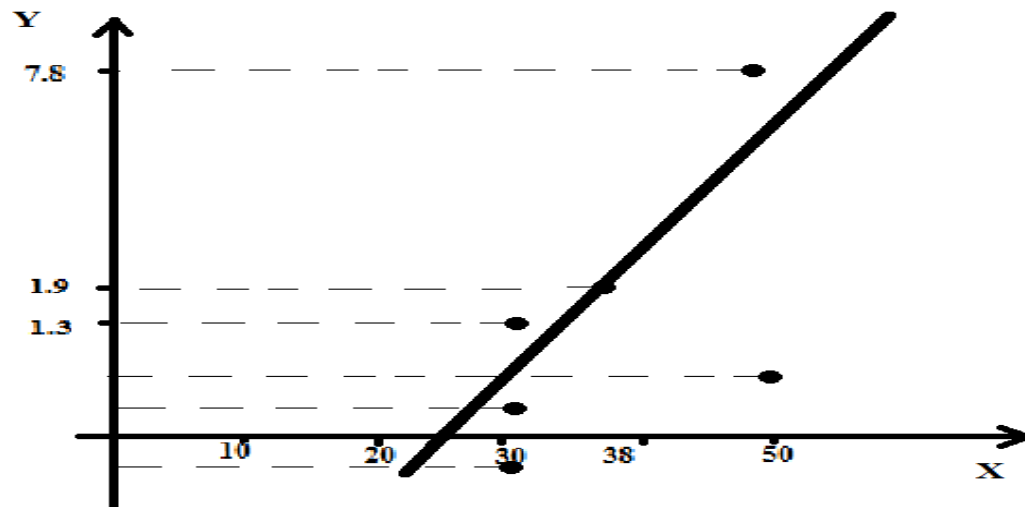


Fig. 1. Graphic presentation
Source: own study.

CONCLUSIONS AND RECOMENDATIONS

One of the factors that is seen as an obstacle in the development of farms in Albania is the limited quantity of land. On the other hand, farmers do not tend to follow horizontal integration due to the difficulties that they had to cope with during the time of communist regime.

Furthermore, the farm capital is mostly land because there have been fewer investments in other aspects of the capital. To overcome this obstacle the study shows that it is not the capital which defines the profit of the farm, but it is the model or the way of the business.

As a result the specialisation of the product and the valuable capital in the farm are very important for the steady profits in the actual conditions of the agricultural business in Albania.

It is believed that farms which are specialised in products that are required for the market, and those that have possibilities for investments in all aspects of human resources (trainings) as well as in the usage of the agricultural inputs and the increase of the mobility of land including the elements of drainage, watering, productive structures with high efficiency and keeping in touch with the markets, etc.

The complex problematic aspect of agricultural production, processing, storage, normalisation, and marketing and trading of these products impact on each other in the form of cause and result creating a vicious circle which prevents agricultural and rural development and the connection between the trade of agricultural products and the application among markets.

In Albania there are potential possibilities for the strengthening of the agricultural marketing connection and the increase of the agricultural production, and there are also

powerful possibilities to stabilise and guarantee parallel development between the agricultural market and the increase of the agricultural production, in order to develop a strong agricultural base as potential support for the economy and the markets at home and abroad, for export.

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Piotr Nowaczyk

AN ATTEMPT TO DETERMINE THE IMPACT OF THE COMMON FISHERIES POLICY ON POLISH SEA FISHING

PRÓBA OKREŚLENIA WPŁYWU REFORMY WSPÓLNEJ POLITYKI RYBACKIEJ UNII EUROPEJSKIEJ NA POLSKIE RYBOŁÓWSTWO MORSKIE

Department of Marketing, West Pomeranian University of Technology, Szczecin, Żołnierska 47, 71-210 Szczecin, Poland, e-mail: pnowaczyk@zut.edu.pl

Streszczenie. Wspólna Polityka Rybacka w obecnym kształcie nie rozwiązuje głównych problemów rybołówstwa morskiego. Nakład połowowy jest zbyt duży w stosunku do coraz bardziej przełowionych łowisk, zbyt dużo decyzji podejmowanych jest na szczeblu unijnym, a przyłów zasobów morskich jest za duży i dodatkowo marnotrawiony. Reforma Wspólnej Polityki Rybackiej ma doprowadzić do zrównoważonych połowów, poprzez ograniczenie nakładu połowowego oraz wzrost zasobów ryb. Mają temu służyć przekazywalne koncesje połowowe oraz maksymalny dopuszczalny połów. Z kolei przekazanie części kompetencji regionom, ma lepiej dostosować środki realizacji wyznaczonych celów, do specyfiki i różnicowania poszczególnych basenów morskich oraz łowisk. Ograniczenie przyłowu będzie można osiągnąć poprzez zastosowanie bardziej selektywnych narzędzi połowowych oraz okresowe zamykanie łowisk. Natomiast sam przyłów, można będzie przeznaczyć na cele konsumpcyjne lub przemysłowe. W polskim rybołówstwie morskim zreformowana Wspólna Polityka Rybacka, poprawi wykorzystanie limitów połowowych na dorsza oraz zwiększy zaangażowanie sektora rybackiego w rozwiązywanie lokalnych problemów. Przyczyni się także do ograniczenia przyłowu oraz wyeliminuje marnotrawstwo zasobów ryb.

Key words: contemporary problems of sea fishing, Polish sea fishing, reform of the Common Fisheries Policy.

Słowa kluczowe: polskie rybołówstwo morskie, reforma Wspólnej Polityki Rybackiej, współczesne problemy rybołówstwa morskiego.

INTRODUCTION

At the initial stage of the European Communities' operation, fishing constituted an integral element of the Common Fisheries Policy. In 1983, this particular industry was separated and began to function as the Common Fisheries Policy (for more information on the subject Brocki et al. 2000)¹. In 1993, under the Maastricht Treaty a fishery fund was created – Financial Instrument for Fisheries (Holden, Garrod 1996) – which was replaced by the European Fisheries Fund in 2007. They constitute the financial means to support the EU fishery sector. In 2002, the first reform of the Common Fisheries Policy was implemented; it did not, however, bring the desired effects (Daw, Gray 2005). Consequently, the EU offered a reform package which would change the current dimension of the fisheries policy. The

¹ The Common Fisheries Policy consists of four pillars, ie. protection of living resources, structural policy, common market organization and deep-sea fishing policy.

package comes into force on 01.01.2014, which is when the EU's new financial policy is to be introduced.

The unfortunate tendency of declining fish stocks while maintaining a steady fishing capacity has been visible in the EU's fishery for years. This leads to a situation in which the fishing fleet is too large in relation to the fishing stock. As a consequence, there are fewer and fewer catches per fishing vessel, and the viability of fisheries decreases, especially in the case of fish species that form the economic basis of the business. At the same time, subsidising the fishery industry requires more and more funds. A large part of these funds is earmarked for the reduction of the fishing fleet and compensation for the temporary cessation of business. Another drawback of sea fishing is the additional catch. Parts of the catch are released back into the sea as they are less valuable from the economic view point. This contributes to the waste of the already limited resources. Centralising the decision-making process at the EU level does not really fit the specificity and diversity of individual sea basins and fishing grounds (Shepherd 2003, Da Rocha et al. 2012). Therefore, legal acts are often incomprehensible and trigger opposition from the fishing sector in EU member countries (Damanaki 2012).

Similar problems occur in Polish sea fishing. Even though the Polish fishing fleet has been reduced by almost 40% since entering the EU, the viability of fisheries remains low. This applies mostly to a limited range of species which constitute the economic basis of the fishing business. The fishing quotas are not always exhausted. The unwanted additional catch is relatively small, nevertheless a part of the overall catch is still wasted. What is more, as in other countries under the Common Fisheries Policy, the detailed top-down regulations do not fit the specificity of Polish sea basins and are often criticised by the sector.

The reform of the Common Fisheries Policy is a new issue. Opinion regarding its influence on the future of the fishing sector is divided both in the fishing community and among experts. It should be noted that the reform has not yet been accepted by all parties in the EU's complicated legislative process.

The main objective of the following article is to show the impact of the aforementioned reform on sea fishing, with particular emphasis being placed on the Polish fishing industry. Despite numerous innovative changes, the reform and its potential effects should be approached with caution. It has already undergone many modifications which have failed to bring about the expected results.

In this article, the material, temporal, and territorial scopes were identified. The material scope is concerned with the key postulates changing the present shape of the Common Fisheries Policy, ie. transferable fishing licenses and maximum fishing quotas whose purpose is to adjust fishing activities to the resources of marine organisms, regionalisation of decisions concerning deep-sea fishing, and the limitation and management of additional catches of non-standard sized or unwanted fish.

The territorial scope consists of the Polish marine area. Within this territory, there are ports and harbors at which the Polish fishing fleet is stationed. It is also a location where producer organisations operate, these are to become an important link of the reformed Common Fisheries Policy.

The temporal scope comprises the years 2003–2012. In this period, the process of withdrawing the Polish fishing fleet from operation was initiated. This article attempts to define the impact of the reformed Common Fisheries Policy on Polish deep-sea fishing. The reform takes effect in 2014, yet some of its postulates are already being implemented in Polish sea fishing.

The article consists of an introduction, four chapters and conclusion. The introduction contains justification for the choice of subject and the article's main premises. In the first chapter, the characteristics of the main problems of the EU's sea fishery are outlined, while in the second chapter the most vital premises of the reform are presented. The third chapter contains the characteristics of Polish deep-sea fishing presented against the background of EU issues. The fourth chapter is concerned with defining the impact of the reform on the Polish sea fishing sector. The final part consists of conclusions.

The study is based on relevant literature and on materials collected from the years 2005–2011. In this period, empirical research was conducted, primarily surveys and in-depth interviews. These were targeted at the owners of fishing vessels, fishermen and representatives of port management entities.

CHARACTERISTICS OF THE MAIN PROBLEMS OF MARINE FISHERIES IN THE EUROPEAN UNION

Fishing effort and the volume of resources

One of the major problems of the Common Fisheries Policy is fishing overcapacity and, as a consequence, the overfishing of fishery grounds. The diminishing fish resources and the simultaneously increasing fishing effort contribute to a decrease in catch per fishing vessel. This causes a decline in the profitability of fishing. The Common Fisheries Policy requires more and more funds. Compensation for fishermen for a temporary cessation of business and for the withdrawal of fishing vessels from operation requires billions of Euros from public funds (Markus 2010). Yet, the fishing grounds remain overfished, and the fishing capacity of fishing vessels is growing (the European Commission 2013).²

Making decisions concerning the Common Fisheries Policy

The procedure of secondary legislation within the EU is complicated, and this also concerns regulating the Common Fisheries Policy. A large number of legal acts are issued. Not

² According to the calculations of The European Commission, in 2012 (in the EU) 75% of grounds were overfished, and the fishing capacity of fishing vessels has increased yearly by 2–3% since 1994. This consumed 2.73 bn euro of public funds.

only does the European Union determine the objectives of the fisheries policy, but also the funds to be used for their implementation. The increase the powers of the European Parliament in the legislative process after the Lisbon Treaty of 2009 further complicates and prolongs the law-making procedure (Wentkowska 2009). Centralisation and tendencies towards mismanagement at the highest level mean that more and more funds are being consumed, and the bureaucratization of the legislative process is becoming more and more expensive.

Additional catch

In the natural course of fishing, undersized fish get into the fishing nets along with species of fish for which the owner of the fishing vessel does not have fishing quotas. These fish are wasted by being thrown back into the water. Since some species have a high mortality rate, some fish are disposed of after they have already died. The volume of additional catch on the waters falling under the EU jurisdiction varies. In certain sea basins it is quite high, reaching tens of percent³.

THE MAIN DIRECTIONS OF THE REFORM OF THE COMMON FISHERIES POLICY

Fishing effort and the volume of resources

Generous subsidies for restocking fish resources and reducing the fishing effort have failed to bring the expected results. Therefore, other mechanisms should be developed in order to improve the situation in this respect (Da Rocha et al. 2012). These are supposed to be: transferable fishing licenses and a maximum allowable catch.

Transferable fishing licenses give the owner of a fishing vessel the right to the long-term exploitation of live marine resources. They can sell or loan the license. This is supposed to contribute to a greater flexibility of the use of fishing quotas. The owners of fishing vessels who wish to remain in business will be able to acquire the right to additional catches, which will result in an increase in profitability. For other fishermen, the sale of the rights to fish will result in financial compensation in return for withdrawal from operation. The transferable fishing licenses are supposed to increase profitability on the one hand and to reduce the number of fishing vessels on the other.

Establishing a maximum allowable catch which does not threaten the renewal of fish stocks in the future aims at calculating the catch in an annual perspective rather than long-term planning. The initial lower limits are to result in greater resources. There will be more catches per vessel, hence increased profitability. The pressure on fishing for smaller, less profitable fish will diminish and thus the wastage will be reduced. Easier availability of resources will cut fishing time and fuel expenses.

³ The volume of additional catch on the EU waters is estimated at 25%.

Making decisions concerning the Common Fisheries Policy

Excessive centralisation of fishery management at the level of the European Union diminishes its effectiveness. For this reason, more powers should be granted to the regions and the parties concerned. According to the reform, the priorities concerning the Common Fisheries Policy are to be established at the EU level, while the regions will have the freedom to decide by what means those priorities should be achieved.

Regionalisation of fishery management should increase its effectiveness, mainly due to: reducing decision-making costs, accelerating the legislative process, establishing means which allow the achievement of strategic objectives to a far greater extent, involving the sector in the fishery management process, and a stricter enforcement of the law.

Additional catch

The reform of the Common Fisheries Policy includes limiting the additional catch. This is to be implemented through an increase in the selectivity of fishing equipment and limiting access to the fishing grounds (with large numbers of young fish or with many species of fish within one fishing ground). In the case of the additional catch, if it consists of fish with a high survival rate, they will be released back into the water; the remaining fish will be delivered ashore and will be either used for industrial purposes or marketed on regular commercial terms.

CHARACTERISTICS OF THE MAIN PROBLEMS OF SEA FISHING IN POLAND

Fishing effort and the volume of resources

Tables 1 and 2 contain information on the fishing effort and Polish marine fishing. As far as the fishing effort (measured by the number of fishing vessels) is concerned, in 2012 it decreased by 43.5% (Table 1). Medium-sized fishing vessels accounted for the smallest number of vessels withdrawn from operation. The total number of the vessels was reduced by 32.3%. The smallest fishing vessels were reduced by 40.6%. The biggest vessels were most often withdrawn from operation: their number was reduced by 75.3%.

Table 2 contains data on catches. In 2012, the fishing quotas for the main species of fish were reduced by 13.9%, with actual catches – by 28.5%. The catch limits allocated to Poland were therefore not exploited. The decline in catch was smaller than the reduction in the number of fishing vessels, which shows an increase in the number of catches per fishing vessel.

Table 1. The number of fishing vessels in Polish Baltic fishery graded by length (metres) in 2003 and 2012

Number of fishing vessels											
2003				2012				2012/2003			
<12	12–24	>24	total	<12	12–24	>24	total	<12	12–24	>24	total
991	235	174	1400	589	159	43	791	–40,6	–32,3	–75,3	–43,5

Source: Own work on the basis of the fishing vessel register.

Table 2. Catch quotas (thousands of tonnes) and catches (thousands of tonnes) of the main species of fish by the Polish fishing fleet in 2003–2012

Years		Species of fish			
		cod	herring	sprat	total
2003	catch quotas	16.0	28.7	80.1	124.8
	catch	16.1	30.1	84.1	130.3
	%	101	105	105	104
2012	catch quotas	21.9	19.5	66.1	107.5
	catch	10.9	24.6	61.2	96.7
	%	49.8	126.2	92.6	90.0
2012/ 2003	catch quotas	+36.9	–32.1	–17.5	–13.9
	catch	–32.3	–18.3	–27.2	–25.8
	%	–50.2	+20.2	–11.8	–13.5

Source: Own work on the basis of: 1. Sea Fishery Information System (SIRM), 2. Morska Gospodarka Morska, publications from 2003–2011, National Marine Fisheries Research Institute – Department of Fisheries Economics, 3. Wiadomości Rybackie, publications from 2003–2012.

As far as species are concerned, the fishing limits for cod were raised by 36.9%, and the catches were smaller by 32.3% – meaning that Poland used less than a half of the available fishing limit. At the same time, the decline in catch was smaller than the reduction in the number of fishing vessels, demonstrating an increase in the number of catches per fishing vessel.

In the case of herring, the limit was reduced by 32.1% and catches by only 18.3%, which shows that the limit was actually used and exceeded. Taking into account the number of fishing vessels withdrawn from operation, there has been a substantial increase in catches per vessel specialising in fishing for herring.

Fishing limits for sprat were reduced by 17.5%, and the actual catches by 27.7%, so the use of the fishing limit decreased. However, taking into account the high percentage of fishing vessels specialising in fishing for sprat which were withdrawn from operation, there was an increase in catches per vessel.

Making decisions concerning the Common Fisheries Policy

The Polish fishing sector, particularly the fishermen, often accuse the European Union of issuing legal acts which are unrealistic and do not take into account the specificity and variety of the fishing grounds located in the Southern part of the Baltic Sea basin and in Polish lagoons. Moreover, the legal acts do not fit the dynamic nature of the sector and are incomprehensible to the average person (Ruciński 2005).

The inefficiency of the legislative process is a disappointment to the fishing industry. Since the postulates of the sector are not featured in the regulations, it can be reasonably suspected that the laws are not strictly enforced. Since the fishing sector is aware of having little impact on the law-making process, it is less engaged in solving the major problems facing sea fishing.

Additional catch

The volume of additional catch in Polish sea fishing is marginal and amounts to only a few percent (Radtke 2006). Nevertheless, since the fish resources are decreasing, any amount of stock is valuable. The resources need to be protected and well-managed. This applies in particular to the most desired species in Polish sea fishing, which is cod. Due to insufficient selectivity of fishing tools, undersized specimens are caught and under the present legal situation they cannot be exploited. Since the survival rate is low for this species, the additional catch is disposed of when the fish have already died.⁴ Standard-sized fish, on the other hand, cannot be unloaded at the port if the fishermen do not have the necessary fishing limit.

The additional catch of cod in Polish sea fishing causes a decrease in the volume of resources, especially of young fish. As a consequence, the future stock of this species is reduced. This increases both time and fuel consumption, and puts additional pressure on fishing for an already limited species of fish. Not only does the additional catch contribute to the waste of resources, but it also diminishes the profitability of fishing.

THE PREDICTED CHANGES IN POLISH SEA FISHING AFTER THE REFORM

Fishing effort and the volume of resources

In Polish sea fishing, similarly to other EU member countries, there is a problem of an excessive fishing effort in relation to the available resources. This would mainly apply to the fishing vessels specialising in fishing for cod, which is a limited species. However, in the years 2003–2012 the number of fishing vessels was substantially reduced (Table 1). As regards the cod resources, after a reduction resulting from overfishing, in the recent years there has been a growth in the cod population. The main reason for this was the implementation of a long-term recovery plan for the Eastern stock of cod by the EU in 2008. The plan is based on the maximum allowable catch. The fact that the catch limit for cod was used to an extent of less than 50% in 2012 may suggest that the aforementioned tendencies contributed to the situation, ie. reduction in the number of fishing vessels while increasing the cod stock (Agurre Fortunic 2012). Yet, the Polish fishing effort allowed greater catches than in 2012. One of the main causes of low catches in 2012 was improper distribution of fishing quotas between fishing vessels, and the owners' reluctance to sell them⁵. Excessive fishing quotas for smaller vessels could not possibly be used up completely. For bigger vessels, the allocated quotas were too small to achieve positive financial results, since selling prices for cod were relatively low (Romanowski 2012). Owners of bigger vessels specialising in

⁴ Even if the law allowed the fishermen to keep the additional catch of non-standard sized cod, they have no motivation to unload it in the port. The catch is economically less valuable, which further reduces the already low profitability of fishing.

⁵ The Polish law allows the transfer of fishing quotas. It requires the consent of the Minister of Agriculture and Rural Development.

pelagic fish (sprat, herring) did not fish for cod. They were not, however, willing to dispose of their fishing quotas for fear of having them revoked in the future. The introduction of transferable fishing licenses, accounted for in the reform of the Common Fisheries Policy, would certainly increase cod fishing. It would require changes in the methods of allocating fishing quotas to fishing vessels. The proposed amendment to the law regulating sea fishing meets the expectations of the fishing sector (Bierngarski 2013). The size of the fishing quotas will depend on the actual catch size from recent years. Another factor which will contribute to more effective management of fishing quotas is the association of fishermen in e.g. producer organisations (Ministerstwo Rolnictwa i Rozwoju Wsi 2013)⁶. Marketing of fishing quotas is easier and faster in such structures. The aforementioned legal act will motivate fishermen to a higher degree of activity. One of its provisions makes the possibility of allocating fishing quotas dependent on membership in a renowned producer organisation. Their relatively small number may be problematic, so increasing this number should definitely be considered.

