Evaluating the HR Dimension of CSR in a Strategic Approach

DIANA CORINA GLIGOR-CIMPOIERU, PH.D.
LECTURER

e-mail: diana.gligor@e-uvt.ro

SUMMARY

For the past decades CSR - Corporate Social Responsibility – has captured the interest of practitioners and academics, but in spite of all of the CSR literature and CSR programs implemented, the concept is still intensively debated and not fully understood from its perspective of generating long-term benefits for both business organizations and their various stakeholders in a win-win strategic approach. An approach to CSR that is mainly philanthropic and focused on the image benefit, which we describe as traditional, is still dominant. In this context the Human Resources (HR) dimension of CSR tends to be overlooked as a less visible component of CSR initiatives, thus the potential CSR benefits that could be generated for employees and employers are not acknowledged. With this paper we aim at underlining the most important aspects of human resources management to take into consideration when designing CSR programmes dedicated to employees. We present a proposed evaluating instrument designed and tested inside a Romanian business organization.

Keywords: corporate social responsibility, human resources, strategic approach, evaluation instrument, stakeholders
Journal of Economic Literature (JEL) codes:M14, M54
DOI: http://dx.doi.org/10.18096/TMP.2015.02.01

MEANING AND IMPORTANCE OF A CSR STRATEGIC APPROACH

Although CSR is no longer perceived as a “new” and “fashionable” concept, and now successful business organizations from various fields of activity and various sizes integrate it among their activities, there are still plenty of issues related to CSR understanding and implementation. We believe that one of the important sources for this misunderstandings related to CSR is the lack of a strategic approach to its perception and implementation.

One of the first aims of this paper is to present the meaning and the importance of a CSR strategic approach versus a CSR traditional approach, starting from the analysis of the evolution of the CSR concept. This is because we noticed as we reviewed the literature that constantly a need for better CSR was mentioned (only a few of these are presented below).

Bowen (1953) was the first who mentioned the notion of the responsibilities of a businessman and Peter Drucker (1954) also acknowledged the importance of social responsibility. In the ’60s, Davis and Blomstrom (1966) were already considering that social responsibility had the potential of bringing long-term benefits and in the ’70s Harold Johnson (1971) considered that the managers of a responsible business organization should keep in balance a multiplicity of interests when making a decision, thus highlighting the importance of organizational stakeholders. Preston and Post (1975) stated that the term social responsibility at that time had a ”large number of different, and not always consistent, usages”. Murray and Montanary (1986) underlined that although management scholars recognize the strategic implications of corporate social responsibility, few had focused on the relationships with “relevant actors” from its social environment.

Later on, the fact that economic and social objectives were so long perceived as distinct and opposite was called a false dichotomy, according to Porter and Kramer (2002) and even more, in a long term approach “social and economic goals are not inherently conflicting, but integrally connected” (Porter and Kramer 2002: 62). Graafland et al. (2004) proposed that long-term value creation includes three dimensions (the so-called Triple P bottom line concept): where the economic dimension Profit, the social dimension People and the ecological dimension Planet need to be addressed. Kotler & Lee (2005), in a very practical approach, described six types of CSR initiatives and pointed out some of the most important characteristics of a strategic CSR approach versus a traditional one. Porter & Kramer (2006) analysed the link between the social involvement and the competitive advantage of a business organization, stating that "the prevailing approaches to social responsibility are so fragmented and so disconnected from the business and strategy" that "they obscure many of the greatest opportunities" (Porter and Kramer 2006: 79) and that by treating their social initiatives as they treat their core business choices, businesses could gain competitive advantages. Málovics (2009) pointed out the particularities of implementing CSR programmes in SMEs, presenting multiple CSR benefits and costs for an SME.

In another article, Porter & Kramer (2011) supported the need for "a new form of capitalism" and underlined the importance of creating "share value" – common value for business and society. Perez-Batres et al. (2012) discuss the issue of CSR initiatives used only as a way for misleading stakeholders in order to distract their attention from severe problems of business (actions called "greenwashing") – that the authors call "symbolic" CSR initiatives – versus truly committed CSR initiatives – called by the authors "substantive" CSR initiatives.

Amaeshi et al. (2015) address the situation of CSR practices that "go beyond philanthropy and in some instances involve institutional works aimed at addressing some of the institutional gaps in the environments where these SMEs operate" (Amaeshi et al. 2015: 1), while Gligor-Cimpoieru & Munteanu (2015) also identified several characteristics that differentiate a strategic and a traditional CSR approach.

As we can note, along the entire evolution of the CSR concept various authors marked the need for a more consistent and managerial approach to it, a new approach that we call strategic as opposite to an approach focussed almost exclusively on philanthropy and promoting an image benefit for business. Managers play a crucial part in promoting the CSR changes as a recent study shows that in Romanian business organizations changes have the greatest chances to be implemented if the owners or managers are the source of change (Predişcan and Roiban, 2015: 3).

Based on an extensive literature review, several key elements were identified and will briefly be explained as a very simple and effective way of explaining the meaning and the importance of a strategic CSR approach versus a traditional CSR approach:

- In a strategic CSR approach the CSR activity is perceived as being central to the strategy of businesses and is focused mainly of responsible business practices, as opposite to a traditional CSR approach where CSR is a peripheral activity focused almost exclusively on philanthropic behaviour;
- In a strategic approach, social and business objectives are perceived as being deeply interconnected, and not separate as in a traditional CSR approach;
- Engaging in CSR programmes is perceived as an opportunity, and not an obligation;
- In a strategic approach organizational performance is evaluated in a "triple bottom line" perspective, and not purely from a financial perspective;
- The choice of the social issue to be supported and of the CSR programme to be implemented is based on the organizational needs, is a voluntary behaviour, and is done involving stakeholders like clients or employees, as opposite to the traditional approach of CSR, where the choice is based on the increasing pressure of different categories of stakeholders rather than being a truly voluntary behaviour and the decisions related to it belong to a few persons from top management of the business organization;
- In a strategic perspective, the choices related to CSR are made on the principles of "doing well and doing good" and "doing the most good, and not just some good" with a consistent organizational commitment, and not on the principles of "doing good to look well" and "the easiest way possible", usually by just signing a check, which is typical of a traditional CSR approach;
- The social issues chosen to be supported in a strategic CSR approach have as many connections as possible with the main activity of the business organization, not like in a traditional approach where they have no connection with the main activity of the business;
- In a strategic perspective, CSR budgets are flexible, depending on the needs of the implemented CSR programme, and not fixed like in the traditional view of CSR initiatives;
- In a CSR strategic approach only a limited number of programmes are supported with a larger amount of money, usually for periods of time longer than 3 years, in order to obtain significant results, as opposed to the traditional approach, where there is a tendency to support several small social initiatives, with limited funds and for a short period of time, thus dissipating available organizational financial resources without obtaining significant results;
- Strategically, CSR programmes are implemented based on very well articulated plans, with clear objectives that are continuously monitored and for which evaluation is a mandatory stage (like in the case of any other business plan), versus the traditional perspective where for CSR implemented programmes there are no articulated plans with objectives and evaluation stages;
- Partnerships with NGOs, local media representatives or other groups of organizational stakeholders, including competitors, are very important, while in a traditional approach partnerships are not created and valued as significant for the success of a CSR programme;
- In a CSR strategic approach the obtained results after implementing CSR programmes are communicated to various stakeholders as part of a policy of "transparency" while in a traditional CSR approach the CSR results are not sometimes even communicated to shareholders or other significant stakeholders as a policy of "discretion" is adopted.

THE HR DIMENSION OF CSR AND ITS EVALUATION IN A STRATEGIC APPROACH

When analysing the relationship that the business organization has with its various primary and secondary stakeholders we consider that employees represent a very important and particular category of primary stakeholders, as in a knowledge-based society employees are increasingly becoming the most important income generating assetthat a business organization holds with the capacity of possessing and generating knowledge. Crăciun et al. (2005), comparing the relationships that a business organization has with various categories of primary stakeholders, found that relationships with the employees are more complex, given the personal nature of the exchanges between a business and people, and that while the proprietors or the shareholders “nominally have all the material and immaterial goods of the firm, the employees effectively constitute a corporation” (Crăciun et al. 2005: 325).

Sprinkle and Maines (2010) consider that “many CSR activities relate to employee welfare and safety” where “employee welfare encompasses initiatives ranging from the provision of educational benefits to health support” (Sprinkle and Maines 2010: 446).

Even more, to attract and retain valuable employees “the ethical profile of the company has become a key element” (Crăciun et al. 2005: 332) and so CSR initiatives implemented in a strategic approach could represent a key element for better and more motivated organizational human resources.

Story and Neves (2015) also identified the fact that CSR research has focussed more on “the role that CSR has on external stakeholders” than on its internal stakeholders. We agree that investing in CSR programmes dedicated to employees that fit the requirements of a strategic approach to CSR is a very good form of addressing organizational internal stakeholders. Furthermore, such initiatives could represent an important business opportunity that could generate higher business performance.

In our perspective, the relationship between business organization and its employees is a mutual bivalent one, with corresponding duties and rights for both entities involved. In principle the employer–employee relationship is regulated through legislative measures, but given the already mentioned complexity of this relationship, it is very difficult to assume that legislation could address its various particular aspects, and that is another argument for implementing CSR programmes dedicated to employees as voluntary initiatives that go beyond the legal requirements.

The aspects of human resource management with ethical implications that we identified as having the most significant implications for a strategic approach to CSR are:

- Ensuring proper working conditions for employees;
- Fighting discrimination and harassment in the workplace;
- Understanding and dealing with issues of loyalty and confidentiality in the workplace.

Based on the identified theoretical aspects, we have elaborated an evaluation instrument for the HR dimension of CSR, a questionnaire (presented in Appendix 1). When testing the proposed research instrument for a business organization with 14 employees operating in the health care industry, called in our paper Enterprise A for confidentiality reasons, the results obtained prove that we have designed a useful tool for addressing CSR initiatives in a strategic approach.

The first items of the questionnaire were designed to determine a few characteristics of the respondent’s profile. Thus, from the total number of 14 respondents, we can notice the fact that approximately 35% have a managerial position and the rest a subordinate position. The majority of the respondents (more than 85% of them) were employees of Enterprise A for more than one year and less than five years, and less than 15% had experience working for a period shorter than one year, but none has working experience in the firm longer than 5 years.

The following questions were designed to evaluate the employees’ perception concerning the importance of the main primary stakeholders of Enterprise A. Employees were asked to evaluate the importance of primary stakeholders (like employees, suppliers, customers, patients, competitors and the natural environment) by ranking them in order of their importance . For establishing the general hierarchy of the mentioned primary stakeholders, we attributed importance criteria expressed as a number of points for each rank in the hierarchy. By taking in consideration this aspect and the absolute frequencies of the answers collected, we can calculate a total number of points for each of the primary stakeholders mentioned, and thus a hierarchy of importance was determined, as we shown in Figure 1, where the numbers indicated on the vertical axis represent the calculated number of points obtained for each stakeholder (ranging between 5.076 for employees and 1.91 for the natural environment)

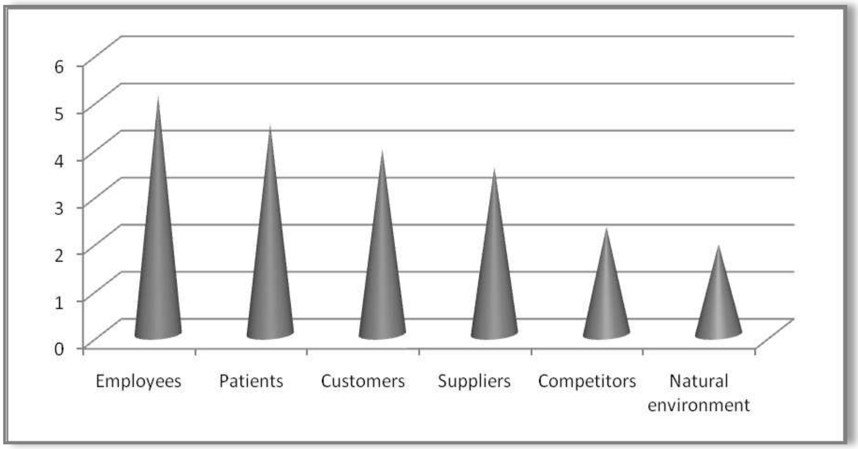

Figure 1. Ranking of primary stakeholders according to employee perceptions
Source: own figure

By taking in consideration only the relative frequencies of the valid answers collected, we noticed the fact that more than half of the respondents declared that the most important stakeholder for Enterprise A is represented by them, the employees, approximately 23% declared that patients represent the most important stakeholder, and approximately 15% declared that customers are the most important entities. The least important entities were considered to be the natural environment (by more than 40% of the respondents) and the competitors (by approximately 27% of the employees who answered this question).

Questions 5–19 were designed to evaluate various aspects of the human resources dimension of CSR in a strategic approach. Each of these human resources management aspects has ethical implications that could be considered an indicator of the degree to which the business organization is being socially responsible toward its employees.

Question 5 was designed to evaluate the employee's perception regarding working conditions. In a strategic approach, CSR initiatives should address the issue of assuring proper working conditions, especially through socially responsible business practices; we consider that this way not only do firms ensure against legal penalties or legal trials, but also better motivate their employees. The first step is to evaluate how the working conditions are perceived by the firm's employees. In the analysed Enterprise A 50% of the Romanian employees consider the working conditions to be good, almost 30% consider them to be very good, and none of the employees consider them to be less than satisfactory, which leads us to the conclusion that this area is well addressed by existing initiatives, but as always there is room for improvement that could be determined by a further more detailed analysis.

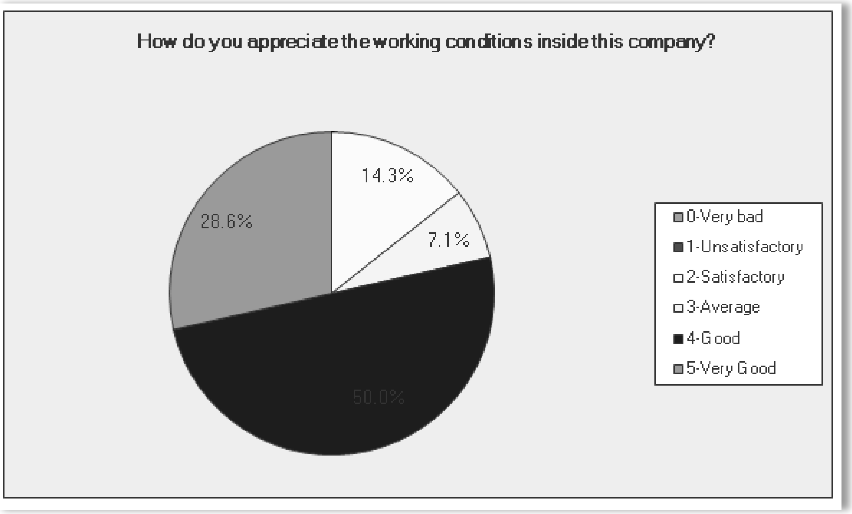

Figure 2. The evaluation of working conditions inside the business organization
Source: own figure

The next question had the purpose of evaluating the employees' perception regarding the possibilities for professional and personal development inside Enterprise A. From our perspective, in a strategic approach, where long term implications are valued, a lot of the CSR initiatives are dedicated to HR. Furthermore, CSR programmes dedicated to employees should definitely address the issue of the professional development and even more the personal development of employees, as we consider that investments in HR have the potential of bringing long-term success for the business organization and its activity.

Half of the respondents consider the possibilities for professional development to be good or very good, more than 40% of them to be average or satisfactory, and one respondent considered them unsatisfactory.

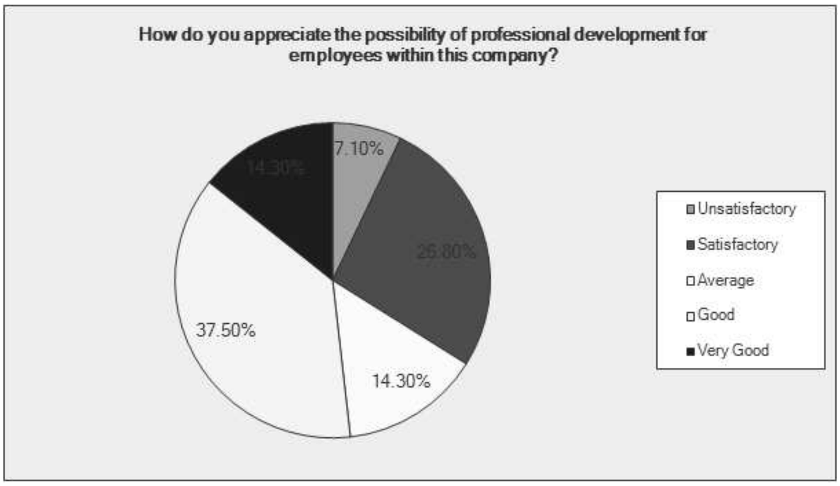

Figure 3. The evaluation of possibilities for professional development
Source: own figure

The personal development possibilities offered inside Enterprise A were evaluated by more than 40% of the respondents as being good or very good, by almost 30% of them as being average, by more than 20% as satisfactory. We could notice again a respondent who evaluate them as being unsatisfactory.

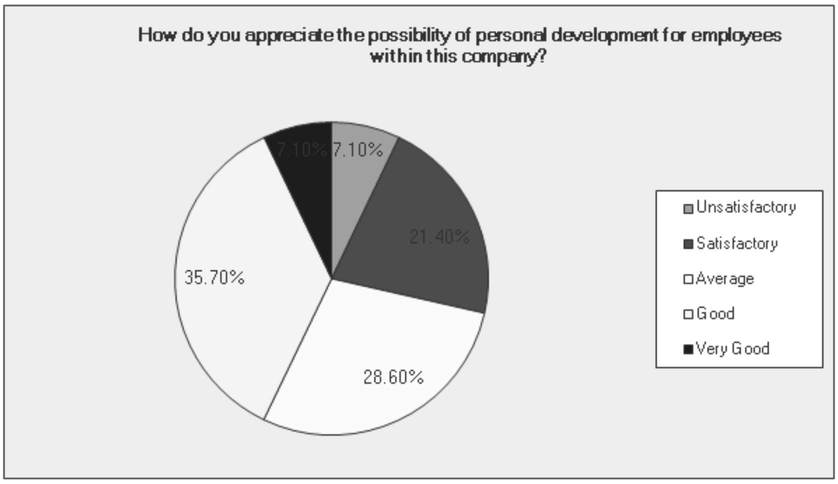

Figure 4. The evaluation of possibilities for personal development
Source: own figure

The number of cases of discrimination is evaluated by half of the respondents as being low or very low, and as inexistent by more than 40% of them. Only one respondent declared that the number of discrimination cases is average. The number of harassment cases is considered by almost 80% of employees to be very low and by more than 20% of the respondents as inexistent (zero cases of harassments inside of the business organization).

The situation of respecting the equality of chances for women, minorities and disabled persons within Enterprise A is evaluated by the majority of the respondents as being very good (by 50% of them) and good (more than 35% of them).

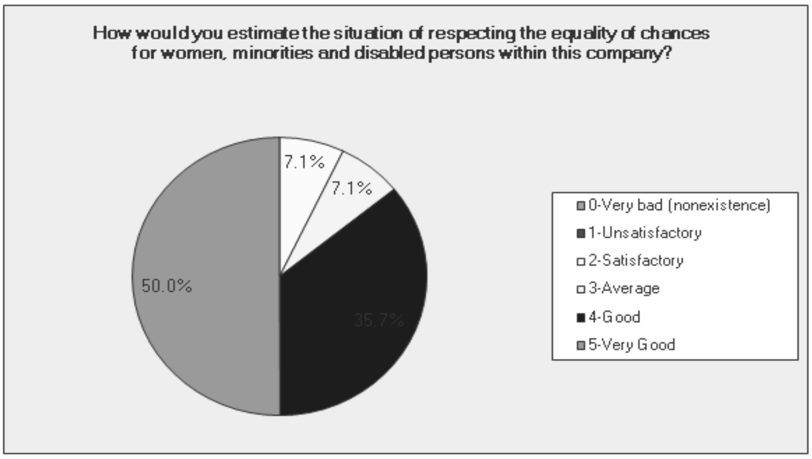

Figure 5. The evaluation of equality of chances for woman, minorities and disabled persons
Source: own figure

The equitability of remuneration within Enterprise A is evaluated by 14.3% as very good, by almost 43% of the respondents as being good, by almost 29% as satisfactory, and by 14.3% as average.

Question 10 was designed to evaluate the perception of respondents concerning the fairness of procedures for hiring, promoting, sanctioning or dismissing employees within Enterprise A. Almost 43% of the employees who answered the questionnaire considered this fairness to be at an average level, approximately 29% of them consider it to be good and another percentage of approximately 21% considerate it satisfactory. We can also note the fact one employee consider it to be unsatisfactory, and none of the respondents evaluated fairness as being very good or very bad.

The next question evaluated the overall employee perceptions about the confidentiality they have in their relationship with Enterprise A, whereby confidentiality we understand protecting various information acquired by both the parties involved (employers and employees) in their interactions regarding the activity of the business organization. From the analysis of the responses collected, we could notice the fact that approximately 36% of the employees consider the confidentiality they have in relationship to Enterprise A as being good, and another percentage of them (approximately 21%) as being very good. The rest of the respondents consider it satisfactory (28.6% of the respondents) or average

(14.3% of the respondents) and none of Enterprise A's employees consider it unsatisfactory or very bad.

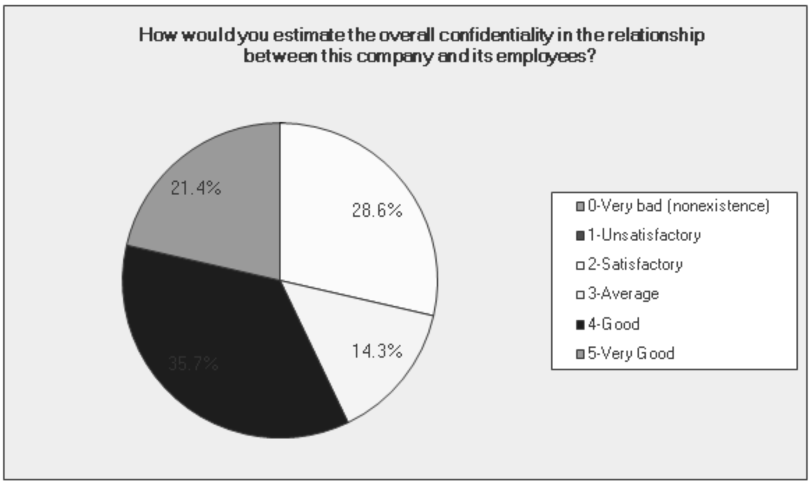

Figure 6. The evaluation of the overall confidentiality
Source: own figure

Questions 12–18 were designed to analyse particular aspects of the confidentiality between Enterprise A and its employees. We perceive confidentiality inside a business organization as being a bivalent relationship between the employees and the employer. Employee's rights of confidentiality must be respected, but at the same time, employees have a duty to respect the confidentiality regarding the firm's activity.

Table 1
Key aspects of confidentiality

Crt.	Aspects of confidentiality	Results for Enterprise A
1.	**The use of computer databases**	A large percent of the respondents (more than 71%) declared that they are not aware whether or not the enterprise uses computer databases containing information about them
2.	**The test applied to the employees**	Only one respondent declared that drug tests, alcohol tests or AIDS tests are applied. None of the respondents declared the use of polygraph or honesty tests for the employees or pregnancy tests (in Romania the employer's requirement for this type of test is forbidden by the law)
3.	**How ethical they consider the use of these different types of tests to be**	None of the respondents considers that applying polygraph or honesty tests and pregnancy test would be an ethical act; over 90% of the respondents declared that the requirement for AIDS tests would be an unethical act, almost 54% of respondents perceive the use of drug tests as not being ethical, and the type of test perceived by more than half of the respondents (by almost 54% of them) as being ethical to require is the alcohol test
4.	**The information and the knowledge acquired is private property of the firm**	Almost every employee declared that she/he treats such information as private property
5.	**Whistle-blowing**	Almost every employee declared that she/he will make public a severe misconduct discovered inside the business organization, and all declared that if they were in a situation to discover severe misconduct within the enterprise they would report it internally (internal whistle-blowing).

Source: own compilation

The transparency of decisions within Enterprise A is most often evaluated as satisfactory or average, but we can notice the fact that we had few respondents evaluating it as being good or very good, or unsatisfactory.

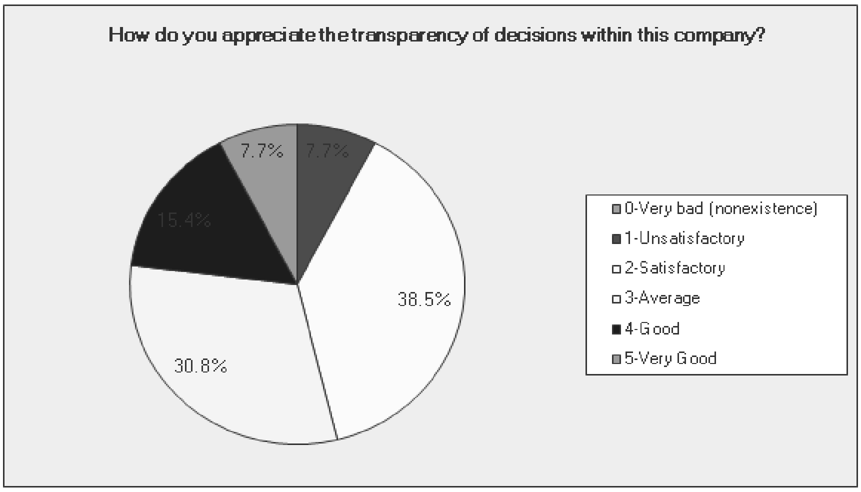

Figure 7. The evaluation of the transparency of decisions
Source: own figure

All of the respondents declared that the firm has a code of ethics or a code of conduct.

For the next issue addressed, we analysed the employee's perception on the most important CSR benefits (represented by Figure 8) and CSR costs (represented by Figure 9).

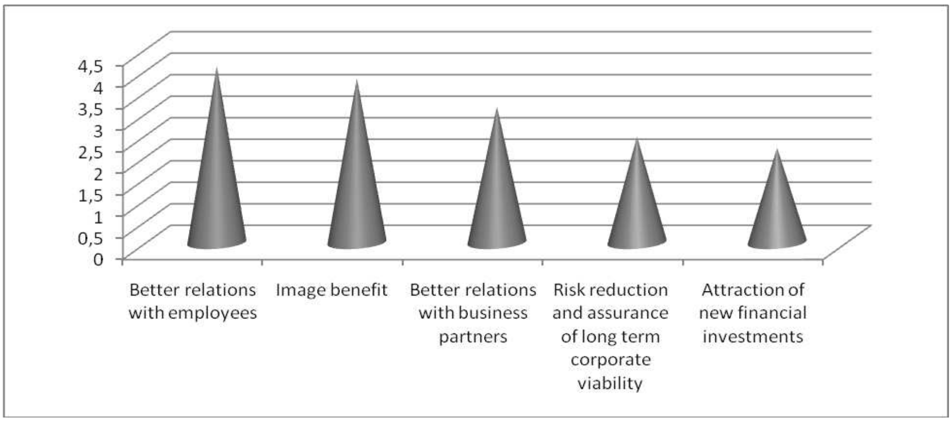

Figure 8. The ranking of corporate social responsibility associated benefits (or opportunities) according to employee perceptions
Source: own figure

We can see that the benefit of corporate social responsibility that is considered by employees as being the most significant is better relations with employees and the cost perceived by employees as being the most significant is the financial cost, followed by the cost associated to not choosing appropriately the CSR programmes to be implemented.

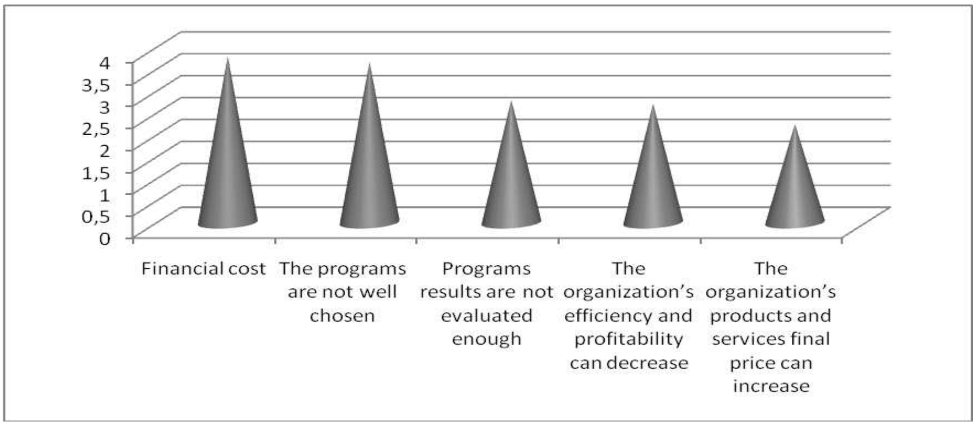

Figure 9. The ranking of corporate social responsibility associated costs (or risks) according to employee's perception
Source: own figure

The final aspect analysed by our study refers to the methods that could be used for promoting business ethics and CSR principles within the firm.

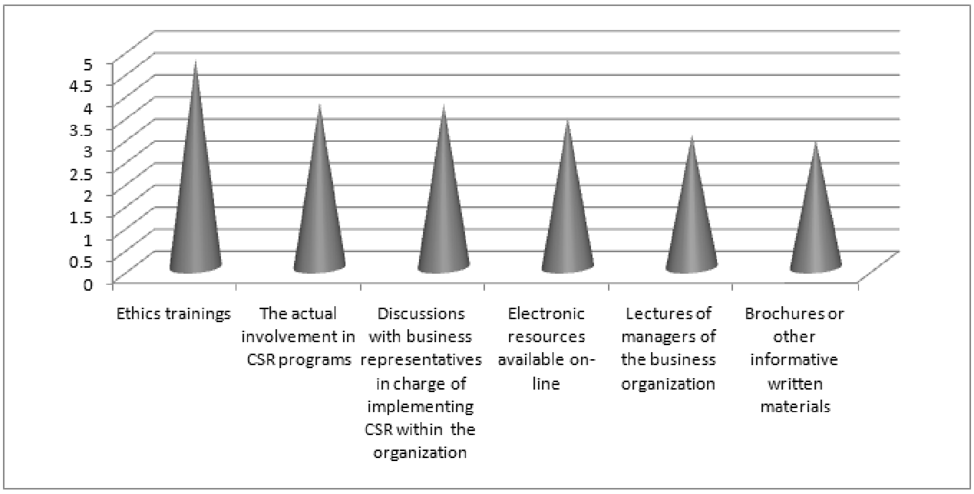

Figure 10. The ranking of the most efficient methods used for promoting business ethics principles within the firm according to employee perceptions
Source: own figure

The method considered the most efficient by the employees is represented by ethics training courses, followed by actual involvement in corporate social responsibility programmes; the methods perceived as being the least efficient are the lectures of managers and brochures or other informative written materials.

CONCLUSIONS AND RECOMMENDATIONS

Corporate social responsibility programmes can only be successful if they are implemented in a strategic approach, meaning in essence an approach in which the results obtained for the business organization and the social cause are more important than the image benefit, with long term benefits and costs being taken into consideration. In this view, a greater focus on the human resources dimension of CSR represents a key element of a strategic approach to CSR.

The most important contributions that our paper brings from a theoretical point of view are represented by underlining the importance of a long-term perspective on CSR and making a connection between CSR implementation and important aspects of the human resources management with strong ethical implications.

For the practical part, our paper has proposed a specific research methodology offered as an evaluation tool for the management of business organizations. From our pilot study in one small enterprise we could formulate several conclusions and recommendations based on the obtained results. One of this conclusion is that in the field of activity in which the analysed business organization operates the employees are a very valuable resource (a fact proven also by the highest ranking among the evaluated primary stakeholders), they are a vital part of it as their knowledge in the field of activity is vital for the commercial success and in this context special measures need to be allocated for them by the management in all the decisional aspects, including the implementation of CSR programmes, when initiatives dedicated to employees are a very good way of allocating available organizational resources. Another recommendation for the analysed organization is to try to engage in a dialogue also with its secondary stakeholders in an effort to increase the potentials benefits that the implementation of corporate social responsibility could offer. The possibilities for personal development are perceived by the employees as being less favorable that the ones for professional development and regarding this aspect, we could formulate a recommendation that in the programs of training offered to the employees could be included some aspects aiming for their personal development. The number of cases of discrimination and harassment is perceived as being low or very low, with an observation that the number of cases of discrimination is perceived to be higher in a certain measure. The equality of chances for women, minorities and disabled persons is evaluated as being very good and good by almost all of the respondents, indicating the fact that the analysed business organization doesn’t have any problems concerning these aspects. The equitability of remuneration is perceived by more than half of the employees as being good or very good, and by the rest as being at least satisfactory. A significant percentage of the respondents evaluated the fairness of procedures for hiring, promoting, sanctioning or dismissing employees as being average, and only a smaller percent perceived it as good. None of the respondents perceived this aspect as being very good, and one of the respondents (representing 7.1% of the sample) considers it unsatisfactory, thus suggesting that this could represent an aspect to be adress by management both within CSR initiatives and organizational policies. We have also identified some particular aspects of confidentiality that could be improved, like the fact that employees should be better informed about the use of their personal data trough computer data bases or the electronic surveillance of their activity. It is highly recommended that these aspects are very well clarified (due to their legal implications). All of the respondents declared that if they would be in a situation to discover a severe misconduct within the firm they would report it internally (internal whistle-blowing), showing from our point of view a great degree of confidentiality and loyalty. None of the respondents declared that they would report the situation outside (external whistle-blowing). The majority of the questionned employees evaluate the transparency of decisions as being satisfactory or average, one of the respondents evaluated this aspect as being unsatisfactory and only a smaller percentage perceive it as being good or very good (3 out of 14 employees), thus suggesting for us another possible organizational weak point that managers need to address. The benefit of corporate social responsibility perceived by the respondents as being the most important one is the one of better relations with the employees, followed by the image benefit. One of the benefits perceived by the respondents as being less significant, but which plays an important part in our opinion is the benefit of risk reduction and assurance of long term corporate viability. Concerning this aspect, our suggestion would be that future training of employees in this field would underline it. And finally, we could suggest that the most efficient methods for promoting corporate social responsibility within the firm would be certain ethical trainings or the actual implementation of more CSR programmes.