Making decisions concerning the Common Fisheries Policy

The reform of the Common Fisheries Policy offers the Polish fishing industry an opportunity to solve real problems related to sea fishing. The problems concerning the Baltic Sea basin can be discussed in the forum of the already existing Baltfish project. The group brings together countries, including Poland, with access to the reservoir. This, of course, does not exclude the option of establishing new organisations. Decisions made within the organisations would then apply to all of their signatories, after having been accepted by the European Commission. The problems concerning individual fisheries could be solved within the already existing producer organisations. In this case, the decisions would also have to be accepted by the European Commission.

Additional catch

Limiting the additional catch of cod in Polish sea fishing will improve the condition of cod resources in the future. As a result, fishing for cod will become more effective and more profitable.

The possibility of utilising the additional catch will give an additional source of income for fishermen. It will probably be smaller than the income from the sale of fish without defects, but the improvement in resources resulting from the limitation of additional catch will surely balance out the losses in income. Consumers and the industry will benefit from the rational use of the additional catch. The wastage of resources, of which there is no social acceptance, will be effectively limited.

⁶ As of 9 April 2013, there were twelve recognised producer organisations in Poland.

CONCLUSIONS

1. The Common Fisheries Policy in its present shape and form does not solve the main problems of sea fishing. The fishing effort is too big in relation to the increasingly overfished fishing grounds, too many decisions are taken at EU level, and the additional catch is too large and wasted.

2. The reform of the Common Fisheries Policy is to reduce the number of fishing vessels while simultaneously rebuilding the resources through the introduction of transferable fishing licenses and a maximum allowable catch. The introduction of transferable licenses, through a more flexible management of fishing quotas, makes it possible for some fishermen to increase their catches and for others, to withdraw from the industry. Fishing grounds will be reconstructed thanks to switching from one-year to long-term periods of resource management. This will be implemented through establishing the volume of catch per year which will allow the fish stock to rebuild in the future. The above mentioned mechanisms aim at improving the profitability of fishing and limiting the EU subsidies which consume billions of Euros.

3. Decentralization is supposed to increase the role of individual regions in the decision making process related to individual sea basins or fisheries. The regions are to select particular means for the realisation of objectives set out at EU level. The decentralisation should increase the effectiveness of fishing management, mainly through solving the problems of individual sea basins and fisheries, taking into account their specificity and variety.

4. The reformed Common Fisheries Policy should limit the additional catch or utilise it, should it occur. This will be possible thanks to using more selective fishing tools and temporary closure of fisheries. The additional catch may be used for industrial or consumption purposes. Achieving these objectives will increase the fish stocks and eliminate wastefulness.

5. In Polish sea fishing, after the reduction of the fishing effort, the problem is the unused fishing limits for cods. The cod stock has grown in the recent years, as a result of implementing a long-term plan of rebuilding this particular species of fish. The increase in fishing for cod may be attributed to a more effective management of fishing quotas, that is in applying the new instrument of the Common Fisheries Policy.

6. The possibility of the Polish sea sector influencing law-making will undoubtedly increase its involvement in solving the emerging issues. It will also diminish the distrust in the decisions of the EU, which often do not fit the specificity of the Polish maritime economy. The decisions concerning the Baltic Sea may be taken in the forum of the already existing Baltfish project, while the issues of individual fisheries may be solved within the existing producer organisations.

7. The additional catch in the Polish sea sector is of minor importance. It applies mostly to cod, the most overfished species of fish. Limiting the additional catch might increase its

stock and, as a result, the profitability of fishing for cod. The possibility of actually using the additional catch might constitute an additional source of income for the fishermen, and it would eliminate wastefulness.

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Agnieszka Politewicz

POLITICS OF THE SUSTAINABLE DEVELOPMENT OF CITIES IN THE AREA OF ENVIRONMENTAL PROTECTION: WITH THE EXAMPLE OF WARSAW

POLITYKA ZRÓWNOWAŻONEGO ROZWOJU MIAST W ZAKRESIE OCHRONY ŚRODOWISKA NA PODSTAWIE WARSZAWY

Department of Managerial Economics and Accountancy, West Pomeranian University of Technology, Szczecin, K. Janickiego 31, 71-270 Szczecin, Poland, e-mail: apolitewicz@zut.edu.pl

Streszczenie. Miasta będące motorem wzrostu gospodarczego, innowacyjności i tworzenia nowych miejsc pracy odgrywają kluczową rolę w rozwoju regionalnym. Strategie tworzone w celu ulepszenia warunków życia na obszarach miejskich opracowywane są przez władze miast. W artykule koncepcja zrównoważonego rozwoju obszarów miejskich na tle europejskiej polityki zrównoważonego rozwoju oraz koncepcja miejskiej polityki klimatycznej są przedstawione. Ponadto główne europejskie oraz światowe koncepcje i inicjatywy miast zostały opisane w artykule. Na zakończenie Warszawa jest zaprezentowana, jako jeden z członków „Porozumienia między burmistrzami” a plan działań na rzecz zrównoważonej energii dla Warszawy w perspektywie do 2020 r. jest zobrazowany, jako przykład realizacji zrównoważonej polityki energetycznej na poziomie miasta.

Key words: renewable energy, sustainable development, urban policy.

Słowa kluczowe: ochrona środowiska, odnawialne źródła energii, polityka miast, rozwój zrównoważony.

INTRODUCTION

In the future, most people will be living in cities (UN 1987). Urbanisation is a part of the process of development. The population living in urban areas is expected to grow from 3.6 billion in 2011 to 6.3 billion in 2050. In 2011 78% of the population of developed countries lived in urban areas (UN 2012). Air, water, noise, and solid waste pollution problems have become a threat; to the health of city inhabitants, to their economy, and to their jobs.

It is not clear if the EU should be involved in the preparation of the concept of the urban policy or it would be more appropriate to leave it to the regional or local government. The involvement of the EU can be justified on two levels: conceptual and practical (Swianiewicz et al. 2011).

To combat climate change one of the key goals of cities governments should be to raise awareness of the importance of environmental protection among the urban population. European cities should become places of advanced social progress and environmental regeneration, as well as places of attraction and engines of economic growth based on an integrated, holistic approach in which all aspects of sustainability are taken into account (EC 2011).

The need for international cooperation among cities to combat climate change resulted in the creation of different city initiatives. There are several platforms which gather thou-

sands of cities exchanging information on best practices, technologies, different processes and knowledge concerning different aspects of city organisation.

The aim of this paper is to conceptualise the idea of sustainable urban development in the context of climate policy and to emphasise the importance of the development of city initiatives. Particular attention is given to programs allowing the achievement of sustainable development goals in the area of energy and climate in the city of Warsaw.

Sustainable urban development and climate policy

The concept of sustainable development was presented in 1987 in the Brundtland report as a process which ensures meeting the “needs of the present without compromising the ability of future generations to meet their own needs” (UN 1987).

Sustainable development should be understood as a process of change rather than a fixed state of harmony. Changes in resources, investments, technologies and institutional changes are to be made having taken into consideration present and future needs in a way to meet the basic needs of all and to extend to all the opportunity to satisfy their aspirations for a better life. The Brundtland report pointed out the important role of cities in global sustainable development, highlighting that cities are responsible for a high share of both word resources used and pollution due to high concentrations of industry and high energy consumption.

In 1972 this concept was discussed internationally for the first time during the UN Conference on the Human Environment in Stockholm and further promoted during the United Nation Earth Summits in 1992, 2002 and 2012. In 1997 the Kyoto Protocol was signed obligating developing countries to reduce their GHG emissions. At the summit special attention was given to public transportation systems, congestion in cities and health problems caused by air pollution and smog (Table 1).

Sustainable development is one of the goals of the European Union (EU) under the Lisbon Treaty. The environmental aspect, described in the sustainable development strategy, was added to the original strategy covering economy and social dimension.

The topic of the city is not explicitly dealt with by either the EU SDS or Europe 2020. In 2012 the European Commission published the 7th Environmental Action Programme (EAP) committing the EU to “transforming itself into an inclusive green economy that secures growth and development, safeguards human health and well-being, provides decent jobs, reduces inequalities and invests in and preserves natural capital” (COM 2012). Priority objectives for local, regional and global challenges to be reached by 2020 are “to enhance the sustainability of EU cities” and to “to increase the EU’s effectiveness in addressing regional and global environmental and climate challenges” (COM 2012). Improving the attractiveness of regions and cities is one of the priorities presented in the EU’s strategic guidelines for cohesion policy for 2000 to 2013.

Table 1. The concept of sustainable development in key international documents

International level			
Year	Event	Document	Description
1972	UN Conference on the Human Environment in Stockholm	Brundtland report	First concept of sustainable development.
1992	The Rio Summit, The Earth Summit, The United Nations Conference on Environment and Development	Rio Declaration on Environment and Development Agenda 21	Global plan of action for sustainable development adopted by developed and developing countries. Definition of three pillars of sustainable development: social, environmental and economic.
1997	Conferences of the Parties (COP-3)	Kyoto Protocol	Signatory nations committed to cut emissions of greenhouse gases, including carbon dioxide. Problems raised: transportation systems, congestion in cities and health problems caused by air pollution and smog.
2002	The Rio +10, The Rio Summit, The Earth Summit, The United Nations Conference on Environment and Development	Rio Declaration on Environment and Development and Agenda 21	Political commitment to sustainable development.
2012	The Rio +20, the Earth Summit +20, The Conference United Nations Conference on Sustainable Development	"The Future We Want" Work Paper	Main themes: green economy in the context of sustainable development and poverty eradication and the institutional framework for sustainable development.
European Union level			
2000	The European Council held in Lisbon	Lisbon Treaty	New strategic goal for the EU to become the most competitive and dynamic economy.
2001	The Gothenburg Summit	Sustainable development strategy (EU SDS)	Vision of sustainability of the EU economy aiming to ensure long-term prosperity, environmental protection and social cohesion.
2010	The European Council	Europe 2020	Strategy for smart, sustainable and inclusive growth.

Source: Author.

Sustainable urban development is defined as urban development that meets sustainability goals: achieving environmental preservation, social equity and economic development (OECD 2012). Sustainable urban development can be also understood as the capacity of a city to achieve a new level of socio-economic and demographic, as well as technological development (Mierzejewska 2008).

Most global and regional problems originate from cities (Alberti, Susskind 1996). The interdependence between cities and global environment implies that cities, which are sustainable at a local level cannot be sustainable at a global level due to outsourcing the unsustainable demands for natural resources. In the end the same cities will be touched by global environmental problems: climate change, acidification. (Alberti 1996)

Commissioner Margot Wallström confirms that cities hold the key to sustainable development ("vision" for sustainable cities at the opening session of Brussels' Green Week event on 12 June 2007). Therefore, global sustainable development should start at the local and regional level. Most cities have mechanisms for coping with problems arising from an increasing number of citizens or economic crisis. But there are some cities that face problems of deteriorating infrastructure, environmental degradation, inner-city decay, and neighbourhood collapse. The cities in developing countries are growing faster than the capacity of administration to cope with shortages of housing, water, exposure to air and water

pollution and industrial hazardous waste. The challenge is to manage the process of urbanisation in order to avoid a severe deterioration in the quality of life (UN 1987).

To become sustainable cities must (Alberti 1996):

- reduce the need for certain resources and increase the capacity of the environment at the local, regional and global level, and thus the ability of the natural environment to absorb and neutralise the external effects of human activity;
- recognise the needs of all people, not just those living within the city boundaries, and not only of present generations but also of future.

Sustainable cities opt for renewal rather expansion, for consolidation of the urban fabric and improvement of the suburbs (Mega 2011).

Climate change increasingly threatens cities (OECD 2012). Cities are major contributors to climate change. Around half of the world's population live in urban areas. In 2011 78% of the population of developed countries lived in urban areas (UN 2012). Cities consume the vast majority of energy production worldwide – 60 to 80% and as such are responsible for an equivalent share of global CO₂ emissions.

The characteristics of European cities differ to a great extent according to indicators provided by Urban Audit concerning environmental situation. High diversity in the size of total land area and green space area can be noticed among the cities. Cities with a relatively large area in respect to the population are “greener”. Preserving and creating green spaces in the cities helps improve air quality (EC 2010b).

According to respondents of the survey (EC 2010a) air pollution is a major problem for capitals and large cities (in excess of 500,000 inhabitants) such as Athens, Budapest, Rome, Naples, Warsaw, Paris, Lisbon and London. In more than 60 European cities including several Italian cities, Łódź, and Katowice there were 25 days when the ozone concentration exceeded 120 µg/m³ in 2008 (EC 2012).

Some studies show that the metabolism and GHG emissions of a city strongly depend on its location (Kennedy et al. 2009). The number of heating days is an important determinant of the amount of energy needed to heat buildings. The means of power generation is another important determinant. Access to hydropower reduces the intensity of emissions. The development of clean technology also reduces the environmental impact.

City policy programs and initiatives

Prevention of climate change puts great pressure on cities. Cities are responsible for sectors that impact environmental sustainability and emit greenhouse gas emissions. Local and regional governments are responsible for providing solutions, within their legal and financial authorities, to the problems arising within their jurisdictions.

On the other hand there are many international level projects and tools to assist cities (OECD 2010):

- Harmonised greenhouse gas emission inventory and reporting protocols for cities to allow the monitoring of progress in mitigating emissions, to become active participants in international carbon markets,
- Regional impact science and other policy relevant research programmes to promote local understanding of climate change risk and policy options,
- Urban climate policy networks, building regular channels of communication among national planners, regional and local government officials, local stakeholders and decision makers about targets, goals, strategies, measures.

The European Commission encourages the sharing of experience and best practice solutions between countries which developed cost-effective, energy saving solutions to improve the quality of life in cities. It is the task of cohesion policy to support inter-city and international cooperation in formulating strategies to achieve economic growth while preserving the environment (EC 2010b). Cohesion policy supports integrated sustainable urban development across the EU through the investments of the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund (CF).

From a database point of view there was a large information gap related to common indicators that would allow comparison of cities across countries and measurement of progress (Alberti 1996, OECD 2010). Several database, like ESPON, the Urban Audit and Urban Atlas, were created to improve the availability and comparability of territorial data

The Urban Audit data collection, started in 2003, provides information and comparable measurements on the different aspects of the quality of urban life in European cities. 323 European cities were covered by the Urban Audit in 2009 covering information on demography, social and economic aspects, civic involvement, training provisions, environment, travel and transports, information society, culture and recreation. To confirm statistical data with the perception of the quality of life in the cities, a perception survey was conducted in 2006 and 2009 in 75 cities in EU27 (EC 2010a).

There are several initiatives focused on urban development which complement EU regional policy: the Covenant of Mayors, Concerto, CIVITAS, Smart Cities and Communities European Innovation Partnerships (SCC), the Green Digital Charter, the Urban Europe Joint Programming Initiative, the Green Capital Award, the Energy Efficient Buildings Public Private Partnership, the European Green Building Programme, the European Green Cars Initiative, the European Energy Research Alliance (EERA) Joint Programme on Smart Cities and the EIT Knowledge and Innovation Communities.

The Covenant of Mayors and the European Green Capitals initiative demonstrate how European cities are taking the lead in driving sustainable development. Over 4,500 mayors from more than 40 countries have committed themselves to going beyond the EU 2020 targets in order to improve citizens' quality of life. By preparing and implementing sustainable energy action plans they are planning to reduce CO₂ emissions by more than 20%. The main added value of the platforms and networks consists of disseminating information, pro-

viding financial and organisational support. The initiative provides tools to generate new jobs and income, as well as support to small and medium-sized enterprises (SMEs) (Committee of the Regions 2010). Energy Cities is the European Association of local authorities in energy transition created in 1990 to help coordinating of the Covenant of Mayors. The association represents more than 1,000 towns and cities in 30 countries helping the cities to exchange their knowledge and know-how in the field of sustainable energy.

The European Sustainable Energy Systems in Advanced Cities (SESAC) project was started by The Concerto initiative co-funded by the European Commission within the 6th Framework Programme. Delft (the Netherlands), Växjö Municipality (Sweden) and Grenoble (France) take part in projects aimed at decreasing CO₂ emissions while at the same time boosting the local economy. Kaunas (Lithuania), Miskolc (Hungary) and Vastseliina (Estonia) are gaining knowledge and experience through the local energy studies which they are performing.

EUROCITIES network was founded in 1986. It currently includes 130 large cities in over 30 European countries. It is a political platform for major European cities towards European institutions. "Declaration on Climate Change" contains reflects the organisation's commitment to fighting climate change, and provides a framework for cities to adopt climate action plans.

Smart Cities and Communities European Innovation Partnerships (SCC) was launched by the EU in 2012 to develop demonstrations of energy, sustainable transport, smart information and information communication technologies (ICT) in the urban context. It will support existing and future EU initiatives for urban areas in the field of the environment (resource efficiency, water, waste, pollution, green infrastructures) and climate policies. Energy, transport and ITC industries have the opportunity to develop solutions in direct cooperation with cities to meet the needs of the city. Smart Cities combine diverse technologies to reduce their environmental impact and offer citizens better lives. EC supports selected cities in developing smart solutions that can then be copied by other cities in Europe. European Smart Cities Stakeholder Platform has been established to facilitate the exchange of relevant information on technological solutions and needs of cities, provide information on projects and improve policy at local, regional, national and EU level. The goal of the platform is to provide information on how national and EU policies and programmes can best support smart cities and to generate publicly and privately funded projects (COM 2012b).

Compact city concept is wildly developed in contemporary urban policy. The compact city appeared in order to deal with rapid urbanisation. The growth of urban populations stimulates the need for new planning systems that will take land preservation into consideration. Shorter intra-urban distances, leading to reduced distance being travelled, result in a lower consumption of energy and emission of greenhouse gases (GHGs) than sprawling urban areas (UN 2011). The goal of compact cities is to preserve natural biodiversity and rural lands around urban areas. Both European cities and non-European cities such as

London, Vienna, Copenhagen, Barcelona, Budapest, Berlin Hong Kong, China, Seoul, Tokyo, Toronto, Vancouver, Washington, D.C. and Chicago have developed a greenbelt policy to prevent urban sprawl. Farming placed around urban areas provides food for the city. Shipping distances are shortened which leads to decreased emissions from transport. The compact cities can increase efficiency of infrastructure, reducing maintenance costs for energy, transport, water supply and waste disposal. Short distances to get to urban services and jobs result in a smaller amount of time spent travelling, lower transport costs and therefore an increase in the quality of life. Most residents have access to local services either on foot or using public transport. Change in the means of transport from individual cars to public transport or bicycles causes the green growth of the city by creating bike paths, walking paths, and light rail. New green needs stimulate knowledge diffusion and thus economic growth. The core value of a compact city is its capacity to integrate urban policy goals such as economic viability, environmental sustainability and social equity (OECD 2012).

Eco2 Cities is a new initiative launched by the World Bank, as an integral part of the World Bank Urban and Local Government Strategy, to help cities in developing countries achieve greater ecological and economic sustainability (WB 2010). The number of megacities, cities with at least 10 million inhabitants, is predicted to increase to 29 in 2025 and it is predicted that there will be 46 cities with populations ranging from 5 million to 10 million by 2025. Asia has 11 megacities and by 2025 this number should double (OECD 2012). An Eco2 city uses the synergy and interdependence of ecological and economic sustainability. Innovative cities in both the developed and the developing world have demonstrated that with the appropriate strategic approach cities can use innovations to boost sustainable growth and to challenge the crises more easily. The Eco2 Cities Initiative provides cities with an analytical framework, methods and tools to adopt the Eco2 approach and help in gaining financial resources for investments in infrastructure (WB 2010).

City policies: Warsaw

Local authorities are forced to look for new solutions to deal with energy and climate problems. Poland needs a reform of national policy to meet environmental goals at the local level. Municipalities face problems with waste disposal, wastewater treatment, air pollution, and energy efficiency. Due to increased suburbanisation and urban sprawl, some Polish cities considerably increased production of renewable energy and energy efficient technologies. CO₂ emissions per capita in Polish cities are low but the possibility to increase energy efficiency and develop renewable energy generation technologies remains under-exploited. The trend across Polish cities towards suburbanisation directly impacts environmental quality. Energy consumption, especially in the transportation and construction sectors is influenced by urban densities and spatial organisation. The relocation of city residents to surrounding areas has created the phenomenon of urban sprawl. Increasing urban density could significantly reduce energy consumption in urban areas (OECD 2011).

All European agglomerations are in the phase of policy development in which they must take into consideration the needs of society for a better, healthier, pollution-free life. On the other hand capitals and big cities take the role of leaders in the implementation of sustainable development programs. Warsaw is the leader among Polish cities in implementing sustainable development policies by actively taking part in different European and international suggestions for sustainable development. Warsaw is a member of the Eurocities – association, which gathers European as well as international cities, where the main issues are climate, inclusion and recovery since 2002. The Polish capital is also a member of the C40 Cities Climate Leadership Group (C40), a network of the world's biggest cities taking action to reduce greenhouse gas emissions. Warsaw is also a member of the European Network "Énergie Cités" which supports Polish covenant signatories and candidates for signatories by cooperating with local authorities in promoting energy efficiency and renewable energy use.

Thirty six Polish cities had signed the covenant by the beginning of 2013. These cities committed themselves to improving energy efficiency and climate protection. Warsaw wanting to become a leader in sustainable development implementation, became a member of Covenant of Mayors in 2009. The Warsaw city council adopted the Sustainable Energy Action Plan for Warsaw for 2020 prepared by a consortium of companies: the Polish National Energy Conservation Agency and the National Energy Conservation Agency.

The action plan foresees several undertakings in the area of (City of Warsaw 2011):

- construction, including new and exhaustively retrofitted buildings,
- city infrastructure, i.e. heat distribution networks, street lighting systems, etc.
- land management and urban planning,
- renewable energy sources,
- transportation policy,
- civil, in the area of the involvement of residents,
- the pro-efficiency behaviour of residents, consumers and enterprises.

According to a survey on the perceived quality of life in European cities (EC 2010a), Warsaw residents pointed out air and noise pollution as an important problem they face in everyday life. Implementation of the action plan should considerably change the situation. The action plan assumes.

The value of the CO₂ emissions in Warsaw should not exceed 80% of CO₂ emissions during the base year 2007 (main goal) and the value of the final energy consumption in Warsaw will not exceed 80% of final energy consumption during 2007 (additional goal). This means that CO₂ emissions should not exceed 10 362 387 Mg CO₂/year and final energy consumption should not exceed 22 715 545 MWh. At least 20% of energy will come from renewable sources. Warsaw's commitment includes CO₂ emission reduction by 6 118 995 Mg per year which will allow energy savings of 10 538 185 MWh per year. The cost of the action plan is 16.5 billion PLN, including 5 billion PLN from the city budget (Miasto stołeczne Warszawa 2011).

The main source of emissions in Warsaw comes from the energy sector (78%) followed by transport (15%) and the municipal waste management sector and municipal wastewater treatment processes (7%) in 2007.

The housing sector consisted of around 44 million square meters of apartments and around 15 million square meters of administration buildings and public facilities in 2008. A large part of panel buildings in Warsaw was constructed using inefficient technologies due to policy, which at that time was not focused on energy efficiency. Therefore, there is considerable potential in the housing sector to reduce CO₂ emissions through complex thermal retrofitting of buildings in a standard close to the Thermal Retrofit Act. Activities in the housing sector, municipal residential buildings and public facilities should include (Miasto stołeczne Warszawa 2011): modernisation of the method of heat supply, improvement of the ventilation system, replacement of external doors and windows, modernisation of the heating system and, where possible, the use of equipment, using energy from RES, reduction in heat demand for the preparation of hot tap water, modernisation of street and outdoor lighting. For new constructions advanced technologies like low carbon houses, passive houses and energy efficient houses are used. Thermo modernisation of buildings in the public sector will yield a 106 836 Mg emission reduction by 2020. This means annual savings of 359 718 MWh.

The energy sector in Poland and in Warsaw is based mostly on coal. To attain the goals listed in the action plan, it is needed to; implement new technologies which reduce the consumption of heat, increase the use of new technologies based on renewable energies, and modernise the heating network (Miasto stołeczne Warszawa 2011). Actions seen to be considerations for the energy and heat sector (Miasto stołeczne Warszawa 2011): improving the efficiency of energy generation, modernisation or replacement of old turbines, use of waste heat recovery units producing electricity to spin a power turbine that produces electricity, production of electricity in thermal power generating units, use of solar panels, use of photovoltaic systems, cogeneration, micro-cogeneration, use of biomass power plants. The use of biomass in power plants should increase from 2% in 2010 to 25% in 2020. Warsaw is going to increase the share of energy produced from waste to 8% by 2016. Modernisation of the incineration plant in Warsaw – Zakład Unieszkodliwiania Stałych Odpadów Komunalnych – by 2018 will allow thermal treatment of 390 thousands of tons of waste to be converted into energy and heat for Warsaw (Miasto stołeczne Warszawa 2012).

Public transport is one of the sectors of the action plan. Most of the actions listed in Strategy for Sustainable Development of the Warsaw Transportation System to the year 2015 and beyond till 2015 (Transport Strategy) will serve to attain action plan objectives. According to the Strategy for Sustainable Development of the Warsaw Transportation System by the year 2015 and beyond (Miasto stołeczne Warszawa 2010) the main goal of Warsaw transport policy is the rationalisation and development of the transport system in order to create favourable conditions for the city residents to transfer and relocate goods

while reducing harmful effects on the environment and health. One of the main goals of the transport strategy points out the need to decrease the pressures of transport on city residents and improve the state of the environment by noise reduction, health care as well as environmental protection. The transport strategy assumes that although there is an increasing trend in the use of individual cars, the key role in the transport system will be given to rail transport: tram, metro and rail. According to prognostics prepared for the transport strategy, the improvement of rail transport will create incentives for city residents to use public transport. One of the main tasks is to change a perception of the means of transport as well as passenger behaviour by encouraging city residents to walk or to use a means of transport other than car (bike, metro, tram). The excessive use of individual cars is the least efficient means of transport as far as emissions per passenger and the amount of space used are concerned. Several actions on modernisation and development of tramway infrastructure, development of underground, creation of bike paths, joint single ticket for all means of public transport, integration of transport systems, improvement of bus system, replacement of vehicular and rolling stock by buses using alternative fuels are expected to reduce transport fuel consumption and pollution emissions from transport in Warsaw.

The main threats during the realisation of the action plan result from changes in the national law concerning the EU Climate & Energy Package, problems with the financing of tasks due to budget cuts at the national or regional level, and a lack of the acceptance of the implementation of the action plan (Miasto stołeczne Warszawa 2011).

By the middle of 2013 Warsaw had bought 186 trams with kinetic energy recovery systems, 168 buses were hybrid buses, 35 metro trains and 17 trains for Fast Urban Railway. 2100 city bikes with 125 stations are available for Warsaw residents and tourists.

The advantage of the implementation of the action plan is the reduction of the impact of the city on the environment as well as promotion of the pro-environmental behaviour of city residents and creation of social awareness concerning climate change.

CONCLUSIONS

Cities play an important role in the global economy. The management and special design of cities are important issues in coping with global sustainable development. International agreements are of the utmost importance in creating a strong climate policy and introducing sustainable development. These agreements will show the way to elaborate appropriate schemes to help regional and local authorities put local policies on track towards sustainable development.

Stakeholders' and citizens' involvement is essential for improving the environment in the city therefore; there is a need for data, not only at a national level but also at an international level, to perform reliable comparisons. City platforms serve to exchange data on basic

information on the cities, on projects performed to reach sustainable goals and they provide analytical and practical help to the cities' governments.

Becoming a member of the Covenant of Mayors in 2009, Warsaw signed a commitment to improving energy efficiency and climate protection. Warsaw has become the leader in implementation of sustainable energy development plans in Poland: decreasing energy use, new sustainable transport schemes, and implementation of renewable energy plans within the city area. As the capital, which has an important political and economic impact in Poland, Warsaw has become an example of good environmental practices as in behaviours that should lead the city government into a new climate reality. The advantage of the implementation of the action plan is the reduction of the impact of the city on the environment as well as promotion of pro-ecological behaviour of city residents and creation of social awareness concerning climate change.

By 2013 four thousand five hundred mayors from forty countries, including thirty five Polish cities had joined the Covenant of Mayors. These numbers indicate best the great need for such initiatives at an international level.

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Līga Proskina

ECONOMIC FACTORS OF USING THE NEW PROTEIN CONCENTRATE IN RED DEER FEEDING

CZYNNIKI EKONOMICZNE ZWIĄZANE Z ZASTOSOWANIEM NOWEGO KONCENTRATU PROTEINOWEGO W ŻYWIENIU JELENIA SZLACHETNEGO

Faculty of Economics and Social Development, Latvia University of Agriculture, Research Institute of Biotechnology and Veterinary Medicine „Sīgra” of Latvia University of Agriculture Instituta street 1, Sigulda, Latvia, LV-2150, e-mail: liigaproskina@inbox.lv

Streszczenie. W celu zmniejszenia kosztów produkcji i podniesienia jakości produktu będącego rezultatem hodowli jelenia, na Łotwie podjęto eksperymenty z żywieniem jelenia szlachetnego z zastosowaniem koncentratów paszy, produktów ubocznych produkcji rolniczej, produkowanych w tym kraju. Oceniono ekonomiczną wydajność nowego koncentratu proteinowego (BaltiprotTM-50) karmiąc jelenia szlachetnego (*Cervus elaphus*) odpowiednikiem o tej samej wartości energetycznej co przydział tradycyjnie stosowanej paszy zbożowej w okresie zimowym. W warunkach eksperymentalnych, wydajność produktu ubocznego powstającego w produkcji etanolu, stosowanego jako pasza dla jelenia szlachetnego w zimie została oszacowana przez dodanie 0.200 kg koncentratu proteinowego do codziennego przydziału paszy. W wyniku stosowania koncentratu białkowego zaobserwowano wzrost wydajności ekonomicznej paszy. W porównaniu do grupy kontrolnej, ilość i koszt paszy podanej jeleniom szlachetnym w grupie eksperymentalnej był mniejszy odpowiednio o 8.40% i 18.21%; ilość surowego białka przyswojonego przez organizm jeleni wzrosła o 5.00%, zaś koszt nieprzetworzonego i wydalonego surowego białka zmniejszył się o 30.95%; waga tuszy zwierzęcej wzrosła o 3.79 kg, a proporcje tkanki mięśniowej o 3.47%. Wzrost produktywności wynikający z obniżenia kosztów pozwala na bardziej wydajne korzystanie z aktywów gospodarstwa hodowlanego. Wyniki pozwalają na wyciągnięcie wniosku, że pasza z dodatkiem koncentratu białkowego BaltiprotTM-50 wpływa znacząco na poziom wydatków i zyskowność hodowli jelenia. Wyniki ekonomiczne podawania miejscowej paszy z wysoką zawartością białka wskazują jednomyślnie, że takie pasze mogą być polecane gospodarstwom hodującym jelenie w celu zmniejszenia kosztów żywienia i zwiększenia produktywności.

Key words: deer farming, deer feeding, feed costs.

Słowa kluczowe: hodowla jeleni, koszty paszy, żywienie jeleni.

INTRODUCTION

Deer farming might be considered a prospective non-traditional agricultural industry having fast development possibilities. This is proved by an increase in the number of deer farms registered over the recent years. According to data of the Wild Animal Raising Association and the State Forest Service, 14 deer farms were registered in Latvia by the end of 2001, whereas on 31.12.2012 there were 61 such farms (Deer farms 2012).

Animal feeding efficiency and the provision of deer with the necessary nutritional energy to produce livestock products are two of the most important aspects in developing deer farming and are the basis for the production of quality products so as to ensure this industry's economic efficiency. Animal feeding problems have been extensively researched in

Latvia (Ramane 2001, Osītis 2004, Kairiša 2006, Trūpa 2006, Latvietis et al. 2008), yet, the accumulated experience over many years in feeding traditional livestock may only be being partially exploited in feeding deer raised in captivity, this is related to physiological differences between animals due to the way they are raised. Foreign research into deer farming (Fletcher 1989, Adam 1994, Loison et al. 1999, Tuckwell 2003, Sauve, Côté 2006) may not be often used for the particular conditions and development stage in deer farming in Latvia, as climatic conditions are different in various countries.

Latvian climatic conditions are suitable for raising red deer in a fenced territory all year round. Given the fact that deer live in fenced territories all year, their health condition and the productivity resulting from it are determined not only by the way these animals are fed and the conditions in which they are kept, but also by the surrounding environment – in autumn and winter periods, subject to the effect of climate, red deer may lose up to 20% of their body mass (Mitchell et al. 1977, Fletcher 1989, Loison et al. 1999, Tuckwell 2003, Sauve, Côté 2006). The body weight loss of red deer may be minimised by a balanced and high-protein feed.

Over recent years in many countries, studies into the sources of protein and protein levels in feed rations for ruminants have been done. A feed supplement with a high protein content is the most expensive component of feed rations. The fact that giving feed rations with a high level of protein might increase environmental pollution also has to be taken into consideration (Broderick, Clayton 1997, Shingfield et al. 2002). Food industry by-products, feeds with a high content of protein, are becoming more and more popular in feeding livestock. These are; various vegetable oil production by-products, rapeseed and soybean cakes, and by-products from ethanol production – Distillers Dried Grains with solubles (DDGS) etc.

By utilising various ethanol production technologies and using various raw materials of plant origin, ethanol production by-products of different protein content and quality are produced (Spiehs et al. 2002). According to Waldroup (2007), DDGS contain on average 26.5% crude protein and 0.73% total lysine.

It is economically efficient to produce ethanol from grain, and wheat is the best choice. By applying innovative solutions and technologies, ethanol production waste is reprocessed in Latvia into a feed supplement registered as BaltiprotTM-50. On average, it consists of 55–60% crude protein, 1.28% lysine, 0.52% methionine, 1.71% arginine, and 94.5% dry matter. The concentrate of protein feed, contrary to the mentioned one in literature, is of better quality, as it contains relatively more crude protein and amino acids.

It enables enriching red deer feed rations with protein-rich feed supplements during the winter period, i.e. the protein concentrate BaltiprotTM-50 may be used. There have been few studies on the economic and ecological efficiency of protein concentrates in red deer feed under Latvian conditions, there are, however, studies proving a successful use of the protein concentrate BaltiprotTM-50 for chicken (Vītiņa et al. 2009, Vītiņa et al. 2010).

Feed with a high protein content is the most expensive component of a feed ration, therefore, it is important to assess its digestibility and assimilation in the animal's organism, which is significantly affected by the amino acids in the feed ration.

The digestibility and assimilation of crude protein, contained in feed, in the digestion system of animals are significantly characterised by the quantity of undigested and unassimilated crude protein in the manure excreted (Osītis 2005). Incomplete assimilation of feed, results in the productivity of animals decreasing and production costs per unit increasing, which affects economic efficiency indicators. At the same time environmental pollution may increase, undigested and excreted crude protein contains nitrogen and phosphorus, which are the main chemical pollutants arising from agricultural animals for the environment (Patterson 1998, Nahm, Carlson 2004).

Therefore, it is of great importance to study the digestibility and assimilation of crude protein contained in the protein concentrate BaltiprotTM-50 in the organism of red deer. From the economic point of view, it is necessary to assess the cost of using the protein concentrate BaltiprotTM-50 as a feed for red deer and to find out whether feed rations, supplemented with a premix rich in proteins, fed to the experimental group affected the productivity of these animals when compared to traditional feeds.

Therefore, the research aim was to assess the economic efficiency of the new protein concentrate BaltiprotTM-50 fed to red deer during the winter period. The following research tasks were set: 1) estimate expenses of feed ration necessary for red deer; 2) identify expenses of crude protein utilised per feed ration; 3) compare the proportion of red deer carcasses in the control group and the trial group.

MATERIALS AND METHODS

Feed experiments were conducted on red deer (*Cervus elaphus*) raised on Latvian deer farms in fenced territories during the winter from December 2010 to April 2011. The snow depth was on average 47 cm (average snow depth was exceeded three times), the average temperature in months of winter (XII 2010 – II 2011) was –6.2°C, the average temperature in February was –8.9°C which was 4.1°C below the annual average. (Description of Weather... 2011)

Before starting the experiment, two red deer groups of analogous age were established: a control group ($n_1 = 10$) and an experimental group ($n_2 = 10$). The control and experimental groups of red deer were fed with feeds of equal energy value (Table 1). According to studies of various authors (Fletcher 1989, Adam 1994), an animal of 150–200 kg has to consume on average 2.6–2.7 kg of dry matter, 320.0–330.0 g of protein, and 25.0–30.0 MJ of energy daily under winter conditions in accordance with the standard for seasonal physiological needs of red deer.

In the control group, on average 7.0 kg of silage and 1.100 kg of rolled oats were fed to each animal. For the experimental group, 0.200 kg of protein concentrate was included in their daily feed rations, replacing 0.880 kg of rolled oats (Table 1).

The experiment assessed the efficiency of feeding red deer the protein concentrate BaltiprotTM-50 from economic aspects.

To identify the possible effect of feeding red deer the protein concentrate on the economic efficiency, costs associated with; daily consumption of feed per animal, the cost of feed consumed, and the quantity and costs of undigested and excreted crude protein were calculated.

The amount of manure excreted by the red deer made up on average 650 g (in dry matter), which was calculated according to the data provided by Latvian and foreign scientists (Tuckwell 2003, Timbare et. al. 2008). An undigested protein amount was determined by the methods: LVS EN ISO 5983-:2005 „Determination of nitrogen content and calculation of crude protein content – Part 1: Kjeldahl method (ISO 5983-1:2005)”. Biochemical tests of feed and manure were done at the accredited biochemistry laboratory at the scientific institute Sibra of Latvia University of Agriculture in accordance with standard LVS EN ISO/IEC 17025-2005; all the tests were done in accordance with appropriate accredited ISO standards.

At the end of the experimental period, the proportions of muscle, bone, and adipose tissues were determined in the carcasses of the red deer from the control and experimental groups. Research data was analysed by a non-parametric method (Mann-Whitney U-criteria test) for data comparison (Arhipova, Bāliņa 2006). The Mann-Whitney U test is used to determine whether a difference exists between independent variables, deer of control group ($n_1 = 10$) and deer of trial group ($n_2 = 10$) (Formula 1).

$$U_i = n_1 \cdot n_2 + (n_i(n_i + 1)/2) - \sum_{j=1}^{n_i} R_{ij} \quad (1)$$

where: $i = 1, 2$,

n_1, n_2 – sample size,

R_{ij} – the sum of the ranks.

The smaller of U_1 or U_2 is compared to the critical value for the purpose of the test. Two independent variables – deer of control group ($n_1 = 10$) and deer of experimental group ($n_2 = 10$) – were compared at the significance level $\alpha = 0.01$.

RESULTS AND DISCUSSION

Feeding red deer with the protein concentrate BaltiprotTM-50 allowed a reduction in the amount of consumed feed. The cost of feed consumed also decreased for the experimental group compared to the control group (Table 1).

The daily consumption of feed amounted to 7.420 kg per red deer for the experimental group, which was 0.680 kg or 8.40% less than for the control group. Thus, also decreasing the costs of consumed feed, the cost of feed per red deer was 18.21% lower for the experimental group than for the control group. The difference in feed costs was determined by differences in quantities and costs of crude protein for rolled oats and the protein concentrate. One kilogram of protein in rolled oats costs LVL 0.989, while in the protein concentrate – LVL 0.639. The run off of nitrogen and phosphorus from the utilised agricultural area (UAA) and livestock sheds causes a significant increase in environmental pollution. Most of the total amount of nitrogen and phosphorus (50–80%) getting into surface waters originate from anthropogenic, especially agricultural, sources of pollution (Skorupski 2012). In the aspect of food production, the environment is mostly polluted by meat production (Millston, Lang 2008, Global Challenges... 2009, Lauksaimniecības radītais piesārņojums 2011). Crude protein which is undigested by agricultural animals and then excreted from their organism is a chemical (nitrogen, phosphorus) and bacteriological (unfavourable microflora) source of pollution (Steinheider 1999, Nimmermark 2004, Łysko, Cyglicki 2004), the amount of which may be partially reduced by using feeds that have a higher rate of digestibility. A higher rate of digestibility, at the same time, provides higher economic return, i.e., higher productivity with lower or equal consumption of resources.