The proposed research methodology has already been used for evaluation in several business organizations and has proved to be a useful tool for managers in their quest for an approach to CSR closer to a strategic CSR approach. There are several limitations of our research, as addressing more questions and reformulating some questions (as when using the term “appreciate” in formulating our questions, an expression that than could have a positive connotation). Furthermore, our research only provides an image of the analysed aspects at a certain moment, we consider more relevant results could be obtained if the evaluation would be periodically applied to employees to see changes determined by various CSR actions addressing HRM. Future research will offer an opportunity for the improvement of this proposed methodology.

Acknowledgment

This work was supported from the European Social Fund through Sectorial Operational Programme Human Resources Development 2007–2013, project number POSDRU/159/1.5/S/134197, project title “Performance and Excellence in Postdoctoral Research in Romanian Economics Science Domain”.

REFERENCES

AMAESHI K.; ADEGBITE E.; OGBECHIE C.; IDEMUDIA U.; ANDERSON K.; KAN S.; ISSA M.; ANAKWUE O. (2015): Corporate Social Responsibility in SMEs: A Shift from Philanthropy to Institutional Works? , “*Journal of Business Ethics*”, 1-16. http://dx.doi.org/10.1007/s10551-015-2633-1

BOWEN, H.R. (1953): Social Responsibilities of the Businessman, Harper & Row, New York.

CRĂCIUN, D.; MORAR, V. & MACOVICIUC, V. (2005): Etica în afaceri (Business Ethics), Ed. Paideia, București, Bucharest.

DAVIS K. & BLOMSTROM R.L. (1966): Business and the Environment, McGraw Hill, New York, 403 p.

DRUCKER, P. (1954): The practice of management, Harper & Row, New York, 404 p.

GLIGOR-CIMPOIERU D. C. & MUNTEANU V. P. (2015): The Strategic Approach of CSR for the Banking System in Romania. In: CSR Trends Beyond Business as Usual, Editor Janusz Reichel, CSR Impact, Lodz, Poland, pp. 151-168, available at http://www.csrtrends.eu/wp-content/uploads/2015/04/08.CSR_D.C.-Gligor-Cimpoieru_V.P.Munteanu.pdf.

GRAAFLAND, J.; EIJFFINGER, S.C.W. & SMID, H. (2004): Benchmarking of Corporate Social Responsibility: Methodological Problems and Robustness. “*Journal of Business Ethics*”, 53 (1-2), pp. 51-71. http://dx.doi.org/10.1023/B:BUSI.0000039404.67854.e1

JOHNSON, H. L. (1971): Business in contemporary society: Framework and issues, Wadsworth, Belmont, California, 139 p.

KOTLER, P. & LEE, N. (2005): Corporate Social Responsibility – Doing the Most Good for Your Company and Your Cause, John Wiley & Sons, Hoboken, New Jersey, 307 p.

MÁLOVICS G. (2009): The Social Role and Responsibility of Small and Medium-sized Enterprises – Results of an Empirical Investigation Applying the Social Capital Approach, In: Bajmócy, Z. – Lengyel, I. (eds) Regional Competitiveness, Innovation and Environment. JATEPress, Szeged, pp. 222-236, available at http://www.eco.u-szeged.hu/download.php?docID=40334.

MURRAY, K.B. & MONTANARY, J.R. (1986): Strategic Management of the Socially Responsible Firm: Integrating Management and Marketing Theory, “*Academy of Management Review*” 11(4), pp. 815-827.

PEREZ-BATRES, L. A.; DOH, J.; MILLER, V. & PISANI M. J. (2012): Stakeholder Pressures as Determinants of CSR Strategic Choice: Why do Firms Choose Symbolic Versus Substantive Self-Regulatory Codes of Conduct?, “*Journal of Business Ethics*”, 110 (2), pp.157-172. http://dx.doi.org/10.1007/s10551-012-1419-y

PORTER, M. E. & KRAMER, M.R. (2002): The Competitive Advantage of Corporate Philanthropy, “*Harvard Business Review*”, 80 (12), pp. 56-69.

PORTER, M. E. & KRAMER, M.R. (2006): Strategy & society: The link between competitive advantage and corporate social responsibility, “*Harvard Business Review*”, 84(12), pp. 78–92.

PORTER, M. E. & KRAMER, M.R. (2011): Creating Shared Value, “*Harvard Business Review*”, 89, no. 1/2, pp. 62–77.

PREDIȘCAN, M. & ROIBAN R. (2015): Achieving successful change within Romanian organizations, Conference proceedings - Multidisciplinary Academic Conference on Economics, Management and Marketing in Prague 2014 (MAC-EMM 2014), pp. 1-7.

PRESTON, L., POST J., (1975): Private Management and Public Policy: The Principle of Public Responsibility, Prentice Hall, New Jersey, 157 p.

SPRINKLE, G. B. & MAINES, L. A. (2010): The benefits and costs of corporate social responsibility, "Business Horizons", no. 53, pp. 445–453, http://dx.doi.org/10.1016/j.bushor.2010.05.006

STORY J., & NEVES, P. (2015): When corporate social responsibility (CSR) increases performance: exploring the role of intrinsic and extrinsic CSR attribution, "*Business Ethics: A European Review*", Volume 24, Number 2, pp. 111–124. http://dx.doi.org/10.1111/beer.12084

Appendix A:

CORPORATE SOCIAL RESPONSIBILITY QUESTIONNAIRE

1. Which is your position inside this company?

- Managerial
- Subordinate

2. For how long have you been an employee of this company?

- Less than 1 year
- Between 1-5 years
- Between 5-10 years
- For more than 10 years

3. Which do you consider to be the most important entities for this company, from the following list? (*Please rank them according to their significance starting from 1 – the most significant to 7 – the least significant, and please notice that you cannot have two items with the same rank*)

ENTITIES (SECONDARY STAKEHOLDERS)	RANK
Local communities	
National governmental and regulatory agencies	
International agencies	
Social activists (NGO-s)	
Mass-media	
Other business partners	
General public	

4. Which do you consider the most important entities for this company, from the following list? (*Please rank them according to their significance starting from 1 – the most significant to 8 – the least significant, and please notice that you cannot have two items with the same rank*)

ENTITIES (PRIMARY STAKEHOLDERS)	RANK
Creditors	
Employees	
Suppliers	
Customers	
Patients	
Competitors	
Natural environment	

Page 1 of 4

5. How do you appreciate the working conditions inside this company?

0- Very bad	1- Unsatisfactory	2-Satisfactory	3- Average	4- Good	5-Very Good

6. How do you appreciate the possibility of professional and personal development for employees within this company?

	0- Very bad (inexistent)	1- Unsatisfactory	2- Satisfactory	3- Average	4- Good	5-Very Good
Professional development						
Personal development						

7. In your opinion, how do you appreciate that the number of discrimination and harassment cases within this company is?

	0- Very low (inexistent)	1- Low	2- Average	3-High	4-Very high
DISCRIMINATION					
HARASSMENT					

8. How do you appreciate the situation of respecting the equality of chances for women, minorities and disabled persons within this company?

0- Very bad (inexistent)	1- Unsatisfactory	2-Satisfactory	3- Average	4- Good	5-Very Good

9. How do you appreciate that the equitability of remuneration within this business company is?

0- Very bad (inexistent)	1- Unsatisfactory	2- Satisfactory	3- Average	4- Good	5-Very Good

10. How do you appreciate the fairness of procedures for hiring, promoting, sanctioning or dismissing employees within this company?

0- Very bad (inexistent)	1- Unsatisfactory	2-Satisfactory	3- Average	4- Good	5-Very Good

11. How do you appreciate the overall confidentiality in the relationship between this company and its employees?

0- Very bad (inexistent)	1- Unsatisfactory	2-Satisfactory	3- Average	4- Good	5-Very Good

Page 2 of 4

12. Does this company use computer data bases containing information about employees?

- Yes
- No
- I don't know

13. Is the activity of the employees electronically supervised inside this company (*including means like video cameras and monitoring the employee's on-line activity*)?

- Yes
- No
- I don't know

14. Mark which of the following tests are applied to employees within this company:

Drug Tests	
Polygraph or Honesty Tests	
Alcohol Tests	
HIV/ SIDA Tests	
Pregnancy Tests	

15. Do you consider ethic the use of the following test within this company?

	YES	NO
Drug Tests		
Polygraph or Honesty Tests		
Alcohol Tests		
HIV/ AIDS Tests		
Pregnancy Tests		

16. Have you used the logistic resources of this company for a personal purpose?

0- Never	1- Very rarely	2- Rarely	3- Sometimes	4- Often	5– Very often

17. In general, do you treat the information and the knowledge acquired at your work place as private propriety of the company?

- Yes
- No

18. If you discover a severe misconduct within this company, do you make it public?

- Yes, within the organization
- Yes, outside the organization
- No

19. How do you appreciate the transparency of decisions within this company?

1- Very bad (inexistent)	1- Unsatisfactory	2-Satisfactory	3- Average	4- Good	5-Very Good

20. Does this company have a code of ethics or a code of conduct?

- Yes
- No
- I don't know

Page 3 of 4

21. Which is your opinion about the following definition of Corporate Social Responsibility?

"Corporate Social Responsibility refers to a continuous and voluntary commitment toward the company's stakeholders to obtain profit in an ethical manner with respect toward people, community and the environment"

- Totally disagree
- Disagree
- Neither disagree nor agree
- Agree
- Totally agree

22. Which do you consider the most significant benefits offered by the Corporate Social Responsibility programs implemented within this company? (*Please rank them according to their significance starting from 1 – the most significant to 5 – the least significant, and please notice that you cannot have two items with the same rank*)

BENEFITS OFFERED BY CORPORATE SOCIAL RESPONSIBILITY PROGRAMS	RANK
Image benefit (improvement of corporate image)	
Better relations with business partners	
Better relations with employees	
Attraction of new financial investments	
Risk reduction and assurance of long term corporate viability	

23. Which do you consider the most significant costs and risks associate with the Corporate Social Responsibility programs implemented within this company? (*Please rank them according to their significance starting from 1 – the most significant to 5 – the least significant, and please notice that you cannot have two items with the same rank*)

COSTS AND RISKS ASSOCIATED WITH CORPORATE SOCIAL RESPONSIBILITY PROGRAMS	RANK
Financial cost	
The programs are not well chosen	
Programs results are not evaluated enough	
The organization's efficiency and the profitability can decrease	
The organization's products and services final price can increase	

24. Which of the following methods do you consider the most efficient for promoting business ethics principles within this company? (*Please rank them according to their efficiency starting from 1 – the most efficient to 5 – the least efficient, and please notice that you cannot have two items with the same rank*)

METHOD	RANK
Ethics trainings	
Brochures or other informative written materials	
Electronic resources available on-line	
Lectures of managers of the business organization	
Discussions with business representatives in charge of implementing Corporate Social Responsibility within the organization	
The actual involvement in Corporate Social Responsibility programs	

Thank you for your time!

Page 4 of 4

The Effects of Monetary Easing on Spatial Convergence in Hungary

GYÖRGY KOCZISZKY, CSS
PROFESSOR

e-mail: regkagye@uni-miskolc.hu

DÓRA SZENDI
ASSISTANT LECTURER

e-mail: regszdor@uni-miskolc.hu

SUMMARY

There has been no substantive change in the existing disparities between the central and peripheral regions in the ten years after the Hungarian accession to the EU (2004-2014). The authors summarise in their study the possibility of econometric modelling of the relationship between regional convergence and monetary easing. On the basis of the represented model the effects of monetary easing, beginning in 2012, on the central, peripheral and semi-peripheral territories are construed, and other interventions needed to reach substantive path-correction are identified.

Keywords: territorial disparities; monetary policy; fiscal and monetary easing; convergence.

Journal of Economic Literatures (JEL) codes:E52,O18, R12

DOI: http://dx.doi.org/10.18096/TMP.2015.02.02

INTRODUCTION

Spatial economic convergence is a recent topic in today's economics. Convergence means a tendency for poorer countries/ regions to grow more rapidly than the richer ones. Most of the researches related to convergence are focused on income convergence. The aim of this research is to analyse the financial policy effects on spatial convergence.

Cause for this is that in the spatial economics literature there is a recurring question of what kind of effect fiscal interventions of the state have on territorial disparities. Few studies have been published on the territorial effects of monetary easing in the past few decades. As a consequence of the financial crisis of 2008 there was a balance correction in Hungary.The crisis also changed the credit capabilities and willingness of banks, which has resulted in a decrease in the growth of the economic output. To compensate this, the Central Banks of the developed countries have started a monetary easing process. This study analyses the effects of the Hungarian monetary easing (started in 2013) on territorial (regional and county level) convergence.

HISTORY

The market-influencing role of the state and its reasoning (from a theoretical and also practical viewpoint) has long been in the foreground of debates. Several arguments have appeared, both pro and contra, and several underlying model-based empirical analyses appeared (e.g.: Alesina&Perotti 1995; Barro&Sala-i-Martin 1991; Elmendorf&Furman 2008). Hence it is worth reviewing briefly the theoretical history of the topic.

It is well known that the classical economists (1776-1871) believed in the efficiency of the market (invisible hand), and considered the state's economic engagement as unnecessary. Later the neoclassical economists (in the last third of the 19th century and first third of the 20th century) noticed that some goods and services have to be granted by the state. They wanted to limit the degree of the government's latitude by laws and orders. Namely, the neo-classicists' initial hypothesis was that the performance of the private sector is stable; hence there is no need for significant interventions. Another hypothesis arose, that the state's engagement raises the budget deficit and government debt, while the state's investments have a negative effect on the investments of the private sector (because of the crowding-out effect), which is unbeneficial for long-term economic growth.

Belief in the market's regulating role was strongly damaged during the Great Depression (1929-33), when the world had to face the fact that the market was unable to restore equilibrium. In this context Keynes came to the conclusion that the crisis was caused by the insufficient demand of the private sector. To restore equilibrium he suggested the government apply a countercyclical economic policy. This means that in case of recession the governments have to stimulate demand at the expense of the budget, and in the case of overheating the government has to cool down the economy with low-keyed state engagement.

Economic policy not only accepted the theory of Keynes in hope of a recovery but also applied it to reducing territorial disparities (for example, the New Deal of 1933). Keynes admitted that a budget deficit can arise due to the effects of the state's interventions, but he thought that later (after returning to the growth cycle) it would be easy to erase these deficits. The efficiency of the Keynesian countercyclical budgetary policy has often been criticised because of its limited success from the mid-1960s in Europe's structural crises (for example the crisis of the Ruhr area) (Benedek&Kocziszky 2013).

The new neoclassical theory, which emerged after Keynes, had the initial hypothesis that on the one hand the economy can be described exactly, and on the other hand the economic actors behave rationally (e.g. Lucas 1976; Sargent&Sims 1977; Sargent&Hansen 1987). For this reason fiscal interventions are inefficient, because in the case of provisional governance the economic actors build their expectations into their decisions (so the crowding-out effect appears). In the case of unforeseen decisions the instability of the economy grows.

According to the monetarist theory of Milton Friedman and Friedrich August von Hayek, if the government would like to increase consumption, the government does not need budgetary easing. Instead, it has to increase the amount of money existing in the economy.

However, in the last few decades the balance building capability of the monetarist economic policy has not been proven. Instead of leading to convergence between the core and peripheral regions the territorial differences remain stable, or in some cases are growing. (Reason: the processes of the real economy are in a sub-alternate role of the financial processes.)Hence the neo-Keynesian theory (which appeared at the beginning of the 1990s) has redrawn the Keynesian theory of monetary and fiscal intervention (Galí et al. 2011). According to the neo-Keynesians, in the short term there is a need for state interventions because of the inelasticity of prices and wages, but in the long term (in the case of flexible prices and wages) balance building capability has a greater chance of success.

The debates between these theoretical schools deepened after the effects of the financial crisis of 2008. This is because the monetarists could not predict the crisis, and their reactions were a little late and uncertain.

THE EFFECTS OF THE FINANCIAL CRISIS

The financial crisis of 2008 decreased the economic growth in the countries of the EU, but it did not lead to significant realignment in national or regional competitiveness rankings. The crisis had a specific effect on the territorial convergence of the EU. In the cluster of the core regions there was no significant change, but across the peripheries some realignment occurred, although this did not come together with qualitative change.

Between 2007 and 2011 sigma convergence was realised across the EU regions. The reason for this can be found not in the positive change of the peripheries, but in the decline of the core regions (Figure 1).

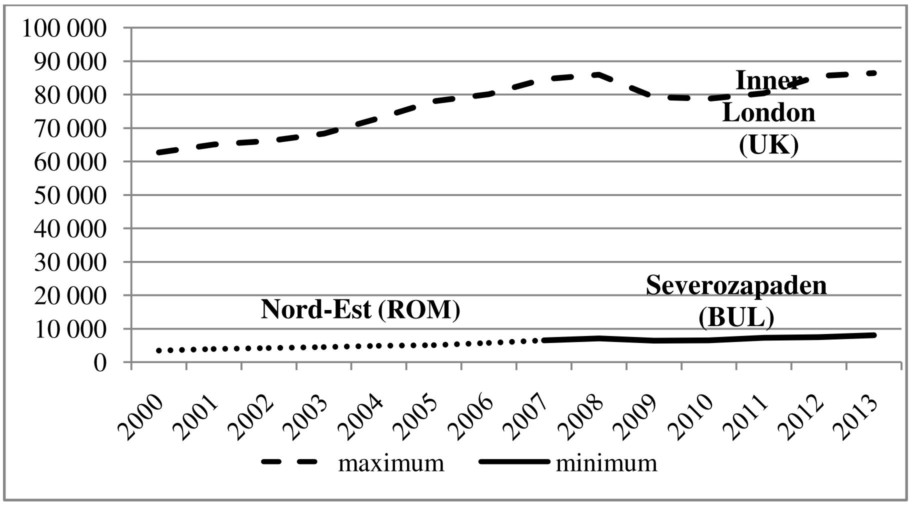

Figure 1.The financial crisis of 2008 had different effects on the richest and poorest regions of the EU-28 (2000-2013) (Euro/capita)
Source: authors' own calculation

The financial crisis had negative effects on the economies of the peripheral countries and it also slowed down the economic growth of the Visegrád Four (V4 – Hungary, Slovakia, Poland and the Czech Republic) (Figure 2).

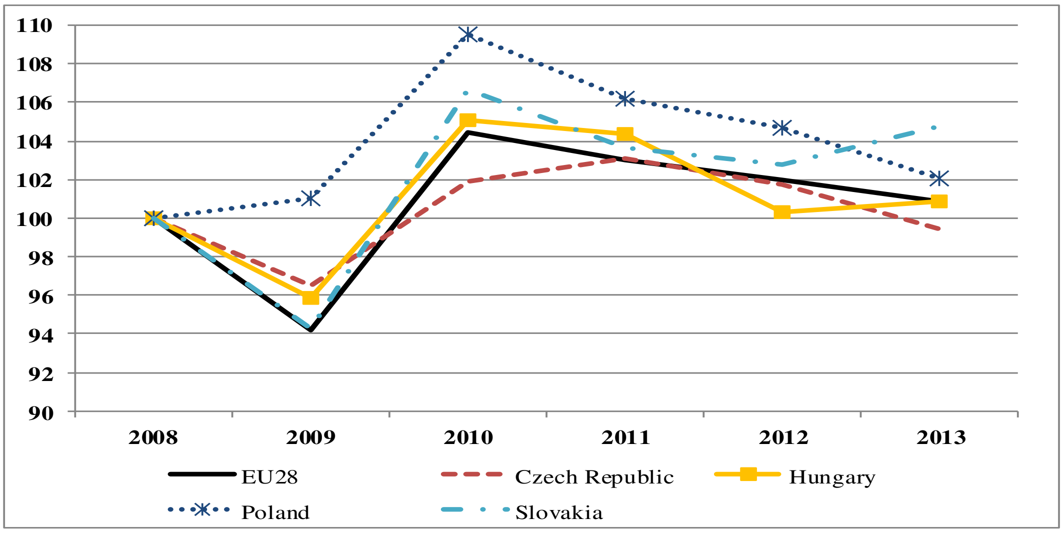

Figure 2. The effect of the financial crisis of 2008 on the economic output of the V4 (% change to 2008)
Source: authors own calculation (from the Eurostat database)

Before the EU accession (in 2003) the Hungarian GDP was at 62% of the EU average, the Czech at 77%, the Slovakian at 55% and the Polish at 48% of the EU average. In the last ten years Poland and Slovakia have overtaken Hungary.

The Hungarian actors made a balance correction after the crisis of 2008. As a result of it the bank's credit capabilities and willingness decreased and the credit conditions of enterprises became stricter. The foreign currency debt of households (more than 1 million families) has decreased as well as the consumption credit. The decline of credit has held back the investments, which had a negative effect on the economic output (Figure 3).

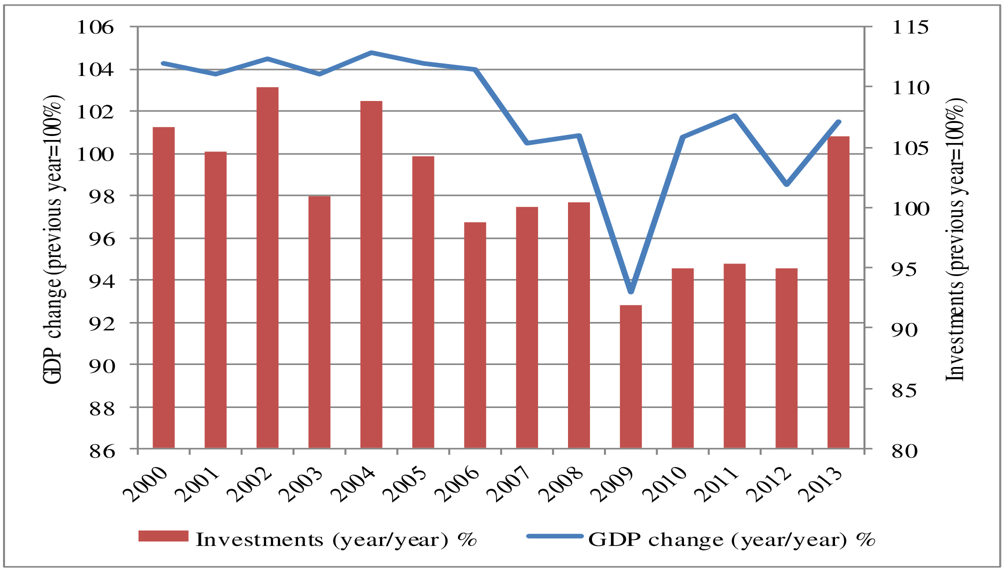

Figure 3. Change in GDP and investments in Hungary (previous year=100%)
Source: authors' own calculation

The financial crisis of 2008 had only small effects on the peripheral regions of Hungary (for example Northern Hungary or Southern Transdanubia because of the low investment and employment rate of these regions), while it held back the output of the regions in which GDP was higher than the national average (for example the Central Hungarian region) (Figure 4).

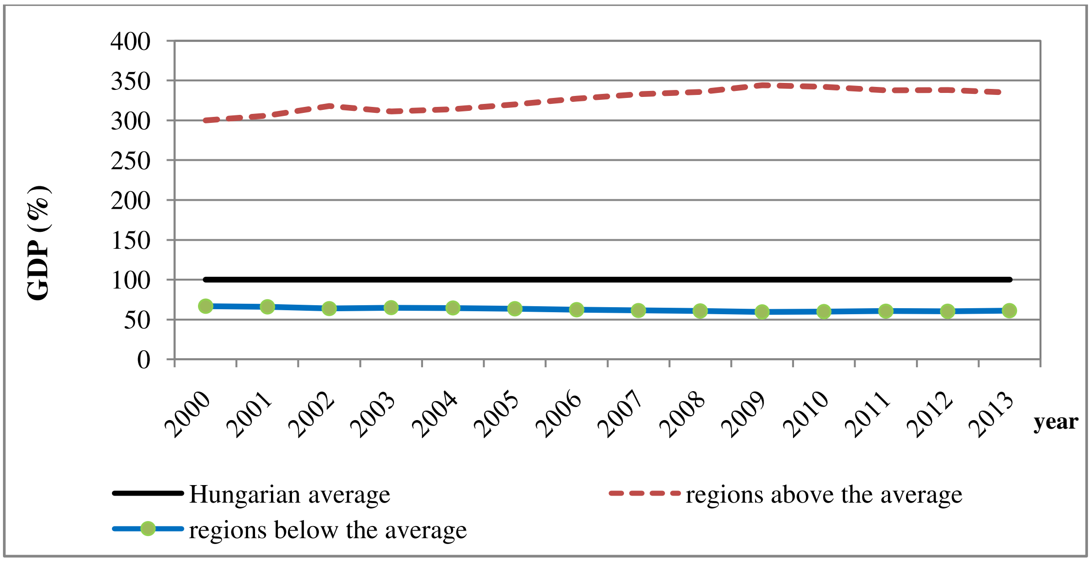

Figure 4. The output of the more and less developed regions in Hungary
Source: authors' own calculation

THE NATIONAL PRACTICE OF MONETARY EASING

In several countries of the world there were two main monetary policy methods for reacting to the effects of the financial crisis of 2008. The first type of activities was the modification of the Central Bank's base rate, and second the injecting more liquidity into the economies (for example the QE program of the USA's Federal Reserve, or the Funding for Growth Scheme of the Hungarian Central Bank, etc.).

In the first case the initial hypothesis was that an increase in the Central Bank's base rate would decrease the demand for credit, which would result in lower investment and less consumption, and vice versa. Namely, the decrease of the Central Bank's base rate in creases the credit willingness of the commercial banks, which has indirect positive effects on the investment and consumption willingness.

The Central Bank's base rate has an influence on the exchange rates (because by decreasing the base rate the creditors would realise their expected profits through the exchange rates). This is especially important in small, opened economies where the market financing of the budget deficit plays a big role. The effect of the exchange rates has an influence also on the region's export capabilities, but that depends on the region's economic structure.

The Hungarian Central Bank, in harmony with the inflation processes, started a base rate decreasing period in 2013. As a result of this the base rate sank from 7% (21 December 2011) to 2.1% in mid-2014 (23 July), and then reached its historical low point in mid-2015 (22 July) at 1.35%.

The second step (in keeping with the practice of the Central Banks of developed countries) was the start of monetary easing. The cause for this can be found on the one hand in the change in the inflation rate and on the other hand in the danger of a credit-crash by commercial banks. The MNB (Hungarian Central Bank) started its Funding for Growth Scheme (FGS) in 2013 (1 November), which was expanded upon in FGS+. The main aim of FGS is to support domestic small and medium-sized enterprises (SMEs) in accessing credit at a maximized interest rate (2.5%) (Table 1).

Table 1
Main characteristics of the Funding for Growth Scheme

Period of availability	In the second phase of FGS new credit contracts can be formed until 30 December 2015, or until a date to be determined by the Hungarian Central Bank. In the case of credit contracts the last payments can be made by 31 December 2015.
Credit amount	Minimum 3 million to a maximum of 10 billion forints, which is the total amount of new forint and foreign currency transactions in the first and second phase of the FGS. The maximum amount is valid also together with the SMEs' partners and connecting enterprise's credit access in FGS.
Currency of credit	Forint, and not revolving credit.
Duration	In the case of current assets the maximum is 1 year, in any other case maximum 10 years.
Credit interest rate	Maximum 2.5% yearly, which also contains the related credit guarantee fees. The interest rate is stable throughout the whole credit duration.
Other fees	Not chargeable, exceptions: costs related to credits which are payed to a third person (for example lawyer fee, valuation fee, notarial fee or mortgage fee).
Guarantees	Any usual guarantee is accepted to access credit.

Source: Hungarian Central Bank

The Funding for Growth Scheme was successful, as it stopped the decline of the credit stock of enterprises (Figure 5).

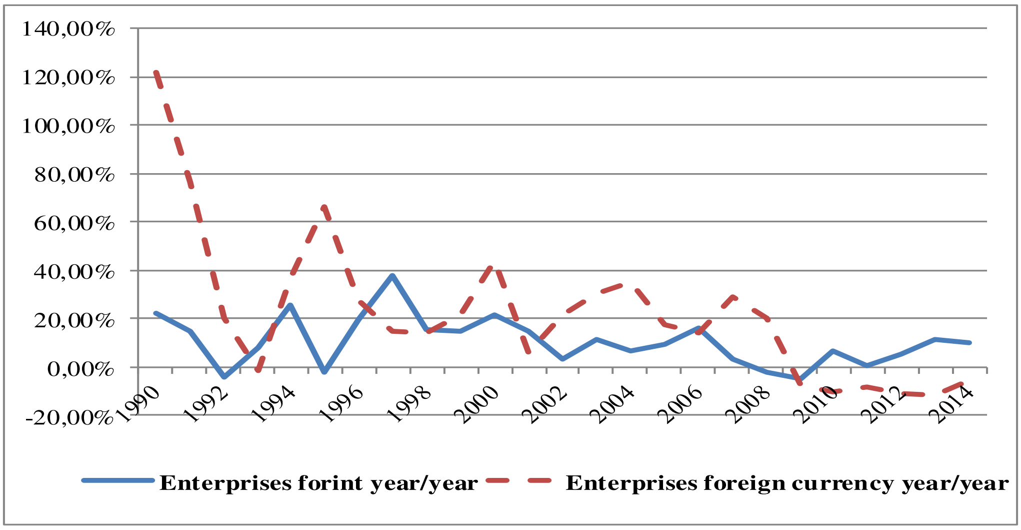

Figure 5. Change in enterprise credit stock in Hungary (1990-2014)
Source: Hungarian Central Bank, Hungarian Financial and Stock Exchange Almanac, Hungarian Financial Supervisory Authority (PSZÁF)

AIM OF THE RESEARCH

The aim of this recent research is two-fold:

- The first question is related to the requisition[1] of the financial instruments: namely what kind of territorial consequences does intervention have, and what effects does this have on territorial convergence?
- The second question is the duration[2] of monetary easing.

The question is important, because the duration of the monetary easing is limited. In a positive case it speeds up the investments of the private sphere, but in a negative case it can lead to the emergence of new bubbles.

[1] It is generally accepted that an intervention is good when it is regulation based and limited in time, and furthermore has no negative effects (Elmendorf &Furman 2008).

[2] The literature distinguishes between interventions according their character and duration. There can be a single intervention or impulse. The first is discretional, so it is based on the decision of the economic policy's actors. An impulse is a consciously repetitive intervention whose measures and signs can be derivated from the state of the economic cycle (its measure is determinable for example depending on the investment/GDP ratio).

METHODOLOGY OF THE RESEARCH

The effect of fiscal and monetary interventions is basically different in the case of territorial, social and economic indicators. While some fiscal interventions have mainly a territorial nature, most monetary interventions is focussed rather on the macro-level, which makes only indirect effects on the region's economic actors. The causal connections of the econometric model are represented in Figure 6.

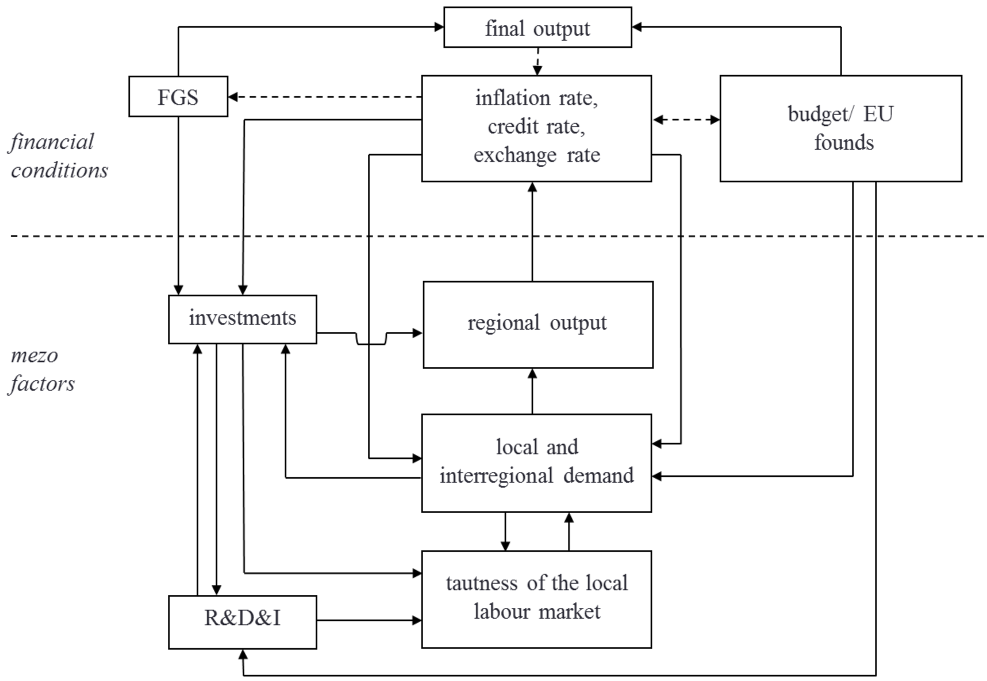

Figure 6. Influential financial conditions of the regional output
Source: compiled by the authors

The model operates with four exogenous factors (regarding the available territorial statistical data): macro output, the price index, real interest rate, and the measure of budgetary transfers (targeted territorial EU and governmental transfers; social support: regular social assistance in the region, payments for public work, social assistance for persons before retirement, and amount of employment benefits).

The model has five endogenous blocks: the regional investments module, regional consumption module, regional income module, regional output module and the regional research and development module. For endogenous blocks and factors the limited availability of territorial statistical data is a great problem, so several compromises and approximate solutions are needed.

FACTOR CHARACTERISTICS AND RESULTS OF THE ANALYSIS

Exogenous factors

a) Inflation rate: Central Bank's base rate, exchange rate

The increase in the Central Bank's base rate reduces the inflation rate, but also tightens the access to credit, and decreases the investment willingness, so finally the size of the GDP. But at the same time the strengthening exchange rate can improve the net export position, which leads to the growth of the output.

b) Funding for Growth Scheme

In the Central Bank's liquidity expansion programmes (whose aim is to improve the investment willingness of SMEs) source usage and intensity is different across the regions. They depend on the region's economic growth and also on its development. But as the consumption data prove, these programmes can correct territorial disparities. Earlier (2012) 56% of the credit stock was used by SMEsbased in Central Hungary, but the Funding for Growth Scheme's first and especially the second phase have modified these shares substantially (Figure 7).

.

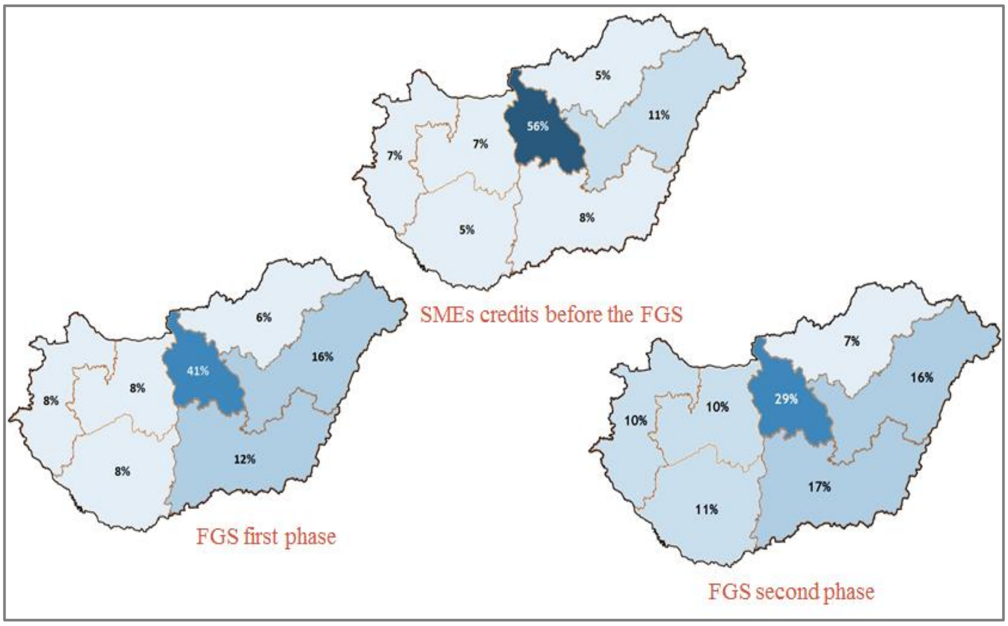

Figure 7. Territorial usage of the Funding for Growth Scheme
Source: Hungarian Central Bank.

Endogenous factors

a) Regional output

The regional output can be examined with the following panel model:

$$d(y_i^t) = \beta_0 + \beta_1 d(Y^t) + \beta_2 d(NETER_i^t) + \beta_3 d(c_i^t) + \beta_4 d(k_i^t) + \gamma_i^t ,$$

where:

$d(y_i^t)$	- change in the specific GDP growth rate in region *i* at year *t*,
$d(Y_i^t)$	- macro GDP change in year *t*,
$d(NETER_i^t)$	- change in specific net production in region *i* at year *t*,
$d(c_i^t)$	- change in specific territorial consumption in region *i* at year *t*,
$d(k_i^t)$	- change in specific regional investment in region *i* at year *t*,
γ_i^t	- random effect.

b) Regional and interregional consumption

The regional consumption can be determined implicitly from regional income.

$$d(C_i^t) = \beta_1 d(JÖV_i^t) + \beta_2 d(JÖV_i^t) + \beta_3 (d(FOGL_i^t) + \gamma_i^t ,$$

where:

C_i^T = regional consumption in year *t* in a given region;

$JÖV_i^t$ = regional incomein year *t* in a given region.

Income, as an endogenous factor, has an effect on the regional demand of the sectors. The model determines the employment of the certain sectors (similarly to other regional models) with the use of an inverse production function.

c) Regional investment

According to the literature the estimation of the regional investments is the hardest problem because of the endogenous effects.

$$d(\beta_i^t) = \beta_1 d(I_i^{t-1}) + \beta_2 d(Y^t) + \beta_3 d(TR_o^t) + \beta_4 d(KFI_i^t) + \gamma_i^t ,$$

where:

I_i^t - gross amount of investments in period *t*;

TR_i^t share of EU transfer used for investments in region *i*, in period *t*;

KFI_i^t share of research and development expenditure for investments in period *t*.

The value of per capita investment differs significantly across the regions in Hungary (Table 2). The difference between the regions has been increasing in recent periods. The highest value, for WesternTransdanubia, is almost three times higher than the lowest value, that of Northern Hungary. Only Central Hungary and Western Transdanubia were able to reach higher values than the specific (per capita) investment level. Central Transdanubia has a moderate lag to the most developed regions, while the less developed regions are characterised by very low (significantly below the national average) investment levels.

Table 2
Main data of investment performance (2013)

Region	Volumeindex, previous year=100.0	Per capita	
		investment	GDP, 2011
		in % of the national average	
Central Hungary	92.0	111.8	163.5
Central Transdanubia	100.6	96.6	87.9
WesternTransdanubia	119.5	176.9	101.7
SouthernTransdanubia	71.8	68.5	66.6
Northern Hungary	85.9	62.4	59.5
Northern Great Plain	110.1	83.5	63.7
Southern Great Plain	87.6	81.0	66.0
Country aggregate	***96.1***	***100.0***	***100.0***

Source: Hungarian Central Statistical Office

d) Regional labour market

The income can be described with the following equation:

$$d(JÖV_i^t) = \beta_1 d(BLGSR_i^t) + \beta_2 d(INTRANS_i^t) + \beta_3 d(ALUR_i^t) + \gamma_i^t$$

$$d(BLGSR_t) = \beta d[\sum_j FOGL_{i,j}^t \cdot BVR_{jt}] + \gamma_i^t$$

where:

$JÖV_i^t$ - total income of the region in given year t;

$BLGSR_i^t$ - gross wages and incomes of the regional inhabitants in given year t;

$INTRANS_i^t$ - net transfer income of the region (without unemployment support and subsidies) in given year t;

$ALUR_i^t$ - the amount of subsidies payed for the unemployed people in the region in given year t;

$FOGL_{i,j}^t$ - number of employed persons in sector $j$in given year t;

BVR_{ji}^t - real gross income per capita in sector j in given year t.

$$d(BVN_{ji}^t) = \beta_1 d(VPI_i^t) + \beta_2 d(APRODR_{ji}^t) + \beta_3 d(ALQ_i^t) + \gamma_i^t$$

$$\frac{\delta BVN_{ji}^t}{\delta VPI_i^t} \rangle 0, \frac{\delta BVN_{ji_t}^t}{\delta APRODR_{ji}^t} \rangle 0, \frac{\delta BVN_{ji}^t}{\delta ALQ_i^t} \langle 0,$$

where:

BVN_{ji}^t - nominal value of the gross wage per capita for a worker in sector j in a given year t;

VPI_i^t - consumer price index in a given year t;

$APRODR_{ji}^t$ - per capita productivity in sector j in a given year t;

ALQ_i^t - unemployment rate in a given year t.

e) Regional research and development

For describing the change in regional R&D expenditures we can use the following equation:

$$d(KFI_i^T) = \beta_1 d(dKFI_i^{t-1}) + \beta_2 d(\mathrm{TR}_i^t) + \gamma_i^t$$

Enterprises finance 90% of their research and development expenditures from their own resources. The share of supports/orders coming from other enterprises is one tenth. The financial support coming from other sources (research institute support) is minimal. In every region of Hungary the use of a firm's own resources is crucial in financing R&D (Table 3).

Table 3
Expenditures, consistence and financial resources of the R&D bases (2013)

Region	From this		Financial resources			
	R&D expenditure	**investment**	**enterprises**	**state budget**	**non-profit**	**foreign source**
Central Hungary	89.4	10.6	49.9	31.8	1.3	17.0
Central Transdanubia	88.5	11.5	65.4	30.6	0.0	4.0
WesternTransdanubia	83.4	16.6	33.3	47.7	0.1	18.9
SouthernTransdanubia	87.8	12.2	25.1	67.7	0.3	6.8
Northern Hungary	86.7	13.3	53.4	40.7	4.3	1.7
Northern Great Plain	87.0	13.0	51.7	43.9	0.0	4.4
Southern Great Plain	88.2	11.8	36.0	57.4	0.1	6.5
Country aggregate	***88.6***	***11.4***	***48.3***	***37.1***	***1.0***	***13.7***

Source: Hungarian Central Statistical Office

After 5 years (in 2013), parallel with improvement in enterprises financing, the share of budgetary R&D resources had decreasing significantly. The only exception was Western Transdanubia, where these expenditures had increased to a more than doubled value, growing by more than one fifth. An increasing amount of R&D expenditures is coming from across the border (from other countries). In 2011 45 billion forint came from foreign countries in the form of R&D support to Hungary, which was 1.7 times more than 5 years earlier; 80% of the amount was used in the R&D bases of the capital city (Budapest), which was followed by Western Transdanubia with 7.6%. All other regions remained below a 4% share. In our model we have analysed the FGS contribution to the GDP growth rate in the Hungarian regions, the results can be seen on Table 4.

Table 4
FGS contribution to GDP growth - Results of the model calculation

No	region	Δy (%)	ΔFGS(%)
1.	Central Hungary	3.48	2.1
2.	Central Transdanubia	6.07	3.4
3.	Western Transdanubia	6.47	3.6
4.	Southern Transdanubia	3.77	1.8
5.	Northern Hungary	6.89	3.0
6.	Northern Great Plain	3.54	1.9
7.	Southern Great Plain	6.24	2.4
	Country aggregate:	***3.3***	***1.0***

Symbols:

Δy – growth rate of the GDP (2014/2013)

ΔFGS – FGS and FGS^{+} effects from the growth shift

Source: authors' own calculation

According to our calculations a 1% increase in the enterprise's credit stock can increase the macroeconomic GDP by 0.18-0.2%.The growth effects of the FGS' first and second phase were 0.8% according to the estimations of the demand side, and 0.9% on the supply side(calculated with 700+300 billion forint FGS usage up to 31 December 2014). Considering also the second phase effects of the program, the macroeconomic growth effect of the two phases was about 1% during two years (2013 and 2014) (Table 4).

CONCLUSIONS

At the beginning of the 1990s orthodox economics considered the problems arising from territorial disparities as manageable, and also believed (at least at the political level) in territorial convergence. The reason for this was the availability of macroeconomic and fiscal (like the criteria of Maastricht) interventions and territorial support (for example, EU regional support system).

The financial crisis of 2008 has weakened the belief in orthodoxy, because the monetary policy based economic policy could not predict the building up and blowing out of the bubbles. The situation became more complicated when the main characters of the EU's monetary policy made a late and at first incorrect response to the situation. This has deepened the output gap between the member states. The slowdown in the member state's convergence had a negative effect on the countries of the periphery, and also on their disadvantaged regions.

The monetary easing starting in 2013 (stimulus following a Keynesian approach) was successful. Due to the improvement in credit availability change take place both in investments and in employment, which had positive effects on the demand and supply side, so finally on the national economic output. The effect of the Funding for Growth Scheme is observable also at the territorial level. So the Keynesian stimulus was successful.

REFERENCES

ALESINA, A.&PEROTTI, R. (1995): Fiscal expansions and adjustments in OECD countries. National Bureau of Economic Research, NBER WorkingPaper, 5214.http://dx.doi.org/10.3386/w5214

BARRO, R.J.&SALA-I-MARTIN, X.(1991): Convergence across states and regions. Brookings Paperson Economic Activity, 1, 107-108.http://dx.doi.org/10.2307/2534639

BENEDEK, J. &KOCZISZKY, GY. (2013): Bevezetés a regionális politikába. (Introductionintoregional policy.) Miskolc: Miskolci Egyetemi Kiadó.

ELMENDORF, D. W.&FURMAN, J.(2008): If, When, How? A Primer on Fiscal Stimulus, Brookings Institution, Online-Verbindung.Retrived: 15.10.2013.: http://www.brookings.edu/~/media/Files/rc/papers/2008/0110_fiscal_stimulus_elmendorf_furman/0110_fiscal_stimulus_elmendorf_furman.pdf

GALÍ, J., SMETS, F. & WOUTERS, R.(2011): Unemployment in an Estimated New Keynesian Model. http://dx.doi.org/10.3386/w17084

GLICKMANN, N. J. (1971): An Econometric Forecasting Model for the Philadelphia Region. Journal of Regional Science. 11(1), 15–32.http://dx.doi.org/10.1111/j.1467-9787.1971.tb00237.x

HALL, O.P. &LICARI, J.A. (1974): Building smallregioneconometricmodels. Journal Regional Science.14(3), 337-353.http://dx.doi.org/10.1111/j.1467-9787.1974.tb00457.x

HAYEK, F. A. (1966): Monetary theory and the trade cycle, Augustus M. Kelley Publishing, p. 244.

HICKS, J. (1937): Mr. Keynes and the “Classics”: A Suggested Interpretation. Econometrica, pp. 147–59.http://dx.doi.org/10.2307/1907242

JÁROSI, P., KOIKE,A., THISSEN, M. &VARGA, A. (2009): Regionális fejlesztéspolitikai hatáselemzés térbeli számítható általános egyensúlyi modellel: a GMR- Magyarország SCGE modellje. (Regional development policy impact analysis with general spatial equilibrium model: the SCGE model of GMR-Hungary). Műhelytanulmányok, 4. Közgazdasági és Regionális Tudományok Intézete, Pécs: Pécsi Tudományegyetem, Közgazdasági Kar.

KEYNES, J. M. (1936): The General Theory of Employment, Interest and Money, Palgrave McMillan, p. 472.

LUCAS, R. E. (1976): Econometric policy evaluation: A critique. in: K. Brunnerand A. Meltzer (eds.), The Phillips Curve and Labor Markets, Carnegie-Rochester Conference Series on Public Policy, Volume 1, pages 19–46.http://dx.doi.org/10.1016/S0167-2231(76)80003-6

SARGENT, J. T. & HANSEN, G. D. (1987): Straight time and overtime in equilibrium. Journal of Monetary Economics, Vol. 21., Nr. 2-3., pp. 281-308. http://dx.doi.org/10.1016/0304-3932(88)90033-5

SARGENT, J.T. &SIMS, CHR.A. (1977): Business cycle modeling without much a priori economic theory. New Methodsin Business Cycle Research. Minneapolis:Federal Reserve Bank of Minneapolis.

VAONA, A. & ASCARI, G. (2012): Regional Inflation Persistence: Evidence from Italy. Regional Studies. 46(4), 509–523.http://dx.doi.org/10.1080/00343404.2010.505913

WEBER, R.E. (1986): Regional Econometric Modeling and the New Jersey State Model. International Series in Economic Modeling, pp.13–39.http://dx.doi.org/10.1007/978-94-009-3267-8_2

ZHANG, W.B. (2014): Multi regional economic growth with public good and regional fiscal policies in a small-open economy.The Annals of Regional Science. 52(2), 409–429.http://dx.doi.org/10.1007/s00168-014-0592-6

'Club of Economics in Miskolc' TMP Vol. 11., Nr. 2., pp. 23-30. 2015. http://dx.doi.org/10.18096/TMP.2015.02.03

Barriers, Determinants, Financial Support Mechanisms in Green SME Areas

ROBERT KUCĘBA, PH.D.
ASSOCIATE PROFESSOR

e-mail: robertk@zim.pcz.pl

WALDEMAR JĘDRZEJCZYK, PH.D.
ASSOCIATE PROFESSOR

e-mail: waldekj@zim.pcz.pl

SUMMARY

In the present paper the authors investigated barriers, determinants and financing sources (own and external capital) of planned and performed pro-ecological activities/investments in SMEs. The variables were aggregated on the basis of data from the European Commission and the authors' own research in Polish enterprises of the SME sector, through purposeful selection (enterprises declaring pro-environmental activity). The authors distinguished an overarching determinant of pro-ecological activity in the SME sector, unique compared to large-scale enterprises: the convergence of pro-ecological activeness and cost reduction of own basic activity.

Keywords: Ecological Activities; SMEs; Barriers and Determinants of Pro-ecological Activity; Financing Sources of Ecological Activities; European Union Funding

Journal of Economic Literature(JEL) codes: L25, Q56

DOI: http://dx.doi.org/10.18096/TMP.2015.02.03

INTRODUCTION

The sector of small and medium-sized enterprises (SMEs) is a driver of national economies in the European Union. In the year 2013 the number of registered economic entities in this sector was 21.6 million, which in total balance constitutes 98% of all registered ones. Thus, in the European Union the value added of SMEs is 3.666 trillion EUR, which constitutes 51.8% of added value and 28% of produced GDP of the European Union (European Commission 2013; Muller et al. 2103). This summary of the size of the SME sector in the European economy unequivocally confirms its vital economic importance, and thus its large impact on the natural environment and social welfare. However, in the practice the primary business sources of environmental threats are attributed to large-scale enterprises. It is considered that it is mainly large manufacturing enterprises that constitute a source of threats to and pollution of the lithosphere, hydrosphere and atmosphere. Thus, legal, financial and technological mechanisms are dedicated to and implemented in this group of enterprises.

While referring to the above distinguished measures confirming the size and power of influence of European SMEs on economic development, one cannot omit their influence on the natural environment. A unique characteristic of SMEs is their focus on executing basic goals of their operations. Therefore, the authors opinion is that the relationships between executing basic goals of their operations and their "green activeness" are vital.

The goals of SMEs' activity in the European Union are heterogeneous (European Commission 2013; Muller et al. 2103, Zadura-Lichota & Tarnawa 2014). First of all they take a financial dimension as well as an investment one - directly connected with capital acquisition and choice of optimum financing sources. It is also vital to choose the area of operation and thus financing, investing capital in solutions which are frequently innovative: product, technological, marketing and organizational solutions. A goal should also be distinguished here convergent with the following: management of organization's capital - controlling current assets, current liabilities and receivables. Sub-objectives of SME operations in turn include searching for customer, accessing financing sources, adjusting business activity to valid legislative regulations and searching for qualified employees.

AREAS OF ENTERPRISE PRO-ECOLOGICAL ACTIVITY

Currently, in the SME sector (in accordance with the above mentioned assumption of the authors) one can notice combining basic goals of operation with their pro-ecological activeness in support of natural environment, as well as local community. In 2013 12.9% of the European SMEs indicated that a vital goal of their operation was in production and transport cost reduction in convergence with reduced environmental pollution (EEFIG 2013; European Commission 2013). This ratio is still low. Enterprises declaring their pro-ecological activeness identify factors acting to inhibit this activity of SMEs as additional external costs related to environmental costs, limited access to external financing sources, and often a low level of environmental awareness and corporate social responsibility of the employees, cooperating entities and consumers of their value created. At the same time these enterprises indicate that environmental goals were not separated from basic goals. According to SME entrepreneurs (indicating environmental activeness) their operation in the scope of reducing environmental threats and pollution brings also economic benefits, frequently financial ones (European Commission 2013; Europe INNOVA 2012).

Thus, one can state that the main determinant of pro-ecological activity of the SME sector, unique compared to large-scale enterprises, is convergence of pro-ecological activity and reduction of basic operation costs. This concerns for example costs connected with reduction of the demand for production or services factors (e.g. energy, fuels, resources, and manufacturing materials). Other factors distinguished in the literature which may influence environmental activity – growth of the supply and demand for "green" products/services, financial and fiscal levies, legislative regulations, improved company image – are currently associated by the SME entrepreneurs with growth of production/services costs connected directly with additional environmental costs.

Therefore, what is often sought after is a binary relationship between environmental effects (EEFIG 2013; Trianni & Cagno 2012) and economic effectiveness. Examples of such relationships are presented below:

- Cost reduction through the decrease in emission charges as a result of reduction of greenhouse gases emission in CO_2 equivalent;
- Reduction of production costs and SME infrastructure through application of energy-saving technologies;
- Reduction of the increase in the cost of rare resources acquisition through the increase in the quantitative use of resources;
- Growth of economic effectiveness as a result of more effective use of the nature resources and limiting waste;
- Higher quality of products through the growth of the qualitative resource use;
- Growth of the demand for specific products through meeting environmental tastes of customers.

At the same time it should be stressed that these activities promote execution of the European and national environmental policy, and are accepted not only by the SME sector enterprises but also socially. These activities foster sustainable production at the microeconomic level and sustainable creation of value added at the macroeconomic level (Kucęba et al. 2014; Pabian et al. 2013).

In the abstract grasp the portfolio of the areas of pro-ecological activities of enterprises is currently unlimited. However, focusing on the preferred by SMEs environmental activity - convergent with the improvement of economic measures including financial ones, the following areas of activity can be distinguished (European Commission 2013; Muller et al. 2103):

- minimizing energy intensity of business activity at simultaneous reduction of capital intensity,
- minimizing industrial waste, municipal waste (particularly hazardous waste),
- savings on the use of raw materials/production components (materials),
- savings on the use of water and waste water,
- waste recycling through reuse of materials or their processing and use,
- sales of metal and non-metallic scrap (e.g. polyester) to external processing companies,
- use of Renewable Energy Resources (Kucęba 2011; Popczyk 2014; Popczyk et al. 2014).

While evaluating the directions of pro-ecological activity of SMEs in the European Union we can refer to studies conducted by TNS Political & Social research unit at the request of the Directorate-General for Enterprise and Industry, the coordinator of which was the European Commission (European Commission 2013). In the group of European enterprises from the SME sector the greatest importance – as reported by 80% of the examined entities – is attributed to energy-saving activities. Vital directions of pro-ecological activity convergence with carrying out the basic goals of SMEs are actions connected with material management, in particular minimizing waste (75%) and materials saving (65%) and directly connected with reverse logistics - recycling, reuse or processing (56%). Low percentage measures were attributed to innovative prosumer activity (Kucęba 2011; Sanz 2014), with just 25% connected with production of energy in Renewable Energy Sources (e.g. electricity, heat or cooling) for the enterprise's own needs (European Commission 2013; Muller et al. 2103).

The European Commission indicates also barriers against pro-ecological activity in the European sector of SMEs. In the present paper the authors distinguish the barriers which obtained more than 50% of indication (European Commission 2013; Muller et al. 2103) in particular the following ones: environmental activity cost, limited access to external financing sources, high cost of adjustment to legislative pro-ecological regulations, low levels of expert knowledge (this concerns tools, technologies, methods, financial and legislative support mechanisms) in the scope of the above areas of pro-ecological activeness. It should be stressed that these barriers are fully compatible with the inhibition factors of pro-ecological activity indicated by enterprises which already indicate environmental activeness in one or more of the above-mentioned areas.

Thus, it is important to concentrate legislative and financial mechanisms as well as those connected with knowledge transfer and diffusion in order to support "green activeness" of SMEs. In this respect the cognitive focus concerns distinguishing external financing sources of pro-ecological activeness of SMEs, particularly funds resulting from the cohesion policy in the structures of the European Union.

Financing sources of pro-ecological activities of enterprises in the SME sector

It is common to divide financing sources of basic activity in the SME sector into an enterprise's own financing sources and external financing sources. In the first group we can distinguish first of all own savings of entrepreneurs, funds borrowed from the family, capital growth through introduction of partners or transforming a company into a partnership or consolidation with another company. In the group of external financing in turn one can distinguish loans (credit, leasing, factoring, loan funds) and funds (venture capital, private equity or business angels). In the group of external financing of the SME sector (in new member states of the EU, inter alia Poland, Estonia, Lithuania...) in the scope of eco-solutions and eco-innovations we can also distinguish structural funds, e.g. the Cohesion Fund (CF) - supporting development of European transport networks and environment protection in the EU countries – and the European Regional Development Fund (ERDF).

A sample structure of financing basic activity in the SME sector in Poland is presented in Figure 1. The structure of financing with the use of own and external sources has been summarized for particular groups of enterprises: micro, small, and medium-sized (Zadura-Lichota & Tarnawa 2014).

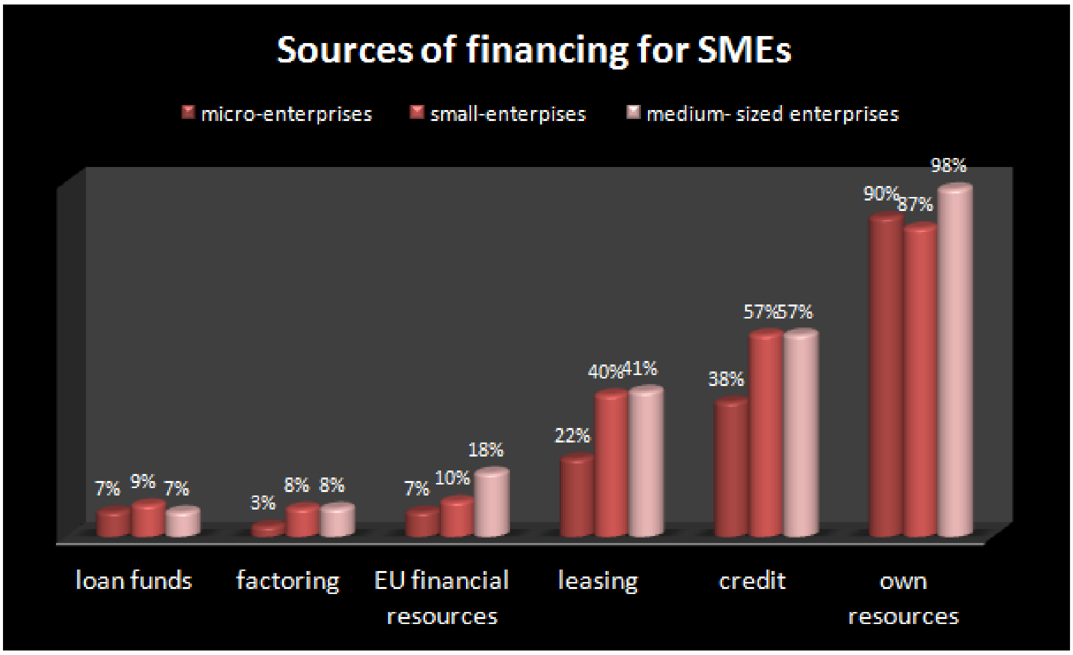

Figure 1. The structure of sources of financing basic activity of enterprises from the SME sector in Poland
Source: elaboration based on Zadura-Lichota & Tarnawa 2014

On the basis of the graphic summary in Figure 1 it is clear that the main source of basic activity financing for SMEs is their own resources (for particular groups of enterprises no less than 90%). These indications are justified by the SME sector in the following way: in case of own capital profits are generated directly for the owner or owners (in case of partners), independence from the creditors, reduced risk of capital and property loss as well as growing trust of potential lenders or authorized officers of the EU financial resources.

Credit is used in Poland by 38% of micro-enterprises and 57% of small and medium-sized ones, and is recognized in the studied sector as easily renewable - a common source of external financing. However, their lower percentage use compared to own capital, according to the SME entrepreneurs, results primarily from the increased share of foreign capital, barriers to obtaining credit by start-ups, and hindered procedures connected with confirming creditworthiness. The group of popular financing sources of basic activity of SMEs includes also leasing instruments. 22% of micro-enterprises and over 20% of small and medium-sized enterprises perceive leasing as a basic source of acquiring fixed assets and thus easy access to modern and often innovative techniques and technologies. Lack of trust in the remaining population of SMEs with reference to leasing results from fears connected with timely payments of instalments and leasing interests, and limited access for enterprises beginning their operation (start-ups). Other financing sources – the EU funds, loan funds and factoring –constitute the structure of financing SMEs by no more than 10 percentage points (with the exception of the EU funds as the source of external financing of medium enterprises, which stands at 18%). In particular, the risk of financing from loan funds (including venture capital funds and private equity) or factoring in the SME sector results from the threat of high costs of financing and thus damage to the company's reputation and loss of independence. Financing SMEs from EU funds should be evaluated differently (with the consideration of the national contribution, in this case Poland). First of all financial resources from the EU funds are limited. In case of micro- and small enterprises in the financing period 2007-2013 an unsatisfactory level of knowledge diffusion in the scope of the scale and areas of financing was observed. In Poland in the years 2007-2013 the SME sector could take part in the investment scope financing programmes of the EU within the scope of:

- The Operational Programme Innovative Economy (OPIE) - total value of the funds: 4,049, 166,032 EUR.
- The Operational Programme Infrastructure and Environment (OPIE) - total value of funds 27,913,683,774 EUR - Poland's contribution was about 11 billion EUR.
- The Operational Programme Human Capital (OPHC) - total value of funds allocated inter alia for professional activation, increase of level of education in society, minimizing social exclusion amounted to 11,773,409,338 EUR, and from this EFS 10,007,397,937 EUR, of which Poland's contribution was 1,766,401 EUR.
- The Regional Operational Programmes (ROP) - total value of funds 16,555,614,190 EUR. Within ROP 17.6% of investments of SME enterprises were financed in the years 2007-2013.

To sum up, we can state (Figure 1) that micro-enterprises (7%) and small enterprises (10%) in in the previous financing period showed lower activeness and effectiveness connected with acquiring these resources compared to medium-sized enterprises (18%).

METHODOLOGY - IDENTIFY FINANCING SOURCES OF INVESTMENTS CONNECTED WITH PRO-ECOLOGICAL ACTIVITY

In the present paper the authors have attempted to identify financing sources of investments connected with pro-ecological activity. To achieve this the authors conducted a study in the group of SMEs. The research sample comprised 55 enterprises including: 33 micro-enterprises - 60% of the research sample, 18 small enterprises - 33% of the research sample and 4 medium enterprises - 7% of the research sample. The size of the examined population of SMEs is justified by purposeful selection - all enterprises plan to introduce pro-ecological activities (declaration during training). In particular SME entrepreneurs participating in the study used training and counselling opportunitites within "Individual Environmental Solutions in SMEs" and environmental marketing and possibilities of external financing of activities and eco-innovations. Training courses were co-financed from the European Social Fund within the Operational Programme Human Capital.

The goal of the conducted study was, among others, to determine the barriers to environmental activity, identify pro-ecological activities and determine preferred instruments of financing this activity. In case of barriers of environmental activity, more than 50% of indications concerned limited access to external capital, including:

- the high cost of acquiring this capital - 42 enterprises (76%),
- financial risk resulting from the growth of basic activity cost - 38 enterprises (69%),
- lack of detailed knowledge concerning environmental investments (e.g. scale, technological solutions or return rate and time) in heterogeneous areas of SME activity - 35 (63%).

The above indications of the "target group" of the examined SME enterprises are convergent with the barriers of pro-ecological activity of examined European enterprises (see the present section). This confirms the uniqueness of this sector in perceiving inhibition sources connected with convergence of the basic activity and operating symbiotically with the environment. Focusing on environmental activities which reached over 50% in accordance with the assumptions one can identify an inclination towards investments aimed at reducing costs of SME activity, simultaneously reducing use of energy, fuels, raw materials and other materials. With reference to identifying pro-ecological activities, more than 50% of indications concern reduction of energy intensity of buildings, halls and technological processes - 38 enterprises (69%) and reduction of resources use - 32 enterprises (58%). Other actions indicated by the examined entrepreneurs include recycling, re-use, waste processing and use - 17 enterprises (13%) and the use of renewable prosumer sources - 7 enterprises (13%).