Table 1. Consumption and costs of feed and protein per deer per day

Parameters	Group 1 – control (<i>n</i> = 10)	Group 2 – trial (<i>n</i> = 10)	Deviation to control	
			bias	%
Feed ingredient:				
haylage, kg per day	7.00	7.00	0	0
rolled grain, (oats) kg per day	1.10	0.220	–0.880	–80.0
protein concentrate, kg per day	–	0.200	+0.200	+100.0
Total feed consumption, kg per day	8.10	7.420	–0.680	–8.40
Protein content:				
haylage, g	184.00	184.00	0	0
rolled grain (oats), g	141.00	28.35	–112.65	–80.0
protein concentrate, g	–	112.65	+112.65	+100.0
Total protein in feed, g	325.00	325.00	0	0
Feed costs:				
haylage, LVL per day	0.126	0.126	0	0
rolled grain (oats), LVL per day	0.154	0.031	–0.123	–79.87
protein concentrate, LVL per day	–	0.072	–	+100.0
Total feed costs, LVL per day	0.280	0.229	–0.051	–18.21
Costs of crude protein per 1 kg, LVL	0.862	0.705	–0.157	–18.21

Source: author's calculations.

The organism of a red deer in the experimental group assimilated 76.56% of crude protein available in feed during the winter period, being 4.33% more than was observed in the control group (Table 2). This data indicates that the digestibility and assimilation of crude protein was at a relatively higher level among the experimental group than the control group. The red deer among the experimental group excreted 15.58% less undigested crude

protein into the environment than those from the control group, i.e. the environmental pollution decreased.

Table 2. Quantity and cost of crude protein in the feed and manure of deer (per deer a day)

Parameters	Group 1 – control (<i>n</i> = 10)	Group 2 – experimental (<i>n</i> = 10)	Deviation to control	
			bias	%
Crude protein ingested from dry matter, g	325.00	325.00	–	–
Quantity of excreted manure per day, dry matter, g	650.00	650.00	–	–
Crude protein content in the excreted manure, g	90.24	76.18	–14.06	–15.58
Crude protein assimilated into the organism, g	234.76	248.82	+14.06	+5.99
Crude protein assimilated into the organism compared to that ingested, %	72.24	76.56	+4.33	–
Cost of ingested crude protein, LVL	0.28	0.229	–0.051	–18.21
Cost of excreted crude protein, LVL	0.08	0.05	–0.03	–30.95
Share of undigested crude protein in the total cost of feed, %	27.77	23.44	–4.33	–

Source: author's calculations.

As undigested crude protein is excreted and decomposes chemically and bacteriologically, it becomes a pollutant of the environment, yet it has to be emphasised that it also causes economic losses due to the incomplete assimilation of feed. In terms of money, the cost of undigested and excreted crude protein decreased by 30.95% compared to the control group (Table 2).

By feeding red deer the protein concentrate BaltiprotTM-50, the total cost of feed consumed declined by 18.21% (Table 1), and the crude protein available in feed, including that in the protein concentrate, was used more efficiently. The cost of undigested and excreted crude protein was LVL 0.03 lower in the experimental group than in the control group, meaning the loss of crude protein available in feed decreased by 4.33% from the total feed cost. It means that by feeding the red deer the protein concentrate BaltiprotTM-50, the economic efficiency of feed increased and, at the same time, environmental pollution decreased (Table 2).

The transformation of feed protein into the organism's protein is associated with the growth and regeneration of tissue and organs of a live organism, reaching a high concentration of protein in muscle tissue (Ositis 2005). It has to be emphasised that the amounts of amino acids available in feeds differ, thus affecting the growth of muscle tissue, which affects the productivity of animals. So, the economic efficiency of feeds used is specified by the productivity indicators of an animal. The quality of deer carcasses is basically determined by the ratio of muscle tissue, connective tissue, adipose tissue and bone tissue amount and nutritional value indexes.

According to data in literature, the meat of the highest quality is obtained from young stock deer usually slaughtered at the age of 14–16 months, their carcass weight at this age

amounts to approx. 60 kg (Vigh-Larsen 1987). The effect of feeding red deer the protein concentrate on their productivity was assessed in terms of proportions of muscle, adipose, and bone tissues in red deer carcasses. The proportions of these parts of carcass differed between the groups (Table 3). The age of slaughtered deer assessed in the trial ranged from 15–18 months and their carcass weight in control group ranged from 48.9 to 59.1 kg, an average was of 51.68 kg, carcass weight in trial group ranged from 49.6 to 63.6 kg, an average 55.46 kg.

Table 3. Average proportions and ratio of the components of red deer carcasses

Group	Carcass weight, kg ± SD	Muscle tissue		Adipose tissue		Bone tissue		Weight ratio of muscle to bone
		%	kg ± SD	%	kg ± SD	%	kg ± SD	
Group 1 – control (n = 10)	51.68 ±5.26	59.69	30.85 ±3.14	7.49	3.87 ±0.39	32.82	16.96 ±1.73	1.82
Group 2 – experimental (n = 10)	55.46 ±6.04	63.16	35.03 ±3.81	7.18	3.98 ±0.43	29.66	16.45 ±1.79	2.13
Deviation to control	3.78	3.47	4.18	–0.31	0.11	–3.16	–0.51	0.31

Source: author's calculations.

According to the experimental data (Table 3), over the trial period, supplementation of traditional red-deer feed with the protein concentrate increased the yield of meat by on the average by 7.31% (3.79 kg) per deer in comparison with the control group. By feeding the red deer the feed containing the protein concentrate BaltiprotTM-50, the carcass of red deer had higher proportions of muscle tissues, 3.47% respectively, while the proportion of bone tissue was 3.15% lower compared to the control group. By performing a Mann-Whitney U-criteria test (Formula 2), it was found that the proportion of muscle tissue (Table 3) was significantly greater for the experimental group.

$$U_{a(1)}; n_1; n_2 = U_{0.01;10;10} = 16 > U = 6 \quad (2)$$

Therefore, the weight ratio of muscle to fat was higher for the experimental group (2.13), it was, in absolute terms, 0.31 higher than for the control group. It means that the use of the protein concentrate BaltiprotTM-50 in feed rations for the red deer promoted their productivity and increased the share of carcass useful for food, i.e. the proportions of muscle and adipose tissues in their carcasses (Table 3).

CONCLUSIONS

The economic efficiency of feeding the protein concentrate BaltiprotTM-50 to farmed red deer (*Cervus elaphus*) over the winter season was assessed under trial conditions, by adding 0.200 kg of protein concentrate to their daily feed ration. If compared to the control group of red deer:

- 1) the amount and cost of consumed feed decreased by 8.40% and 18.21%, respectively;
- 2) the quantity of crude protein assimilated into the organism increased 5.99%;
- 3) daily environmental pollution from undigested crude protein, contained in manure, decreased by 15.58%, while the cost of undigested and excreted crude protein decreased by 30.95%;
- 4) the carcass weight of red deer increased by 3.79 kg on average and the share of carcass suitable for food, the proportion of muscle tissue, rose by 3.47%.

An increase in productivity due to a reduction in the cost level indicates a rise in the efficiency of the use of farm assets. It enables us to conclude that feeding protein concentrate Baltiprot™-50 to deer significantly affects the expenditure and profitability of a deer farm. The economic results of feeding local feeds with high protein content convincingly showed that these feeds may be recommended for deer farms to reduce their feed cost and raise their productivity.

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Marzena Rydzewska-Włodarczyk, Iwona Majchrzak

CONTROL OF DOCUMENTATION RELATED TO THE IMPLEMENTATION OF PROJECTS CO-FUNDED BY THE EUROPEAN UNION

KONTROLA DOKUMENTACJI REALIZACJI PROJEKTÓW WSPÓŁFINANSOWANYCH ZE ŚRODKÓW UNIJNYCH

Department of Managerial Economics and Accountancy, West Pomeranian University of Technology
Szczecin, Żołnierska 47, 71-2010 Szczecin, Poland,
e-mail: mrydzewska@zut.edu.pl, imajchrzak@zut.edu.pl

Streszczenie. Treść artykułu koncentruje się na jednym z istotnych obszarów zarządzania projektami, jakim jest kontrola realizacji projektu. Obejmuje ona procesy kontroli realizowane zarówno przez podmiot realizujący projekt, jak i instytucje zewnętrzne (kontrolerów zewnętrznych). Z punktu widzenia przedmiotu i zakresu kontroli ważne znaczenie dla finansowania realizacji projektu i jego rozliczenia ma wiarygodna dokumentacja, w tym szczególnie dokumentacja w zakresie wydatków i kosztów. Kontrola dokumentów w tym zakresie w przypadku projektów współfinansowanych ze środków europejskich jest warunkiem uzyskania dofinansowania. Celem artykułu jest przedstawienie zagadnień dotyczących systemów kontroli projektów współfinansowanych ze środków europejskich. Na potrzeby opracowania autorki dokonały przeglądu definicji „kontroli projektu” i omówiły procedury kontroli projektów. W szczególności przedmiotem analizy są procedury kontroli dokumentacji realizacji projektów, w tym kontroli dokumentacji weryfikacji wydatków i kosztów projektów jako elementu zarządzania projektami. Główną metodą stosowaną w artykule jest analiza źródeł literaturowych. W trakcie badań wykorzystano metodę analizy porównawczej oraz metody dedukcji i indukcji.

Key words: control, control of the project, cost documentation, project, project's costs, review expenses and project costs.

Słowa kluczowe: dokumentacja kosztowa, kontrola, kontrola projektu, koszty realizacji projektu, projekt, weryfikacja wydatków i kosztów projektu.

INTRODUCTION

Projects are commonly encountered in all fields of human activity. They are implemented in enterprises and non-commercial entities alike. Projects are also a method for goal realisation by public sector entities. Regardless of the subject, European projects are a specific group of projects and are the most popular form of using European funds. They should be defined as:

- enterprises being at issue in the European financing agreement.
- the smallest separable unit subject to the European aid (Portal on EU Funding.

Glossary <http://www.funduszeuropejskie.gov.pl/Sloownik/Strony/Projekt.aspx>).

Co-financing projects with European funds requires the correct functioning of appropriate systems to manage these funds, including control systems. Thus, control of projects co-financed by the European Union related to activities undertaken by various entities and in

various project implementation phases. Control procedures determine both the level of fund management, and the scope of powers belonging to the entities that are performing the examination to verify proper disbursement of financial resources, as well as solutions adopted in terms of individual operational programs.

One means of control over projects co-financed by the European Union is project documentation control. The beneficiary, when signing a project financing agreement, agrees to have the project's compatibility with the agreement's provisions verified. The subject of control is thus the documentation relating to the project (investment) implementation, especially:

- financial and technical documents,
- the level of achieved indicators of product and result that were assumed in the grant application,
- project's promotion.

The aim of this article is to present issues relating to control systems of projects co-funded by the European Union.

MATERIALS AND METHODS

The article's development was preceded by literature studies relating to the definition and essence of project control. For the needs of this article, the authors have reviewed the definition of "project control" and discussed project control procedures. The analysis especially pertains to procedures of project control implementation documentation, including documentation of verification of project expenditure and costs as an element of project management.

The main method utilised in the article is the analysis of literature sources. Comparative analysis, deduction and induction methods were used in the studies.

PROJECT CONTROL AND MONITORING IMPLEMENTATION OF THE PROJECT

In Polish norms relating to European funds, the terms "control" and "project control", as well as the term "project", are not explicitly defined. Generally, the term "control" should be understood as supervision over someone or something with the aim of ensuring that the controlled person, thing or process functions in accordance with established principles. Such an understanding of control includes a set of activities involving:

- verification of the factual condition of the controlled phenomena or activities/operations,
- comparison of the factual condition with that of the designated condition (required) in the legal, technical, economic and other norms,

- determination of deviations from the required conditions (abnormalities), the reasons for these deviations and persons responsible for their occurrence,
- formulation of conclusions aimed at eliminating abnormalities, enhancing the operation of the controlled unit or its area of activity, achieving better effects.

When considering the presented definition of the term “control” in terms of “project control”, it should be noted that project control requires an action aimed at the achievement of the assumed (expected) result, therefore it is a form of internal control¹. Project internal control is also utilised in the management of projects co-financed by the European Union. It includes activities undertaken by the entity implementing the project during the stages of project preparation and implementation. Control activities then include control of (Trocki et al. 2009):

- terms of project preparation and implementation,
- resource consumption during project preparation and implementation,
- supply and subcontracting,
- project risk,
- project quality,
- project team’s work,
- project results.

In the management of projects, because of the complexity of the controlled object, it is crucial to limit the control scope to only the most important (key) areas of project results and strategic control points (critical points of the project) in which intensive control should be carried out (Stoner et al. 2001). The project’s key elements should include activities/phases whose efficiency and effectiveness determine the project’s success.

Financial control is indicated as a special kind of internal project control. Its subject includes financial phenomena and processes relating to the financial management of the project.

Taking the character of European projects into account, their control should be first and foremost considered as external control of project implementation carried out by the management, intermediary or implementing institution. This control should relate to the process of comprehensive assessment of the overall issues associated with project implementation. The results achieved throughout the project, studied from the perspective of legality and

¹ Things considered as a form of internal control include managerial control, understood as a systematic activity the aim of which is the continuous monitoring of the effectiveness of the unit and the possible undertaking of corrective action in case there are abnormalities. The unit’s manager, while exercising control, undertakes (directly or with the participation of the unit’s employees) such actions as:

- establishing performance standards for the planned action objectives,
- designing informative feedbacks,
- comparing the real results with performance standards and determination of any deviations,
- measurement of deviations’ meaning for goal realisation and
- undertaking action needed to ensure that all of the unit’s resources are used in the most effective and efficient way to achieve its goals.

Mockler 1994, p. 2; Stoner, Freeman, Gilbert 2001, p. 539.

economic prudence of spending the EU funds by the beneficiary, are of particular interest to the controller (Zarządzanie projektem europejskim 2007). Such an understanding of project control aims at the verification of accuracy of the project's implementation according to the agreement or decision on funding for the project as well as the annexed request for funding for the project. It is also checked whether or not information on the project implementation progress and the incurred expenditure that were presented in the payment request are in accordance with the factual state, project implementation schedule, payment schedule and the project budget.

Check verifications can be carried out (Fig. 1):

- 1) in the headquarters of the institution the beneficiary has signed a project funding agreement, in this case the documents supplied by the beneficiary are controlled,
- 2) on site, which is:
 - the headquarters of the controlled entity and (control in the beneficiary's headquarters),
 - any place directly related to the project implementation (monitoring visit).

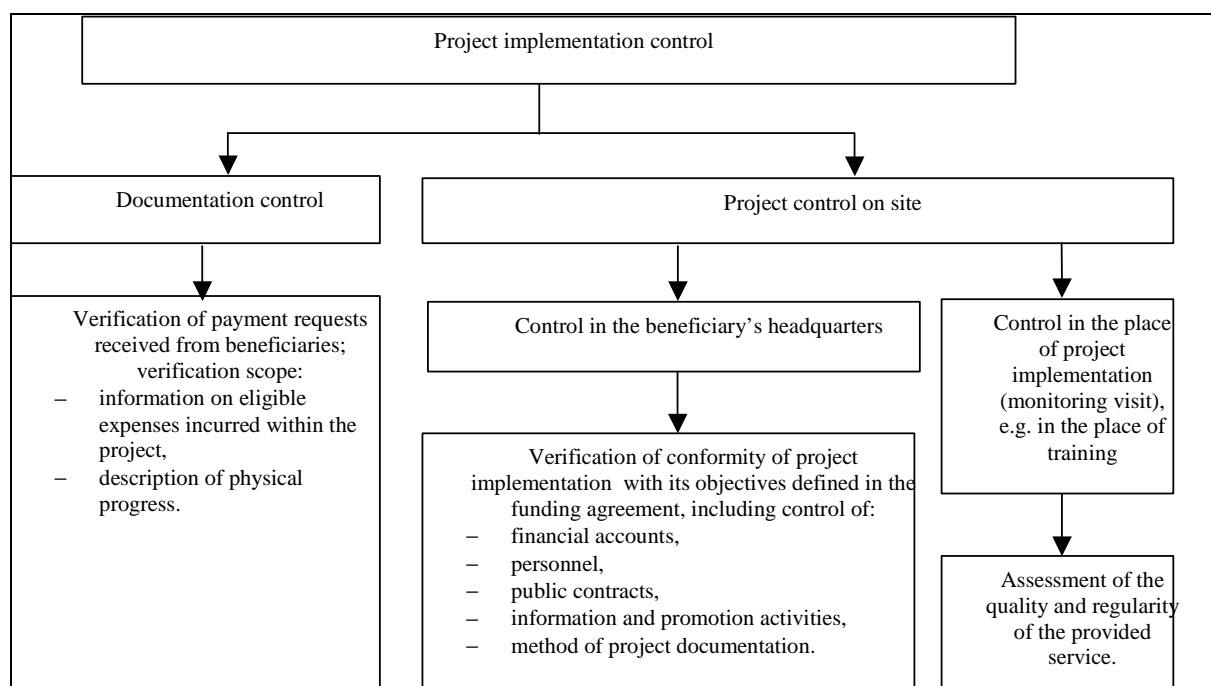


Fig. 1. Project implementation control sharing

Source: Rydzewska-Włodarczyk (2011).

One of the forms of control of projects implemented by external controllers is project financial control. This type of control consists of mechanisms and measures ensuring the proper functioning of the process of gathering and spending of public national and European funds (Portal on EU Funding. Glossary. <http://www.funduszeuropejskie.gov.pl>

/Slownik/Strony/Kontrola_finansowa.aspx)². The aim of these control mechanisms in the scope is, primarily, to ensure that the European funds are utilised in accordance with the objectives and procedures stated in the norms and agreements, including verification of keeping separate documentation for recording and reporting for these funds. Thus, the project control subject might be both the funded object itself and project documentation.

The project documentation control is carried out in the form of verification checks. It can take place both in the headquarters of the controlling institution and on site. In the latter case, the controlling team has the right to access full documentation related to project implementation. In general, however, project documentation control is the verification of information included in the payment request, relating to eligible expenditure and costs incurred within the project. The payment request is verified in the formal, substantive and accounting sense by an employee of the relevant institution, appointed as project supervisor as well as by their superior and the institution's financial department. Moreover, approval of the payment request requires verification of all or, based on the accepted sampling methodology, selected documents certifying the expenditure incurred, meaning invoices, bills, bank statements, etc.

The subject of project control might also be the project accounting system, including reporting. Reports generated as part of the accounting information system for a given system project are important for the needs of implementation and control of project completion. Such reports are drawn up in the form of statements, lists, charts, and other reports generated in different forms and with different information capacities. The information presented in them might come directly from the unit accounting system, and be collected and processed solely for the needs of a given projects' management. Reports for projects co-financed by the European Union, take on the form specified in the regulations for a given program within which the funding is granted.

SCOPE AND PROCEDURES FOR THE CONTROL OF EXPENDITURE AND PROJECT COSTS

Eligibility control of expenditure and costs is of great importance for projects co-financed by the European Union³. Such controls are carried out as part of both substantive, and fi-

² The same source includes financial control, management control and audit in the scope of financial control.

³ European legal provisions and supplementary national guidelines define eligible expenditure/costs as expenditure or costs incurred by the beneficiary in relation to project implementation within the operative program or regional operative program, that are eligible based on the guidelines and procedures specified in financing agreement for a refund from the funds of a given program. This law is regulated by: Council Regulation (EC) No 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999 (UE OJ of 31 July 2006 L 210/25), Council Regulation (EC) No 1341/2008 of 18 December 2008 amending Regulation (EC) No 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund for certain revenue-generating projects (UE OJ L 348, 24.12.2008); National

nancial and accounting control. Within the substantive control, the expenditure and costs should be verified by comparing their level assumed in the funding request with those actually incurred. To this end, a suitable statement of eligible expenditure can be used (Table 1).

Table 1. Comparison of eligible expenditure

No.	Eligible expenditure categories in the funding request	The amount of eligible expenditure according to:				Deviations		
		Funding request	Payment request	Accounting records	Project implementation final report	Funding request/payment request	Payment request/accounting records	Accounting records/final report
1								
2								
...								
Total								

Source: study based on: Hyży (2008).

A detailed control of expenditure and cost eligibility is carried out within the financial and accounting control. The following areas should be included in this scope of study (Majchrzak 2010):

- 1) requested execution adequacy,
- 2) final beneficiary's status from the perspective of eligibility of tax on goods and services (VAT),
- 3) project implementation costs, including especially the prime costs,
- 4) documentation of the expenses incurred.

From the perspective of documentation control, the study of documentation is of particular importance. Within this area, all planned and realized costs of project implementation should be subject to control, especially prime costs. The aim of this study is the determination of whether the planned project costs were actually incurred and if their level corresponds to the eligible costs. Moreover, at this stage it is important to check the correctness of classifying the VAT tax to the eligible costs, i.e. check whether or not the goods and services tax was included in the eligible costs in the situation that unit had the legal authority to reclaim it or if the proper rate was assumed.