While analysing the motives of planned pro-ecological investments/activities, 39 enterprises indicated reduced cost of basic activity (71%). The other motives include building the company's brand and image - 16 enterprises (29%); increasing revenues to the business - 12 enterprises (22%); improving relationships with the local community - 9 enterprises (16%); increase in the value of products and services - 9 enterprises (16%), from these 4 medium-sized enterprises; increase of the competitive advantage - 6 enterprises (11%); and increase in employee motivation and their links with the company - 5 enterprises (9%).

With reference to the financing sources, paradoxically with reference to the basic activity, 47 enterprises (85%) declared co-financing of new pro-ecological investments with acquired external capital. The remaining 8 examined enterprises (15%) are planning to finance these activities from their own resources.

The planned structure of the investment capital of the above mentioned activities according to the examined enterprises is presented in Figure 2.

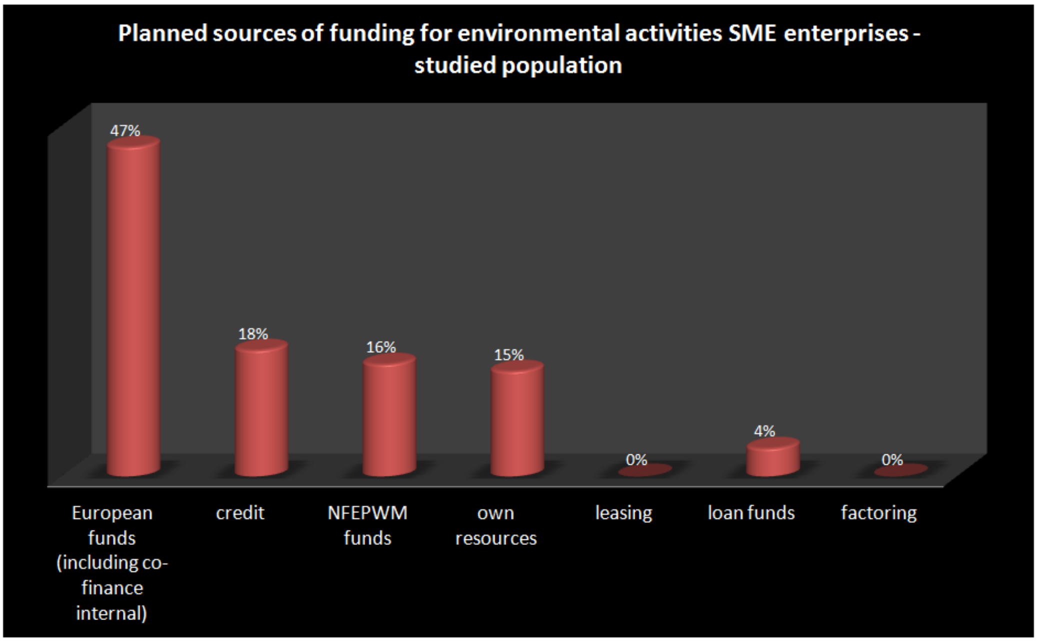

Figure 2. Structure of the planned financing sources of environmental activities in the examined population of SMEs
Source: own elaboration

While referring to the graphic summary (Figure 2) it should be indicated that 26 (47%) of enterprises declaring implementation of investments recognized as environmental ones are going to use resources co-financed from the funds of the European Union. It should be mentioned here that the examined group of the SME entrepreneurs was trained and obtained knowledge in the scope of areas, restrictions and procedures of acquiring external financial resources, including the ones coming from the European Union. Examined enterprises also tend to apply for low-interest preferential credits dedicated in particular in Poland by Bank Ochrony Środowiska. The above form of financing environmental activities with the use of external capital distinguished 10 of the examined SME entities (18%).

Nine SME enterprises in turn 9 (16%) declares applying for funds from the National Fund of Environmental Protection and Water Management (in this Provincial Funds for Environmental Protection and Water Management - 16 entities in Poland). These are financial support resources in the form of subsidies and/or preferential loans for extending the basic activity with regard to pro-ecological investments.

Only two SME enterprises are going to use loan funds, this concerns in particular venture capital ones and private equity ones. The other group of entities in the research portfolio shows lack of interest in this form of recapitalization. The low interest in loan funds are explained by, among others: high cost of acquiring capital resources and limiting decision making and freedom of operations in the basic activity of their company.

It should be also indicated that the studies companies did not show inclination to finance eco-investments with leasing and factoring capital.

To sum up, with reference to the external financing sources distinguished by the examined group of entities such as co-financing from the resources of the European Union's Funds and the National Fund For Environmental Protection and Water Management, in Table 1 the Authors summarize preferred programmes of eco-investment financing (in the form of subsidies and low-interest loans) in the years 2014-2020.

Table 1

Programmes preferred by SMEs for co-financing environmental activities from European Union funds and the National Fund for Environmental Protection and Water Management

<table>
<tr><th colspan="3">Selected funds from the cohesion policy budget of the European Union dedicated to SMEs
Total amount of subsidies for Poland for the years 2014-2020 – 82.5 billion EUR</th></tr>
<tr><th>Programme Name</th><th>Preferred actions in Operational Programmes</th><th>Financing goals</th></tr>
<tr><td rowspan="2">The Operational Programme Infrastructure and the Environment
Total amount of subsidy in the years 2014-2020:
27,513.9 mln EUR</td><td>PRIORITY I (financing source the Cohesion Fund)
Name: Promoting renewable energy sources and energy efficiency

Predicted EU contribution in the years 2014-2020 –
1.5 billion EUR
Intermediary Institution - the Ministry of Economy</td><td>❑ production, distribution and use of renewable energy sources (RES), e.g. construction and modernization of wind farms, biomass or biogas installations,
❑ improvement of energy efficiency in the public and residential sector,
❑ development and implementation of intelligent distribution systems, e.g. building distribution networks of low and medium voltage.</td></tr>
<tr><td>PRIORITY II (financing source the Cohesion Fund)
Name: Environmental protection, in this adapting to climate change

Predicted EU contribution in the years 2014-2020 –
3,808.2 mln EUR
Intermediary Institution - the Ministry of Environment</td><td>❑ development of environmental infrastructure (e.g. water treatment plants, water supply and sewage collection, installations for municipal waste management, in this their thermal processing),
❑ protection and restoration of biological diversity, improvement of the urban environment quality (e.g. air pollution reduction and rehabilitation of degraded areas,
❑ adjustment to climate change, e.g. securing urban against unfavourable weather phenomena, rainwater management, projects in the scope of small retention and natural disaster management systems.</td></tr>
<tr><td>The Operational Programme Intelligent Development
Total amount of subsidies in the years 2014-2020: 8,614.1 mln EUR</td><td>Stimulating innovativeness of Polish economy</td><td>❑ creating new and developing existing links between the scientific sector and enterprises,
❑ enterprise innovativeness development, including SMEs</td></tr>
<tr><th colspan="3">Selected programmes of NFEPWM/PFEPWM</th></tr>
<tr><td colspan="3">PROGRAMME 1 Protection and sustainable management of water resources
PROGRAMME 2 Rational waste management and protection of earth surface</td></tr>
<tr><td>PROGRAMME 3
Atmosphere protection</td><td colspan="2">ACTIVITIES CO-FINANCED FROM PROGRAMME 3, dedicated to SMEs
Improvement of energy efficiency.
Part 3) Subsidies to credits for building energy efficient houses
3.2. Improvement of energy efficiency.
Part 4) Energy efficiency investments in small and medium enterprises
3.3. Supporting dispersed, renewable energy sources.
Part 1) STARK - Dispersed, renewable energy sources.
3.3. Supporting dispersed, renewable energy sources.
Part 4) Prosumer - financing line for purchase and mounting micro-installations of renewable energy sources.</td></tr>
</table>

Source: own elaboration on the basis of www.funduszeeuropejskie.gov.pl

CONCLUSIONS

To sum up, the attitude of the SME sector to their basic activity implementation in convergence with environmental should be analyzed in the category of prospective reduction of costs connected primarily with the reduced demand for production factors and their waste. In this respect sources of recapitalization of investments indirectly connected with environmental activity are relevant for this group of SMEs. On the basis of the conducted research, which is supported by the indications of the purposefully selected population of enterprises (declaring their accession to integrate basic activity and environmental one), the Authors state that it is vital to stimulate environmental awareness of the SME entrepreneurs, with particular distinction of relationships between improvement of environmental measures and economic results. In this case vital elements are environmental education, information transfer on support mechanisms of "green initiatives", as well as lobbing of the SME enterprises in legislative bodies, e.g. in the scope of fiscal benefits.

REFERENCES

EEFIG: The Energy Efficiency Financial Institutions Group (2013): *"Energy Efficiency – the First Fuel for the EU Economy. How to Drive New Finance for Energy Efficiency Investments.* Final report covering Buildings, Industry and SMEs, pp. 11-36.

ENGINE Project. E*nergy Efficient Technologies for Industry and Best Practice. Engine - Energy Efficiency in SMEs.* Retrieved: April 2015: http://www.engine-sme.eu/fileadmin/SME-Uploads/D15/ENGINE_WP5_D15_EN.pdf, pp.11-15

EUROPEAN COMMISSION (2013): "SMEs, Resource Efficiency and Green Market. Report". Flash Eurobarometer 381 - TNS Political & Social. December, pp. 14-33, 45-55.

Europe INNOVA (2012). *Guide to resource efficiency in manufacturing: Experiences from improving resource efficiency in manufacturing companies*. Greennovate Europe E.E.I.G., pp. 8-13, May.

KUCĘBA, R. (2011). *Virtual Power Plant. Chosen Aspects of Dispersed Generation Entities Organization and Management.* Toruń: Wydawnictwo „Dom Organizatora".

KUCĘBA, R., BYLOK, F., PABIAN, A., & ZAWADA, M. (2014). *Prosumer Energy Dimension in the Conditions of Sustainable Micro-region Development in the EU.* In ICSSAM, International Conference on Social Science and Management. ISEPSS. International Symposium on Education, Psychology and Social Sciences. May, Kyoto, Japan. Conference Proceedings, pp. 1040-1051.

MULLER, P., GAGLIARDI, D., CALIANDRO, C, BOHN, N.U., KLITOU, D. (2013). *Annual Report on European SMEs 2013/2014 – A Partial and Fragile Recovery.* SME Performance Review 2013/2014. Final Report -July 2014. Dedicated European Commission Contract No. 345/ PP/ENT/CIP /13/F/ N02C031. pp. 1-34.

PABIAN, A., BYLOK, F., KUCEBA, R., & ZAWADA, M. (2013). *Sustainable Organisations of the Future in the European Union Structure.* International Journal of Management & Computing Sciences/Canada, (IJMCS) Vol. 3 No. 1, pp. 1-9.

POPCZYK, J., KUCĘBA, R., DĘBOWSKI, K., & JĘDRZEJCZYK, W. (2014). *Prosumer Energy. First Consolidation Attempt.* Częstochowa: WWZPCz.

POPCZYK, J. (2014). *Prosumer Energy*. Instytut Badań nad Gospodarką Rynkową – Gdańska Akademia Bankowa.

SANZ, J.F., MATUTE, G., BLUDSZUWEIT, H., & LAPORTA, E. (2014). *Microgrids, a New Business Model for the Energy Market.* International Conference on Renewable Energies and Power Quality (ICREPQ'14) Cordoba (Spain), 8th to 10th April, 2014 Renewable Energy and Power Quality Journal (RE&PQJ), No. 12, April.

TRIANNI, A., & CAGNO, E. (2012). *Dealing with barriers to energy efficiency and SMEs: Some empirical evidences.* Energy 37(2012). Journal homepage, pp. 494-504. http://www. elsevier.com/locate/energy.

www.funduszeeuropejskie.gov.pl/2014_2020/Strony/glowna.aspx. Retrieved: April 2015.

ZADURA-LICHOTA, P., & TARNAWA, A. (2014). *Report on the condition of the small and medium enterprises sector in Poland in the years 2012-2013.* Polska Agencja Rozwoju Przedsiębiorczości, Warszawa, pp. 9-21.

Sharing as an Aspect of Customer Behaviour of Digital Natives in Poland

KATARZYNA ŁAZORKO, PH.D.
ASSISTANT PROFESSOR

Email: katarzyna_lazorko@wp.pl

SUMMARY

The aim of the paper is to explore different dimensions of sharing as an element of customer behaviour of Digital Natives in Poland. In the paper the results of qualitative and quantitative survey conducted among students of the Czestochowa University of Technology (CUT). In the paper the idea of sharing is interpreted in its online as well as traditional off-line dimensions. Basing on herown researchas well as other sources, the intention of the author was to explorehow Digital Natives perceive the idea of sharing ideas, items, etc.

Keywords: sharing economy; Digital Natives; social media.

Journal of Econonomic Literature (JEL) codes: A14, D12, D71

DOI: http://dx.doi.org/10.18096/TMP.2015.02.04

INTRODUCTION

Nowadays the economic environment of businesses is a result of many changes that have taken place in societies. One of the key elements that influences the shape of modern society is technology. There is an ever growing group of customers who were born in a totally digitalised environment, the so-called "Digital Natives", and their purchasing behaviour differs from previous generations. In Poland as Digital Natives we can indicate students, as the first commercial providers of internet services appeared in the mid-1990s in Poland.

Another element that is also influencing consumerism nowadays is sustainability. Due tothe growing accessibility ofthe internet customers have become more aware of different facts concerning the production of brands they use. This element is increasingly popular in Poland; although national research results reveal that we are still aprice-orientated nation, quality also strongly determines our purchases as well as knowledge of brands as the third factor (CBOS, 2011).

The aspect of sustainable consumption that will be discussed further is related to sharing things that may be useful for others and are not used at the moment. The growing popularity of a sharing economy, based on exchanging things, the author interprets as a tendency also to exchange and share information, and that aspect of Digital Native behaviour is to be discussed in further parts of the paper.

POLISH DIGITAL NATIVES AS CUSTOMERS– LITERATURE REVIEW

'Digital Natives' was first described by Prensky in 2001 as'the first generation of students to grow up in a technology enhanced environment. Their precious technological maturity is the product of thousands of using computers, videogames, digital music players, video camcorders, cellular mobile telephones, interactive television, personal digital assistants, the internet, and other tools of the digital age. They are savy in the use of email, instant messaging, internet, and text messaging. They are different than any other generation because technology is an integral part of their lives. They live, breathe, work, and play with the tools and products of the digital age and they employ these tools quite uniquely' (Cabanero-Johnson&Berge 2009, p.291). The new generation is not aware of distinction between online and off line worlds. They are also described as living in 7xC model: connection, community, communication, creation, content, controland customisation. They do not want to lose connection and want to communicate. They create and function in communities and shape reality by sharing, selecting and controlling contents that help them to create desirable images of themselves (Karolczak 2015). Generally as "Digital Natives" we indicate representatives of Generation Y, born between 1982 and 1995. 'These individuals, in general, are more technological literate than individuals from previous generations (...). They are most interactive, informed, and independent generation. (...) best reached by word-of-mouth messages, which spread quickly through the technology they frequent'(Autry&Berge 2011, p.463).

As customers Digital Nativesalso have some specific expectations towards brands. First of all they want to be treated as partners, co-create offers and influence ways that providers act in the markets. They also want to be provided with internet platforms where they can meet and spend time together.They are expecting uniqueness, they hope to be surprised and want to experience things. They are not very loyal, though (Dawiec, 2015).

This characteristic of Digital Natives behaviour is interesting for marketers. They are demanding customers, educated and smart. They search for information and expect organisations to "look after" them, listen to them and their opinions, and respond quickly to their enquiries.

It should be alluded that there are some interesting studies on Digital Natives and their behaviour apart from dimensions interesting for marketers (Selwyn, 2009 for example) and these should not be ignored when more detailed analyses of that group are conducted.

SHARING AS A NEW TENDENCY IN CUSTOMER BEHAVIOUR

The sharing economy is one of the concepts that discussion has centred onrecently. It is a result of societal, technological and economical changes that have also influenced customer patterns of behaviour change. One of the aspects appearing in discussions about the issue of sharing is a wider concept–*collaborative economy*– that can be defined as 'an economic model where ownership and access are shared between corporations, startups, and people. This results in market efficiencies that bear new products, services, and business growth' (Owyang 2013). The collaborative economy concept is basedon a *many-to-many* approach and it may be easily spread among different groups of customers because of the intensityof new interactive media development (Łazorko 2014). People communicate and want to consume together, share and collaborate in consumption. 'The beauty of the sharing economy is that it is free, so anyone can participate and make a difference. No one has to sacrifice their individuality or comfort. Best of all, when we're actively engaged in sharing, personal connections are rekindled and we become invested in our communities again' (Buczynski, 2013, p.10).

This paper and the results of the survey consider some aspects of the sharing economy as an element of wider concept mentioned above – the collaborative economy. The study was focused on the following aspects of sharing: sharing things that there are not used at the moment, crowdfunding, consuming together, and sharing experiences.

As indicated in research conducted in the USA on the topic of sharing economy, the largest group involved inthe sharing economy are consumers between 18-24 years old, so the university students would be one of the most appropriatepopulationson which to perform research on the topic (PwC, 2015).

SHARING STUDENTS – RESEARCH RESULTS

Methodology

The research considering the idea of sharing was conducted among students of Czestochowa University of Technology in Poland in May 2015. The main objective of the research was to learn more about their behaviour in the aspect of sharing in its different dimensions. The research consisted of quantitative and qualitative parts.

Quantitative data was collected by the method ofa survey based on a paper questionnaire from a group of 100 students taking master, full time courses at the Faculty of Management within CUT, with simple random sampling. The questionnaire included 17 questions of different types: dichotomous, multiple choice, with scales, structured and unstructured, and it was tested before preparation of its final version. The questionnaire was divided into three parts. First of all some questions were asked considering sharing. The second part of the questionnaire considered social media and information that is exchanged between students via social media. The third part considered exchange of experience.

The quantitative results were expanded on qualitatively in the form of in-depth interviews with 4 students, mainly on the topic of contents they publish in social media and sharing as a kind of behaviour they and their peers perform.

The questionnaire complementation was introduced by a short discussion on the study purpose and sharing as a new tendency in the market.

Things that students exchange

In the first part of the questionnaire the students were asked some questions considering sharing in their everyday lives. They were asked whether they exchange things that they do not use at the moment and about internet platforms where they can exchange things or consume together.

When asked whether they exchange things that they do not use at the moment, nearly 88%declared that they do. That result indicates their tendency not to gather things and possess them (so typical for older generations) but to exchange them if they are not needed. In the following question they were asked what is exchanged by them the most frequently. They indicated clothes and books, more rarely they listed games, cosmetics, domestic appliances and school notes as other things they exchange (Fig.1).

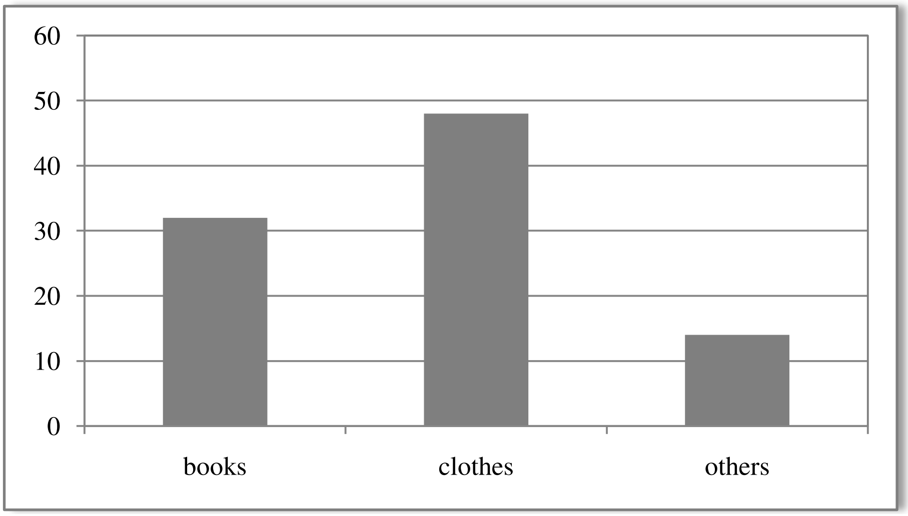

Figure 1. The things exchanged by the CUT students

Another question concerns the usage of internet platforms to exchange things. Most of students do not use them to exchange things, only 14% use platforms suc as olx.pl or gumtree.pl to exchange things. One person indicated that Facebook is used for that purpose.

Students were also asked whether they know the couch-sharing movement. None of them knew the movement – during interviews some indicated that theyrecognised the idea but they had never used it and couldn't recall the name of the movement.

Another question asked whether students recognise any form of joint consumption. The most frequently recalled was the blablacar.pl platform (a car sharing platform that was strongly advertised on the internet) and more than 1/5 of them had used it.

Students in social media

The second part of the questionnaire included questions considering usage of social media. As we had assumed, social media sites arepopular among students – 94% use them. The rest do not because they do not want to share their private issues with others (this was the most typical answer to the question why do they not use social media). The group of students who are present in social media were asked what kind of information they publish, and their declarations are presented in Figure 2.

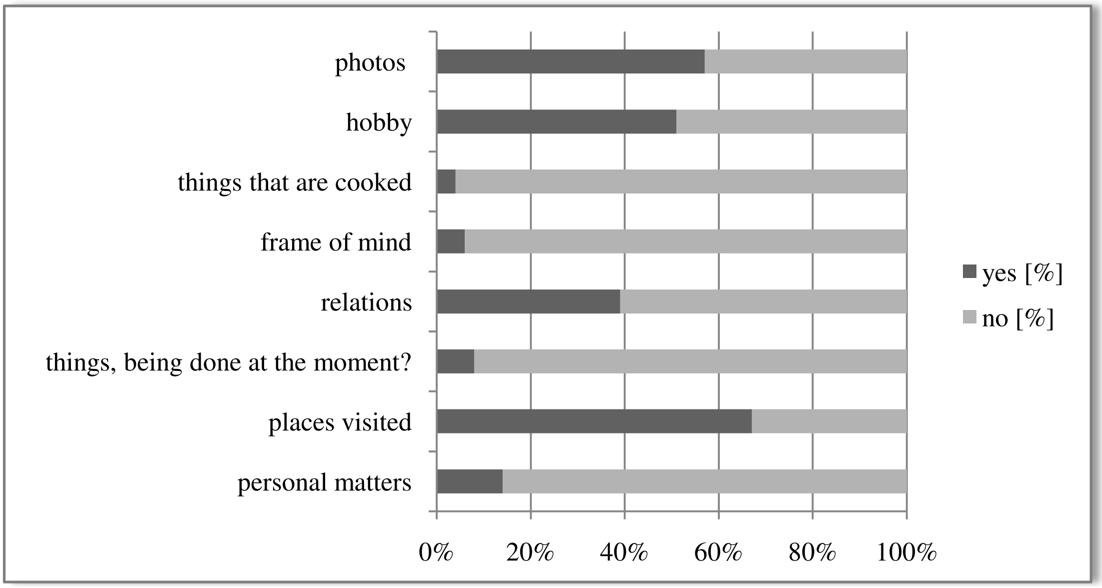

Figure 2. The information shared by CUT students in social media

In that part of the questionnaire students were also asked whether they use social media to boast and 1/5 of respondents declared that they do.

According to survey results, students are not so keen to spread films and photos published by their friends. A little more than 35% do that. It may be assumed that students are quite passive in spreading information in social media. The interviews enabled to look into that issue more deeply. Students want to control contents and be aware of what is going on among their peers but at the same time they are not very active and keen on publishing information about themselves. It is related to one of the elements of the 7C model presented above. The content presented in social media is one of the tools to create a desirable image of themselves. They also control the text they publish – they republish if they are asked to do so or they want to send a certain massage.

To research why students use social media, they were also asked whether they are searching via social media for people with whom they can go to the cinema/theatre, travel, go for a date, or do something interesting. The results obtained from that question are presented in Table 1.

Table 1.
Searching for friends in social media – CUT student responses

Do you search in social media for people who you could...	Yes [%]	No [%]
…go to the cinema/theatre with?	9	91
…travel with?	9	91
…go for a date with?	9	91
...do something interesting with?	26	74

The results indicate that students are quite 'traditional' when searching for people to perform different activities with is discussed. They usually communicate by text messages or in other ways when organising some kind of activity. They usually search for collaborators among peers.

Of the researched group, 20% participate in crowdfunding, although the idea of crowdfunding is not very well known in Poland– the largest Polish crowdfunding platform managed to gain 3.6 bln zloty in 2 years to introduce 1 thousand projects (Milewski, 2014), so that form of financing and sharing is not very popular in Poland so far. In that aspect the result is quite high.

Experience sharing among cut students

The last part of questionnaire was aimed at issues concerning activities performed on the internet based on experience sharing. The researched group of students was asked whether they hadever created any event that was aimed at common experiencing. One-third indicated that they had. When asked whether they participated in any actions aimed at sharing experiences where participants were searched foron the internet, 26% confirmed that they had. Only in one case was the event inspired by for-profit organisations; the rest were by non-profits or individuals. This indicatesa large potential for marketers in Poland. The group of students is not effectively used for that type of marketing actions, especially given that they are quite eager to experience new things – when they were asked whether they get involved in experience sharing events (introduced eitheroff- or on-line) half of them declared an interest in that type of initiatives.

To sum up the study, aquestion concerning motives that would enhance students' involvement in organised actions aimed at sharing (of photos, films, etc.) was prepared. Students were asked to indicate the strongest motives that would induce them to participate in sharing experience initiative among the following: prizes, peers' involvement, popularity of the action, novelty of experience, and others. They rated the motives using a scale from 1 to 5 where "1" was used to indicate the most important factor. The indications were very diversified; the students indicated (in order): involvement of friends (1.4), prizes (1.8), novelty of the experience they would participate in (2.05) and involvement of many people (2.16).Also 22 people indicated the answer "other" (1.83), explaining that the goal of the event is very important – they eagerly participate in charity actions that are performed that way. Apparently, as research results reveal, students connect the sharing experience initiatives with actions performed by non-profit organisations and if the goal of the action is laudable, they are more eager to get involved.

MAIN FINDINGS

The research revealed that sharing, in its different dimensions, is one of the elements of consumer behaviour of Digital Natives. Nowadays technologies enable sharing in the way that was never available before. Students of CUT who participated in the research are typical representatives of Digital Natives who are going to create the world of future consumption. It may be observed that they are averagely active in social media but the same tendency is typical for the whole population of customers of their age. When discussion about brands is considered, Polish young customers are also not extremely active – 64% of them discuss brands with their peers,55% out of them share information through web pages and 42% in social media (Figure 3).

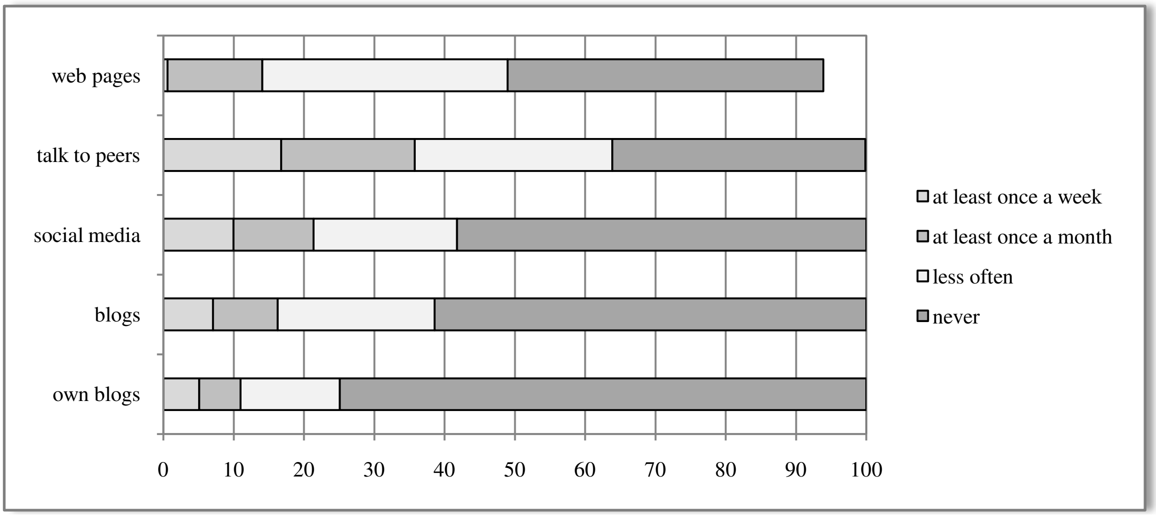

Figure 3. Places and frequency of comments of Polish young consumers on brands
Source: (www1)

53% of the group of internet users bought a certain brand for the first time because of information they found on the internet, and the tendency is more intense in the case of males (www1). For young internet users the opinion of other users in internet forums and published by their peers are the most opinion forming. They search for useful and unique contents – these types of information are the most willingly shared (www3) and, as mentioned, they select and control information they share.

Quite interesting is a connection between different experience sharing initiatives with non-profit organisations revealed in the research among the CUT students. Itmay be observed that in recent years the most active Polish charity organisations are trying to reach younger audiences with new ideas and initiatives, and as the studyresults reveal, their efforts are visible. At the same time businesses neglect that group because they tend not to be loyal and require permanent attention.

Discussion

The aspect of sharing was chosen for the topic of research because it has some direct implementations for marketing. First of all, the sharing economy and its growing popularity in the USA and Western Europe indicate that this approach will probably also become increasingly popular in the Polish market. The growing popularity of crowd funding, and different sharing initiatives indicate that we, Polish marketers, will soon have to consider that aspect in marketing strategies. For now, only some little effortis made by business to use that potential (Łazorko 2014), but sharing must be included in marketing strategies of businesses more widely and statistical information about its influence on customer behaviour should not be ignored, especially sinceit may be observed that the generation exchange has been taking place in traditional social media. Not only very young people use it but the group at the age 24-35 living in larger cities is becoming increasingly significant. They also base their purchases on peers' recommendations. They resign from many accounts in many services – only 8% use 5 platforms (while this figure was 18% in 2013) (www2), which makes themmore "sophisticated" users of social media, as they use it as a tool to obtain own goals in a more and more efficient way.

Marketers must change their ways of perception of brands, which should not be perceived as their property any more. The customers who are competent, creative and involved in relations with organisations are open to help co-create brands and share their knowledge with business. That group of co-owners of brands is going to be recruited from Digital Natives, which is why it is important to understand their behaviour and values.

REFERENCES

AUTRY, A.J. JR. BERGE, Z. (2011): Digital natives and digital immigrants: getting to know each other. Industrial and Commercial Training, 43(7), 460–466. http://dx.doi.org/10.1108/00197851111171890

BUCZYNSKI, B. (2013): Sharing is Good: How to Save Money, Time and Resources through Collaborative Consumption, New Society Publishers.

CABANERO-JOHNSON P.S.; BERGE Z. (2009): Digital natives: back to the future of microworlds in a corporate learning organization, The Learning Organization, 16(4), pp.290-297. http://dx.doi.org/10.1108/09696470910960383

CBOS (2011): Mania kupowania, czyli o postawach konsumenckich Polaków [Purchase Mania – Polish customers' behaviour] , BS/5/2011. Retrieved: June 2015; http://www.cbos.pl/SPISKOM.POL/2011/K_005_11.PDF, 20p.

DAWIEC, M. (2015): Jak sprostać oczekiwaniom Pokolenia C [How to fulfil C Generation expectations], Hurt&Detal, vol. 02 (iss 108)108, Retrieved June 2015: http://www.hurtidetal.pl/wydanie/eid,124/

KAROLCZAK, K. (2015): Pokolenie C-nowa generacja konsumentów [C-Generation – new generation of customers] , Magazyn Online Marketing Polska, Retrieved June 2015: http://o-m.pl/artykul/277/pokolenie-c-nowa-generacja-konsumentow.html

ŁAZORKO, K. (2015) Experience Sharing as a New Marketing Tool, in: Proceedings of the 5th International Conference on Management, Gödöllő, Hungary, pp.528-532. DOI: 10.17626/dBEM.ICoM.P00.2015

MILEWSKI, F. (2014): Crowdfunding a sprawa polska [Crowdfunding and Polish case], Retrieved June 2015: http://www.pi.gov.pl/parp/chapter_86197.asp?soid=6A9AEFD008904902BD13299DB41B5534.

OWYANG, J. (2013): The Collaborative Economy, Retrieved June 2015: http://www.slideshare.net/Altimeter/the-collaborative-economy.

PRICEWATERHOUSE COOPERS (2015): The Sharing Economy. Consumer Intelligence Series, Retrieved June 2015: http://www.pwc.com/us/en/industry/entertainment-media/publications/consumer-intelligence-series/assets/pwc-cis-sharing-economy.pdf.