Joint or partial expenditure/costs should also be included in documentation control within the project expenditure/costs. In their case, documentation should cover, apart from the basic description, an accounting calculation of the sum directly related to a given project and a description of the accepted allocation key⁴.

guidelines on eligibility of expenditure under the Structural Funds and the Cohesion Fund in the programming period 2007–2013; Guidelines of the Minister of Regional Development of 17 December 2008; Guidelines on selected issues related to the preparation of investment projects, including revenue-generating projects. Guidelines of the Minister of Regional Development of 15 January 2009.

⁴ Allocation keys accepted for the allocation of expenditure/costs have to be values that express the relationship between the expenditure/costs and the basis of their settlement. For example, they can be the costs of

Within the expenditure/costs control, one should also take into consideration documentation relating to expenditure which is not eligible for co-financing. It is due to the fact the beneficiary is required to properly disburse all the funds for a given project, i.e. European funds, their own funds for covering own contribution, including non-eligible expenditure.

Appropriate source documents should be considered as proof of the project implementation costs incurred. Moreover, the eligibility of expenditure, control should be carried out relating to documents attesting their formal and accounting compliance with the accounts.

A detailed scope of expenditure and costs eligibility control are presented in Table 2.

Table 2. Scope of expenditure and costs eligibility control

Control scope	Scope of the study and/or activities to be undertaken by the controller
Eligible expenses	<ol style="list-style-type: none"> 1. Stocktaking of purchased, adopted or modernised fixed assets as part of co-funding of a given project. 2. Verification of whether a fixed asset has not been purchased with public funds within the last eight years. 3. Checking the accuracy of including fixed assets in accounting records. 4. Checking the execution level of lease agreements related to a given project. 5. Checking the accuracy of measurement and pricing of cash contributions brought to the implemented project.
Prime costs	Checking: <ol style="list-style-type: none"> 1) compliance of synthetic records with analytical ones, 2) the eligibility accuracy of prime costs to the correct positions of breakdown of costs by type, 3) compliance of prime costs according to the accounting records with the right positions (section, chapter, paragraph).
Depreciation	Checking: <ol style="list-style-type: none"> 1) accuracy of initial value determination of fixed and intangible assets, 2) whether the depreciation of fixed and intangible assets, written off as one of the costs in a month of putting into use, has been calculated correctly, 3) accuracy of rates and amounts of recorded depreciation of fixed and intangible assets with an initial value above 3 500 PLN.
Energy and material consumption	Checking the accuracy of: <ol style="list-style-type: none"> 1) measurement, evaluation and documentation of material consumption, 2) measurement, evaluation and documentation of energy consumption, 3) material and energy consumption included for the period of their eligibility.
Third party services	Checking: <ol style="list-style-type: none"> 1) accuracy of valuation, documentation and records of third party services, 2) whether the costs of repair services are improving fixed assets, 3) whether the costs of third party services relate to the period of eligibility of expenditure.

material consumption for project implementation, operation time of machines and equipment or the costs of the salaries of employees involved in the project.

Table 2. Scope of expenditure and costs eligibility control (cont.)

Control scope	Scope of the study and/or activities to be undertaken by the controller
Salaries	Checking the accuracy of: 1) calculations, documentation (descriptions of the scope of activities and the attendance of individuals involved in the project), payroll records with breakdown of personal, impersonal and other wages and salaries, 2) salaries included in the period of eligibility of expenditure.
Social security and other benefits for employees	1. Checking the accuracy of the identification and analytical registration of: – Social security contributions, – Labour fund contributions, – Contributions to employee benefit fund, – Other costs included in the employee benefits. 2. Checking whether the costs of security charges include only the amounts related to the period of their edibility.
Taxes and charges	Checking: 1) the correctness of the calculation, records and settlement of taxes, 2) the correctness of identification and recognition of payments in the accounts.
Remaining prime costs	Checking the measurement accuracy of costs relating to: 1) business trips, 2) project promotion.
Documentation of expenses incurred	1. Checking the compliance of documents annexed to the payment request with: – the books of account, – the originals of accounting documents. 2. Checking the accuracy of accounting documents description, i.e. checking whether – the funding agreement number and the project name have been put on them, – the amount of eligible expenditure incurred has been calculated correctly, – they are consistent in the substantive, formal and accounting sense. 3. Checking the payment date of the expenditure incurred. 4. Checking whether the expenditure incurred: – falls within the list of eligible expenditure, – is consistent with the project's material and financial schedule, – was necessary and incurred for project implementation, – contributed to achieving the assumed indicator.

Source: study based on: Kisiel (2005), Audyt wewnętrzny (2009), Hyży (2008).

In order to carry our control in terms of expenditure eligibility, one can use, among other, checklists⁵. An exemplary questionnaire of a checklist for settlement and control of eligible expenditure is presented in Table 3.

Table 3. Questionnaire of a checklist for settlement and control of eligible expenditure

No	Questions	Yes/No	Comments
1.	Temporary payment certificate		
1.1.	Is the information in accordance with the terms of the project co-funding agreement and the actual situation?		
1.2.	Does the invoice sum exceed the minimum value specified in the agreement?		
1.3.	Is the documentation of expenditure incurred complete?		
1.4.	Does all expenditure incurred and included in the co-funding comply with the conditions of eligibility?		

⁵ A checklist is a document allowing for standardisation and unification of information about the studied unit. It prevents skipping important actions in the study and protects against scams and abuse.

Table 3. Questionnaire of a checklist for settlement and control of eligible expenditure (cont.)

No	Questions	Yes/No	Comments
1.5.	Has the correctness of the arithmetical calculations of expenses incurred been checked?		
2.	Invoice (equivalent)		
2.1.	Have the formal and legal requirements related to the correctness of the prepared invoices been met?		
2.2.	Is the data on the invoice consistent with than on the project co-funding agreement?		
2.3.	Is the exchange rate adopted on the invoice consistent with the provisions and the actual state?		
2.4.	Is the accepted VAT rate in accordance with the tax regulations?		
2.5.	Does the invoice include an indication of payment?		
2.6.	Has the invoice been adequately described in terms of document control?		
2.7.	Does the invoice bear the required acknowledgments?		
2.8.	Is the pay return invoice well-documented?		
3.	Bank documentation (payments)		
3.1.	Is the project number stated on the transfer or bank statement?		
3.2.	Has the statement of operations or command follower been included in case of using online banking?		
3.3.	Is there a compliance of bank statements with credit transfers and paid invoices?		
3.4.	Were the invoices paid from the bank account specified in the approved expenditure structure?		
3.5.	Were the bank fees and charges paid from the project funds?		
3.6.	Has the invoice payment been made to the contractor's bank account indicated in the agreement?		
3.7.	Has the invoice been paid within the period expenditure eligibility?		
3.8.	Did the beneficiary spend the project funds in accordance with the final expenditure eligibility?		
4.	Other documents related to the settlement of eligible expenses		
4.1.	Has the necessity report been signed by the project engineer and the contracting party?		
4.2.	In the necessity report justified and consistent with the subject of the project?		
4.3.	Has the determination of rates of additional works been made in accordance with the principles of the project, based on the negotiation protocol?		
4.4.	Are the additional works included in the material scope of the project and are they an eligible expenditure?		

Source: study based on: Brzóška et al. (2005).

Within the control carried out, documentation relating to the expenditure/costs is subjected to detailed examination. Any detection of irregularities in this area, depending on the moment the control is carried out, could cause:

- 1) withholding reimbursement of the expenses incurred until the detected irregularities or deficiencies are removed,
- 2) refusal to fund a given project,
- 3) necessity to refund the received funds in case of gross violation of eligibility rules.

Proper conduct of control should be carried out with checklists. They are included in the report of control activities drawn up after the control.

CONCLUSIONS

Documentation control, in terms of implementation expenditure/costs of projects co-funded by the European Union, is one of the key elements of project management. The results of the control in this scope determine whether a given project is going to be co-funded to the amount stated in the contract or a different amount, most of the time lower. This is caused by the fact that the documents related to the expenditure/costs incurred are subjected to detailed control by a managing, intermediate or implementing authority (external auditor) before settlement. Within the study of expenditure/costs documentation, the following elements are analysed:

- the level of planned and implemented project costs,
- the eligibility of project expenses and costs,
- the correctness of settlement of joint or partial costs related to a given project,
- formal and accounting compliance of documents with the books of account.

Defects or irregularities can be detected by the conducted analysis. For example, these may include:

- incorrect or incomplete description of accounting documents in terms of the costs incurred,
- inclusion of costs unrelated to the implementation of a given project or in the amount different from the one stated in the agreement in eligible costs,
- use of improper allocation keys for the joint and partial costs and exchange rates.

Accounting evidence and other internal documents, like checklists, are the basis for external controls carried out over project implementation expenditure and costs. Document control in this scope, in case of projects co-funded by the European Union, is a condition of receiving funding.

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Jana Šimaková¹, Daniel Stavárek²

ESTIMATION OF THE J-CURVE EFFECT IN BILATERAL TRADE OF POLAND

OCENA EFEKTU KRZYWEJ J DLA DWUSTRONNEGO HANDLU PROWADZONEGO PRZEZ POLSKĘ

¹School of Business Administration in Karviná, Silesian University in Opava, Univerzitní nám. 1934/3, 733 40 Karviná, Czech Republic, e-mail: simakova@opf.slu.cz

²School of Finances and Law, ul. Cz. Tańskiego 5, 43-382 Bielsko-Biała. Poland, e-mail: dstavarek@gmail.com

Streszczenie. Celem pracy jest analiza wpływu zmiany kursów walutowych na bilateralny eksport i import między Polską a jej głównymi partnerami handlowymi. Tekst ten bada efekt krzywej-J za pomocą danych kwartalnych w okresie od 1997:1 do 2011:4. Do badania długotrwałego związku między kursem walutowym i bilansem handlowym służy analiza kointegracji Johansena. Krótkoterminowe skutki i związany z tym efekt J-krzywej badane są przez oszacowanie modelu korekcji błędów oraz funkcją impuls-reakcja. Modele uwzględniają dwustronne obroty handlowe, PKB danego kraju i nominalne kursy walutowe. Deprecjacji złotego towarzyszy pogorszenie polskiego bilansu handlu dwustronnego z Francją oraz Włochami. Częściowy efekt krzywej-J można obserwować w przypadku przepływów handlowych pomiędzy Polską a Niemcami i Republiką Czeską. Dla odmiany, handel zagraniczny z Wielką Brytanią charakteryzuje się odwróconą krzywą-J.

Key words: exchange rate, impulse-response function, international trade, J-curve, trade balance.

Słowa kluczowe: bilans handlowy, funkcja impuls-reakcja, handel międzynarodowy, J-krzywa, kurs walutowy.

INTRODUCTION

The intensity of Poland's participation in international trade is still at a relatively low level. This is due to size of the economy, which is now the sixth largest in the European Union (hereafter EU), as well as its geographical location. Although the volume of Poland's international trade has been increasing since joining the EU in 2004, it is constantly characterised by a long-term negative trade balance. Poland's negative trade balance has been significantly reduced in recent years. That was largely affected by the foreign direct investment inflow since the companies with foreign ownership account for a substantial share in Poland's exports.

Such a development raises the need for more intensive cooperation with foreign countries and, on the other hand, makes Poland's economy more vulnerable to any adverse changes in other economies. Both, exports and imports, depend on exchange rates and their development. According to Abeyasinghe and Yeak (1998), policy prescriptions have generally assumed that currency depreciation stimulates exports and curtails imports, while currency appreciation is detrimental to exports and encourages imports.

Transformation from fixed exchange rate regimes to free float systems has brought obvious volatility and uncertainty. Despite vast research dealing with the relationship between currencies and international trade having been conducted, there is still considerable uncertainty concerning this issue. One can find some support in theory for the pattern known as J-curve phenomenon. It means that after currency depreciation trade balance deteriorates before it subsequently improves. There are numerous empirical studies exploring this issue, but their findings are mixed and depend on region and period under estimation as well as data and methodology used.

The aim of this paper is to explore whether exchange rate depreciation improves bilateral trade balances between Poland and its major trading partners. Data used in this study covers the period from 1997 to 2011.

Hence, this study provides additional evidence of the effect of exchange rate development on trade flows in the context of emerging market after the most turbulent part of economic transformation. One aspect of this transformation was a transition from a fixed exchange rate arrangement into a crawling peg and recently to a free-float regime. In addition, Poland is an interesting objective to study the J-curve effect because international trade serves as a major channel of economic integration within the Group of Visegrad countries (Czech Republic, Hungary, Poland, Slovakia) or the EU as a whole. Usually, international trade tends to be a driver of the economy in countries neighbouring economies with open trade regimes, a high presence of multinational companies and a large volume of re-exports. The fact that this example fits Poland can be illustrated with increasing share of merchandise trade on Poland's GDP. In 2011, it was 76.8% compared to 36.5% in 1997.

Theoretical framework and literature review

The theoretical basis of the J-curve comes from Marshall and Lerner. The Marshall-Lerner condition is the basis of the elasticities approach to the balance of payments. It states that the sum of export and import demand elasticity has to be at least one and then the currency depreciation or devaluation (in fixed currency regimes) will have a positive impact on trade balance. As depreciation (devaluation) of the currency means a reduction in the price of exports, the quantity demanded for these will increase. At the same time, the price of imports will rise and the quantity demanded will decrease.

According to literature review by Bahmani-Oskoei and Ratha (2004), empirical examination of the Marshall-Lerner condition has a long history with very different views. In general, it has been found that goods tend to be inelastic in the short run, as it takes time to change consumption patterns. Thus, the Marshall-Lerner condition is not met in the short run and depreciation deteriorates the trade balance initially. In the long run, consumers can adjust to the new prices, and the trade balance will improve.

The short term effect of currency depreciation and related J-curve phenomenon was first advanced by Magee (1973). He pointed out that the short term deterioration and long term

improvement after depreciation resemble the letter “J” as it can be seen in Figure 1. Consequently, a large number of empirical studies exploring this problem have appeared. They investigate the long run impact of exchange rate on trade balance and whether the J-curve effect is present.

Junz and Rhomberg (1973) attributed the J-curve phenomenon to lags in the recognition of exchange rate fluctuations, in the decision to changes of real variables, in delivery time, in the replacement of inventories and materials, and in production. Krueger (1983) explained the phenomenon by the fact that at the time an exchange rate fluctuation occurs, goods already in transit and under contract have been purchased, and the completion of those transactions dominates the short term change in the trade balance. Therefore, exchange rate fluctuations first deteriorate the trade balance, but as the elasticity increase, it improves the trade balance. This phenomenon is not always applicable in each country. This is due to time lags in the consumer's search for acceptable, cheaper alternatives which might not exist.

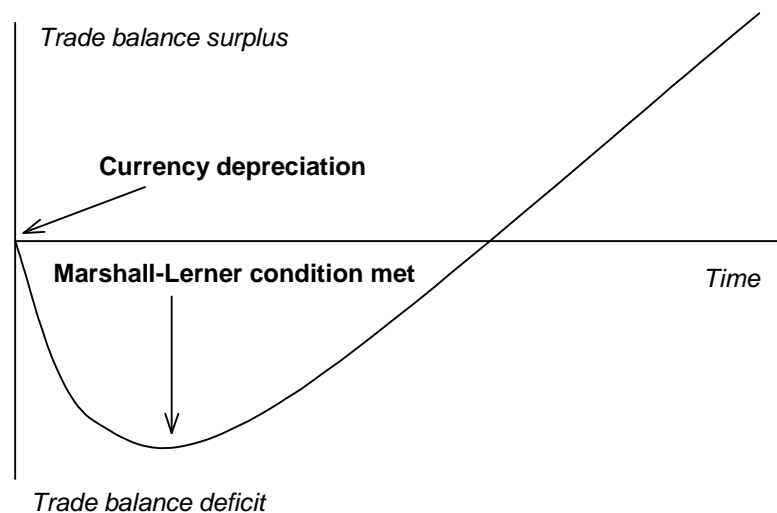


Fig. 1. J-curve Pattern
Source: Clarke and Kulkarni (2009).

Despite numerous J-curve studies, only a few of them are focused on Central and Eastern European countries, including Poland. An extensive study for emerging Europe (Bulgaria, Croatia, Cyprus, Czech Republic, Hungary, Poland, Romania, Russia, Slovakia, Turkey and Ukraine) was written by Bahmani-Oskooee and Kutan (2009). They used monthly data over the period between January 1990 and June 2005 and applied the ARDL cointegration approach and corresponding error correction model. They found empirical support for the J-curve effect (short term deterioration combined with long term improvement) in Bulgaria, Croatia and Russia. In Poland, they did not find any characteristics or signs of the J-curve effect in existence.

Stučka (2003) also applied the ARDL cointegration approach to quarterly data and showed the existence of the J-curve also in Croatia. Hsing (2009) examined the J-curve for bilateral trade between Croatia, Czech Republic, Hungary, Poland, Slovakia, Slovenia and the USA. This paper concluded that the J-curve is not empirically confirmed for any of these six countries.

Using generalised impulse response functions, Hacker and Hatemi (2004) tested the J-curve for three transitional Central European countries (Czech Republic, Hungary, and Poland) in their bilateral trade with respect to Germany. Their findings suggested that for Poland there are some characteristics associated with the J-curve effect. In particular, trade balance deteriorates within a few months after depreciation and then rises to a long term equilibrium at a value higher than the initial one.

Trade balance in Central and Eastern European countries was also studied by Sequeira and Lopes (2010). They assessed the existence of an S-curve pattern, which represents the relationship between trade balance and the terms of trade using cross correlation. Empirical results support the existence of this curve for Slovenia, Czech Republic, and Hungary, but no evidence for Poland.

In summary, the existing empirical literature on the J-curve phenomenon concerning Poland and its international trade is very limited. The results from the previously published studies indicate almost no evidence for the J-curve effect. i.e. no effect of the Złoty depreciation on the Poland's trade balance. Therefore, this study substantially contributes to scientific discussion in this field and fills the gap in literature. Compared to other papers we use the most recently available data on bilateral trade with the largest partners, we distinguish invoicing currencies where applicable and we employ cointegration approach and corresponding error correction modelling with impulse response functions.

Model specification

The consensus among all recent studies is that the bilateral trade balance should depend on domestic income, income of the trading partner and bilateral exchange rate. In order to detect the long term co-movement among the variables, the cointegration procedure developed by Johansen (1997) is used. This avoids the main criticism of early studies, whose results could suffer from the problem of regression due to non-stationary data. Thus, following Bahmani-Oskooee and Kutun (2009), equation (1) is adopted in empirical modelling of the J-curve effect:

$$\ln TB_t = \alpha + \beta \ln Y_{d,t} + \gamma \ln Y_{f,t} + \lambda \ln ER_t + \varepsilon_t \quad (1)$$

where: TB – measure of trade balance in time period,

t – the ratio of exports of Poland to country,

f – to Poland's imports from country f .

Hence, the model could be expressed in log-linear form. Y_d is measure of the Poland's real income set in index form to make it unit free (Bahmani-Oskoei 1991); Y_f is the index of real income in trading partner f and ER is the nominal bilateral exchange rate between the Złoty and the currency of trading partner f .

The above defined trade balance model represents the long term relationships between the trade balance and its determinants. When testing the J-curve phenomenon in the short term, a short term dynamics must be incorporated into the long term model. According to Hsing (2009) we apply for this purpose the following modified error correction model:

$$\Delta \ln TB_t = \alpha + \sum_{i=1}^n \omega_i \Delta \ln TB_{t-i} + \sum_{i=1}^n \beta_i \Delta \ln Y_{d,t-i} + \sum_{i=1}^n \gamma_i \Delta \ln Y_{f,t-i} + \sum_{i=1}^n \lambda_i \Delta \ln ER_{t-i} \quad (2)$$

Empirical results

This section reports the estimates of the J-curve for Poland and its five major trading partners: Germany, Italy, United Kingdom, Czech Republic and France. The vector error correction model (2) is estimated by using quarterly data over the period 1997–2011. All data is obtained from the OECD iLibrary statistical database. The data is in current prices and denominated in euro. The country selection is based on the share of total international trade turnover. Average shares of selected trading partners for the entire sample period are reported in Table 1.

Table 1. Average shares in international trade of Poland (1997–2011, in %)

Trading partner	Share on total imports	Share on total exports	Share on total trade turnover
Czech Republic	3.4	5	4
France	4.3	7.6	5.7
Germany	21.8	37.4	28.3
Italy	4.7	9.7	6.8
United Kingdom	3.8	4.8	4.1

Source: Authors' calculation based on data obtained from OECDiLibrary.

Before conducting the necessary tests and empirical estimations, the time series used in the analysis is adjusted by a logarithmic transformation. This helps to reduce skewness and heteroscedasticity and to stabilise variability. The stability of regressors is needed in initial testing. Before estimation of the cointegration parameters, the order of integration for each time series should be examined. Integration is determined using the augmented Dickey-Fuller (ADF) test as recommended by Engle and Granger (1987). The ADF test for each individual time series confirmed the presence of unit roots, i.e. the first-difference stationarity was found for all variables. According to Balke and Fomby (1997), non-stationarity on levels is the basic precondition of cointegration between variables.

Since the choice of the lag orders of the variables in the vector error correction model specification can have a significant effect on the inference drawn from the model, another

step of analysis is to sequentially determine the appropriate lag length for each variable by using Akaike Information Criterion and Schwarz Bayesian Criterion. In general there is no agreement on which criterion is better, but in case of different results for optimal lag we prefer Schwarz-Bayesian criterion, which is more consistent.

When the optimal lag order is determined, we can perform cointegration analysis and test the existence of a stable long term equilibrium between non-stationary variables. If the variables are found to cointegrate (parameters are stable), the final step in the analysis is the estimation of the vector error correction model to generate the impulse response functions and to construct the J-curves.

We proceed to examine the dynamic responses by generating impulse response functions showing the response of the trade balance to the Polish Złoty depreciation. As indicated before, the short term effects of depreciation are reflected in the coefficient estimates obtained for the lagged value of the first differenced exchange rate variable. The J-curve phenomenon should be supported by negative coefficients followed by positive ones. The result can be seen in graphs in Figure 2. Note that for trading with the United Kingdom and Czech Republic two J-curves are constructed based on the invoicing currency.

Graphical representations of the impulse response functions do not present any typical J-curve. For Poland's trading flows with Germany and the Czech Republic, a partial bilateral J-curve effect can be observed. In case of Germany, the results are similar to those of Hacker and Hatemi (2004). One can find some features of the J-curve effect in the obtained results. The initial deterioration of the Poland's trade balance lasts two quarters in trade with Germany, four quarters in trade with the Czech Republic in the Czech Koruna, and three quarters in trade with the Czech Republic invoiced in the euro. Subsequently, a partial improvement of bilateral trade balance occurs.

Depreciation of the Polish Złoty is accompanied by a deterioration of Poland's bilateral trade balance with France and Italy. In the bilateral trade balance with France, a cyclical pattern can be observed. The deterioration lasts three quarters, then it is followed by a one-quarter improvement and again by deterioration. In the case of Italy, deterioration of the trade balance prevails in the entire course of examined period of ten quarters after depreciation. An inverse J-curve was revealed for trade between Poland and the United Kingdom. The respective impulse response function shows an initial improvement during the first two quarters followed by a deterioration of the bilateral trade balance.

As already mentioned, we distinguish Poland's trade with the Czech Republic and United Kingdom into trades denominated in the euro and trades in the Czech Koruna and British Pound respectively. As it is evident from Figure 2, there is no significant difference and, hence, the effect of depreciation is independent on the invoicing currency.

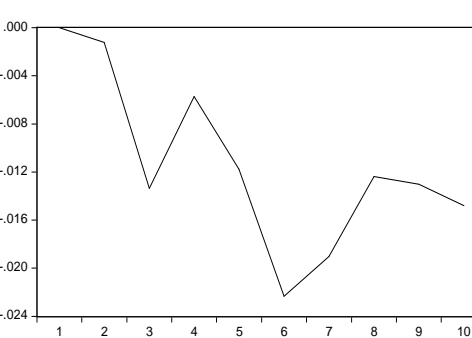
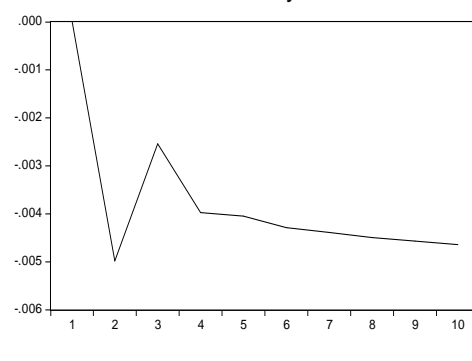
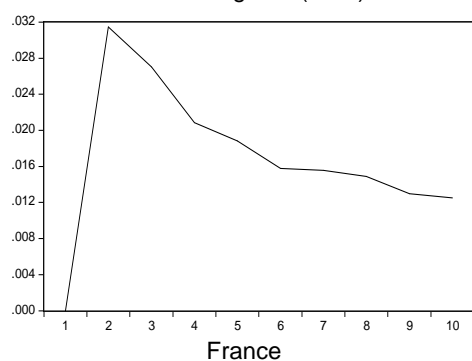
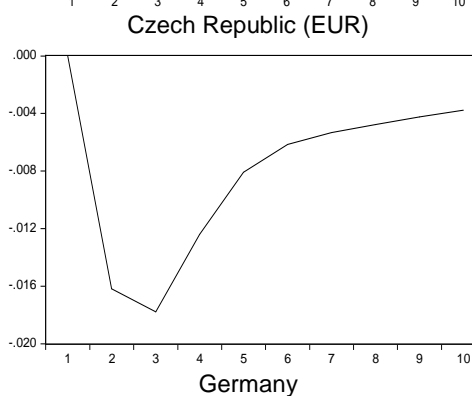
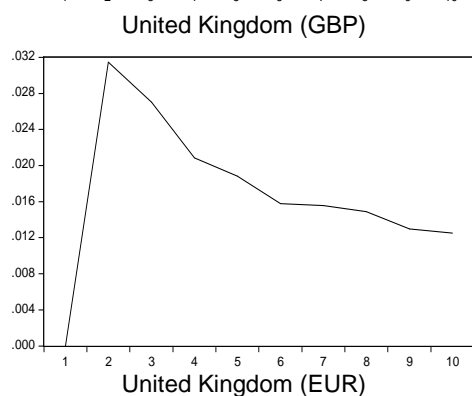
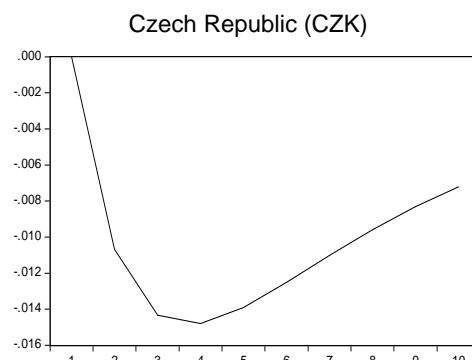
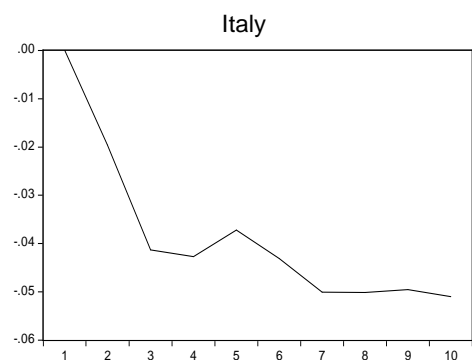


Fig. 2. Bilateral J-curves of Poland
Source: Authors' calculation.

CONCLUSIONS

The aim of the paper was to investigate the impact of exchange rate fluctuations on bilateral export and import flows between Poland and its major trading partners. We included five largest trading partners into the analysis and the results suggest that effect of depreciation of the Polish Złoty is usually weak and its direction differs across the countries. We revealed that depreciation of the local currency is accompanied by deterioration of Poland's trade balance with France and Italy. A partial J-curve effect can be observed in case of Polish trading flows with Germany and the Czech Republic. By contrast, an inverse J-curve was uncovered for trades between Poland and the United Kingdom. Therefore, the results indicate that an active exchange rate policy aimed at influencing exchange rate development is not supposed to promote any notable improvement of trade balance.

Thus, development of the Poland's international trade seems to be affected by factors other than fluctuations in exchange rates. According to Mandel and Tomšík (2006), foreign direct investments in Poland have a positive impact on real exports and they also reduce imports of final products. On the other hand, foreign direct investments in industrial sector usually need to import inputs, which increases the total volume of imports and makes the import intensity of Poland's export very high. The next important factor in the determination of trade balance is the structure and demand elasticity of traded goods. Negligible impact of exchange rates on trade balance can be also explained increasing volume of hedging instruments used in Poland to manage exchange rate risk.

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Rovena Tropolini

THE DETERMINANTS OF BANK CAPITAL RATIO ON THE MARKET EFFICIENCY OF ALBANIAN BANKS

DETERMINANTY WSKAŹNIKA KAPITAŁU BANKOWEGO A EFEKTYWNOŚĆ ALBAŃSKICH BANKÓW

Faculty of Business, "Aleksander Moisiu" University of Durrës, Albania, Lagjia nr.1, Currila, Durrës,
e-mail: rovenatropolini@yahoo.com

Streszczenie. Niniejsza praca ma na celu określenie związku pomiędzy skutecznością rynkową a strukturą kapitałową instytucji finansowych w Albanii. W pracy zaproponowano model badania wpływu wybranych zmiennych takich jak: stopa zwrotu z aktywów (ROA), wskaźnik udziału depozytów w aktywach, wskaźnik udziału kredytów w aktywach oraz wskaźnik udziału kredytów w depozytach na rentowność kapitału własnego (efektywność banku). Ustalono, że jedynie takie mechanizmy jak dźwignia finansowa oraz kredyty/depozyty wywierają znaczący negatywny wpływ na rentowność banku, natomiast inne zmienne, po ponownym zastosowaniu funkcji regresji, okazały się być nieistotne.

Key words: Deposit to Assets, Deposit to Equity, Loans to Total Deposits, Return on Assets, Return on Equity.

Słowa kluczowe: stopa zwrotu z aktywów (ROA), stopa zwrotu z kapitału własnego (ROE), wskaźnik nadwyżki kredytów do depozytów ogółem (LTD), wskaźnik udziału depozytów w aktywach, wskaźnik udziału depozytów w kapitale własnym.

INTRODUCTION

Capital structure decisions play a vital role in maximising the performance of, and improving the value of a firm. Capital structure includes the decision about the combination of the various sources of funds, which a firm uses to finance its operations and capital investments. These sources include the use of long-term debt finance, short-term debt finance called debt financing, preferred stock and common stock also called equity financing.

Firms in an underdeveloped market are faced with financial distress and volatility from interest rates, inflation and tax rates all of which play a significant role in the decision making process regarding the optimal capital structure decisions (Karadeniz et al. 2009). Albania is a developing country and has a very small and underdeveloped debt market relying primarily on bank debt to finance its operations and capital investment needs. No prior research work has been done in the Albanian market to find a relationship between capital structure decisions and bank performance.

The purpose of the study is to measure the effect of capital structure on the performance of Albanian Banks. So in this study, only Tobin's Q is used to measure the bank performance/efficiency. No other study has been conducted for Albanian financial institutions to find out what the variable affecting bank performance are. This paper is focused on financial

institutions because almost 95.5% of the financial system is covered by the banking sector. Among three performance measures (ROA, ROE and Tobin's Q), Tobin's Q was chosen as a proxy.

Literature

The effect of the capital structure of financial institutions was first noticed by Berger who found a positive relationship between the capital asset ratio and the earnings of the bank. This contradicted the conventional relationship between earnings and capital, as higher capital reduces the return on equity (Berger et al. 1995). When testing bank efficiency, Berger and DeYoung (1997) found that there is an inter-temporal relationship between the quality of loans and efficiency and bank capital. They concluded that cost inefficient banks tend to have high loan problems and poor quality loans.

Mishkin (1996) explains that an increase in monetary supply would, according to Tobin's q , lead to higher spending on the stock market, an increase in stock prices, a higher value of Q and an increase in investment spending. The effects of wealth are manifested in changes in households' wealth due to changes in stock prices. When stock prices increase, consumers become wealthier and have more money to spend. In the case of a monetary expansion, a decrease in the official interest rate would lead to higher investment and higher consumption, and consequently to higher aggregate demand¹ (Monetary transmission, Mechanism in Albania).

In examining the relationship between Tobin's Q and insider and outsider holdings, McConnell and Servaes (1990) found that Tobin's Q increase then decrease as the excess holdings on each side lead to an increase in cost which equates to more than their benefits to non-financial firms. El-Sayed Ebaid (2009) investigated the impact of capital structure choice on firm performance in Egypt, using three of accounting based measures of financial performance (i.e. return on equity (ROE), return on assets (ROA), and gross profit margin). Based on a sample of non-financial Egyptian listed firms from 1997 to 2005 the results revealed that the choice of capital structure, in general terms, has a weak-to-no impact on firm's performance.

Abor (2005) examined the relationship between capital structure and the profitability of listed firms on the Ghana Stock Exchange (GSE) over a five-year period. The results presented a significantly positive relationship between the ratio of short-term debt and total assets and ROE. However, a negative relationship between the ratio of long-term debt and total assets and ROE was also found.

¹ Monetary transmission mechanism in Albania, Gramoz Kolasi, Hilda Shijaku, Diana Shtylla.

Majumdar et al. (1999) examined the relationship between the levels of debt in the capital structure and performance for a sample of Indian firms, the results of which revealed that this relationship for Indian firms is significantly negative.

Gleason et al. (2000) investigated the Interrelationship between culture, capital structure, and performance for European retailers. Their study found a negative relationship between capital structure and performance which suggests that agency issues might lead to a higher than appropriate use of levels of debt in the capital structure, thereby producing lower performance.

In comparing banks to non-financial firms it has been found that banks are highly levered. Flannery (1994) found that banks are influenced by debt in the same way as any other firms, yet they operate with unusually high leverage. In 1990, U.S. banks had a 6.5% ratio of equity to asset compared to a capital ratio of 55% for non-financial firms. This is normal if we are aware of the fact that financial firms are providers of loans and not mechanically linked to their role as deposit takers. Deposit-taking financial institutions have substantial liabilities over and above their deposit base in the form of subordinated debt. The non-deposited liabilities (commercial notes and bonds) of U.S banks accounted for 26.5% of their total liabilities in 2002 Saunders and Cornett (2003).

Since a banks' function is to offer loans in a competitive environment, financial institutions should have a higher leverage than non-financial institutions, (Inderst, Mueller 2008). The functional approach to banks' capital structure was also addressed by Diamond and Rajan (2000) who argued that to really understand the determinants of bank capital structure one should start by modeling the essential functions of banks' performance, and then ask what role capital plays. Pratomo and Ismail (2006) tested the agency hypothesis on Malaysian banks and their findings were consistent with the agency hypothesis. They found that the higher the leverage (or a lower equity capital ratio), the greater the association with higher profit efficiency is. Another study, which agreed with these findings, was done by Siddiqui, Shoaib (2011) on Pakistani banks and is also consistent with that of Berger, di Patti (2002). However, Random and Effects models as proved the Modigliani and Miller proposition state that capital structure has no effect on the value of banks.

Abor (2007) evaluated the relationship between capital structure and the performance of small and medium size firms (SMEs) in South Africa and Ghana. He found a significantly negative relationship between financial leverage measured by a ratio of short-term debt, long-term debt (significant but positive), total debt to total assets and firm performance measured by gross profit margin in both South Africa and Ghana. Furthermore, a negative relationship existed between the measures of capital structure and the firms performance measured by return on assets in Ghanaian firms.

Zeitun and Tian (2007) in the study on Jordanian firms found a highly negative relationship on the firms' performance by employing both market and accounting based variables. Whereas, the relationships among capital structure variables and firm performance varies across industries. The relation between capital structure variables and performance vari-

ables in the engineering sector is insignificant. The market based measures for performance were Tobin's Q and price earnings ratio.

The remarkable Tobin's Q causes Chinese firms to prefer equity financing over debt financing at least from the perspective of state or institutional shareholders (Huang, Song 2006). What is more, the management prefers equity financing rather than debt financing because the former is not binding. Another possible explanation is the fact that the Chinese bond market is still in its developmental infancy. Banks are the major or even the only source of a firms' external debt. As a result, firms have to rely on equity financing and trade credit, under which firms owe each other in the form of accounts payable. In order to provide more financing opportunities for Chinese firms, it is desirable for China to accelerate the development of its bond market.

Salteh et al. (2012) provide evidence that indicates a firm's performance can be either positively or even negatively related to the capital structure. The results indicate that a firm's performance, which is measured by ROE, MBVR & Tobin's Q is significantly and positively associated with the capital structure, while there is a negative relationship between capital structure and both ROA and EPS. These findings are not consistent with Champion (1999), Gosh et al. (2000), Hadlock, James (2002), Frank, Goyal (2003), Berger, Bonaccorsi di Patti (2006), Abbadi, Abu-Rub (2012) who revealed a positive relationship between a firm's performance and the capital structure, which is consistent with Rajan, Zingales (1995), Zeitun, Tian (2007) and Abor² (2007) who indicate that a firm's performance is negatively related to the firm's performance measures, in both the accounting and market's measures. They found that short-term debt to total assets (STDTA) level has a significantly positive effect on the market performance measure (Tobin's Q).

Literature related to the measures of a firm's performance shows that a number of measures were used to judge the firm's performance. Some researchers have used accounting based measure to judge the performance. Accounting based variables of the performance are profitability ratios. Majumdar et al. (1999) and Abor (2005) also used asset returns, equity returns and profitability margins as variables of a firm's performance.

Welch (2004) used market based measures for performance. He measured performance by the stock returns and the volatility in returns. Further, Zeitun and Tian (2007) used Tobin's Q variable for performance, which uses a combination of accounting and market values. Whereas, Abor (2007) used both accounting based variables and Tobin's Q based variables to measure performance.

The Albanian banking system regulatory framework is designed to strengthen the sector. One of the most important projects still ongoing is the implementation of the Basel II requirements for risk assessment and management. Once the new capital adequacy regula-

² Abor (2007) used both accounting based variables and Tobin's Q based variables to measure performance.

tion is approved, banks will be given the necessary time to adapt their internal system to the new requirements and build the indispensable human capacity.

During 2011, The Bank of Albania conducted an impact study, regarding Basel III liquidity indicators, with the participation of all banks. Currently, there are no plans to include our bank indicators as part of the Basel regulatory framework. The Bank of Albania is now in the process of a comprehensive revision of the guideline in force on regulatory capital. Generally, banks remain well capitalised and highly liquid. The predominantly foreign-owned sector had a capital adequacy ratio of 15.9% in September 2012, which is well above the required minimum and slightly higher on a year-on-year basis.

The main concern regarding financial stability is the deteriorating quality of bank loans. Due in part to recent financial crisis, our financial system is under pressure from a rising number of non-performing loans (NPLs). NPLs as a share of total loans increased by 4.3 percentage points year-on-year to 22.7% at the end of September 2012³. A stress test carried out by the central bank has shown that adverse events, like a drop in GDP growth or a depreciation of the national currency, may require the recapitalisation of individual banks or of the banking sector as a whole. While the risk of contagion from Greek parent banks to Albanian subsidiaries has declined, the exposure to Italian banks continues to be "relevant". Overall it seems fair to assess that, even though the financial system appears resilient, the risks to financial stability have not entirely disappeared.

The Model

My model is based on the model that M. Abbadi and Abu-Rub created in order to find a relationship between the market efficiency and capital structure of Palestinian financial institutions (Abbadi, Abu-Rub 2012). Their sample included 8 banks (Palestinian) while my model includes all 16 banks within our banking system. The data for the research is taken from secondary sources such as the annual report of 2011 of BOA⁴ covering the period of 6 years 2006–2011.

The purpose of the study is to measure the effect of capital structure on the performance of Albanian Banks. So in this study, only Tobin's Q has been used to measure the bank performance / efficiency. The independent variables used in both measures are the return on asset, bank loan over deposit, bank deposits over total assets, and loan over asset. Since there is multicollinearity between some of the independent variables these were removed.

To determine the impact of the independent variables on the dependent variables the study used Multiple Linear Regression. So our model become as follows:

³ http://ec.europa.eu/economy_finance/publications/occasional_paper/2013/pdf/ocp158_en.pdf

⁴ Bank of Albania.

$$y = \beta + \beta_1 ROA + \beta_2 LD + \beta_3 DA + \beta_4 LA + \varepsilon_1$$

where:

y = (Q) efficiency,

ROA = return on asset,

LD = ratio of total loans to total deposit,

DA = ratio of total deposit to asset,

LA = ration of total loan to asset.

So, the first model is based on the profit maximisation concept where ε_i is a stochastic disturbance. To complete the specification of the regression model we add the following assumptions:

1. ε_i is normally distributed,
2. $E(\varepsilon_i) = 0$,
3. $E(\varepsilon_i^2) = \sigma^2$,
4. $E(\varepsilon_{ij})$ for $i \neq j$,
5. No exact linear relation exists between any of the explanatory variables.

Hypotheses Testing:

H0: No relationship between ROA and (Q) performance/efficiency,

H1: There is a relationship between them,

H2: No relationship between LD and (Q) performance/efficiency,

H3: There is a relationship between them,

H4: No relationship between DA and (Q) performance/efficiency,

H5: There is a relationship between them,

H6: No relationship between LA and (Q) performance/efficiency,

H7: There is a relationship between them.