SELWYN, N. (2009): The digital native –myth and reality, Aslib proceedings, vol. 61(Iss 4), pp.364-379. http://dx.doi.org/10.1108/00012530910973776.

www1: Młodzi Polacy o markach w internecie: oceniają, zmieniają zdanie, kupują. Raport [Young Polish customers: estimate, change opinions, buy. Report]. Retrieved June 2015: http://www.wirtualnemedia.pl/artykul/mlodzi-polacy-o-markach-w-internecie-oceniaja-zmieniaja-zdanie-kupuja#.

www2: Tradycyjne social media mniej atrakcyjne dla młodych internautów [Traditional social media less attractive for young internet users], Retrieved June 2015: http://interaktywnie.com/biznes/newsy/social-media/tradycyjne-social-media-mniej-atrakcyjne-dla-mlodych-internautow-250081.

www3: Młodzi w social media udostępniają najczęściej wideo, YouTube traci na rzecz Facebooka, [Young users share video contents, YouTube loses to Facebook]Retrieved June 2015: http://www.wirtualnemedia.pl/artykul/mlodzi-w-social-media-udostepniaja-najczesciej-wideo-youtube-traci-na-rzecz-facebooka

Managers' Perceptions of the Impact of Cultural Differences on the Process of Internationalization of Polish Companies

ALEKSANDRA OLEJNIK NIZIELSKA, PH.D
ASSISTANT PROFESSOR

e-mail: aleksandra.nizielska@ue.katowice.pl

JORMA LARIMO, PH.D
PROFESSOR

e-mail: ibconference@uva.fi

SUMMARY

A large sector of researchers in the International Business field, along with those in other fields (such as International Marketing and International Management), have dedicated themselves to research involving the reliability, applicability and generalizability of the psychic distance phenomenon.This construct has an influence on theinternationalization of companies.
The aim of the article is to present qualitative research results on managers' perceptions of the importance of one of the psychic distance stimuli, namely cultural differences,in the process of internationalization of companies.
In the theoretical section of the article, the definition and operationalization of psychic distance and different stimuli of this construct are described.Particular consideration is dedicated tocultural differences. The second part of the article focuseson the research background.In the third part of the article, the importance of the differences in culture in the process ofinternationalization isevaluated. The article presents the respondents' opinions on the significance of cultural values and practices, differences in religion and differences in languages in managers' decisions on internationalization. The authorsfocus on the impact of cultural differences on the choice of directions of foreign expansion, market entry strategies, the amount of foreign expansion markets, the pace of internationalization as well as the value of sales and capital engagement abroad.
Key words: psychic distance, cultural differences, internationalization, qualitative research
Journal of Economic Literature(JEL) codes:M14, M16
DOI: http://dx.doi.org/10.18096/TMP.2015.02.05

INTRODUCTION

In recent years, companies have increasingly committed themselves to operations on international markets. Selecting a suitable foreign market and entry strategy is one of the most crucial decisions for firms in the internationalization process and can have long-term consequences for the success of the company (Holzmutterand Kasper, 1990; Clarkand Pugh, 2001). The managers of companies internationalizing their activity are also obliged to decide on the number of foreign expansion markets, the pace of internationalization and the value of sales and capital engagement abroad.

The analysis of the concept and impact of psychic distance on decisions related to internationalization is often discussed in the International Business literature. Psychic distance has been identified as a key variable in explaining the international expansion of a company.This constructconsists of different dimensions, such as differences in culture, economic and political systems, and mentality, as well as geographic distance.

In order to solve the research problem, the following research questions had to be answered: What are managerial perceptions of the differences in cultures (differences in values and practices, religion, and languages) between Poland and the host countries of Polish companies? How important arecultural differences in the internationalization processes of these companies?

The main way in which attempts to solve the aforementioned research problem can contribute to the discipline of international business is by investigating the role of psychic distance in the decision-making process of Polish companies with respect to internationalization. Contribution to the development of the discipline will be a result of the attempts to elaborate theauthos' own methodology for psychic distance measurement and the methodology for investigating the impact of psychic distance on the process of internationalization. The applicability of this methodology is tested on asample of Polish companies (as representatives of Central and Eastern European countries) and could be extendedfor measuring the importance of cultural differences in the process of internationalization of companies coming from CEE and other geographic regions.It is extremely important to select appropriate methods and techniques that are used while measuring psychic distance, to determine measurement tools (in-depth interview and questionnaire) and to select appropriate methods of analysing data obtained while conducting research. The main advantage of the article is the presentation of a new approach to measuring psychic distance, and especially one of its factors (cultural differences). The aim of the applied methodology is the confrontation of theoretical constructs with an empirical “world” and creation of the preliminary theory by the identification of constructs, when *a priori* assumptions do not exist. The chosen methodology allowed the measurement of the subjective opinions of managers regarding the importance of differences in cultures – in practice, between Poland and the foreign expansion markets in which Polish companies operate. This methodology could be used for investigating the impact of psychic distance on the process of internationalization, regardless of the country of origin.

Research on the impact of psychic distance on the internationalization of Polish companies could be treated as a contribution to initiating international comparisons as to the role of psychic distance in the process of internationalization of companies from CEE markets or other regions of the world.

The article is divided into three parts. First, the theoretical part of the article is dedicated to the definition and operationalization of the concept ofpsychic distance, while the factors influencing cultural differences are also described.The second, methodological part of the article focuses on the description of ethnographic methods; research results are described in the third part of the article.The paper ends with conclusions including the implications for managers as well as the limitations of the research.

THEORETICAL FRAMEWORK

When describing insights into the reasons for various degrees of businesses’ foreign orientation, references are often made to managers’ ‘psychic distance’ to operating abroad (Albaum, et al., 2002).This reflects the managers’ subjective impressions and emotions towards a foreign country, and also has an ultimate impact on whether a company opens up and decides to commence operations abroad or chooses to limit its market connections (*Ibid*). Cultural distance, in turn, is defined as the differences between the culture of one’s own country and the culture of a target country (e.g. an export destination country). In this approach, the term of psychic distance refers to the perception, e.g. of customers’ needs and expectations in a foreign country (Sousa&Bradley 2008). The distance is culturallydetermined but subjective. Cultural distance has a more objective character – it acknowledges the existing cultural differences (*Ibid).*

As various authors have written, the terminological division into psychic distance and cultural distance has thus far failed to gain acceptance in research on the international environment. In the subject literature, the terms ‘psychic distance’ and ‘cultural distance’ are often used interchangeably (Kogut&Singh, 1988). These researchers have done much to popularise the term ‘cultural distance’, openly mentioning the term ‘psychic distance’ in their discussions and citing the Uppsala-based psychic distance literature when justifying their hypotheses. However, a review of the empirical literature in this area reveals that the vast majority of researchers have operationalized cultural distance in a much narrower form, i.e. as differences in Hofstede’s (1980) dimensions of national culture. In analysing the impact of cultural distance on market entry strategies, two other prominent cultural frameworks (like the models of Schwartz and GLOBE) could be applied (Brewer&Venaik, 2012; Kim&Gray, 2009).

In recent years, some authors (e.g. Sousaand Bradley, 2008; Avloniti and Filippaios, 2014) have more explicitly endorsed the narrower interpretation of cultural distance and have argued that the other main distinction between the two constructs is that cultural distance is measured as exogenous differences at the national level. In effect, they are endorsing the perceptual approach to defining psychic distance. However, a review of these various definitions raises the issue of how Johanson and Vahlne’s (1977) ‘sum of factors’ other than cultural distance fits in.

Despite the argument that psychic distance and cultural distance are conceptually different and should therefore be assessed at a different level of analysis, a strong correlation between the two concepts is expected to exist. The greater the cultural distancebetween the foreign country and the home country, the less knowledge of the new environment is likely to be available; which means that learning and understanding the foreign country in question will be more difficult as a result. This is further supported by Eriksson et al. (2000), who point out that greater cultural distance between the home and the foreign country makes the task of identifying and interpreting incoming signals more difficult. On the other hand, individuals’ personal values are expected to influence their assessment of psychic distance toward a foreign country.

The concept of psychic distance has attracted considerable research attention.It can be described asintriguing in that it represents a relatively simple, yet outstanding discriminator – useful for various purposes.The concept of psychic distanceis based on the assumption that managers are less likely to initiate and/or pursue business relations with countries perceived to be dissimilar (Stottinger&Schlegelmilch, 2000). Conversely, the lower the perceived psychic distance from a market, the more likely it is that business activities with this market will be expanded. Thus, firms are advised to initiate cooperation with closed markets in terms of psychic distance (Bilkey&Tesar, 1977). This would also reduce their learning needs and accelerate their pace of globalization (Keegan, 1989). From a managerial perspective, the concept of psychic distance appears to offer a variety of applications, e.g. in investigating the role of international experience in the choice of establishment mode (Dow&Larimo, 2011). It could be used as a discriminator between managers with high and low psychic distance respectively, thus allowing for the more effective targeting of recipients when allocating export activities. Psychic distance also guides country selection decisions during the internationalization process (namely by addressing psychically close countries).

The attempts to operationalize psychic distance and empirically test its relevance remain relatively limited, although on the increase (Brewer, 2007; Prime et al., 2009; Håkanson and Ambos, 2010). This applies to both the number of empirical studies on psychic distance as well as to the sophistication of the measurement instruments which have been developed (Shohan&Albaum, 1995).

To enhance an understanding of psychic distance, it is necessary to analyze in detail the terms that constitute the concept “psychic” and “distance” (Evans et al., 2000). “Psychic”, a word derived from the Greek word *psychikos,* which means the mind or soul (Simpson & Weiner, 1989), refers to something in the mind of each individual. Distance exists in an individual's mind and depends on how he or she perceives the world. Thus, it is the individual perception of the differences between the home country and the foreign country that shapes the psychic distance concept (Sousa & Bradley, 2005). Therefore, psychic distance cannot be measured by factual indicators, such as publicly available statistics on economic development, level of education, language, and so forth, as Vahlne & Wiedersheim-Paul (1973) and Luostarinen (1980) attempt to do. For example, Vahlne & Wiedersheim-Paul (1973), cited in Nordstrom & Vahlne (1992), used primarily factual indicators to measure psychic distance. These include: level of economic development, education, differences in language, and existing trading channels. Similarly, in a study of Finnish firms' international operations. Luostarinen (1980) measured psychic distance through economic development, language and level of education. Klein & Roth (1990) also focused on factual indicators when attempting to capture the construct with a five-point rating scale, ranging from "very similar" to "very different". Five aspects were rated, namely: language of the country, accepted business practices, economic environment, legal system, and communication infrastructure.

To measure psychic distance, attention should be paid to the level of analysis at which the concept is assessed. The measurement of psychic distance at the national level may hide important variations (O'Grady & Lane 1996). Thus, problems in the literature appear to be that current indexes measure psychic distance at a very high level of analysis. The individual's perception is an interpretation of reality and is therefore highly subjective. This means that psychic distance cannot be considered as a construct that influences each person within a firm in the same way. Accordingly, the psychic distance concept should be applied at the individual level.

The overall framework within which the 12 dimensions are located was informed by Ghemawat's (2001) "CAGE" classification of distance between two countries according to cultural, administrative, geographic and economic factors. More specifically, cultural distance includes differences in language, social norms, religious beliefs and race; administrative distance includes differences in political systems, common currency, trade arrangements, government policies and institutions; economic distance includes differences in income levels, infrastructure, human and other resources; while geographic distance includes the physical distance between the two countries, the size of the target country, access to waterways and the ocean, internal topography, and transportation and communications infrastructure. This framework can help to identify the ways in which potential markets may be distant from existing ones.

The various types of distance influence different business fields in different ways. Geographic distance, for instance, affects the cost of transportation and communications, and is therefore of particular relevance to companies that deal in heavy or bulky products, or whose operations require a high degree of coordination among highly dispersed people or activities. Cultural distance, by contrast, affects consumers' product preferences.

Dow and Karunaratna (2006) also employ a set of psychic distance stimuli, covering culture, language, level of education, level of industrial development, political system, and time zone.

The cultural distance concept refers to the country level and not the individual level, as psychic distance does. The cultural distance concept is defined as the degree to which culturalvalues in one country are different from those in another country. Instead of assessing the individual's perceptions of differences, the cultural distance concept uses cultural values to assess the distance among countries and not individuals. Consequently, the cultural distance concept should be applied at the national level, not the individual level.

Dow and Larimo (2009) propose a scheme of evaluation for different forms of distance (see Figure 1). They refer to perceptions of distance, measured at the level of the individual, as perceived psychic distance. Psychic distance stimuli are referred to in Johanson & Vahlne's (1977) sum of factors, which influence the perceptions of psychic distance. The authors list such factors as national cultural distance, differences in language, institutional distance and other forms of distance.

Another classification of psychic distance stimuli was prepared by Sousa & Bradley (2006; 2008). These authors claim that there is a general consensus in the literature that when firms decide to enter foreign markets, they must then adjust to a foreign national culture and be prepared for challenges, such as differences in language, lifestyles, cultural standards, consumer preferences, and purchasing power. The following stimuli of psychic distance were distinguished: climatic conditions, purchasing power of customer, lifestyles, consumer preferences, cultural values, beliefs, attitudes, and traditions, language, level of literacy and education. Both psychic distance and culturaldistance have been used in the literature to bypass the complexities of assessing these differences among markets (Clark&Pugh, 2001, Eriksson et al., 2000; Evans & Mavondo, 2002; Grosseand Trevino, 1996).

In our opinion, none of the aforementioned classifications of psychic distance stimuli is sufficiently comprehensive, which has necessitated the preparation of the authors' own system of classification. For the purpose of this study,the following classification of psychic distance stimuli is presented: cultural differences (including differences in values and practices, differences in languages and differences in religion), economic differences (including differences in income levels, infrastructure, the stability of financial institutions, infrastructure development, the level of economic development, the situation in the labour market, human and other resources), political differences (differences in government policies, level of democracy, political stability, the quality of legal institutions and practices), and differences in mentality (ways of thinking, beliefs, rules, attitudes, views and opinions). Geographic distance was not included in the stimuli of psychic distance [1]. The proposed classification includes all psychic distance stimuli.

The aim of this research projectis to evaluate the importance of each psychic distance stimulus in the decision-making process as it relates to internationalization. In the next section of the article, only the managers' perceptions about the role of cultural differences in the process of internationalization will be described. It shouldbe emphasized that the focus of the article is the differences in culture, treated as one of the psychic distance stimuli (these reflect the managers' subjective impressions and emotions towards a foreign country, and should be assessed at the individual level. In this approach, these factors are not being treated as objective, existing cultural differences between countries).

RESEARCH APPROACH

Considering that psychic distance is a very complex phenomenon, its impact on the process of internationalization should be analysed through the use of a number of various methods (triangulation of methods). The impact of psychic distance on the internationalization of companies will be evaluated using both quantitative and qualitative methods. During the first stage of research, as presented in this article, qualitative methods with the use of in depth interview were used.

Qualitative research in the form of depth interviewswere undertaken in the period between July 2013 and April 2014. The research was undertaken on a sample of 13 companies in the territory of Poland. The research subjectswere Polish companies undergoing the process of internationalization; the research objects were managers' perceptions of the psychic distance between Poland and the foreign expansion markets of Polish companies.

The sample consists of Polish companies. The list of companies, as the subjects of the research, was created on the basis of the general knowledge of the researcher and the following lists and rankings of Polish exporters: the rankings of the Ministry of Economy; „SławaPolski", „Orzeł Eksportu" i „Dobra firma"; the „Lista 500" Polityki ranking of the most significant Polish companies; the list by „Stowarzyszenie Eksporterów Polskich" and the „Liderzy Eksportu" ranking of Polish companies.

The criteria for choosing the cases are as follows: origin of capital (100% Polish capital); experience in activity on foreign markets (more than five years); value of sales on foreign markets during the last two years (more than 10% of total sales); the geographic spread of foreign sales (companies should operate in more than 10 foreign markets). The criteria of 100% Polish capital ensured that the national culture of the companies as subjects of the research was Polish (thus facilitating a contrast between Poland and foreign countries). In the authors' opinion, the interviewees should ideally have experience in activity on international markets in order to formulate opinions on different psychic distance stimuli. This was measured by the time of activity abroad, the share of foreign sales in total sales, and the geographic spread of foreign activity.

On the basis of telephone contact, those responsible for managing export functions in the company were chosen, and direct relations were subsequently established. Interviews were conducted directly during visits to export companies. Additionally, some telephone interviews were also included. The maneuver ability of research was 30.00%. Cases were developed based on interview data combined with information freely available on company websites.

The majority of the companies were large (69.23%) ormedium-sized (30.76%) companies, representing the mining industry (Companies B and C); the chemical industry (Company F, J); the cosmetics industry (Companies E and I); the food industry (Company D); the pharmaceutical industry (Company L); the ICT industry (Company M); the vehicle industry (Company G); the furniture industry (Company A); the automation industry (Company H); and the aluminum profiles industry (Company K). The majority of the respondents were export directors and export managers(46.15% of the respondents); sales and marketing directors (23.07% of the respondents); international markets and regional directors (15.38% of the respondents); marketing and communication managers (7.69% of the respondents) and assistants to export directors (7.69% of the respondents). The companies are experienced in activity on international markets; their characteristics are presented in Tables 1-3.

A narrative strategy is applied for describing the research results.

RESEARCH RESULTS

Managers' perceptions ofthe role of psychic distance in the process ofinternationalization

The definition of psychic distance was presented to the respondents, who were asked about their general perceptions of psychic distance. According to the managers from **Companies A, D, H, I, K, L and M**,psychic distance exists and has a substantial impact on decisions related to the internationalization process and on the rules of conducting business on international markets.Managers representing companies A, H, K, L, and M state that the stimuli which have the greatest impact on decisions related to internationalization are differences in cultures; while for managers representing companies D and J, differences in economic systems have the largest impact.

The respondents from **Companies B, C, E, F, G, J** believe that psychic distance exists but does not have any significant impact on decisions relating to internationalization. Respondents representing **Companies B, C and E** perceive differences in cultures, economic and political systems as well as mentality between Poland and foreign expansion markets, but do not treat them as barriers to internationalization. Their companies adapt their strategy to suit local markets, e.g. by employing staff proficient in the language of the host country. To adapt to local conditions, managers of thesecompanies participate in varied training sessions which help to understand local cultures and business practices. For the manager representing **Company F**, the most important stimuli to psychic distance are differences in economic systems and geographic distance. For the managers representing **Companies G and J**, the most important stimuli to psychic distance with an impact on the internationalization process of their companies are differences in both economic and political systems.

Managers' perceptions of the differences in cultures between the home and host countries of companies which they manage will be described in the next section. Special consideration will be given to differences in values and practices, religion, language and educational systems.

Managers' perceptions of the role of differences in values and practices in the process of internationalization of companies

The manager representing **Company A** described his experience of establishing a company in the Czech Republic. Even though this country is a geographic neighbour to Poland (thus geographic distance does not exist), he perceived the Czech Republic as 'a different world' and experienced culture shock living in that country. In the case of the Czech Republic, it could be said that both language and culture are much the same, or almost the same as in Poland. However, this 'almost' constitutes a substantial difference in terms of the business practices of these countries' representatives.The most significant difference between the two countries lies in the hugely different working styles prevalent in both countries. This can be seen to result from the differing dominant religions in both countries, in that in Poland the dominant religion is Catholicism while in the Czech Republic it is Protestantism.As the respondent opined, the Czech "live to work", their jobs are of crucial importance for them, to the extent that they often remain at work after working hours and during weekends. Another example of the impact that religion has on business life is in Arab countries, where the inferior role of women in business can be easily perceived. This has an impact on the design of promotion campaigns for the needs of these countries.

The manager representing **Company B** perceived the most significant differences as being between Poland and Asian and African countries, specifically mentioning the country of origin effect. The customers have trust to products coming from certain countries. The clients of manager representing company B prefer buying products from European companies, which are perceived as being of better quality. Products of Polish companies are perceived as cheaper as American or German ones, but more expensive than Chinese ones. However the most important factor is that the company is set up in Poland, giving rise to the perception that it provides good quality products. The manager of Company B distinguished very 'expressive' and 'calm' countries, a characteristic which has an impact on behavior during negotiations and decisions related to international business. In this manager's opinion, a potential problem may arise when an impatient negotiator would like to do business in Asian countries, in that his style could be perceived as rude or ignorant.

The respondent representing **Company C** fails to perceive differences in national cultures between Poland and the foreign expansion markets of Polish companies. The company undertakes B2B activity, and his clients are huge transnational corporations and concerns which employ international–and intercultural –staff. This industry is globalized and significant cultural differences are not easily discernible. As an example, if Russian businessmen were to establish companies and register them in Switzerland, the home country of the corporation would not be seen as important in such circumstances. For the respondent from Company C, the organizational culture of the company is an extremely important factor, as it is there where the behavioral patterns of managers are formed. The respondent was reluctant to generalize his answers and to ascribe any features to representatives of specific nations. Differences in behavior in business result from the different characteristics of businessmen at an individual level and not from differences in national cultures.

The aforementioned opinion on the impact of cultural difference as perceived by the inhabitants of Arab countries was shared by the manager representing **Company D**. In his experience, managers representing these countries prefer men as partners in negotiations. A woman from a European country, even one at ahigher position,tends to be omitted during the negotiation process, as opposed to men, who are welcome to conduct negotiations.

The differences in national cultures between countries were also observed by the respondent representing **Company E**. He quoted the example of British businessmen, who try to build trust and long-term relationshipswith business contacts. These managers do not 'bind' themselves in terms of formal issues. He observed a slightly different situation in his experiences dealing with German managers, who demand that everything be confirmed in writing. Business formalities are of the utmost importance to them. A completely different set of circumstances can be observed in Russia, where excessive formality is perceived to represent a lack of trust, and the most important aspects of business are relationships and honesty. Such differences do not constitute barriers to conducting business in foreign countries. The most important factor is to recognise these differences and to learn how to negotiate with partners representing different cultures and nations. One of the most important aspects of successful operations on foreign markets is gaining experience in communicating with foreigners.

The manager of **Company F** states that people are different irrespective of their nationalities and national cultures. He is experienced in communicating with representatives of numerous nationalities and does not feel able to generalize and to categorise people as members of different national cultures. The main criterion for evaluating business transaction is according to price rather than the 'pleasure' of contact with business partners. He emphasized that he treats negotiations as 'work' and not 'entertainment'. There is minimal difference between the inhabitants of European countries in that they represent the same cultural circle. He emphasized that organizational cultures are more important than national cultures,as people who work in the same types of companies or industries have the same values and behave in a similar manner.

As opposed to the manager representing Company F, the manager of **Company G** perceives numerous differences between national cultures, stating that 'every country has its own customs'. This respondent stated that each country or geographic region has specific features which have an impact on business operations there. To give one example, the inhabitants of Scandinavian countries are focused on procedures, communicating in an open and clear manner. The representative of Company G mentioned also the role of women in Islamic countries, specifying the example of adaptation of products to local conditions in these countries (for example, men and women occupy separate sections of buses when travelling). She also quoted the importance of avoiding some symbols in marketing instruments for religious reasons. Differences in values and practices have the most significant impact on negotiations with business partners, and are of comparatively smaller importance during the following stages of business transaction. For Company G the most important issue is preparationfor foreign transaction, discerning information on local culture and maintaining a flexible approach to the client. Their offersare aimed at countries which are characterised by huge demand, prognosticatewell, but the means of gaining access to clients vary according to country. The manager also mentioned the importance of the country of origin and the promotion of some national products, of which one example would be France and more specifically government regulation on promoting French products during the tender process.

The manager representing **Company H** was also aware of the differences between national norms and values. He divided his company's foreign expansion markets into Western Europe, Central and Eastern Europe, Africa and Asia. This manager claimed that the inhabitants of Central European countries Eastern countries are similar to Poles; indeed he described them as people with "Slavonic soul."This manager was not aware of any closeness, isolation or reluctance in these countries. He described the inhabitants of Eastern European countries as open and keen to discover foreign cultures. One example he gave was the inhabitants of Russia and Belarus, who seemingly have a very personal attitude to business and contact with others. By contrast, this manager maintained that the inhabitants of Western Europe are highly concentrated on transactions rather than relations in business. To him Western culture is one of 'fair play' in that should a Western businessman perceive some conflict within the negotiation process, they do their utmost to reach a mutually beneficial solution. He described Italy and Spain as very expressive cultures, but also as places where 'compromise is reachedby screaming'. Another example given was the USA, the inhabitants of which are described as concrete, with clearly defined expectations, where there is no place for vague hints. American businesspeople are sometimes dominant and attempt to demonstrate their superiority. On the other hand, they can be described as very loyal, honest and straight forward, with no time for'shiftiness' and 'cuteness'. The respondent representing Company H described Arabic countries as very specific nations which are dominated by religion. On one hand, they are seen as 'very open to the world', the development of science and education, but on the other hand are somewhat 'hermetic.' He called this culture 'a culture of men', where only men are eligible to participate in business. Time is also a characteristic feature of negotiations with Arabs, in the sense that negotiations can last much longer than in other nations. They have money, but also lead a relaxed lifestyle, and in their view negotiations should evolve organically. In terms of cooperation they anticipate mutuality and the extension of contact. Arabic businessmen can be described as trustworthy, but in return they expect the same from their partners; they obtain an opinion of a company through its representatives, which makes first impressions vital. According to the same manager, Poles are perceived as highly capable specialists, albeit they sometimes like to project an image of themselves as better or stronger negotiators than they are in reality. The main aim of this man's activity (as sales director) is to increase the value of sales; therefore, business can be conducted with anybody regardless of country or culture.

The respondent representing **Company I** also perceived differences in values and norms between different cultures, giving the example of South Korea, which he views as completely different to Poland. Poles "work to live",whereas South Koreans "live to work". They do, however, share one common aim: to achieve success. The decision-making process in South Korea is convoluted and complicated. South Koreans are known for the respect shown to elders and supervisors, making this society "a culture of status."This manager divided his company's clients geographically into Africa, Asia, the Middle East, Eastern and Western Europe. The clients from Western Europe are highly complex for the company due to the high cost of entering foreign markets, a hermetic market and consumer loyalty to local and well-known brands. Russian businessmen present grand plans, very often 'inflated', but which turn out to be different in reality. Ukrainian managers are described as highlydemanding, and Belarusians as business-oriented. The manager representing Company I notedthat the 'business culture' is less developed in post-communist countries, where managers tend not to trust people, and have control on both public and private live. He observed the distrust of partners from post-communist countries, where all elements are included in written form in contracts and high contractual penalties are fixed.

According to the manager representing **Company J,** there exist numerous differences in business values and practices between him and his foreign business partners, but this manager has accumulated such vast experience in operating on foreign markets that he feels able to overcome any obstacles. He perceived differences in the role of contracts and relationships in transactions.

The manager representing **Company K** operates both on the European market and in the USA, and notices the cultural differences prevalent in each field of his company's operations. He divided the foreign expansion markets of his company into the following distinct geographical areas: Great Britain and the northern part of Europe, Switzerland, Austria and the south of Europe. Managers in the various areas have different mentalities and different standards of activity. The Germans are characterized as highly demanding in terms of quality and prices. The process of convincing partners of their reliability can be time-consuming. Sometimes an opinion on a business partner can changeover the course of cooperation. Businessmen from the North of Europe are seen as cold, maintaining their distance from Polish managers, who are viewed through the prism of emigration. For the manager representing Company K, cooperation with European managers can be problematic, especially the development of long-term relationships. Clients representing the North of Europe do not tend to be tethered to foreign products and clients. It is difficult for them to establish contact with Scandinavian partners, as cooperation within one country is easier for the managers.

The manager of **Company L** is experienced in negotiations with Swiss partners, who are perceived as being extremely rich and never having lived and worked under pressure. Swiss businesspeople have a different perspective on life, and come across as highly demanding–quality is extremely important to them. They do not trust cheap products. Poland is perceived as 'stuck' to Russia and Eastern Europe through its mentality. It is important for Polish companies to present themselves as suppliers of high quality products and services. This manager states that differences in culture have an effect on decisions relating to internationalization, especially in terms of building relations with foreign partners. The manager representing Company L noticed a difference in behavior between the managers of huge transnational corporations as opposed to smaller local companies. The managers of transnational corporations are accustomed to working in terms of globalization, and have experience working in international and intercultural environments. In contrast, managers of small local firms still treat internationalization as a challenge. The manager representing Company L made specific mention of the highly specific nature of Chinese culture. The Chinese use imperatives in communication, and managers do not treat a contract as a final document but rather as something which could be renegotiated or changed. The manager of Company L noted that there is no need to have people "opening the doors" as in countries such as Russia, Ukraine, Belarus. In this manager's opinion, marketing and sales activity are sufficient to develop the market.

The manager of **Company M** also evaluated the position of Polish companies on international markets, coming to the conclusion that Polish companies should operate on international markets without any complexes, provided that they act professionally. Polish products are evaluated positively, even in the case of such demanding clients as German and North American companies,and are not treated as inferior. Differences in culture should be treated as advantages rather than as barriersto international business contacts.

The situation is different in Central Europe, especially during the arrangements of tenders. Very often the subject of the tender is not compatible with the requirements of the client, or the product specification is not adequately worked out. Openness is perceived as highly important during negotiations. The Scandinavian countries are viewed as very restrained; the inhabitants of Great Britain and the United States talk about business in a much more open manner; while the inhabitants of the South of Europe are not well-organized, but rather are characterized by creativity.

Managers' perceptions of the role of differences in religionin the process ofinternationalization

The manager representing **Company A** classified differences and religion as a major factor in the existence ofcultural differences, in that religious differencescan affect the rules and regulations applicable within a certain society. This fact also imposes a specific code of behaviour for business activities. In terms of these differences, Islamis the religion with the most significant impact on Company A's international business activity. Important differences in religion were observed in the case of Arab countries, most notably the role of women in business and society, which materially affects the choice of representatives for conducting business in these countries. Religion has an impact on values and norms connected with internationalization. The company is cautious when entering certain foreign markets due to the likelihood of conflict on religious grounds. These concerns are brought about by the unstable situation in foreign countries and the accompanying higher level of risk in foreign operations.

The respondent representing **Company B** also provided empirical examples ofdifferences between religions having an effect on business activity. As an example, the representatives of Arab countries may not discuss business issues during Ramadan. Another aspect is the role of women in business in some countries (e.g. South America and Saudi Arabia), or rather lack there of. Women are not permitted to participate in business negotiations, and certainly are not treated as equal partners in business. It therefore makes no sense to employ women for export activities in these regions of the world, because there is no practice or tradition of using women to conduct business.

In the words of the respondent, "there is no religion which forbids business or trade," but "there are some beliefs which make business difficult". The respondent mentioned the unstable situation in Pakistan and Afghanistan, and also discussed the highly restrictive approach to religion in Saudi Arabia. Representatives of what may be termed 'extreme' religions onlyconduct business in accordance with their norms. Representatives of Muslim countries are not eager to use credit as a form of financing transactions, which is a further obstacle to business operations.

According to the respondent of **Company C,** religion has no impact on decisions connected with internationalization. He said, that "people are pragmatic, and this pragmatism is more important than religious beliefs".

The manager representing **Company D** also notices differences between religions. He admitted that the most rigorous adherence to religious orders and prohibitions is within Islam,followed by Christianity. He noticed the most significant differences in religion in the cases of Afghanistan, Iran, and Saudi Arabia.

The manager representing **Company E** confirmed that differences in religion have an effect on internationalization, most significantly on the elements of the international marketing mix (products, promotion). Most important to this company are prohibitions on eating certain kinds of food in accordance with certain religious doctrines (e.g. periods of fasting).

The manager representing **Company F** stated that his business partners do not "parade" their religion nor their beliefs. He is aware of religious differences between him and his business partners, but does not treat them as an obstacleto internationalizing his business activity.

The manager representing **Company G**also mentioned the different calendar and holidays in the Eastern Orthodox Church, which must be taken into consideration when conducting business.

The manager representing **Company H** believes that religion has the most significant impact on business in Muslim countries. Foreigners should not publicize their beliefs if they happen to be atheists. According to representatives of Arab countries, people should follow religious principles which can also be applied to business. People should believe in something and have values.In contrast, there is no equivalent to this in Western countries, where people are not evaluated according to their personal characteristics, but instead by the business relations which they develop. Representatives of Arab countries "demonstrate" their religion, and it could even be said that they "parade" it openly. The Japanese are described by the manager representing Company H asinvolving religion in business, while the adherents of the Orthodox Church are perceived as very strict and reserved.

The manager representing **Company I** also mentioned the value of religion in Arab countries. Outsiders are not supposed to confess their atheism when conducting business under such circumstances.

For the manager representing **Company J,** differences in religion do not have any significant impact on decisions relating to internationalization. He agrees that there are different beliefs which influence people's behaviour including in business, but is of the opinion that such potential obstacles are easy to overcome.

In the opinion of the manager of **Company K,**religion has a pronounced impact on the ethics and rules of conducting business in different countries.

The respondent representing **Company L** also took into consideration issues relating to business ethics. This manager mentioned that the most important aspect in these countries is reassurance when engaging in business transactions. For the manager of Company L, the Ukrainians are the most difficult business partnersin that local managers do not treat Poles as equal partners there. They see only one side of the transaction – that which maximizes their own profits. It is difficult to select business partners for this reason. In the case of foreign direct investment, the most important issue is control of foreign operations. Joint ventures are difficult because of the mentality of foreign managers, when only one party to the transaction would like to 'earn' and therefore the chance to reach a'win-win' solution is negated.

The lack of trust in foreign partners caused the company to withdraw its direct presence on markets such as Ukraine and Russia. Nowadays the company retails its products on those markets through distributors.

For the respondent representing **Company M,** differences in religion are highly relevant. He gave the example of India, where castes within society have an effect on hierarchy and cooperation within the groups. Within Indian society, a representative of the lower castes should not reprimand his employee. In this respondent's opinion,being of the same religion makes it easier to communicate in business. Differences in culture caused the withdrawal of this manager's company from the Mexican market; the differences in mentality were so great that they proved impossible to overcome.

Managers' perceptions of the role of language differences in the process of internationalization

According to the responses provided by the manager of **Company A**, language differences can also affect the process of internationalisation for Polish companies. Such differences may in fact create an important barrier to internationalisation. Language differences are associated with a lack of knowledge of foreign languages on both sides, regarding both the sales representatives of this manager's company and their foreign business partners. The management of this company decided to employ staff proficient in the client's language in order to avoid misunderstandings and negate the language barrier. This measure enabled the management to feel 'closer' to the client, and was thereforea necessary step, especially on the Eastern markets where the level of knowledge of English remains insufficient for communication during negotiations. Certain problems also arose with non-verbal communication – for example with the proper recognition of a 'visual signal' and spatial distance in Japan. The respondent noticed that, besides verbal communication, we can also observe differences in non-verbal communication. Such an aspect can have a massive impact on the process of negotiations, which is an important condition of successful trading on foreign markets. Any improper interpretation of the body language of the partner could cause a misunderstanding and eventually spoil hitherto pleasant relations with foreign partners. According to the respondent, language differences have an impact, not only on establishing relations with foreign partners, but also on conducting business with them – in some cases leading towithdrawal from foreign markets due to miscommunication.

The respondent representing **Company B**detailed the main features of negotiations with his business partners (which are also related to the issue of language). The representatives of Arabic and Asian countries are extremely demanding, meaning that negotiations with them are long and detailed. He still perceives language differences as an obstacle to conducting business. It is necessary to employ staff proficient in local languages or to employ foreign staff who are also aware of local customs, especially in less developed countries. There are also some differences in non-verbal communication: for example 'physical distance' in Turkish culture is smaller than elsewhere, and some of the behaviorof Turkish managers could be perceived by Polish managers as too familiar. The second issue is the "easygoing" behavior of modern European women in Muslim countries.

The respondent representing **Company C** admitted that the company predominantly makes use of English as a business language, in contrast to thesomewhat different situation on the Eastern markets, where managers prefer speaking their own languages. In these situations, it is necessary to use translators to communicate with local staff. The respondent had the greatest communication problems in France and Brazil, indeedhaving had to learn basic French and Portuguese to communicate well and "successfully" in these countries. The manager agreed that there were also some misunderstandings arising out of non-verbal communication. Brazilian negotiators maintain a smaller distance in communication, and sometimes were claimed to be 'too friendly'. Sometimes this can be seen as a kind of tactic designed to extend the length of negotiations.

The manager representing **Company D** admitted that language barriers exist, mostly in Eastern countries. The representatives of Eastern countries such Russia and Belarus do not speak English and do not treat English as a business language, preferring to communicate in Russian. They demand that potential clients have at least a working knowledge of Russian. A lack of knowledge of English is not viewed by Eastern managers as something about which to be ashamed. The most difficult communication problems were faced in Russia and the Ukraine in circumstances when businessmen were unable to converse in Russian.

The manager representing **Company E** had a broadly similar opinion to the manager representing Company D, in that languagedifferences have aneffect on the establishment of business relations with foreign partners. He admitted that it is difficult to establish and maintain good relations with partners without some level of foreign language ability; to give but one example, a situation in whichamerchant is all but forced to conclude negotiations early due to a lack of mutual comprehension. Such a businessman will end up on the losing side in the long term. If a good relationship with our partners is not established, we will not be able to improve our sales results,which testifies to the importance of communication, both verbal and non-verbal. By contrast, problems in communication with partners within trade networks are not nearly as prevalent, as the representatives of such organizationshave an excellent command of English. More complicated obstacles may arise in the case of wholesale trade in countries such as Slovakia and the Czech Republic, where it is deemed more necessary to know the local language.

The manager representing **Company F** treats language differences as a barrier to internationalization. The main problem he finds is with partners from Eastern Europe (Russia, Belarus, and Ukraine) who are unable tocommunicate in English, which necessitates the hiring ofRussian-speaking staff atsuch companies. However,no problems exist in international negotiations resulting from differences in non-verbal communication.

The manager of **Company G** stated that language differences can affect decisions relating to internationalization. There are no issues with communication in countries where English is treated as an international business language;however,in many countries where English is not as prevalent, there is a necessity to employ staff who can communicate using local languages. A prime example of such a country is France, which is treated as a country with a somewhat closed attitude to foreign languages and cultures and as oriented toward the superiority of its own language and culture.

The manager representing **Company H** admitted differences in languages do not have any real impact on internationalization, mainly due to the fact that English is fast becoming the language of international business even in Eastern countries. Additionally, he feels that non-verbal communication should not be treated as a barrier to internationalization. In fact body language can very often prove a helpful tool in negotiations,functioning as a complement to verbal communication.

Language differences also have an impact on business according to the manager representing **Company I**, who observed different levels of foreign language ability amongst his business partners. Managers representing his company are very often obliged to use the services of translators. The company made the decision to employ staff with local “roots” in places such as Belarus, Ukraine and Romania, who possess knowledge of local markets, cultures and conditions as well as some foreign language capabilities. Such a step has proven helpful in establishing good relations abroad and in fulfilling local legal and institutional regulations.

For the manager representing **Company J,** language differences are the most important factor in the first stage of transaction, in other words during the process of negotiation with foreign partners. This very often affects the choice of foreign partners,,as when the inhabitants of different countries are not able to come to an understanding during the initial stage of a transaction, it is impossible to continue negotiations.

The manager representing **Company K**stated that when taking into consideration language differences, there is a substantial problem in communication with French managers, with whom it is difficult to negotiate without some knowledge of French. They are perceived as “distant” towards foreigners and convinced of the superiority of their own language.

The manager of **Company L**noticed differences between Poland and Western Europe. According to him, German managers are somewhat formal, but nevertheless they communicate in an open manner. They make no attemptto adapt in any manner which would be disadvantageous to themselves, because further cooperation would be difficult.

This respondent also mentioned Australian managers, who are perceived as uninhibited when conducting business, which makes first contact with them easier. For Australian managers,it is most important to develop both themselves and their business activity; they are seen as forward-thinking, and such behavior and attitude to life is evaluated positively and indeed appreciated.

A further example given by the respondent is Algeria, where the level of English is very limited, making communication difficult. There are a limited number of transnational corporations in that country and local managers are inexperienced in terms of international business.

The respondent from **Company M** sees some nuances in people’s behavior which are related to language differences, their attitude towards other people, openness during negotiations, and codes used in communication. Problems in communication result from the factthat managers are not able to negotiate in their mother tongues– English is the language of international negotiation. This interaction could be perceived as awkward, as very detailed communication should be prepared in such circumstances. The misinterpretation of words and expressions could arise as a result. The manager of Company Mtends to take gender differences into consideration:in his opinion, Scandinavian managers are quite withdrawn, but the role of women in the social sphere is similar to that of men. The difficulties which occur are not discussed. Contract conditions are important in the USA, and mistakes are reproached at the beginning of proceedings. In Germany and Sweden punctuality is viewed as extremely important, although the opposite is true in Ukraine, Belarus and Russia. Employees in Scandinavian countries behave in a proper manner, and their work can be described as very productive. For the representatives of developed countries, making mistakes is generally treated as something normal, although it is necessary to prepare error reports. In Scandinavian countries, Western Europe and in the United States, contractsare negotiated slowly and carefully, withlong-lasting negotiations and strict establishment of technical specifications prior to signing. According to the respondent, it is better to establish a working relationship over timethan to rapidly conclude the signature of a contract only to later findthat further changes are necessary because in reality the product requirements have not been fulfilled.

Managers’ opinions on the importance of cultural differences in the process of internationalization are presented in Table 4.

The significance of cultural factors in the process of internationalization

The respondents were asked to identify the impact of cultural differences on the process of internationalization. They were asked to evaluate, on a scale of 1 to 5, the importance (1 being least important and 5 most important) of the differences in values and practices, differences in religion and differences in language in the managerial decision-making process. In order to identify the impact of the level of internationalization on the perceptions of managers of the role of cultural differences in the internationalization process, the samples were divided into two sets of subsamples:I and II, based on value of foreign sales, and III and IV, baed on the number of continents on which the company operates.

Subsample I consists of less internationalized companies (in terms of value of foreign sales)and is comprised of **Companies A, B, D, E, I, and K**. The value of foreign sales in these companies is up to 25% of total sales.

Subsample II consists of highly internationalized companies (in terms of value of foreign sales)and is comprised of **Companies C, F, G, H, J, L, and M**. The value of foreign sales of these companies exceeds 25% of total sales.

Subsample III consists of less internationalized companies (in terms of the number of continents on which the company operates). Companies operating on up to three continents were assigned to this subsample, namely**Companies D, E, F, G, H, and K.**

Subsample IV consists of highly internationalized companies (in terms of the number of continents on which the company operates). Companies operating on more than three continents were assigned to this subsample, namely **CompaniesA, B, C, I, J, L, and M**. The research results are presented in Table 5.

The differences in values and practices have the most significant impact on the choice of direction and the number of countries subject to the foreign expansion of a company (the average of respondents’ answers is 3.54). Managerial perception of the impact of the differences in values and practices on the decisions relating to internationalization differdepending on the level of the company’s internationalization, as seen in Figure 2. The most significant effect of the differences in values and practices on decisions relating to internationalization isperceived by the managers of less internationalized companies in which the value of foreign sales does not exceed 25% of the total value of sales. They perceive the significant impact of values and practices on the choice of direction of the company’s foreign expansion, the value of export of the company, the pace of internationalization and the number of countries subject to the foreign expansion of the company (in these cases the average of respondents’ answers exceeds 4.0).

Religious differences have the most significant impact on market entry strategy and on the numberof countries subject to the foreign expansion of a company (the average of respondents’ answers is 4.0). Figure 3 shows that the most significant impact of the differences in religion on decisions connected with internationalization isperceived by managers of less internationalized companies (in terms of the value of exports). In the opinion of managers of these companies, differences in religion have the most significant impact on the choice of market entry strategy and the numberof countries subject to foreign expansion (the average of respondents’ answers is 4.67), the choice of direction of a company’s foreign expansion (the average of respondents’ answers is 4.17) and the value of capital engagement on foreign markets (the average is 4.0). The managers of companies which operate on a limited number of continents (not exceeding three) perceive that religious differences have the most significant effect on the choice of a company’s market entry strategy and the number of countries subject to foreign expansion (the average of respondents’ answers is 4.5).

Language differences have the most significant impact on the choice of direction of a company’s foreign expansion together with the number of countries subject to the foreign expansion of a company (the average of respondents’ answers is 4.54). As shown in Figure 4, language differences have the most significant impact on decisions relating to internationalization as perceived by the managers of companies in which export values do not exceed a value of 25%; but also by those companies which operate on more than three continents. The managers of companies exporting no more than 25% of their products perceive the most significant impact of language differences to be on the choice of direction ofa company’s foreign expansion (average 4.83), the amount of countries subject to foreign expansion (average 4.83) and the choice of market entry strategy (4.67). The managers of companies spreading their geographic expansion onto no more than three continents perceive the most significant impact of language differences to be on the choice of direction of a company’s foreign expansion and the number of countries subject to foreign expansion (average 4.57).

The respondents were also asked to evaluate, on a scale of 1 to 5 (where 1 represents the least important factor and 5 the most important) the impact of cultural differences on initiating, performingand withdrawing from business activities on a certain market. Figures 5-7 give the values by group. The differences in values and practices, religion and language have the most significant impact on the withdrawal of business activity from a certain market (the average of respondents’ answers is higher than 4.0). The differences in values and practices, religion and language are taken into consideration when initiating business activity on foreign markets (the average of respondents’ answers differs from 3.09 to 3.53). Cultural factors are less important in the process of undertaking business activity on a certain market (the average of respondents’ answers differs from 2.0 to 2.54).

Managers of less internationalized companies, that is to say those exporting less than 25% of the total value of sales, perceive differences in values and practices, differences in religion and differences in languages as the most significant in making adecision about withdrawalfrom a certain market (the average of respondents’ answers is 4.83).

Managers of highly internationalized companies, that is to say those operating on more than three continents, perceive differences in values and practices, as well as differences in religion and language in making decisions about withdrawal from a certain market to be most significant (the average of respondents’ answers equals 2.46).

CONCLUSIONS, LIMITATIONS AND FUTURE RESEARCH

Conclusions

The fundamental purpose of this study was to draw scholarly attention to the link between one of the psychic distance stimuli, namely cultural differences, and managers' decisions on internationalization. The results are treated as an initial step towards quantitative research on the impact of psychic distance (including differences in national cultures) on internationalization.

The results indicate that cultural differences are still relevant in the decision-making process as it relates to internationalization and that these aspects should not be ignored in future research. The managers described examples of differences in cultural values and practices as well as differences in religion and languages. These factors are taken into consideration in the decision-making process as it relates to developing business activity abroad; however, theyare not treatedas a barrier to internationalization. Managers agreed that they are able to overcome such barriers to undertake business activity together with foreign partners.

The respondents reveal that the main differences in values and practices relate to the different working styles and business practices in various countries as well as to behavior during negotiations. For them, the most important factors are trust and the process of building business relationships. Also mentioned were the perception of a country by foreign partners, the 'country of origin' effect and the adaptation of marketing-mix instruments to local cultures. A further important factor mentioned is the role of nationality in demands made towards foreign markets. The respondents also took into consideration the impact of globalization on reducing cultural differences. Although national culture is important, the organizational culture of a company and the decision-making process within the company are equally relevant.

These managers have different opinions onthe role of differences in religion in the decision-making process as it relates to internationalization. Some respondents state that religion has no effect on business. Some managers mentioned the role of women in business withindifferent religions (especially Islam), and the impact of differences in religion on the formulation of marketing strategy. Some managers believe that religion has an effect on business ethics and the role of trust in business transactions.

Regarding language differences,the respondents were aware of the necessity of employing staff proficient in local languages as a tool for reducing barriers in communication; however, they agreethat English is the predominant language of international business. Additionally, non-verbal communication is an important factor in negotiations.

The managers also evaluated the significance of cultural stimuliin the process of internationalization. These managersstate, that the most significant factorwhich impacts decisions relating to internationalization isdifferences in language, an aspect which may affectthe choice of direction of a company's foreign expansion or the number of countries subject to a company's foreign expansion.

Because research was conducted on a sample of Polish companies who internationalize their activity mainly through export activity (both direct and indirect) and who do not invest a significant share of their capital abroad, such measures of internationalization could not be taken into consideration. Results of research not described in this article reveal that other psychic distance stimuli (differences in economic and political systems) have a greater impact on internationalization. This may be due to the fact that the sample of companies consisted mainly of medium-sized and large companies with vast experience operating on foreign markets, which in turn could make managers less vulnerable to the effects of cultural differences. Their knowledge and experience in operating on foreign markets help to overcome the challenges posed by cultural and historical differences. Furthermore, large companies seem to be more aware of the importance of the economic and political factors of psychic distance and the need to adapt their strategies to these circumstances.

Limitations and future research

As with any study, the results should be interpreted in light of some limitations. The study was conducted within the context of one country, which may limit the generalizability of the results to some degree. Therefore, additional research should aim to test the framework in other countries as well.

Second, the use of managers responsible for foreign operations introduces a potential limitation in that it is possible that these managers do not constitute samples representative either of other managers or of the general population. In this study, the respondents were more likely to be more experienced in operating on foreign markets and in aspects of culture than the general population. However, individual values are acquired early in childhood and are stable over time, which suggests that the potential effect of this limitation is somewhat reduced.

The article presents the results of research on managers' perceptions of the importance of cultural factors in the process of internationalization. The aim of the qualitative research conducted by the authors was also to identify the impact of other psychic distance stimuli, such as differences in economic and political factors, as well as differences in mentality and geographic distance, on the internationalization process. The results of this researchwill be presented in further articles.

In the future, further research of a quantitative nature is needed, which will enable testing of the hypothesis and projection of the results onto the entire population. In general, further research in this field should provide a more comprehensive picture of the importance of psychic distance stimuli and allow for a more precise evaluation of its relationship with internationalization. Such quantitative research is in fact planned, and will be conducted by means of face-to-face interviews on a sample of 200 companies. The main objective of this quantitative research will be the identification of the importance of cultural and systemic (economic and political) differences, as well as differences in mentality and geographic distance between Poland and the foreign markets into which Polish companies expand.

Another direction of conducting research on the importance of psychic distance in the process of companies' internationalization is international comparisons covering the region of CEE countries. The aim of this research will be the identification of the main differences of perceptions of psychic distance by managers representing CEE countries.

Managerial implications

The results of this research entail several implications for international business managers, who will hereafter be able to identify cultural factors which impact on the international activity of their companies. Research results could be treated as a guide as to how to increase their company's engagement in foreign markets notwithstanding the cultural differences between the company's home and the host country. To be able to select and expand into culturally distant markets, managers would not only need to acquire and develop typical cross-cultural skills for international management, such as languages, but also increase their understanding of other distance-creating factors, such as religion or national backgrounds.

ENDNOTES

[1] For obvious reasons, psychic distance is correlated with geographic distance. However, exceptions are easy to find. Some countries are far apart geographically, e.g. England and Australia, but for different reasons they are 'near' each other in terms of psychic distance. The USA and Cuba are near neighbours other geographically, but, for political reasons, far apart with regard to psychic distance. As these examples indicate, psychic distance is not constant but rather volatile, due to the development of communication systems, trade and other kinds of social exchange.

REFERENCES

ALBAUM, G., STRANDSKOV, J., ANDDUERR, E. (2002): *International Marketing and Export Management*. Harlow: Prentice Hall.

AVLONITI A., ANDFILIPPAIOS F. (2014): Unbundling the differences between Psychic and Cultural Distance: An empirical examination of the existing measures. *International Business Review*, 23(3):660-674. http://dx.doi.org/10.1016/j.ibusrev.2013.11.007

BILKEY, W.J., AND TESAR, G. (1977): The export behaviour of smaller Wisconsin manufacturing firms. *Journal of International Business Studies*, 8(2): 93-98. http://dx.doi.org/10.1057/palgrave.jibs.8490783

BREWER, P.A. (2007): Operationalizing Psychic Distance: A Revised Approach. *Journal of International Marketing*, 15(1): 44-66. http://dx.doi.org/10.1509/jimk.15.1.044

BREWER, P., ANDVENAIK, S. (2012): On the misuse of national culture dimensions. *International Marketing Review*, 29(6): 673-683. http://dx.doi.org/10.1108/02651331211277991

CLARK, T., AND PUGH, D.S. (2001): Foreign country priorities in the internationalization process: a measure and an exploratory test on British firms. *International Business Review*, 10(3): 285-303. http://dx.doi.org/10.1016/s0969-5931(97)00034-6

DOW, D., KARUNARATNA, A. (2006): Developing a multidimensional instrument to measure psychic distance stimuli. *Journal of International Business Studies*, 37(5): 578-602. http://dx.doi.org/10.1057/palgrave.jibs.8400221

DOW, D., LARIMO, J. (2009): Challenging the Conceptualization and Measurement of Distance and International Experience in Entry Mode Choice Research. *Journal of International Marketing Research*, 27(2): 74-98. http://dx.doi.org/10.1509/jimk.17.2.74

Dow D., Larimo J. (2011): Disentangling the roles of international experience and distance in establishment mode choice. *Management International Review*, 51(3): 321-355. http://dx.doi.org/10.1007/s11575-011-0080-5

ERIKSSON, K., MAJKGARD, A., AND SHARMA, D. (2000): Path Dependence and Knowledge Developments in the Internationalization Process. *Management International Review*, 40(4): 307-328. http://dx.doi.org/10.1057/palgrave.jibs.8490104

EVANS, J., MAVONDO, F.T. (2002): Psychic distance and organizational performance: An empirical examination of international retailing operations. *Journal of International Business Studies*, 33(3): 515-533. http://dx.doi.org/10.1057/palgrave.jibs.8491029

EVANS, J., TREADGOLD, A., MAVANDO, F. (2000): Explaining export development through Psychic Distance. *International Marketing Review*, 17(2): 164-168. http://dx.doi.org/10.1108/02651330010322688

GHEMAWAT, P. (2001): Distance still matters. The hard reality of global expansion. *Harvard Business Review*, 97(8): 137-147.

GROSSE, R., TREVINO, L. (1996): Foreign direct investment in the United States: An analysis by country of origin. *Journal of International Business Studies*, 27(1): 139-155.http://dx.doi.org/10.1057/palgrave.jibs.8490129

HÅKANSON, L., AMBOS, B. (2010): The antecedents of psychic distance. *Journal of International Management*, 16(3): 195-210. http://dx.doi.org/10.1016/j.intman.2010.06.001

HOFSTEDE, G. (1980): *Culture's consequences: International Differences in Work – Related Values*. Thousand Oaks, California:, Sage. http://dx.doi.org/10.1002/job.4030030208

HOLZMUTTER, H., KASPER, H. (1990): The decision-maker and export activity: a cross – national comparison of the foreign orientation of Austrian managers. *Management International Review*, 30(3): 217-230.

JOHANSON, J., VAHLNE, J.E. (1977): The Internationalisation Process of a Firm: A Model of Knowledge Development and Increasing Foreign Markets Commitments. *Journal of International Business Studies*, 8(1): 23-32. http://dx.doi.org/10.1057/palgrave.jibs.8490676

KEEGAN, W.J.(1989): *Global Marketing Management*. Englewood Cliffs: Prentice Hall.

KIM, Y GRAY S. (2009): An assessment of alternative empirical measures of cultural distance: Evidence from the Republic of Korea, *Asia Pacific Journal of Management*, 26(1): 55-74. http://dx.doi.org/10.1007/s10490-007-9061-4

KLEIN, S., ROTH, V.J. (1990): Determinants of export channel structure: the effects of experience and psychic distance reconsidered. *International Marketing Review*, 7(5): 27-38. http://dx.doi.org/10.1108/eum0000000001533

KOGUT, B., SINGH, H. (1988): The Effect of National Culture on the Choice of Entry Mode. *Journal of International Business Studies*, 19(3): 411-432. http://dx.doi.org/10.1057/palgrave.jibs.8490394

LUOSTARINEN, R. (1980): Internationalization of the Firm. *ActaAcademica Series A*: *30*, The Helsinki School of Economics, Helsinki.

NORDSTRÖM, K.A., VAHLNE, J.E. (1992): Is the globe shrinking? Psychic distance and the establishment of Swedish sales subsidiaries during the last 100 years. In M. Landeck (Ed.), *International Trade: Regional and Global Issues* (pp. 41-56). New York: St. Martin's Press.

O'GRADY, S., LANE, H.W. (1996): The psychic distance paradox. *Journal of International Business Studies*, 27(2): 309-333. http://dx.doi.org/10.1057/palgrave.jibs.8490137

PRIME, N., OBADIA, C., VIDA, I. (2009): Psychic distance in exporter–importer relationships: A grounded theory approach. *International Business Review*, 18(2): 184-198. http://dx.doi.org/10.1016/j.ibusrev.2009.02.011

SHOHAM, A., ALBAUM, G.S. (1995): Reducing the impact of barriers to exporting: a managerial perspective. *Journal of International Marketing*, 3(4): 85-105.

SIMPSON, J., AND WEINER, E. (1989): *The Oxford English Dictionary*. Oxford: Oxford University Press.

SOUSA, C.M.P., AND BRADLEY, F. (2005): Global markets: does psychic distance matter? *Journal of Strategic Marketing*, 13(5): 43-59. http://dx.doi.org/10.1080/0965254042000328668

SOUSA, C.M.P., AND BRADLEY, F. (2008): Antecedents of international pricing adaptation and export performance. *Journal of World Business*, 43(3), 307-320. http://dx.doi.org/10.1016/j.jwb.2007.11.007

STOTTINGER, B., SCHLEGELMILCH, B. (2000): Psychic Distance: A Concept Past its Due Date? *International Marketing Review*, 17(2): 169-173. http://dx.doi.org/10.1108/02651330010322723

VAHLNE, J.-E., WIEDERSHEIM-PAUL, F. (1973): *Economic Distance: Model and Empirical Investigation*. Uppsala: Department of Business Administration, University of Uppsala.

FIGURES AND TABLES

Psychic distance stimuli National-level factors which may distort the flow of information between markets	**National Cultural Distance** (e.g. differences in Hofstede's national cultural dimensions)	**Perceived psychic distance**
	Language Distance (e.g. differences in languages at the national level)	
	Institutional Distance (e.g. differences in legal, political, educational or religious institutions)	
	Other Forms of Distance (e.g. the listed stimuli are not necessarily exhaustive)	

National-level Exogenous ***Individual–Level***

Perceptions of Differences ***Differences***

Figure 1. Schematic illustration of the different forms of distance

Source: Dow&Larimo(2009)

Table 1
Characteristics of sampled Polish companies (CompaniesA–E)

Company symbol	A	B	C	D	E
Year of establishment	**1973**	**1922**	**1951**	**1992**	**1989**
Industry	**furniture**	**mining**	**mining**	**FMCG**	**cosmetics**
Key changes in structure	1973 – establishmentby a private entrepreneur (family- owned company)	1922 – establishment of the private company 1951 – transformation the company into the state treasury company 2002 – purchasing with the status ofbankruptcy by a private investor	1951 – establishment of the state owned company 1993 – transformationfrom a state-run company into a state treasury company	1992– establishment by a private entrepreneur (family-owned company)	1989 –establishmentby a private entrepreneur (family-owned company)
Total sales **2005** **2010** **2012** **2013**	 126927964 116775038 140423837 124233022	 240000000 664000000 1200000 000	 4780 059.3 2 947 758.6 3472 672.3	 166 000 000 476 300 000 460 000 000	 NA
Foreign sales **2005** **2010** **2012** **2013**	 33111000 16016000 19095000 14973505	 60000000 95000000 260000 000	 4659 655.2 2721 285.3 2728 095.5	 12 231 000 19 976 000	 NA
Company symbol	**A**	**B**	**C**	**D**	**E**
Starting year of foreign sales	2001	2005	1951	2005	2000
First foreign expansion market	Czech Republic, Russia, Ukraine,Great Britain	Russia	Germany,Russia	Germany	Lithuania
Other foreign expansion markets	Europe (Hungary, Croatia, Denmark, Spain, the Netherlands, Latvia, Lithuania, France, Russia, Romania, Belarus, Latvia, Slovakia, Great Britain, Kazakhstan, Slovenia, Estonia, Serbia, Norway, Switzerland, Belgium,Ghana, Canada,Japan, the USA,Israel	Mexico, Russia, Indonesia, Turkey, India, Ukraine, Kazakhstan, Argentina, European markets (Germany, Czech Republic, Austria, Slovakia, Hungary), Africa (Morocco, Egypt), South America	European countries, Morocco, Turkey, Brazil, Japan, Egypt, Argentina, the USA	Denmark, the Netherlands, Belarus, Czech Republic, Slovakia, Romania, Bulgaria, Italy, Spain, Great Britain, Ireland	Russia, Ukraine, Belarus, Lithuania
Market expansion (years)	13		63	10	14
First foreign subsidiary	–	-	Austria	–	–
Foreign manufacturing units	–	Russia, Ukraine, Kazakhstan	–	–	–
Exit from foreign markets	–	2007 – Iran	–	–	–

Table 2
Characteristics of sampled Polish companies (CompaniesF–J)

Company symbol	F	G	H	I	J
Year of establishment	**1945**	**1996**	**1953**	**1993**	**1992**
Industry	**chemistry**	**automobile**	**automation**	**cosmetics**	**chemistry**
Key changes in structure	1945 – formed asgovernment-owned corporation, 1995 – transformation into a limited liability company	1996 – establishmentby a private entrepreneur (family- owned company)	1953 – establishment by aprivate entrepreneur	1993 – establishmentby a private entrepreneur (family- owned company)	1992 – establishment of two partnerships
First foreign expansion market	Czech Republic	Czech Republic	France	Ukraine	**Germany**
Other foreign expansion markets	Great Britain, Singapore, Austria, Hungary, Sweden, Germany, Finland,Nigeria. Russia, Bulgaria, Vietnam, Czech Republic,Slovakia	Austria,Belgium, Bosnia, Bulgaria,Denmark,Estonia,Finland, France,Greece,Spain,Israel,Latvia,Lithuania,Malta,Germany,Norway,Portugal,Russia,Romania,Serbia,Slovakia,Switzerland,Sweden, Turkey,Hungary,Italy,United Arab Emirates	Europe (France, Germany, Italy, Austria, Czech Republic, Slovakia, Hungary, Montenegro, Macedonia, Croatia, Bulgaria, Ukraine, Belarus, Russia, North America (the United States), South America(Mexico, Brazil)	European Union countries (Austria, Bulgaria, Denmark, Estonia, Greece, the Netherlands, Germany, Great Britain, Greece, Hungary, Ireland, Latvia, Romania, Slovakia), Eastern Europe (Belarus, Russia), Armenia, Canada, Egypt, Kazakhstan, Norway, South Korea, the USA	Slovakia, Germany, Spain, Italy, Hungary, Bulgaria, Romania, Ukraine, South Korea, the USA,Kazakhstan
Total sales **2005** **2010** **2012/2013**	2200000 000 4000000 000 3500000 000	659000000 1298000000 1301000000 1502000 000	19400000 17900000 13700000 14500 000	100000000 130000000 135000 000	322 000 000 879 000 000 1 061 000 000
Foreign sales **2005** **2010** **2012** **2013**	1200000000 2500000000 1000000 000	487000000 809000000 833000000 1177000000	11300000 13500000 11500000 12400 000	3 000000 6500000 8100 000	- 639 000 000 767 000 000
Starting year of foreign sales	**1945**	**2004**	**1999**	**2002**	**2000**
Market expansion (years)	**69**	**10**	**15**	**13**	**14**
First foreign subsidiary	Czech Republic, 1948	Czech Republic, 1999	–	–	Romania 2001
Foreign manufacturing units	Romania, Germany	–	–	–	Spain, Brazil, Turkey, China
Exit from foreign markets	–	–	–	–	–

Table 3
Characteristics of sampled Polish companies (CompaniesK–M)

Company symbol	K	L	M
Year of establishment	1953	1989	1991
Industry	**aluminum profiles**	**pharmaceutical**	**ICT**
Key changes in structure	1953 – establishment as a state-owned company 1993 – transformation into a limited liability company	1989 – company establishment	3 offices in Poland
Total sales **2005** **2010** **2012** **2013**	 165 000 000 196 000 000 510 000 000	 151 586 000 378 595 000 406 303 000 340 358 000	 80 000 000 200 000 000 263 000 000
Foreign sales **2005** **2010** **2012** **2013**	 43 000 000 64 000 000 117 000 000	 26 993 000 255 595 000 309 803 000 219 358 000	 78 000 000 195 000 000 245 000 000
Starting year of foreign sales	**2003**	**1999**	**1991**
First foreign expansion market	Germany	Latvia	Sweden, Ukraine
Other foreign expansion markets	EU countries, Switzerland, Norway, Turkey, Ukraine, the USA	China, Russia, Thailand, the Philippines, Indonesia, South Korea, Singapore, Malaysia, Australia, Vietnam, Belarus, Ukraine, Italy, Egypt, Uzbekistan, Hong Kong, Algeria, Dominican Republic, Guatemala, Costa Rica, Panama, Paraguay, Kazakhstan, Kyrghyzstan, Armenia, Sao Tome and Principe Islands	Western Europe, Scandinavian countries, the USA, Canada
Market expansion (years)	**16**	**14**	**23**
First foreign subsidiary	Hungary – 2004	Russia – 2004	–
Foreign manufacturing units	Ukraine	Italy, Ukraine, India	Belarus, Ukraine, Sweden
Exit from foreign markets	–	Russia – 2010, Israel – 2012	The Netherlands – 2001, Mexico – 2009

Table 4
Managers' perceptions of the importance of cultural differences in the process of internationalization