EMPIRICAL RESULTS

Descriptive Statistics

The following table provides statistical results about the variables used in the models for all 16 banks for the time period 2006–2011. Table 1 shows that the average values of Tobin's Q (1.18%) is very low, which revealed that the market value of listed banks is lower than their book values, this only happens when the market is very weak and most investors are afraid to enter the market. The banks shares are under-priced.

The average ratio of the total deposits to total assets (bank leverage) is about 80%. This ratio is acceptable because this is the nature of Albanian deposits. The ratio of total loans to total assets is 44.69% and total loans to total deposits is 55.78% with ROA at 0.84%.

Table 1. Descriptive statistic

	<i>LA</i>	<i>ROA</i>	<i>LD</i>	<i>DA</i>	<i>Q</i>
Count	6.0000	6.0000	6.0000	6.0000	6.0000
Mean	0.4469	0.0084	0.5578	0.8029	0.0118
Sample variance	0.0065	0.0000	0.0113	0.0008	0.0000
Sample standard deviation	0.0808	0.0056	0.1061	0.0278	0.0043
Minimum	0.3063	0.0007	0.3766	0.7554	0.0085
Maximum	0.5076	0.0157	0.6480	0.8249	0.0193
Range	0.2013	0.0150	0.2714	0.0694	0.0108
Skewness	-1.3613	-0.0173	-1.2717	-1.2613	1.3787
Kurtosis	0.8024	-1.1396	0.4489	0.4441	1.0356
Coefficient of variation (CV)	0.1807	0.6704	0.1902	0.0346	0.3608

Source: own study.

Table 2 is built according to Person correlation matrix which shows the correlation between explanatory variables. The results show that there is a very strong positive correlation (98%) between loan / deposit and loan / asset, and a strong negative correlation between ROA and loan to deposit (76%), and the loan / asset has a negative relationship (-0.81) to ROA.

Table 2. Correlation Matrix: Here we include all the variable of our study

	<i>LD</i>	<i>LA</i>	<i>ROA</i>	<i>DA</i>	<i>Q</i>
<i>LD</i>	1.000				
<i>LA</i>	0.980	1.000			
<i>ROA</i>	-0.760	-0.810	1.000		
<i>DA</i>	-0.401	-0.212	0.004	1.000	
<i>Q</i>	-0.962	-0.996	0.807	0.141	1.000

Source: own study.

±0.811 critical value 0.05 (two-tail).

±0.917 critical value 0.01 (two-tail).

Due to multicollinearity problem we remove the loan / asset in order to run the regression model.

Model estimation results

Table 3 shows the result of the estimation of the first equation using OLSQ to estimate the independent variables on the ROE in three different stages:

stage 1: we did the regression after we omit LA due to multicollinearity problem,

stage 2: we omitted ROA after we found it not significant.

The first stage shows that the correlation between variables is at level 0.992 and the explanatory variable explains 99.8% of the variable of efficiency. The variable loan/deposit (p-value = 0.0048) and deposit/asset (p-value = 0.0264) are significant variables at 0.05

level of significance, while ROA (p-value = 0.6650) is not significant at 0.05 level of significance.

$$y = 0.0744 - 0.0446LD - 0.0270ROA - 0.0467DA$$

Table 3. Regression model

	Adjusted r^2	r	F	p-value		B	p-value
STAGE 1:	0.992	99.8%	208.8	0.0048	Intercept	0.0744	0.0105
					LOAN/DEPOSIT	-0.0446	0.0048
					ROA	-0.0270	0.6650
					DEPOSIT/ASSET	-0.0467	0.0264
STAGE 2:	0.994	99.8%	416.9	0.0002	Intercept	0.0718	0.0007
					LOAN/DEPOSIT	-0.0433	0.0001
					DEPOSIT/ASSET	-0.0447	0.0045

Source: own study

The final regression equation is after we drop the insignificance variable ROA, at which point we re-run the regression equation:

$$y = 0.018 - 0.0433LD - 0.0447DA$$

The first stage shows that the correlation between efficiency (Q) and LD and DA (banks leverage) is at the level of 0.994 and the explanatory variable explains 99.8% of the performance variable, while the remaining percent is explained from the other explanatory variable. The loan to deposit (p-value = 0.0001) and deposit to asset (p-value = 0.0045) remain significant variables at 0.05 level of significance where even the intercept is significant (p-value = 0.0007).

This means that an increase in one unit of bank leverage (increase deposit / asset) will cause a decrease of 0.0447 unit of market value for Albanian banks. An increase of one unit of loan to deposit will also cause a decrease of 0.0433 unit of market value for Albanian banks. This is almost consistent with the findings of most writers.

All variables are significant even at 1% level. So we accept only the third and fifth hypotheses. This means that there is a negative correlation between deposit/asset and loan/deposit with market performance measure (Tobin's Q).

To test our model for autocorrelation we used Durbin–Watson test:

$$D = \frac{\sum_{t=2}^n (e_t - e_{t-1})^2}{\sum_{t=1}^n e_t^2}$$

The existence of autocorrelation is where D calculated is between the interval D-Low and D-Upper ($DL < D < DU$), at the 5% level of significance where $DL = 1.20$ and $DU = 1.41$ (Kmenta 1997). Since the calculated D from the SPSS results is 2.52 more than DU we reject the existence of autocorrelation.

CONCLUSIONS

Albanian banks have gone under the lower level of return asset (0.0084) from 2006–2011, so bank performance in the generation of net income from bank asset use decreased. So our findings affected our study showing us that there is no correlation of ROA and LA (0.4469) to bank performance; while Loan to Deposit (0.5578) and Deposit to Asset (0.8029) are higher than the above variable showing us their strong correlation with market bank performance. So, we conclude that loans and deposits are the main variable affecting Albanian bank performance.

The results in fact depicted the period where the financial crisis was present. So we have to take the fact that the results maybe be affected by lower financial indicators during these years into consideration. An interesting point is the fact that these indicators (for our study deposit growth and loan growth) were reduced mostly during the European financial crisis (Greek crisis) and they increased during the global crisis (American financial crisis)⁵.

The fact that there is a negative correlation between Albanian bank leverage and market performance measured by Tobin's Q being consistent to many studies mentioned above proves interesting. We have to take into consideration the fact that the results consisted of a short-term period and the period taken into consideration may have been affected by the financial crises so it would be prudent to consider the next study over longer period to have an overall picture of Albanian bank performance.

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⁵ http://ec.europa.eu/economy_finance/publications/occasional_paper/2013/pdf/ocp158_en.pdf

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Altin Turhani, Ali Turhani

MANAGING THROUGH CONTRACTS (A CASE STUDY MUNICIPALITY OF ELBASAN, ALBANIA)

ZARZĄDZANIE PRZEZ KONTRAKTY – STUDIUM DZIAŁALNOŚCI ZARZĄDCZEJ MIASTA ELBASAN W ALBANI

Department of Business Administration Faculty of Economics, Aleksander Xhuvani University
Elbasan, Albania, e-mail: alturhani@yahoo.com

Streszczenie. Głównym celem niniejszej pracy jest pomóc lokalnym władzom w Albanii przeanalizować kwestię wydajności zarządczej w odniesieniu do zawieranych przez nie umów na świadczenie usług publicznych. Autorzy koncentrują uwagę na funkcjonowaniu urzędu miasta Elbasan w Albanii i analizują sposób sporządzania umów i ich wpływ na świadczenie usług. W tym celu wykorzystano model opracowany przez Mari Sako, która badała kwestię zawierania umów pomiędzy przedsiębiorstwami w Wielkiej Brytanii i Japonii. Model ten analizuje stosunki umowne pod kątem zestawu aspektów, proponując zastosowanie dwóch archetypów: Obligational Contractual Relationship (Zobowiązujący Stosunek Umowny) oraz Adversarial Contractual Relationship (Podstępny Stosunek Umowny). W tej pracy proponowane przez Mari Sako aspekty analizy wykorzystano do porównania umów sektora publicznego. Pod uwagę wzięto zarówno naturę umowy, jak i naturę specyfikacji, jej zawartość i autora. Analiza pozwoliła na wyciągnięcie dwóch wniosków, które być może pomogą lokalnym władzom określić zalety i uniknąć błędów wynikających z zawierania umów danego rodzaju na świadczenie usług publicznych.

Key words: Adversarial Contractual Relationship, Contractualism, Different Contractual Forms in different sectors, Local authorities in Albania, New “Institutional Economics”, Obligational Contractual Relationship, Quality and Efficiency.

Słowa kluczowe: Adversarial Contractual Relationship – ACR (Podstępne Stosunki Umowne), jakość i wydajność, kontraktualizm, nowa ‘ekonomia instytucjonalna’, Obligational Contractual Relationship – OCR – (Zobowiązujące Stosunki Umowne), różne formy umów dla różnych sektorów, władze lokalne w Albanii.

INTRODUCTION

Many of the services provided by the public sector are delivered through contracts, which can be either internal or external with private and voluntary organisations. People have to learn how to write contracts and specifications for services as well as how to make sure that services are delivered according to the terms of those contracts.

We will look in the Municipality of Elbasan, Albania to see how contracts have developed and how they affect the delivery of services. Firstly, we find that there are different sorts of contracts in different areas within the public sector, these differences include; the contract period, whether or not they are left after a competitive bidding process, how detailed the specifications are, and how punitive the default clauses are.

We then try to explain why these differences occur. Explanations include the structure of the market in which contracts are made, managers' ideas about what sort of contract is likely to yield both efficiency and quality, and the political attitudes of those making the contracting policy. The fact that there are wide variations implies that managers have a degree of discretion. We then look at how that discretion is being exercised. For this we use the framework developed by Sako (1992) who looked at business-to-business contracting in the United Kingdom and Japan. She analyses contractual relationships according to a series of dimensions and proposes two archetypes, an Obligational Contractual Relationship and an Adversarial Contractual Relationship. Her dimensions are used to compare public sector contracts. As well as the nature of the contract, we also consider the nature of the specification, what it contains and who writes it.

Extensive literature examines the role of trust as a key joint venture management issue (Gulati 1995, Parkhe 1998, Currall, Inkpen 2002). The issue of joint venture control is the focus of one of the largest collections of empirical studies in the area of joint venture. In recent years, learning and knowledge management have also become a key alliance research issue as discussed in Inkpen's (2002) literature review. This idea is consistent with the view of others, who have argued that trust should not be viewed as a static construct. I have taken (Inkpen, Currall 2002) into account in that a co-evolutionary approach is useful for studying trust.

Different forms in different sectors

Different areas within the public sector have adopted different sorts of contracts. In the case of local authorities, which are compelled to use competitive tendering, the contract forms have, by necessity, reflected the competition process: sealed bids are invited; there can be little chance of establishing a relationship with the supplier before the bidding process. Apart from checking credentials and references, everything required must be specified at the contract stage; the authority must protect its interests with strong penalty clauses and default procedures. At the same time, contracts are for relatively long periods (one to five year for most services) and therefore a relationship with the suppliers has to be developed over the contract period.

In the Municipality of Elbasan, contracts were initially for one year between the purchasers and providers, but there were long-term relationships for both sides. Despite the short-term nature of the contracts, penalty clauses and destructive default procedures were not commonly used in the early days of contracting. There was, however, great recourse to details about the processes carried out under contract as the purchasers side did not trust the providers. There were not normally competitions for large blocks of work. There was tendering for most services, but generally providers did not have to bid for the bulk of their work against another provider. This lack of bidding would imply the need to establish trust,

although the details in the contracts and specifications suggest that this has not necessarily been the case. It is not clear why this was so, but it may simply have been the result of people being put in adverse positions.

There are some doubts about whether what were termed contracts within the public authorities, were really a contractual relationship at all in the commercial sense of the term. It has long been known that internal contracts are not legally enforceable, because there is only one legal entity (Harden 1992). Allen (1995) pointed out that there were several fundamental differences between a contract and the contractual arrangements within the public sector, where there was no choice, but to enter into a contract (purchasers and providers were compelled to trade with each other), terms were imposed by a higher authority in the event of a failure to agree, and disputes were resolved by internal administrative procedures rather than legal recourse or the terms of arrangement. She argued that the public sector contractual arrangements were in practice a series of administrative procedures, rather than a set of contracts; because of degree of control exercised.

She also argued that there was potential value in using internal contracts to improve performance, but that improvements would have to be made to the process. These improvements included the administrative resolution of disputes should be clarified, and the consequences of trust 'failure' needed to be spelled out so that they would know how their actions might influence in the best way.

In local authorities, different procedures were adopted in different sectors of the Municipalities. Negotiations, rather than a strict sealed bid approach, preceded the outsourcing of computer contracts, implying the development of a close relationship between the departments and the computer suppliers. Major agreements between the social assistance department, tax departments and the TEC (IT services firm) in Elbasan Municipality started as a very detailed and punitive contract but grew into more trusting arrangements as the year progressed.

Influences on the type of contract

There are a variety of influences on the type of contractual relationship, which people adopt internally within the public sector and externally between it and private and voluntary sectors, including legal requirements, the structure of the market, managers' approach to quality and efficiency, as well as political and administrative rules under which the contracting is done.

Law and regulations

A major determinant of the nature of transactions and contracts is of course the rules established by the government. According to the Albanian legal framework, there are laws,

such as ('Tendering law' 2008), which applies the public authorities to promote competition and therefore mitigate the development of long-term and less competitive relationships.

In the public services, there are those who believe that contracting is a matter for the law and lawyers. This view is especially held by lawyers, who are involved in drafting the contracts and therefore think that they should also be involved in determining the relationships between parties. They apply the same principles to contracting with civil engineering companies, cleaning companies and a local branch of a charity. While the purchasing side of local authorities needs to be protected, the law is not the only answer. As a standard textbook on the law of contracts states:

Writers of the contract textbook tend to talk as if in real life agreements are effectively controlled by the law as stated in their books. A moment's reflections will show that this is not so. There is a wide range of transactions where the sums at stake are so small that litigation between the contracted parties is exceptionally unlikely..... in substantial areas of business, contractual disputes were resolved by references to norms which were significantly different from the theoretical legal position. The most important single reason for this seems to be that, in many business situations, the contract is not a discrete transactions but part of a continuing relationship between the parties and that insistence on certain legal rights would be disruptive of that relationship..... In other areas of business, strict insistence on legal rights is common (Specification... 2008).

It would seem, then, that the law and legal obligations are not the whole explanation for contract forms or a sufficient guide as to how to contract, except in cases where there are specific legal requirements which cannot be avoided.

Quality and efficiency

More recent work on contracting has suggested that there are other factors beside these structural market determinants which can influence the way in which organisations make transactions with each other. For example, Sako found that even where there is a large number of potential suppliers, purchasers may wish to develop a longer-term relationship with a small number of them. They do this because of the potential for improved quality and a more economical long-term series of transactions.

Politics

The third influence is politics. There is a reasonably close relationship between companies supplying public services and local authorities. For example, the process of developing competitive tendering in local government was created by advisers drawn from the companies which wished to compete for the local authority work. As well as advisers, working parties were established to allow companies to say how they would like the process to be or-

ganised. On the other hand, there were local authority members, especially representatives from the left politic parties, who did not want to contract out to the private sector functions which had been previously done by directly employed labour. These included left party-controlled authorities, but there were also right party authorities whose members resented being told how to run their affairs by the Department of the Environment. In a survey in the Elbasan Municipality, April 2009, contractors complained that some councils deliberately organised the contracting process in such a way as to frustrate competition. Even among those who had won Elbasan local authority contracts, 25% were fairly and 11% very dissatisfied with the process (Elbasani Information Newspaper p. 4). The reasons for this dissatisfaction were that the councils did not want private contractors, the documents were too complicated and the procedures too difficult. On the other hand, in central government, work had been awarded frequently to private contractors without a bid from the current employees.

‘New Institutional Economics’

Once economists started to realise that the real world exhibited few of the features of the theoretical world of perfect knowledge and perfectly rational choices in a perfectly competitive market, the problem arose: how to explain market behavior when these conditions do not apply. The problem is important in the context of government contracting, since only rarely do conditions of perfect competition arise in the field of the government procurement: in relatively low level purchases, such as stationary or vehicles, there may be a highly competitive market with many competing alternative suppliers, in which it is possible for governments to gather sufficient information and have the capacity to make well-informed, optimal decisions.

In procurements that typically absorb large amounts of public funds, such conditions do not apply. Markets for the supply of such things as big computer systems are characterised by a small number of suppliers and complicated products and services, about which the buyer will have less knowledge than the supplier. Local governments are often faced with a small number of service suppliers, especially in expensive services such as secure accommodation for orphans. It is likely that governments will not find it possible to collect, absorb and analyse sufficient information to make the optimal choice, even if there is a compulsory tendering system in operation.

The arrangement between a local authority and a contractor is subject to the same pressures as any other contractual arrangement: each side wants the best outcome for themselves and will use whatever advantage they can to achieve this. Both sides will try to minimise the risk attached to themselves from entering the contract. The contract will reflect the balance of knowledge and power between the parties and the nature of the relationship between the two.

There is a body of economics concerned with the contractual relationship between parties in the real world (as opposed to the theoretical world of perfect information and large numbers of willing buyers and sellers beloved of economic theory).

This branch of economics is sometimes called 'The New Institutional Economics', although by now it is no longer new. The underlying questions of this branch of economics are:

- Why do firms sometimes choose to buy their inputs in the market place and at other times decide to make the inputs themselves?
- When is it best to organise production through the market and when is it best to organise it through a hierarchy of employees?

More broadly,

- Why do organisations exist, and what determines the boundary between one organisation and the next?

These questions were first asked by (Coase 1937, Williamson 1975) developed Coase's work further to look systematically at the problems posed by the fact that markets are not perfect. In a book published in 1975 he looked at the question: when it is better to purchase goods and services in the market and when is it better to produce them yourself, using your own employees?

This is essentially the question for government: when should they write a contract with an independent body for the supply of services and when should they provide them using their employees? Under conditions of 'bounded rationality' not all information is known, or it is impossible to take all of the information into account in the decision process. The conditions in the market that Williamson considered were:

- **Complexity:** the transaction is so complex that it is not possible to consider all the options.
- **Uncertainty:** not all possible futures can be predicted, so it is not possible to write a contract that takes them all into account.
- **Language:** It is not possible to specify everything in language that both parties to contract can agree on.
- **Small numbers:** where there are very few suppliers, those in the market can engage in opportunistic behaviors to the disadvantage of the purchasers.
- **Information 'impactedness':** where one side to the transaction has more information, especially about costs, than the other.
- **First-mover advantages:** by which winners of a contract gain information that puts future competitors at a disadvantage and reduces the impact of competition in all future transactions.
- **Atmosphere:** the moral stance that parties to the transaction take, which may not be perfectly economically self-seeking.

Williamson usefully draws these elements into a framework, which he calls the 'organisational failures framework', which is illustrated in the Figure 1 (Ibid... p. 40).

Human Factors Enviromental Factors

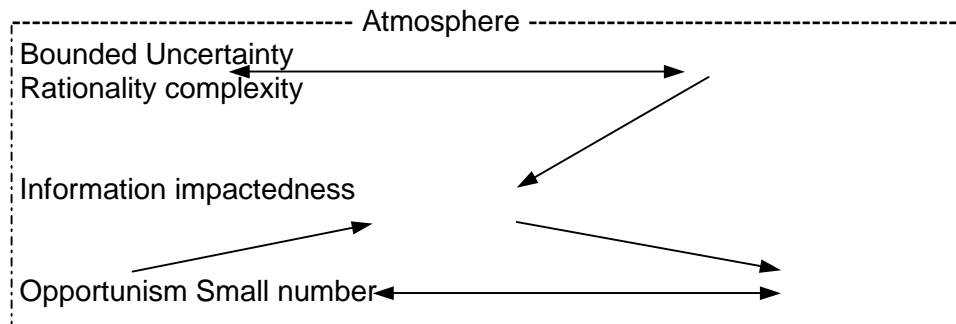


Fig. 1. The organisational failures framework
Source: own.

We can use this frame work to study the way contracting has developed between local authorities and companies.

In most markets, people involved in transactions are not normally able to make completely optimal decisions : they do not have perfect knowledge; they do not have the capacity to process all the available information for every transaction.

Even if they had the information and capacity, there remains the problem in any transaction of trying to ensure that the person from whom one party is purchasing delivers what is expected, and is motivated and enabled to do so in all the possible circumstances that might subsequently arise.

Solutions to 'bounded rationality'

A contract that covers all possible events or contingences is called a 'complete contract', which would be written in such a way that both parties know exactly what the consequences of every possible event would be. In practice, such contracts are very rare and can be written only for very simple transaction. Complicated transactions make the cost of writing complete contracts too high under the conditions of bounded rationality.