Company	The importance of psychic distance	Differences in values and practices	Differences in religion	Differences in languages
A	Psychic distance exists and has a significant impact on decisions relating to internationalization and on the rules of conducting business on international markets	– Working styles, business practices	– The role of women in business, – Conflicts on grounds of religion	– The necessity of employing staff proficient in the local language as a tool for reducing barriers in communication, – The importance of non-verbal communication
B	Psychic distance exists, but is not important in the decision-making process as it relates to internationalization	– Country of origin effect (good quality of European products) – Behavior during negotiations	– The role of women in business, – Different dates of holidays, – "There is no religion which forbids business or trade, but there are some beliefs which make doing business difficult"	– The length of the negotiation process, – The necessity of employing staff proficient in local languages and familiar with local customs, – Physical distance between negotiating partners
C	Psychic distance exists, but it is not important in the decision-making process as it relates to internationalization	– The impact of globalization on reducing cultural differences – Behavior during negotiations	– No impact of religion on business and decisions relating to internationalization	– English as the language of business in international markets
D	Psychic distance exists and has a significant impact on decisions relating to internationalization and on the rules of conducting business on international markets	– The role of women during negotiations in Arabic countries	– The impact of Islam and Christianity on business	– Language barrier in Eastern European countries, – The necessity of knowing local languages
E	Psychic distance exists and has a significant impact on decisions relating to internationalization and on the rules of conducting business on international markets	– Trust in negotiations – Building relations in business	– The impact of differences in religion on marketing-mix instruments	– The impact of language differences on establishing international business relations
F	Psychic distance exists, but is not important in the decision-making process as it relates to internationalization	– No importance of values and practices in international business activity – The importance of organizational cultures	– Differences in religion not treated as a barrier to internationalization	– Language differences as a barrier to communication and internationalization
G	Psychic distance exists, but is not important in the decision-making process as it relates to internationalization	– The customs of inhabitants in certain countries – The role of women in different national cultures – Adaptation of marketing-mix instruments to local cultures	– Different calendar of holidays in different religions	– Necessity of employing staff proficient in local languages
H	Psychic distance exists, but is not important in the decision-making process as it relates to internationalization	– Concentration on transaction versus concentration on relationships – The importance of time in	– Different importance of religion in different countries	– English as an international language even in Eastern European countries

		negotiations – No importance of national values and practices in negotiations		
I	Psychic distance exists and has a significant impact on decisions relating to internationalization and on the rules of conducting business in international markets	– The role of work in life – The decision making process – The role of communist regimes in business activity – The role of trust in business activity	– The importance of religion in Islamic countries	– The necessity of employing staff proficient in local languages and familiar with local cultures, especially for Eastern European countries
J	Psychic distance exists, but is not important in the decision-making process as it relates to internationalization	– The role of the contract in business – The role of experience in overcoming cultural differences	– No importance of religion in decisions relating to internationalization	– The importance of language differences in the initial stage of negotiations
K	Psychic distance exists and has a significant impact on decisions relating to internationalization and on the rules of conducting business in international markets	– The role of nationality in demands toward foreign markets, – The role of nationality in building relations	– The impact of religion on business ethics in different national cultures	– The superiority of French language and culture
L	Psychic distance exists and has a significant impact on decisions relating to internationalization and on the rules of conducting business in international markets	– The role of organizational culture in negotiations – The perceptions of Poland by foreign partners (as a country 'stuck' to Russia and Eastern Europe)	– Business ethics, reassurance of transaction – The role of trust in business transactions	– The level of openness in communication between managers representing different countries
M	Psychic distance exists and has a significant impact on decisions relating to internationalization and on the rules of conducting business in international markets	– Differences in culture as an advantage in communication	– The role of castes in India	– The misinterpretation of words and expressions by the representatives of different cultures

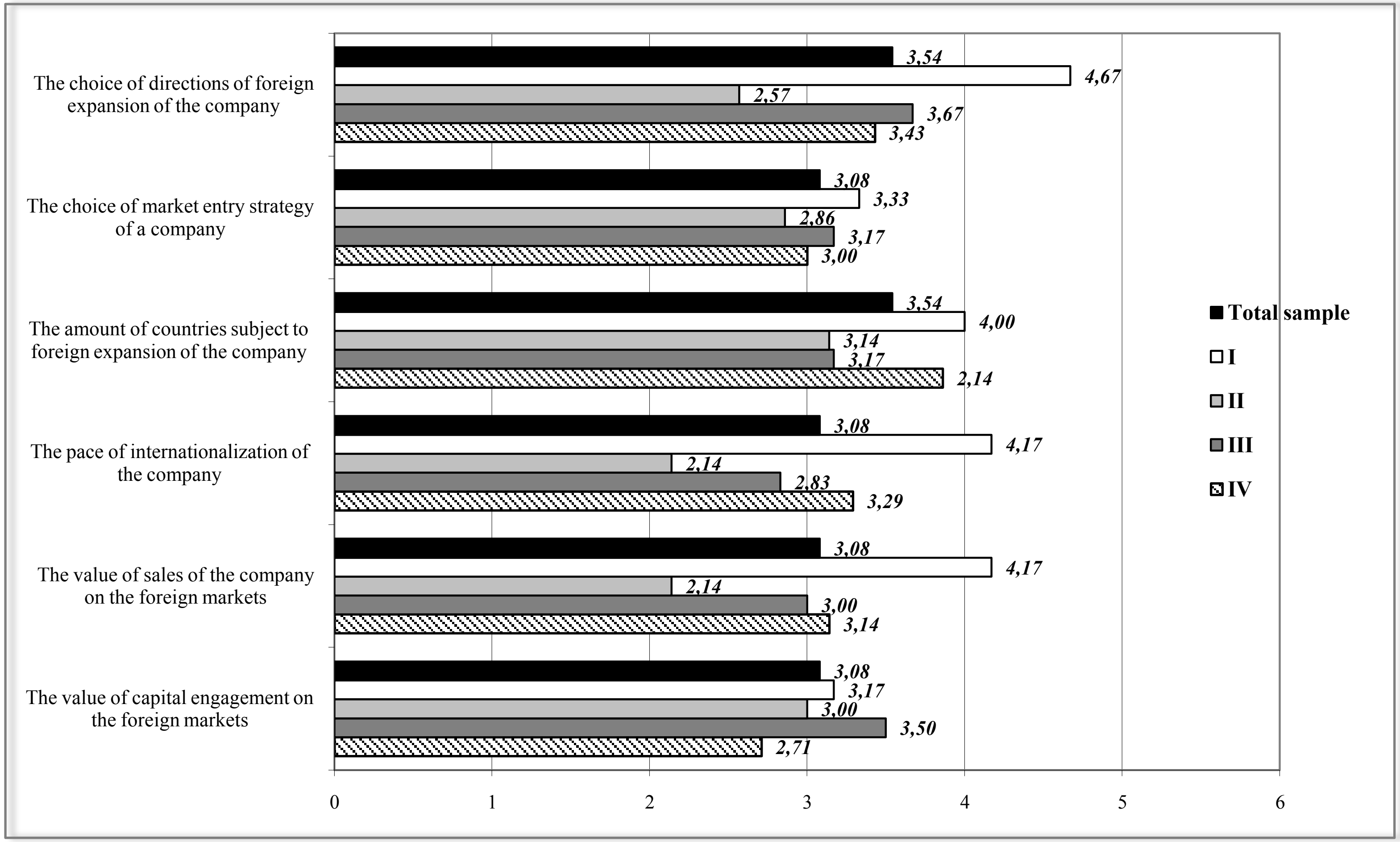

Figure 2. The significance of differences in values and practices in the process of companies' internationalization

I – Subsample of less internationalized companies (in terms of value of foreign sales) **A, B, D, E, I, K**
II – Subsample of highly internationalized companies (in terms of value of foreign sales) **C, F, G, H, J, L, M**
III – Subsample of less internationalized companies (in terms of value of number of continents the company operates) **D,E, F, G, H, K**
IV – Subsample of highly internationalized companies (in terms of number of continents the company operates) **A, B, C, I, J, L, M**

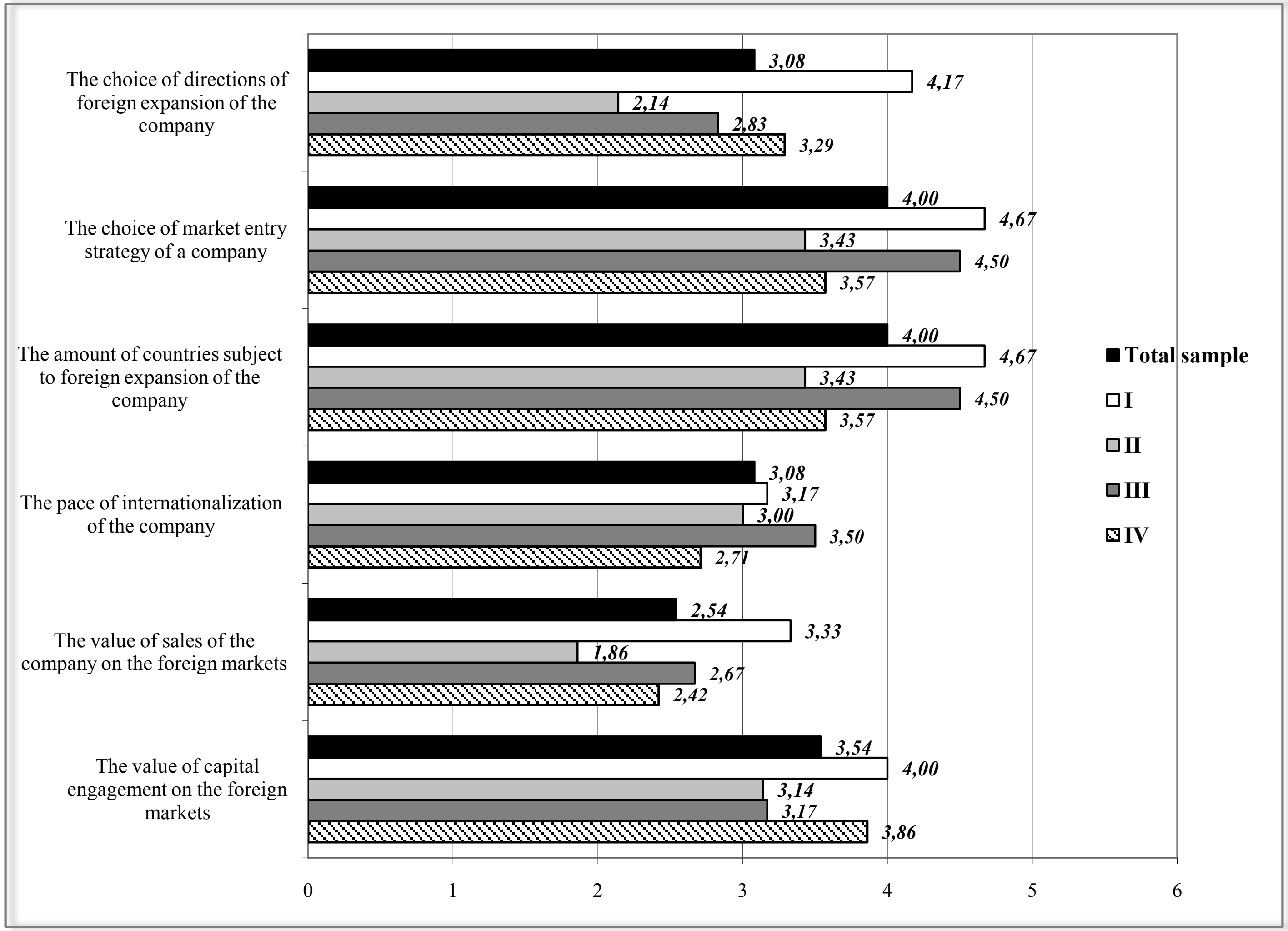

Figure 3.The significance of differences in religion in the process of companies' internationalization

I – Subsample of less internationalized companies (in terms of value of foreign sales) **A, B, D, E, I, K**
II – Subsample of highly internationalized companies (in terms of value of foreign sales) **C, F, G, H, J, L, M**
III – Subsample of less internationalized companies (in terms of value of number of continents the company operates) **D,E, F, G, H, K**
IV – Subsample of highly internationalized companies (in terms of number of continents the company operates) **A, B, C, I, J, L, M**

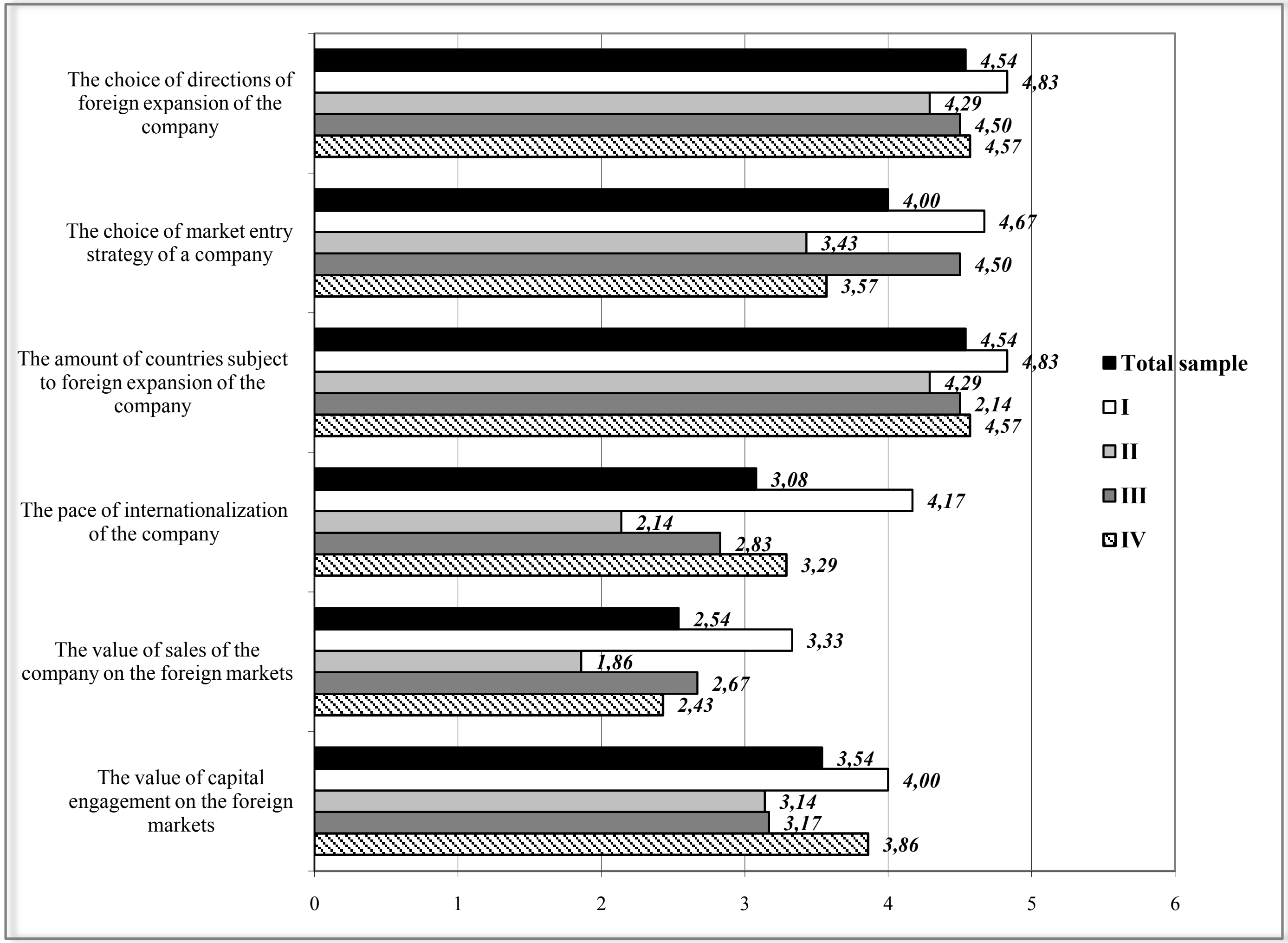

Figure 4.The significance of differences in languages in the process of companies' internationalization

I – Subsample of less internationalized companies (in terms of value of foreign sales) **A, B, D, E, I, K**
II – Subsample of highly internationalized companies (in terms of value of foreign sales) **C, F, G, H, J, L, M**
III – Subsample of less internationalized companies (in terms of value of number of continents the company operates) **D,E, F, G, H, K**
IV – Subsample of highly internationalized companies (in terms of number of continents the company operates) **A, B, C, I, J, L, M**

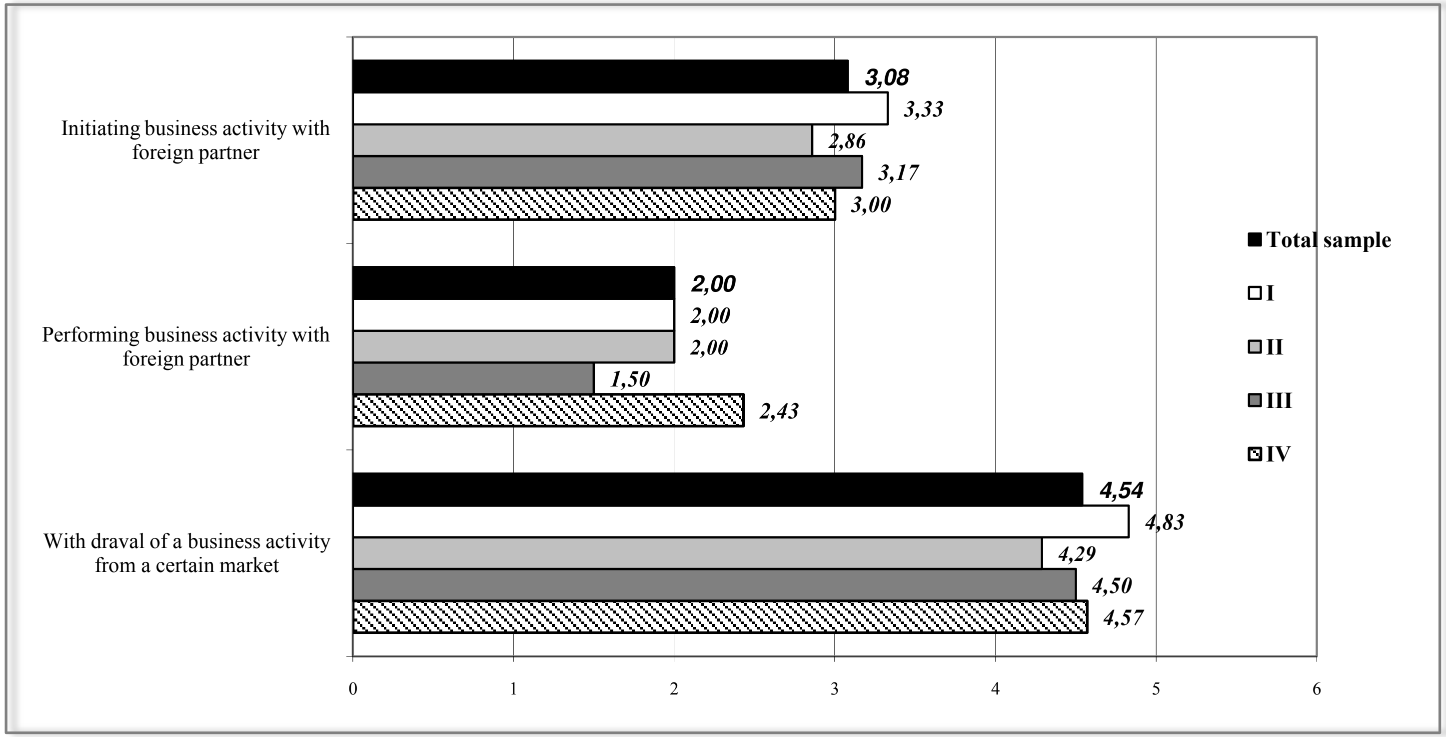

Figure 5. The significance of differences in values and practices in international business activity

I – Subsample of less internationalized companies (in terms of value of foreign sales) **A, B, D, E, I, K**
II – Subsample of highly internationalized companies (in terms of value of foreign sales) **C, F, G, H, J, L, M**
III – Subsample of less internationalized companies (in terms of value of number of continents the company operates) **D,E, F, G, H, K**
IV – Subsample of highly internationalized companies (in terms of number of continents the company operates) **A, B, C, I, J, L, M**

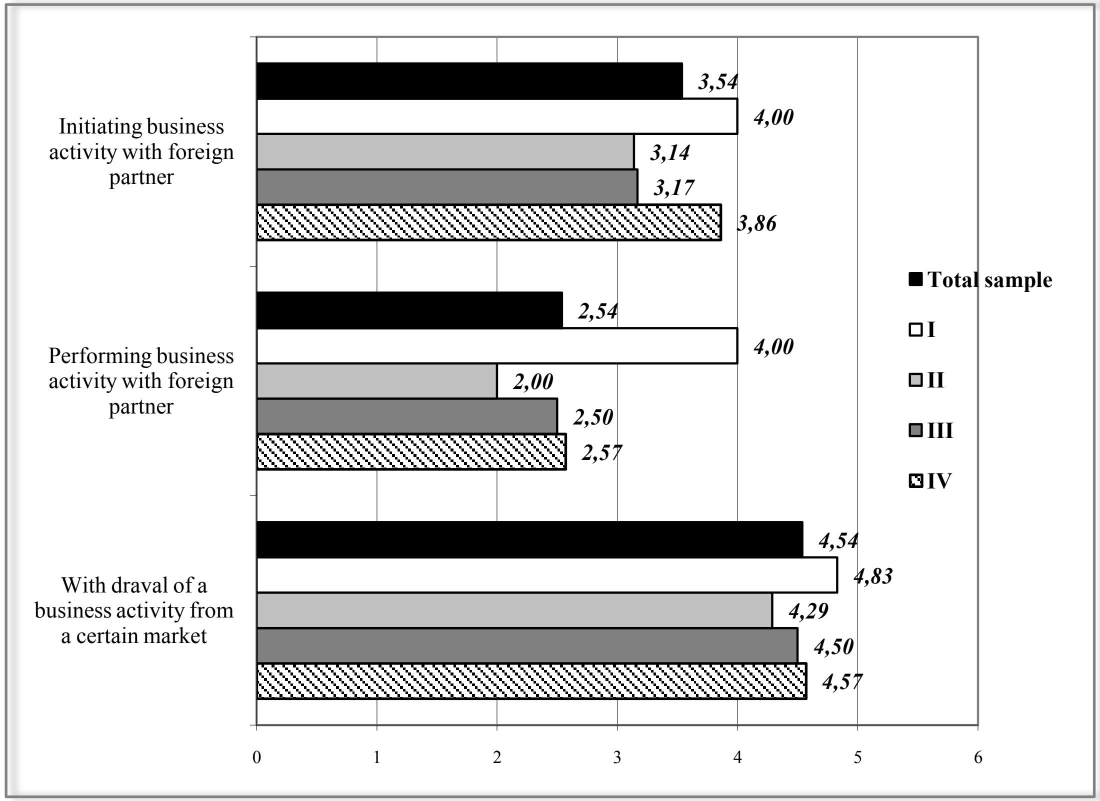

Figure 6. The significance of differences in religion in international business activity

I – Subsample of less internationalized companies (in terms of value of foreign sales) **A, B, D, E, I, K**
II – Subsample of highly internationalized companies (in terms of value of foreign sales) **C, F, G, H, J, L, M**
III – Subsample of less internationalized companies (in terms of value of number of continents the company operates) **D,E, F, G, H, K**
IV – Subsample of highly internationalized companies (in terms of number of continents the company operates) **A, B, C, I, J, L, M**

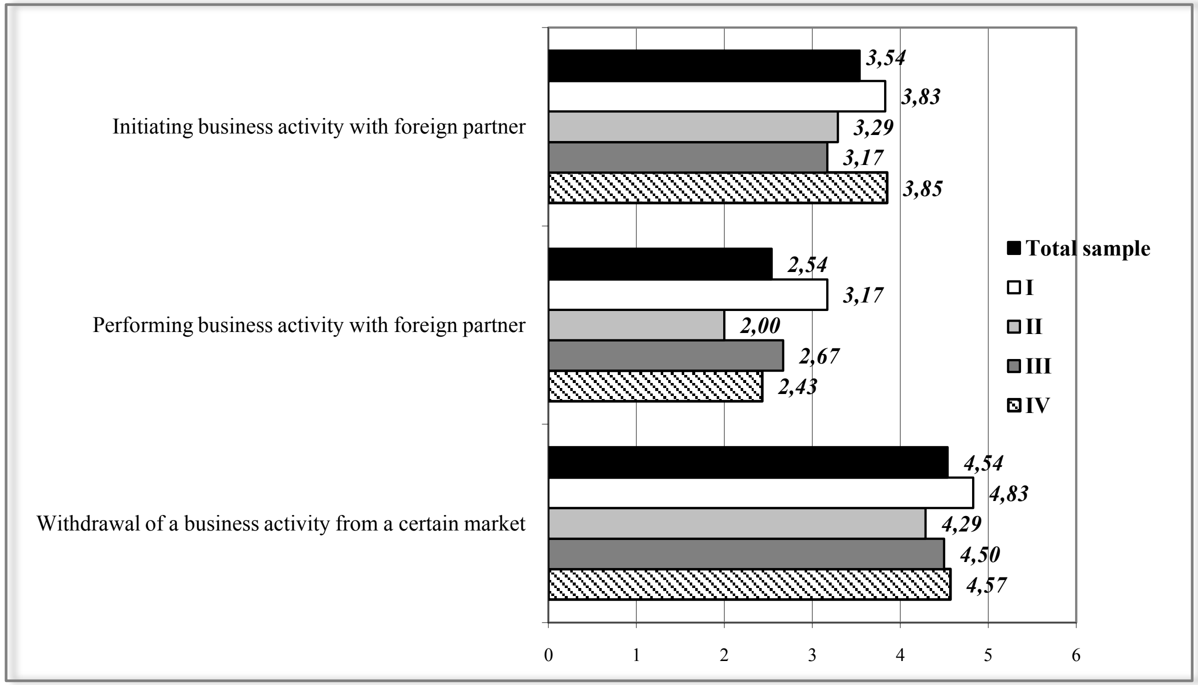

Figure 7. The significance of differences in languages in international business activity

I – Subsample of less internationalized companies (in terms of value of foreign sales) **A, B, D, E, I, K**
II – Subsample of highly internationalized companies (in terms of value of foreign sales) **C, F, G, H, J, L, M**
III – Subsample of less internationalized companies (in terms of value of number of continents the company operates) **D,E, F, G, H, K**
IV – Subsample of highly internationalized companies (in terms of number of continents the company operates)**A, B, C, I, J, L, M**

Corporate Income Tax Avoidance in the European Arena – Evidence and Remedies

TIBOR PÁL, PH.D
ASSOCIATE PROFESSOR

e-mail: stpal@uni-miskolc.hu

ZSÓFIA TÓTH
PH.D STUDENT

e-mail: d.tothzsofia@gmail.com

SUMMARY

According to the OECD, 4% to 10% of the global corporate income tax revenue, i.e. USD 100 to 240 billion annually, is lost due to corporate income tax avoidance (OECD, 2015). Although the existence of the issue is well-accepted by the tax policy makers of the developed world, it is extremely difficult to agree on an international tax policy standard which could reduce the vulnerability of the sovereign tax regimes. In this article, we summarize the historical background of corporate income tax avoidance, and provide evidence of its existence in the EU member states. In addition, we also examine a new international income tax model proposed by the European Commission and analyse the expected effects of the proposal onthe risk associated with tax avoidance in Europe.

Keywords: tax avoidance; tax reform; formulary apportionment
Journal of Economic Literature (JEL) codes: H26
DOI: http://dx.doi.org/10.18096/TMP.2015.02.06

INTRODUCTION

The development of the international business environment and the establishment of the modern form of multinational enterprise significantly reshaped the tax policy structures of countries in the 20th century, resulting in new issues which are stillnot solved as of today.

According to the research in the history of economics, the influential European powers were exporting capital to their colonies overseas as early as the 16th and 17th centuries. The investors located in the home country were capitalizing corporations and purchasing tangible and intangible assets in the colonies. Based on the international investor schemes of the 18th and 19th centuries, the European entrepreneurs were heading to Latin America, Asia or Africa to set up corporations by themselves. In these cases, the foreign capital was flowing to the host countries in such a way that no corporate and strategic dependencies to the home country existed; essentially, no structure of parent companies and subsidiaries was set up with certain exceptions (Vernon, 1972; Vernon, 2001). However, the technological developments of the 20th century significantly reshaped the weak relationship between the countries exporting and importing the capital. As the obstacles of the immense geographic distances diminished, the investors were able to direct and control their investments also from the home country. The time and the cost needed forpersonal communication with the foreign enterprises decreased significantly; therefore, intra-company strategic cooperation and control could emerge (Vernon, 1968), resulting in the development of intra-company transactions. Due to the above, currently 70 percent of world trade is derivedfrom intra-company transactions of multinational corporations(OECD, 2013).

CRITICAL REVIEW OF THE CURRENT INTERNATIONAL TAX REGIME

Not with standing the above, the current international tax policy principles are not aligned to the changing business circumstances and as a result, are not able to provide a stable economic environment to corporations and nation states. The current regulatory framework of international taxation allocates the income of the corporation to those countries where the corporation operates a fixed place of business (this is the so-called separate entity view) (Musgrave, 1972). However, the income allocated to suchplaces may include artificial revenues and expenses due to transfer prices of the intra-company transactions thatintentionally or unintentionally differ from the fair market values.

In 1933 the League of Nations proposed the introduction of the arm's length principle to handle the problem of transfer prices (Carroll, 1933). The definition of the arm's length price was not modified substantially in later decades. The work of the League of Nations was later overtaken by the OEEC and the OECD, which have also agreed on the application of the international tax model based on the arm's length principle. According to the current interpretation of the OECD, the arm's length price is the price which would be charged between independent enterprises in comparable transactions and circumstances (OECD, 2012, Article 9.1). Regardless ofthe income determined by national accounting principles, under the arm's length principle the intra-company transactions shall be viewed as transactions made between independent entities and if there is any price difference (and as such, profit difference) between the two, the income determined based on the arm's length price shall provide the income tax base.

Although the arm's length principle aims for a competitive neutrality among corporate groups and single enterprises (OECD, 2010, Article 1.7), it is not suitable to control the tax avoidance behaviour of multinational corporations. Earlier empirical research published in this topic provedthe existence of tax avoidance applying different methodologies. One group of studiesanalysed the correlation between the rate of tax burden and the volume ofincome allocated, comparing the corporate income tax rate to the accounting profit of the subsidiaries allocated to a given country. For example, Hines & Rice (1994) proved that any 1 percent increase of the corporate income tax rate results in a decrease of 2.3 percent of the corporation's profit before tax allocated to a given country. Grubert & Mutti (1991), Huizinga & Laeven (2008) had similar findings. Furthermore, based on European data, Bartelsman & Beetsma (2003) proved that with the increase of corporate income tax rates, the income tax revenue of the countries didnot increase simultaneously, because the volume of the income allocated to those countries decreased. Grubert (2003) applied another type of indirect method to analyse American multinational corporations; he found that in the case of corporate groups thatare present in high and low tax countries at the same time, intra-company transactions are more frequent. In addition, regarding the United States, Clausing (2006) proved that any 1 percent decrease of the corporate income tax rate of a foreign country resulted in a 1.9 percent increase inthe volume of intra-company transactions heading to that foreign country. Clausing (2006) and Avi-Yonah (2009) proved the existence oftax avoidance when analysing multinational corporations headquartered in the United States and found that the volume of the foreign sourced profit and the number of employees working in the same foreign country weresignificantly different.

METHODOLOGY AND DATASET

The empirical data related to the income taxation of multinational corporations are usually included in the tax returns and qualify asundisclosed information; in most developed countries tax legislation prohibits their publication. Therefore, similar to previous empirical studiesconducted in this topic, we could rely only on the published accounting information for the analysis. (The Hungarian accounting regulation provides for the publication of the income tax base in the explanatory notes; however, when analysing international issues, the information regarding a Hungarian member of a multinational corporation cannot be interpreted in itself.)

Regarding the research methodology, we relied on the practice followed by previous empirical studies prepared in the United States and in Europe. We reviewed the work of Sheffrin & Fulcher (1984), Shackelford & Slemrod (1998), Clausing & Lahav (2011) as far as the American economy is concerned. Within a European context, we analysed the methodology applied by Fuest et al. (2006), Devereux & Loretz (2008), Cline et al. (2011) and Oestreicher & Koch (2011).

Shackelford & Slemrod (1998) and later Devereux & Loretz (2008) estimated the income tax base by grossing up the income tax liability published in the financial statements. Under this step, they were dividing the tax liability by the nominal income tax rate (published in the tax legislation). In contrast to this methodology, Sheffrin & Fulcher (1984), Fuest et al. (2006) and Oestreicher &Koch (2011) defined the tax base as the book value of the profit or in certain cases, as the adjusted book value of the profit.

In our point of view, the methodology applied by Shackelford & Slemrod (1998), and later Devereux & Loretz (2008) would be appropriate to estimate the income tax base needed for the analysis. However, we disagree with the application of the nominal income tax rate and opt for the application of the effective income tax rates published by the Oxford University Centre for Business Taxation. Therefore, we determine the income tax base as follows:

$$\pi_i^{ALS} = \begin{cases} \frac{TAX_i^{ALS}}{T_i} & \text{if } TAX_i \geq 0 \\ \frac{TAX_i^{ALS}}{T_i} & \text{if } TAX_i < 0 \\ PBT_i & \text{if } TAX_i = \text{n.a.} \end{cases} \quad (1)$$

Equation 1. Estimate of the income tax base

where TAX represents the income tax liability published in the accounting statement, T represents the effective income tax rate of the member state, ALS represents the current regulatory framework based on the notion of Arm's Length Standard, and PBT represents the profit before tax.

We conducted our calculations based on the data available in the financial statements and additional financial reports of European multinational enterprises sourced from the Orbis database between April and June, 2013 (covering the 2011 financial year). We focussed on corporations operating in the car manufacturing, the retail and the tour operator industries. Altogether 3,551 companies headquartered in the EU member states belonging to 53 different corporate groups are involved in the analysis.