The existence of bounded rationality results in the possibility of '*opportunistic behavior*' through which one party of the transaction tries to take advantage of the other. One way that one side can gain an advantage is by knowing more than the other side, or by keeping secret '*private information*'. The fact that information is not perfectly shared (known as '*information asymmetry*') leads to '*adverse selection*' and '*moral hazard*', both forms of self-interested misbehavior made possible by imperfect knowledge.

The problem for local authorities is : how should the procurement process be organised when complete contracts are not feasible?

It is especially difficult in the case of services, as opposed to products, in that the characteristics of the service are technically difficult to design. It is also the case that, in many public services, the specification of the full range of possible contingencies is impossible to write in advance.

Milgrom, Roberts (1992) describe one set of solutions to the problem of bounded rationality in the world of real contracts that can never be complete. These solutions are:

- relational contracts, through which long-term relationships are developed;
- implicit contracts, where shared objectives make explicit contracts unnecessary;
- developing commitment;
- ex-post renegotiation;
- dealing with specific assets, which the contractor has bought solely for the purpose of fulfilling the contract;
- the 'hold-up' problem, whereby the buyer is completely dependent on a single contractor;
- private information and pre-contractual opportunism, whereby the contractor cheats the purchaser;
- measurement costs;
- adverse selection, where contractors only choose contracts, or part of contracts, that can make big profits, leaving aside the rest;
- signaling, screening and self-selection.

The question for local authorities can now be reformulated: 'How can local authorities ensure that contracting with private sector avoids the dangers identified in the New Institutional Economics literature'?

The first way suggested by Milgrom and Roberts was the establishment of 'relational contracts', by which they mean a relationship between the buyer and the seller that does not rely entirely on the contract for the supply of a particular good or service at a particular time but involves the establishment of expectations on both sides that a longer-term relationship will develop in which the two sides behave in mutually beneficial ways. Later in this paper we will look in more detail at how such relationships require contracts that differ from those appropriate to 'adversarial' relationship, in which there is very low trust and heavy reliance on the contract itself to manage the delivery of the good or service.

For managers, therefore, there are no simple answers to the question of how to establish and manage contractual relationships. On the one hand, there are market structure considerations and efficiency and effectiveness considerations which would provide some guidance as to the most effective way to do things. In some cases, these might lead to a preference for long-term contracting, in others for short-term. The nature of the market may lead to a desire to establish long-term close relationships with suppliers, or may lead to

frequent competitions in order to keep prices down. On top of these influences on practice are the legal considerations. The law itself and the regulations may force people to behave in a particular way, even though they know that the results will not be as good as if they behaved in other ways. There are some more local legal influences. Legal advice may, in itself, lead people to behave in ways which they do not think make managerial or contractual sense. Lawyers accustomed to caution may be more interested in generating apparently detailed and enforceable contracts which professionals know cannot be enforced in practice. Politics can also determine managerial decisions. While managers may know that it would make more sense to keep a service in-house, they are not able to exercise that choice. The opposite can also be true : managers may wish to contract out but are instructed to retain a directly managed provision of the service.

However, there is still some discretion. In the rest of this paper we look at the elements of the contracting process and ask what the best approach to each of these elements in different circumstances would be.

Obligational and adversarial contracting

'Relational' contracts are sometimes referred to as 'Obligational' contracts, in which the two parties have obligations to each other to make success of their joint efforts beyond the terms of their immediate contractual relationship. 'Obligational' contracts are contrasted with 'adversarial' ones in which each side is out for their own advantage from the immediate contract and is unconcerned with the success of the joint enterprise.

Sako has developed a framework for understanding contracting behavior, using these two archetypal relationships. At one extreme is the Obligational Contractual Relationship (OCR), where the two parties trust each other, work together for mutual benefit, share risk and things with each other which go beyond the details in the contract. Adversarial Contractual Relationship (ACR) is at the other extreme, where there is low trust, the expectation that each side wishes to gain at the expense of the other and contracts are used to protect each side from the other. Sako breaks down the contracting process into eleven elements: transactional dependence; ordering procedure; length of trading; documentation; the approach to 'contractualism' or contingencies; contractual trust; competence trust; goodwill trust; technology transfer and training; communication channels and intensity; and risk-sharing.

Transactional dependence

If a purchase wants to be able to switch from one supplier to another, they will have contracts with a large number of people. They can then use the threat of switching suppliers to make a supplier do what they want. On the other side, suppliers may wish to maintain contracts with a large number of purchasers to minimise their dependence on one. In these

circumstances, the relationships are likely to be distant. Under OCR, the purchaser may wish to develop closer relationships with a smaller number of suppliers and offset the dependence created by fewer closer relationships.

Experience with regard to dependency is varied. Local authorities which have established contracts for items such as refuse collection (as in the case of the Municipality of Elbasan and the Commune of Bradashesh) have sometimes become completely dependent on a single firm, which has won the contract for the whole of that local authority area.

We would expect high dependency to result in a close relationship between the two parties. In practice, the legal constraints and the lack of experience on the part of purchasers led to the development of detailed contracts and specifications with complicated procedures for coping with default. As time went on, however, both sides realised that the interdependency which comes from having a single supplier and a single purchaser allows a relationship which is closer than those implied by spot contracts or frequent switching of supplier.

Ordering procedure

The stereotype of the adversarial approach to ordering was encapsulated in the compulsory competitive tendering legislation for local authorities: competitors have to bid for the work, the purchaser then chooses the supplier as a result of the bid, rather than any other aspect of the bidder's work or reputation, and the price was fixed before the contract was agreed. The opposite, OCR, way of ordering may not involve bidding and if it does, the bid price is not the only criterion for placing an order with prices being settled after the decision as to who will be awarded the contract. The way orders are placed has an effect on the relationship between the parties. If a long-term relationship is expected, both sides need to decide whether such an arrangement would be beneficial. This requires more than doing some pre-tender checks and then opening the sealed bids.

Bidding is almost universal in the public sector, for reasons of propriety. Public accountability requires contracts to be awarded fairly, without corrupt favouritism. This is interpreted to mean that the only way to accept bids is through a procedure which distances the two sides. Albanian and EU state regulations require large public sector contracts to be advertised in the Gazette and bids invited from companies from all states. These regulations imply an adversarial style of contract, rather than the development of a close relationship.

The ordering procedure sets the tone for the nature of the relationship between the two parties. If contracts are based on a quotation against a specification which is the same for all bidders, the responsibility for developing the contract and specification rests with the purchasers, rather than being a joint effort between buyers and suppliers. After the contract is let, the process of contract management is therefore concerned with ensuring conformance to the specification.

Once a contract is let, purchasers may try to develop a closer relationship than that which had existed prior to the award. However, contracts are normally for a fixed term, at

the end of which a new bidding process starts. The close relationships are stopped and the distancing implied by distant treatment begins again.

Length of trading

In a ACR contractual relationship, the parties only expect to trade with each other for the length of contract. In OCR, there is an expectation that, if the things go well, there will be further contracts and there will be a mutual long-commitment between the parties. There is the possibility of 'roll-over' contracts in the local authorities where contractors are allowed to continue for a further period. However, lawyers say that it is unwise to include clauses in the initial contract which implies that successful completion of a given contract would most likely result in another.

The length of trading can determine the type of company or charity with which the local authorities trade. Large suppliers with a variety of contracts in the public and private sectors are more likely to be able to cope with a series of time-limited contracts with any purchaser than small local suppliers. This applies especially in community care, where small local voluntary organisations become completely dependent on their local authority for funds. They are, in other words, dependent on the one transaction, the lack of which would result in the end of the organisation. In practice, they often lurch from one short-term contract to the next.

Document for exchange

In ACR, an attempt is made to write all the terms and conditions, including substantive conditions. Every possible item is written down. In OCR, the contracts concentrate on procedural rules which set out how problems would be resolved if they happened to arise, leaving individual issues to be dealt with as and when they occur. Contracts may even be oral rather than written.

In the Elbasan Municipality, contracts and their associated specifications have generally been long and detailed. In some cases, manuals of procedure which were in place when the service was directly managed were used as the basis for the contract and specifications. For example, the original contracts between the social assistant department and tax department with TEC (IT service firm) were the old department area office programme manuals. However, people have realised that it is impossible to write everything down and that in any case, the fact that the contract contains a long and detailed specification is no guarantee of service delivery. Contracts have become less detailed as people have learned that there are other ways of ensuring quality, such as involvement in the suppliers' quality assurance procedures or talking to the users of the services.

‘Contractualism’

Sako refers the treatment of contingencies as ‘contractualism’. A contingent claims contract is one in which contingencies have to be defined, a procedure has to be established to agree whether a contingency has occurred, and the consequences of the occurrence are specified.

Most contracts have contingent elements: exceptional weather can affect highway maintenance contracts, etc. The question is whether each possible contingency can be sufficiently defined in advance and whether the recognition of its occurrence can be spelled out in advance. The OCR option is to agree procedures in which both sides can agree on contingencies and what should be done as a result, and as such rely on trust and an expectation that an agreement can be reached. The ACR option assumes that an agreement will not be reached or will be difficult, and that every contingency must be defined in advance.

There is a mixture of approaches to this question in the public sector. Attempts to specify contingencies, have not always worked. Local authorities usually have a ‘banding’ system in which progressive disabilities trigger progressively intensive service, but there have to be procedures in which the purchasers of service and the provider agree the extent of an individual’s difficulties.

Trust: contractual, competence and goodwill

Sako distinguishes three areas of trust: contractual, competence and goodwill. The ACR approach to contractual trust means that the supplier does not do anything without a prior, written order. In an OCR relationship, supply or change to specifications can be effected as a result of oral communication. Competence trust is concerned with the degree to which the purchaser trusts the supplier to deliver the correct quality of a product. If there is low trust, the purchaser will inspect heavily and presume that the supplier will try to cut corners. In a high trust relationship, the purchaser may be involved in the supplier’s quality assurance procedures, but will not carry out much, if any, inspection. Goodwill trust refers to the degree to which each side is willing to become dependent on the other.

Trust is a very important element of public sector contractual relationships. The degree of trust depends partly on the sort of relationship established during the ordering procedure. If the order is placed on the basis of the bid price only, it is likely that the chosen suppliers will be operating on low, or even negative, profit margins. In order to make a profit, the supplier has to shave the quality as close to the specification as possible, if not below it. The purchaser’s main function then becomes one of trying to make sure that the specifications are met, requiring inspection and checking. If the winning contractors believe in any case that the purchaser did not wish to contract with them but was forced into it by the legislation, there is no initial basis for establishing trust, and adversarial relationships are probably inevitable.

Trust can develop during the contract period or as a succession of contracts are completed. It is natural for buyers to be wary of new suppliers until they have seen proof that they can be trusted. Sometimes the voluntary sector may be trusted more than the private sector, whose profit motive causes immediate suspicion by some sectors managers of the local authorities.

Technology transfer and training

In an OCR relationship, the purchaser is willing to help the supplier develop the best technology and skills. This may involve helping the supplier to organise training or allowing them to join in with joint training, which may not be charged. In an ACR relationship, help is given only when it is fully charged and paid for. One area in which this is important is in the cleaning service of Elbasan. If purchasers do not fund the development of new technologies, research and development has to be funded in other ways. In practice, since prices are supposed to be a little bit higher than the cost in the cleaning service contract, there is no surplus available for research, which is funded through a separate mechanism.

It is unlikely that there would be much transfer of technology and training in the mainly adversarial relationships which have developed: public accountability for funds, which pushes the relationship in an adversarial direction, makes it unlikely that free funding of development would occur, as a routine part of long-term contractual relationship.

Communication channels and intensity

In ACR, the communication channels between the two contracting parties are specified in the contract. Nominated officers on each side are allowed to speak about technical and financial matters, according to their individual competence. In an OCR relationship there are multiple channels of communication as each side tries to understand the other. As with other aspects of the relationship between public organisation and contractors, frequent contact is treated with suspicion, especially informal contact. Lunches are viewed as corruption. While there may be some basis for suspicion, it is unfortunate that the need for proprietary stops beneficial exchanges between the two sides.

The national audit office surveyed the concessionaire contract (Concession...2000) for the water supply of the Elbasan with the Berliner Wasser Betriebe and showed that both parties, Albanian and German were still mainly concerned with achieving their own distinct objectives rather than coming to a jointly beneficial agreement. Both parties surveyed thought that forming joint long-term strategies and providing comprehensive and timely information as well as maintaining regular communication between chief executives and different public authorities, were vital in achieving good relationship (Report... 2003).

Risk-sharing

In an OCR relationship risk is shared, based on principles of fairness. In ACR, risk may not be shared but the acceptance of risk is defined in advance. There are three aspects of risk in public service contracts: risk of price change, risk of change in the volume of demand, and the risk that arises from suppliers innovations.

With relatively low inflation, the risk of price change being very different from that predicted at the time of signing the contract is small. However, there are prices which may fall suddenly, because of technical changes. For example, much cheaper computer processing, may produce a 'windfall' increase in profits for the supplier. A risk-sharing approach would lead to such windfalls being shared between the supplier and the purchaser.

The second type of risk refers to the possibility that the volume of work predicted will be not forthcoming. The supplier sets up an operation to provide the predicted volume and incurs costs which are not recouped. Again, a risk-sharing approach would involve sharing a proportion of these costs. One way of doing that is for the purchaser to guarantee a certain volume of service will be purchased, even though it may not be required.

The third element comes from innovation; a supplier may invent and offer a new way of providing a service, which turns out to be unsuccessful. Without such innovation, the contracting process will stop the development of new services, as all specifications are based on already accepted practice.

Public-Private Partnerships are based on the premise that the contract can allocate the risk between the private and public sector and the contract can be formulated to reward risk taking. In the case of unpredictable volumes, such as water supply of the Elbasan where the revenue to the contractor depends on number of customers and volume of water that each of them consumes, risk avoidance cannot be achieved by changing contractor behavior.

The specification**Inputs, process and outcomes**

Sako's work dealt mainly with the supply of components, which could be specified in physical terms. The purchase of a service can be more complicated. Firstly, it may be difficult to specify the result required from the service in an unambiguous way. Even in a relatively simple, physical service such as green-grounds maintenance, the result of the work will be hard to describe: what is a well-maintained flower bed, when the answer to the question determines whether a contractor gets paid or not? Attempts to answer such questions have resulted in elaborate schemes of measuring the length of grass and counting the number of flowers.

In other services, the problem can be more acute. What is the satisfactory outcome from the water supply if the water is clean and drinkable? There are ways of defining these things, but if specifications are to be used as the basis for a legal contractual obligation,

they are more difficult to define and measure than material things, which can have measurable characteristics and tolerable deviations from them.

Because of this, many specifications rely on a description of the processes by which the services are provided. If the removal of the garbage and cleaning of the roads is specified by quantity, it is enough to ensure that the bill will be paid. If the processes cannot be described in detail, then the specification may rely on the inputs used : the number of hour of a landscape-gardener's attention for the maintain of the green. These descriptions of the input may include the qualifications and skills of the staff.

Information quoted in the specification has a big impact on the relationship between a purchaser and a provider of services. In general the provider has a professional or technical expertise, which they are offering as a part of the contract. If that expertise is usurped by the specification, the purchaser has to have all the skills required to write the specification and monitor performance to ensure that a good job is done.

The use of outcomes as the basis for a contractual agreement has two implications for the relationship. It assumes that the providers have the expertise to decide on the appropriate inputs and process required to produce the desired outcome. It also implies that the purchaser trusts the provider to make those decisions in the interests of arriving at the outcome, rather than in the interests of the provider or their profits. The higher the degree of trust, the more possible it is to use outcome specifications.

However, in low trust environments, the use of inputs and processes as the basis for the contract can produce problems of its own. How will the purchaser stay up to date with the best procedures? In services such as cleaning, for example, technology changes. New chemicals and machines increase efficiency and change working practices. If such a service specifies exactly the routines used and never change them, best practice cannot be achieved.

As time goes on the purchasers have less direct experience of services. While they may be appointed to the post of purchasing manager with the recent relevant direct experience, it is inevitable they will become detached from it over time. As their expertise deteriorates relatively to that of the providers it becomes harder for them to confidently specify inputs and processes.

Who should write the specification?

Therefore, the question 'what is in the specification?' begs another question: 'who should write the specification?' If technical and professional expertise is heavily weighted towards the providers' side, then it is sensible that they should at least be involved in writing the input and process part of the specification, with the purchasers becoming increasingly involved in specifying the required outcomes.

This brings us back to the beginning of the argument. If the purchasers are to allow the providers to specify the inputs and process, with the intention of providing the best possible

outcome for the money available, this implies a high degree of trust. If the providers are only to be trusted as far as to carry out their duties to the letter of the contract, then that contract must contain enough details to reassure the purchaser that they are getting a good deal. If they are to be trusted to make an impact on the service user and the left to decide how to achieve that, then there has to be a high degree of goodwill between the two parties.

There are two separate issues here, which are frequently confused. The first is whether the purchasers have the technical competence to write and monitor an input and/or process based specification. The second is whether the purchaser has sufficient trust in the provider doing their best to produce the desired outcomes and therefore has the confidence to write an outcome-based contract. A lack of trust was a product of uneven knowledge and profit-maximising behaviour on the part of the contractor.

Learning to manage through contracts

People have now learned that adversarial contracting is unproductive and expensive to maintain. Contractors for the Municipalities in Elbasan have complained about over-complicated paper-work and procedures. Elbasan Municipality's social service departments are trying to establish more collaborative relationships with the voluntary sector for the provisions of community care services.

However, people have also realised that there are constraints on the development of obligational relationships. Legal requirements to follow procedures put purchasers and providers at a distance from each other and emphasize the elements in which interests are opposed.

While the number of actual and potential suppliers varies between the sectors, there seems to be a relationship between market structure and contracting style : monopolies or near monopolies in the cleaning and green maintenance of the Elbasan have led to the development of longer-term relationships, less reliance on detailed inspections and other aspects of ACR relationships. In the relationship between Elbasan Municipality and their contractors there are still signs of adversarial relationships.

If there is an underlying suspicion of the private sector, it is likely that contracts will remain adversarial. The implication is that there will be a continuation of detailed contracts, harsh penalty clauses, heavy inspection and generally poor relationships.

Expensive failures

The contracting system that was imposed through the imposition of internal markets and enforced outsourcing improved as people, especially in local government, learned how to manage through contracts. Buildings streets procurement in Elbasan was one case which got out of hand and delays were sometimes measured in years rather than in months. In 2008, the public controlling Committee (Report... 2009) in Elbasan Municipality investigated

32 building street contracts that produced 1.1 million Euro of overspending. The average slippage was 8 months, or 11% of the projects' lifecycles.

In the year 2000, the Berliner Wasser Betriebe (a German firm) through a Public-Private Partnership-concession contract, entered to provide the water supply and to remove the waste water for the Elbasan Municipality. This contract was expected to last 25 years, but resulted unsuccessfully, and the German side did not go ahead with the work. The conclusions of the failure of this contract were:

- The project did not find the support of the other public institutions in Elbasan.
- There was no clearance on the specifications of the rights of public institutions.
- There was not a shared approach to risk management.
- It was the first contract of this type in the local authorities and there was no experience.

Benefits of the long-term relationship

The contractor relationship of the Elbasan Municipality and voluntary organisation 'Happy ours' in the resettling of the orphan children has lasted a long time. It led to the establishment of a collaborative relationship between the social service department of the Municipality and this voluntary organisation.

The contractor relationship of the Elbasan Municipality and the cleaning firm-Victoria Invest has been established for 12 years. This has brought the Municipality less reliance on detailed inspections and less cost.

CONCLUSIONS

The eagerness of the Elbasan Municipality to contract out large parts of the work required to deliver public services has sometimes overtaken the capacity to make contracting succeed. There are some structural reasons for this. Firstly, a contract between a local authority and a contractor is not equivalent to a joint venture between two or more companies collaborating to make a project or business venture successful: in most cases the revenues to the company come from public funds, not from customers who are attracted to the product of the joint venture. The available finance is finite, subject to renegotiation as costs rise, rather than subject to success in the market. Companies' profit will only come by getting more money from the local authorities buying their service than the service cost to produce, rather than from jointly making the service profitable.

Secondly, there is an almost inevitable information impactedness. Regardless of the sector, the expertise is more likely to be with the contractor rather than the purchaser: that is where the best returns to individuals are and where the greatest professional satisfaction is. Given the first condition, that there is a finite amount of money and therefore a zero-sum

game, the fact that the expertise is likely to be concentrated in the provider side of the transaction is very likely to lead to opportunism.

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