EVIDENCEOF TAX AVOIDANCE IN EUROPE

In order to prove the existence of the corporate income tax avoidance, we analysed the relationship between the income tax base of a given subsidiary (or group of subsidiaries) located in a member state and the production assets of the same subsidiary (or subsidiaries) registered in that same member state. Primarily, as proof of tax avoidance, we assumed that there is no stochastic relationship between these two, since multinational enterprises shift their profits to subsidiaries located in low tax countries, i.e. the location of the production and the location of the taxation of the profits originating from such activity diverge (OECD, 2013). Such profit shifting aims to erode the income tax base of the subsidiaries located in high tax countries, and the multinational enterprises often manipulate the prices of intra-company transactions to achieve that purpose. For other techniques aiming to avoid corporate income tax, see further OECD, 2013, Section 4: "Key tax principles and opportunities for base erosion and profit shifting".

Within this context, we analysed the geographic location of certain crucial production assets of the multinational enterprises, namely the fixed assets and the workforce (including the payroll costs and the numberof employees). Information regarding the corporations' fixed assets and workforce are generally available in the published financial statements; therefore, to determine the volume of such production assets we followed the definition of the national accounting standards of the EU member states. We defined the volume of the subsidiaries' fixed assets based on the data provided in the unconsolidated balance sheet of financial year 2011. Regarding the workforce we took the average of the payroll cost and the number of employeesalso published in the unconsolidated financial statements of 2011.

In order to test our hypothesis above, we applied a simple linear regression model where the income tax base distribution is regarded as the dependent variable and the distribution of the fixed assets is regarded as the explanatory variable. Based on Figure 1, it can be concluded that under the current income tax regime, the geographical distribution of the fixed assets does not determinethe tax base distribution (R^2= 0.167; P=0.002). This shows that the location of the fixed assets of the multinational enterprise cannot explain the location of the profit taxation.

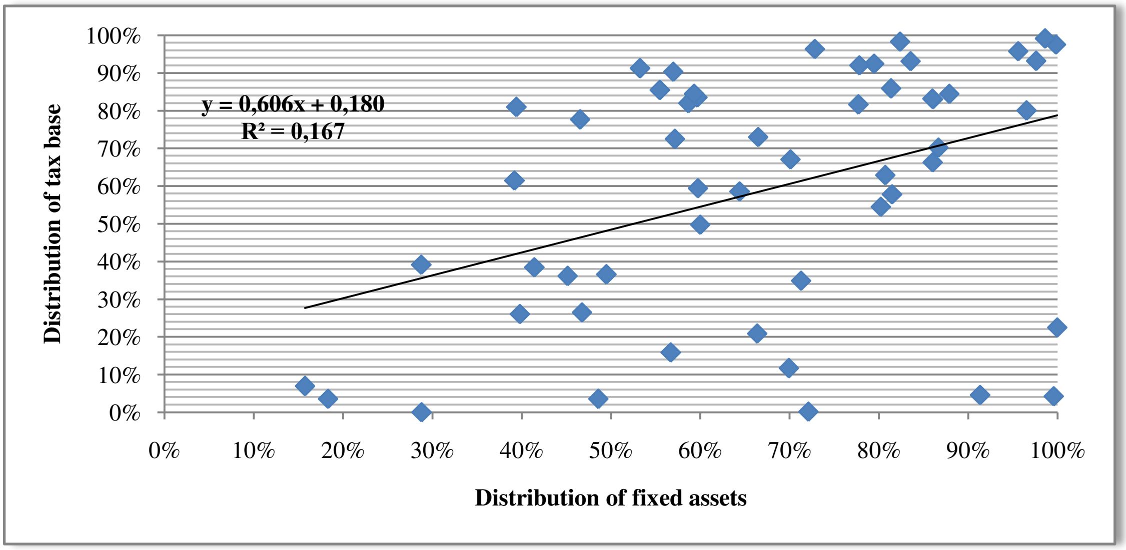

Figure 1. Relationship between the distribution of the tax base and the fixed assets
Source: authors'own elaboration

Wecarried outthe same test regarding the distribution of the workforce as well (Figure 2) and found that there is no stochastic relationship between the distribution of the tax base and the location of the workforce (R^2= 0.163; P=0.003).

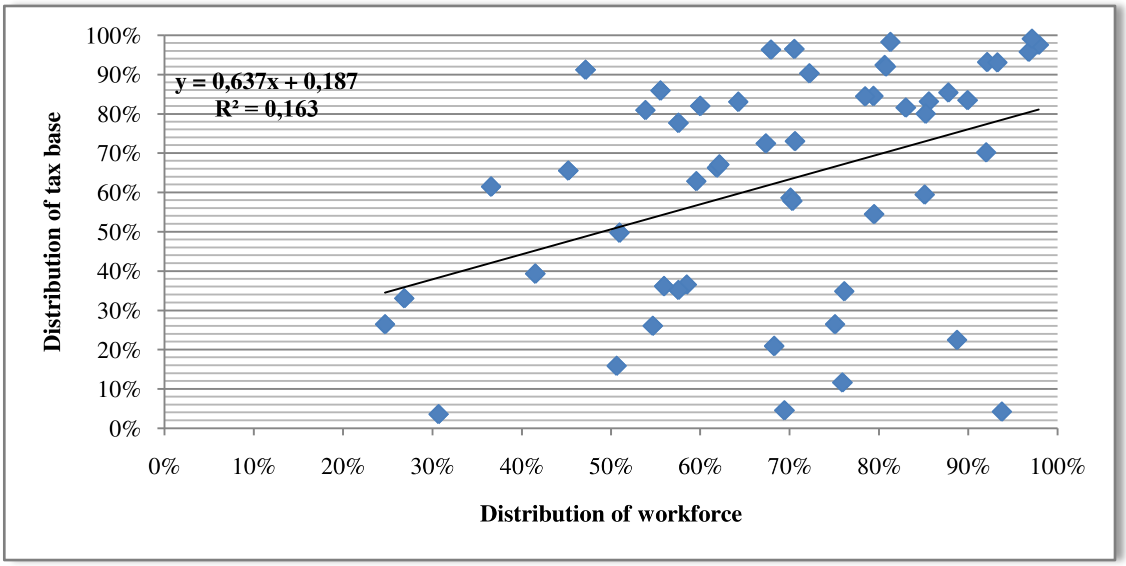

Figure 2. Relationship between the distribution of the tax base and the workforce
Source: author's own elaboration

POSSIBLE REMEDIES OF THE PROBLEM

The alternative of the current international tax regime views the income of the multinational enterprise on a consolidated basis and disregards the analysis of the corporate structure. Such a model allocates the proper volume of the taxable income to a countrybased on an allocation formula (Musgrave, 1972; Musgrave, 1995) (this is the so-called formulary apportionment).

Currently, both the OECD and the United Nations reject the international application of formulary apportionment; however, European tax harmonization efforts are aiming at the introduction of this alternative model within the European Union.The European Commission published arelated proposal in 2011: "Proposal for a Council Directive on a Common Consolidated Corporate Tax Base, COM (2011) 121/4", hereinafter: CCCTB proposal. Besides this there are numerous tax policy initiatives aiming for the samein other nations as well (Clausing & Avi-Yonah, 2008; Martens-Weiner, 2009).

According to the CCCTB Proposal, the consolidated income tax base of a multinational enterprise shall be allocated to a given EU member state based on the following index (Article 86.1):

$$\omega^m = \frac{1}{3} \times \left(\frac{1}{2} \times \frac{\text{payroll cost}^m}{\sum_{i=1}^{n} \text{payroll cost}} + \frac{1}{2} \times \frac{\text{employees}^m}{\sum_{i=1}^{n} \text{employees}}\right) + \frac{1}{3} \times \frac{\text{fixed assets}^m}{\sum_{i=1}^{n} \text{fixed assets}} + \frac{1}{3} \times \frac{\text{sales revenue}^m}{\sum_{i=1}^{n} \text{sales revenue}} \quad (2)$$

Equation 2. Allocation formula of the CCCTB proposal

The production assets included in the CCCTB Proposal are the fixed assets and the workforce (average of the payroll cost and the number of employees). In order to quantify the fixed assets factor, the European Commission reviewed the application of the historical cost, the fair market value, the net book value and the net tax value (the historical cost decreased by the tax depreciation cost) (European Commission, Directorate General Taxation and Customs Union, 2006) and the CCCTP Proposal recommends the application of the net tax value. The application of the net value versus the historical cost of the fixed assets is crucial, as the different timing of the investments could distort the allocation mechanism (the income tax base would be allocated to those member states where the multinational enterprise operates its newer investments) (Musgrave, 1984). Further questions are related to the effect of inflation and foreign exchange rate fluctuations on the fixed assets factor. As far as the workforce is concerned, the allocation formula of the CCCTB Proposal includes the average of the payroll cost incurred during the financial year and the number of employeesat financial year end. Several analyses have concluded that the application of the payroll cost itself would distort the allocation mechanism due to the immense differences in the wage levels between the member states (for example, see McLure, 2002).

Primarily, we were assuming that the model of formulary apportionment mentioned above is able to hinder the artificial profit shifting techniques, and therefore, is able to close a significant part of the loopholes for the corporate income tax avoidance. Similar to the analysis of the current income tax regime, we examined the relationship between the distribution of the tax base hypothetically allocated to a given EU member state in case the formulary apportionment model were introduced within a European context and the distribution (i.e. the location) of the fixed assets and the workforce.

First we made the test regarding the distribution of the fixed assets (Figure 3).

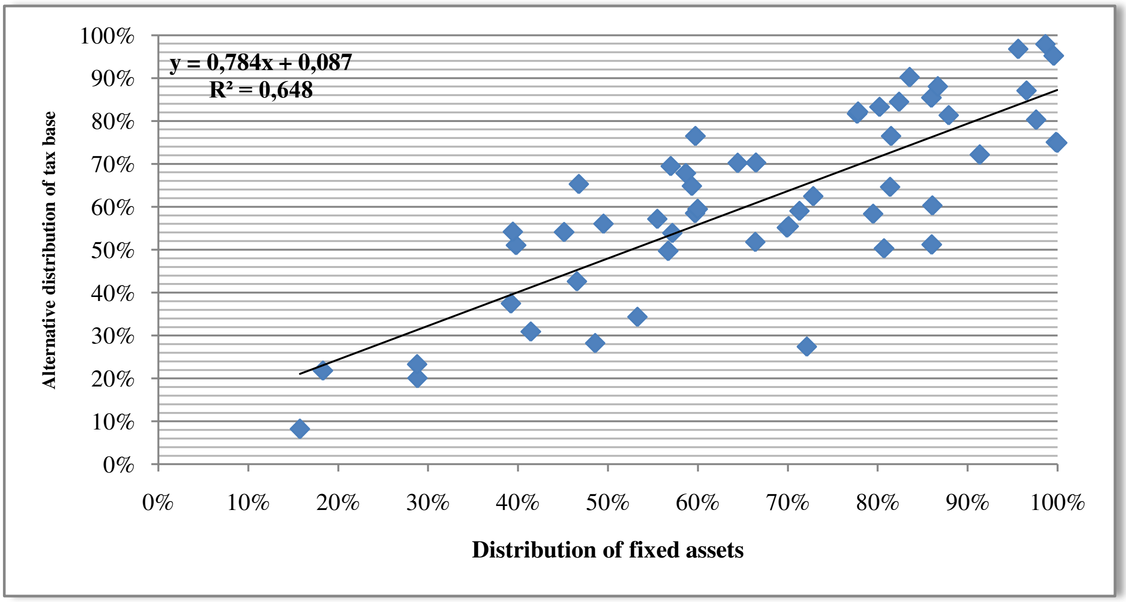

Figure 3. Relationship between the alternative distribution of tax base and the distribution of fixed assets
Source: authors'own elaboration

Based on the above, we concluded that in the case of the application of the formulary apportionment model the distribution of the income tax base is determined significantly more stronglyby the geographical location of the fixed assets than in the case of the current income tax model. Based on the significant and stochastic relationship (R^2= 0.648; P=0.000), it can be stated that the application of the formulary apportionment model decreases the possibility of tax avoidance, since in this case the tax jurisdictions of the countries where the corporation's fixed assets are operatingattract the income tax base of the corporations. As the fixed assets are generally not immobile assets, the corporation's tax planning possibilities aiming attax avoidance are expected to decrease ifthe formulary apportionment is applied.

In addition, we also tested the relationship between the income tax base allocation and the geographical distribution of the workforce in the case that the formulary apportionment model were introduced in a European context (Figure 4).

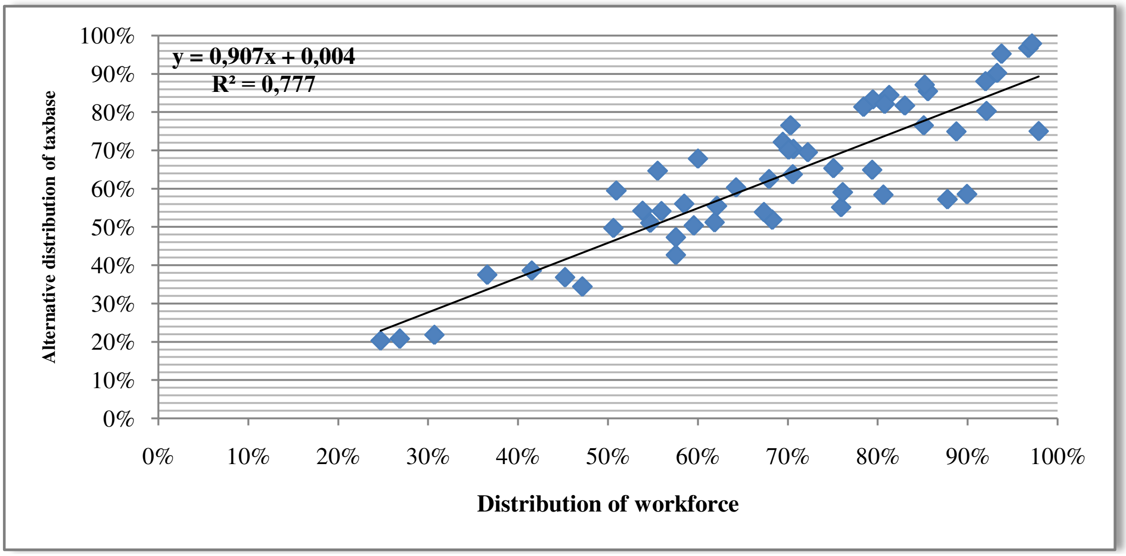

Figure 4. Relationship between the alternative distribution of the tax base and the distribution of workforce
Source: authors' own elaboration

In this case, there is also a significant and stochastic relationship between the distribution of the income tax base and the workforce (R^2= 0.777; P=0.000). Similar to the analysis of the distribution of the fixed assets, this result leads to the conclusion that the application of the formulary apportionment model decreases the risk of tax avoidance. Similarly to the fixed assets, the workforce generally qualifies as an immobile asset.

Comparing the current international tax allocation model (represented by the tests shown in Figures 1 and 2) to the formulary apportionment model (represented by the tests in Figures 3 and 4), we could prove the existence of tax avoidance. Under the current international tax allocation model, the reported location of the income tax base and the production assets representing the real business operations diverge, confirming that the income tax base of the corporations isartificially shifted to member states where insignificant volumes of fixed assets and workforce are located. Based on the methodology of the formulary apportionment, the multinational enterprises would rely on the volume of the consolidated income tax base and due to the tax consolidation concept they would have to disregard the revenues and expenses of the intra-company transactions. Applying the formulary apportionment model of the CCCTB Proposal, multinational enterprises' profit would be taxed in those EU member states where their real and immobile business operations take place (measured by the location of fixed assets, workforce and sales). This mechanism would hinder the option of shifting profits artificially to low-tax member states by applying unfair transfer prices on intra-company transactions. The tests presented in Figures 3 and 4 prove that in the case of the application of the formulary apportionment the profit of the multinational enterprises would be taxed in those member states where the real business operations (measured by the location of fixed assets and workforce) are located.

CONCLUSIONS AND FURTHER CONCERNS

In short, it can be stated that the introduction of formulary apportionment under the umbrella of a European tax reform would have positive effect on the tax environment of the multinational corporations operating in the European economy. It is proved that the corporations would lose a significant part of their profit shifting and tax base erosion (i.e. tax avoidance) techniques, as when allocating their income tax base among different subsidiaries they would have to rely on factors which might not be mobilized easilyfor tax planning reasons only.

On the other hand, one could argue whether the production factors included in the European proposal are really those which can substantially determine the location where the values are created by a given multinational enterprise. The relevance of the workforce factor in the income allocation methodology is definite; however, the expansion of digital economic models and the increasing importance of intangibles in the intra-group value chains suggest that the location of the fixed assets alonecannot represent the place of value production anymore. However, the involvement of the intangible assets in the formulary apportionment model may open the possibilities for different tax avoidance techniques again; Grubert (1998) and Dischinger & Riedel (2011) both proved the significance of intangible assets in the profit-shifting behaviour of the multinational enterprises.

A further concern says that a major European (or international) income tax reform is a utopian scheme which will not be accepted by the countries consensually. In our view, the expanding harmonization of the sovereign tax environments will be forced by the increasing budgetary constraints of the governments and the conflicting public pressure about the tax morals of the multinational enterprises. The question is how sensitive the political and economic leadership of the European Union member states istothese claims.

REFERENCES

AVI-YONAH, R. S. (2009): Between formulary apportionment and OECD guidelines: A proposal for Reconciliation. The John M. Olin Center for Law & Economics Working Paper Series, Working Paper 102.

BARTELSMAN, E. & BEETSMA, R. (2003): Why pay more? Corporate tax avoidance through transfer pricing in OECD countries. Journal of Public Economics, 87(9-10): 2225-2252.http://dx.doi.org/10.1016/s0047-2727(02)00018-x

CARROLL, M. B. (1933): Survey Fiscal Committee League of Nations, Vol. 1. League of Nations Document C73M38.1932; Vol. 2, C245.M217.1933; Vol. 3. C425(a)M217(a).1933

CLAUSING, K. A. (2006): International Tax Avoidance and U.S. International Trade. National Tax Journal, 59(2): 269-287. DOI: http://dx.doi.org/10.17310/ntj.2006.2.05

CLAUSING, K. A. & AVI-YONAH, R. S. (2008): Reforming Corporate Taxation in the Global Economy: A proposal to adopt formulary apportionment. Path to Prosperity: Hamilton Project Ideas on Income Security, Education and Taxes, Brookings Institution Press, Washington, D.C. DOI: http://dx.doi.org/10.2139/ssrn.995202

CLAUSING, K. A. & LAHAV, Y. (2011): Corporate tax payments under formulary apportionment: Evidence from the financial reports of 50 major U.S. multinational firms. Journal of International Accounting, Auditing and Taxation,20(2): 97-105.DOI: http://dx.doi.org/10.1016/j.intaccaudtax.2011.06.004

DEVEREUX, M. P. & LORETZ, S. (2007): The effects of EU formulary apportionment on corporate tax revenues. Oxford University Centre for Business Taxation, Working Paper 07/06

DISCHINGER, M. & RIEDEL, N. (2011): Corporate taxes and the location of intangible assets within multinational firms. Journal of Public Economics,95 (7-8): 691-707. DOI: http://dx.doi.org/10.1016/j.jpubeco.2010.12.002

CLINE, R., NEUBIG, T., PHILLIPS, A., SANGER, C. & WALSH, A. (2011): Study on the Economic and Budgetary Impact of the Introduction of a Common Consolidated Corporate Tax Base in the European Union. Ernst&Young.http://taxpolicy.gov.ie/wp-content/uploads/2011/06/EY-Report-CCCTB-for-Commissioner-Semeta-4-Jan-2011.pdf

EUROPEAN COMMISSION, DIRECTORATE GENERAL TAXATION AND CUSTOMS UNION, WORKING DOCUMENT OF CCCTB WORKING GROUP (2006): The mechanism for sharing the CCCTB, CCCTB/WP/047/doc/en

EUROPEAN COMMISSION (2011): Proposal for a Council Directive on a Common Consolidated Corporate Tax Base, COM (2011) 121/4

FUEST, C., HEMMELGARN, T. & RAMB, F. (2007): How would the introduction of an EU-wide formula apportionment affect the distribution and sized of the corporate tax base? An analysis based on German multinationals. International Tax and Public Finance, 14(5): 605-626. DOI: http://dx.doi.org/10.1007/s10797-006-9008-6

GRUBERT, H. & MUTTI, J. (1991): Taxes, Tariffs and Transfer Pricing in Multinational Corporate Decision Making. The Review of Economics and Statistics, 73(2):285-293. DOI: http://dx.doi.org/10.2307/2109519

GRUBERT, H. (1998): Taxes and the division of foreign operating income among royalties, interest, dividends and retained earnings. Journal of Public Economics, 68(2):269-290. DOI: http://dx.doi.org/10.1016/s0047-2727(97)00077-7

GRUBERT, H. (2003): Intangible Income, Intercompany Transactions, Income Shifting and the Choice of Location. National Tax Journal, 56(1): 221-242. DOI: http://dx.doi.org/10.17310/ntj.2003.1s.05

HINES, J. & RICE, E. (1994): Fiscal Paradise: Foreign Tax Heavens and American Business. The Quarterly Journal of Economics, 109(1): 149-182. DOI: http://dx.doi.org/10.2307/2118431

HUIZINGA, H. & LAEVEN, L. (2008). International profit shifting within multinationals: A multi-country perspective. Journal of Public Economics, 92(5-6): 1164-1182. DOI: http://dx.doi.org/10.1016/j.jpubeco.2007.11.002

MARTENS-WEINER, J. (2009). It's time to adopt formulary apportionment, Tax Analyst. October 1.http://www.taxanalysts.com/www/freefiles.nsf/Files/WEINER-30.pdf/$file/WEINER-30.pdf

MCLURE, C. (2002): Replacing Separate Entity Accounting and the Arm's Length Principle with Formulary Apportionment, Bulletin for International Taxation, Vol. 2002. December

MUSGRAVE, P. B. (1972): International Tax Base Division and the Multinational Corporation. Public Finance, Vol. 27.

MUSGRAVE, P. B. (1984): Principles for Dividing the State Corporate Tax Base. In C. McLure (Ed.), The State Corporate Income Tax, Hoover Institution Press

MUSGRAVE, P. B. (1995): Interjurisdictional equity in company taxation: principles and applications to the European Union. In S. Cnossesn (Ed.), Taxing Capital Income in the European Union. Oxford University Press

OECD (2010): Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations. OECD Publishing. Paris. DOI: http://dx.doi.org/10.1787/tpg-2010-en

OECD (2012): Model Tax Convention on Income and on Capital 2010 (updated 2010). OECD Publishing. Paris. DOI: http://dx.doi.org/10.1787/978926417517-en

OECD (2013): Action Plan on Base Erosion and Profit Shifting. OECD Publishing. Paris. DOI: http://dx.doi.org/10.1787/9789264202719-en

OECD (2015): Measuring and Monitoring BEPS, Action 11 - 2015 Final Report, OECD/G20 Base Erosion and Profit Shifting Project. OECD Publishing. Paris. DOI: http://dx.doi.org/10.1787/9789264241343-en

OESTREICHER, A. & KOCH, R. (2011): The revenue consequences of using a Common Consolidated Corporate Tax Base to determine taxable income in the EU Member States. Public Finance Analysis, 67(1): 64-102. DOI: http://dx.doi.org/10.1628/001522111x574191

Oxford University Centre for Business Taxation, CBT tax database. http://www.sbs.ox.ac.uk/faculty-research/tax/publications/data

SHACKELFORD, D. & SLEMROD, J. (1998): The revenue consequences of using formula apportionment to calculate U.S. and foreign-sourced income: A firm-level analysis. International Tax and Public Finance, 5(1): 41-59.

SHEFFRIN, S. M. & FULCHER, J. (1984): Alternative division of the tax base: how much is at stake? In: C. McLure (Ed.), The State Corporate Income Tax, Hoover Institution Press, Stanford.

VERNON, R. (1968): Economic Sovereignty at Bay, Foreign Affairs, 47(1): 110-122. DOI: http://dx.doi.org/10.2307/20039358

VERNON, R. (1972): The Economic Environment of International Business. Prentice-Hall, Inc.

VERNON, R. (2001): Big business and national governments: Reshaping the compact in a globalizing economy. Journal of International Business Studies, 32: 509-518. DOI: http://dx.doi.org/10.1057/palgrave.jibs.8490981

Knowledge Sharing Behaviour and Development of Small and Medium-sized Enterprises

ANNA SŁOCIŃSKA, PH.D.
ASSISTANT PROFESSOR

e-mail: slocinska@wp.pl

ADAM DEPTA, PH.D.
ASSISTANT PROFESSOR

e-mail: adamdepta@gmail.com

SUMMARY

The aim of the article is to indicate the knowledge sharing behavior (KSB) in SMEs. The task is to be achieved through an analysis research results on KSB. This kind of behaviour is associated in the literature with much broader knowledge management issues. This paper is an attempt to correlate the employees' statements with their work places (company's size) and aims at research made on force of such correlation, including specific character of personnel behaviour resulting from company policy.

Keywords: knowledge; sharing knowledge behavior; SMEs
Journal of Economic Literature (JEL) codes: M12, M53, M54
DOI: http://dx.doi.org/10.18096/TMP.2015.02.07

INTRODUCTION – DISCUSSIONS ABOUT KNOWLEDGE

Modern organizations operate in an environment of constant change, even as some researchers and theorists of management indicates in terms of chaos. In this situation, the crucial factor that determines survival and development is organization agility. This feature of the organization is based in large part on the reservoir of knowledge that is immaterial resource. Considerations included in this study focus only on the knowledge possessed by each employee. In this context, the behaviour based on the exchange of knowledge (Knowledge Sharing Behaviour-KSB) between employees could provide an inexhaustible source of knowledge that might contribute to the development of the organization. This problem is particularly important in relation to the of small and medium-sized enterprises (SMEs), which, due to economic limitations have to rely on the resources of employees' knowledge and relations of this type of organizations with their operation environment.

Present day interest in knowledge as an asset creating the supremacy of a given organization, economy, or society is a continuation, or rather a re-discovery of the thesis claiming that knowledge is the basis of civilization and economical development. Although the notion of knowledge, and in a result - innovation, is as old as human civilization, the concept of "society of knowledge" or "knowledge-based economy" are relatively new. Initially knowledge and its accumulation caused a creation of new inventions, discoveries and technological achievements corresponding to human needs. Present day availability of various knowledge assets has created a situation in which the inventions overtake the human needs and expectations, and in some cases even create them (Cichobłaziński & Słocińska 2009). It is more common that what decides a company's value, according to the stock exchange, is not a tangible asset, but real potential measured as knowledge available for the company. As an example here may be used the organizations from the IT sector, or e. g. training or consulting companies. Therefore, analysis of the processes of creating knowledge and its flow has become one of the most important problems of modern economy and modern enterprises.

With reference to the flow of knowledge, it seems to be a key factor to create a network of contacts among various knowledge centres (individuals, organizations and institutions). An organization itself can be also understood as a social net of action (Czarniawska 2013). In these nets an impulse spreads in a flash. If this impulse is knowledge or information it means that functioning of the net gives access to quick information and almost unrestricted resources of knowledge what plays a vital role for the organization success.

The modern meaning of knowledge is an effect of countries, economies and organizations development and necessity of reaching better results. In the case of organizations, it has become more common to use the term “knowledge management”. Its interpretation is an effect of acceptance of a particular organizational strategy and it is a clarification of the term of knowledge itself.

Knowledge is often confused with similar terms such as data, information, or wisdom. Encyclopedic definitions of knowledge oscillate around the claim that knowledge in its narrow understanding is generally reliable information with reality together with the ability of using it, but knowledge understood broadly, is a general collection of information, skills, experiences, beliefs, etc., to which cognitive or practical value is added. It may even include superstitions, and also a vision of world included in the religious systems and systems of value (Czarniawska 1999).

The basic term connected with knowledge is data. This should be understood as a collection of independent, separate facts and events. Data are essential for functioning of organizations, but in themselves they do not need any inherent meaning. Most of the organizations use special methods of gaining, gathering, ordering and transferring data. In order to do this, special complex information systems are used. Nevertheless, data are only starting materials for decision-making process. In order to have the possibility to draw conclusions on reality, it is necessary to have the possibility to analyse and interpret data. Here emerges the category of information understood in fact as transfer of information. In this frame two elements are important: sender and recipient. Information changes the perception of the recipient, his way of perceiving facts and events, which influences his evaluation of situations and behaviours. In this meaning, “information is data, that makes the difference” (Cichobłaziński & Słocińska 2009). As opposed to data, information is characterized by relevance and purpose.

According to Davenport and Prusak (2000) knowledge is a shaped set of experiences, values, information, referred to the context and insight, which is the basis for evaluation and acquisition of new experience and information. Therefore, this process is initiated and occurs within human minds. Knowledge exists within people, and is developed by them. According to the idea of Nonaka and Takeuchi (2000), people do not obtain knowledge in a passive way; they interpret and adjust it to their own situation and perspective. Within an organization, knowledge is stored not only in documents, or special data-bases, but also in the organizational routines, processes, practices and norms. As may be noticed, knowledge is directly linked with the notion of organizational culture in which it is encoded. Norms, values or network interconnections and relationships, as elements of organizational culture, include elements of organizational knowledge as well. This type of individual knowledge stored in the minds of employees, based on subjective effect of personal intuition and feeling, is more difficult to formalized, or even impossible.

LEVELS OF KNOWLEDGE- FLOW

Transfer of knowledge is often considered according to two aspects. The first one is knowledge transfer between or between the organization and its environment, particularly social, cultural and institutional in the local, national, continental and even global dimension. In this group of knowledge transfers there should be included the flow of patents and licenses, mainly in the technical and technological aspect. The second dimension is connected with the flow of knowledge within an organization. It is important here to focus on particular employees, their aims and interpersonal relationships, fostering or limiting the flow of knowledge, as well as inter- organizational factors (tangible and intangible), that foster these processes.

Knowledge is treated as a kind of an asset in the organization, which is an element managed according to the management rules to the same extent as the remaining assets of a given organization (Probst et al. 2004). This thesis is true taking for granted that knowledge is identified with the possibilities of using information, especially technical ones. Accepting the broad understanding of knowledge as a factor characteristic for people and their experience, undergoing the process of constant changing of context, the approach to the knowledge management as an asset seems to be very difficult, if not impossible to apply. A dynamic approach to knowledge is inseparably connected with people. This apparently clear statement requires additional explanations. In an organization the people possess and use knowledge, being the carriers of this asset. Sharing knowledge behaviour can be called an engine of exchange and creating knowledge processes (Lin 2008). However, acceptance of new knowledge is often inextricably linked to the need of abandonment of already held beliefs and what was obvious (Cichobłaziński 2013). Knowledge sharing behaviour is a first step to knowledge transfer, which is a one way action, yet the final and most desirable phase is knowledge exchange as it reflects to knowledge seeking action (Wang & Noe 2010).

Nonaka and Takeuchi (2000) claim that management of knowledge exchange is like a football match. The ball does not move in any specific, orderly way. The ball movement is a result of shared play of the team members. It is influenced by place, direct experience of the players, their attempts and mistakes. It requires arduous and intensive interactions among the team members (Nonaka & Takeuchi 2000). It has to be noted that individual knowledge expands while being shared – in this way a transfer from individual to organizational knowledge occurs (Davies et al. 1998). An organization cannot produce knowledge itself without the individual initiatives of the employees and mutual relationships between them.

MEANING OF KNOWLEDGE SHARING FOR SMALL AND MEDIUM-SIZED ENTERPRISES

According to the trends in management, as well as ideas of knowledge management, organizations should have non-hierarchical, self-organizing structure and they should (Nonaka & Takeuchi 2000):

- be more flat than their hierarchical predecessors,
- be more dynamic, rather than static,
- foster building of close relationships within an organization and relations with customers,
- emphasize competence – unique experience and skills,
- consider knowledge and intellect as the most causative operation tools.

The above characteristics are manly related to the sector of small and medium-sized enterprises (SMEs), nowadays dominating in the structure of word economy. Their sizes, regardless of the branch they operate in, mean that establishing interpersonal relationships and understanding of the rules of functioning of the whole organization is easier than in the case of large enterprises. The employees in a specific way understand the goals and needs of an organization and have significantly better insights into the location of knowledge within the organization. Information about knowledge possessed by other employees is often obtained as a result of informal interactions, within or beyond the nets (Wang & Noe 2010), which are more common in SMEs. Location of such knowledge- centres is very important, because SMEs often do not dispose sufficient financial assets in order to obtain or purchase knowledge from the company environment. That is why it becomes significant to diagnose and monitor the reservoirs of the employees' knowledge, in order to have the possibility to use knowledge, if necessary.

Nevertheless, the level of the reservoir SMEs' employees' knowledge becomes a source of trouble. As knowledge is mainly based on the personal experience of a given employee, cannot be easily coded and transfer using the latest IT innovations. In such situations a specific type of knowledge is required – knowledge based on personal relationships with other individuals, even if they are employees from the outside of the company. By means of such relationships, the organization may acquire knowledge necessary for the realization of current tasks or for future programming. Solutions of this type are very rarely used in the case of large enterprises, which are mainly based on formal contacts and hierarchical dependencies. Employees of SMEs often have the right to make autonomous decisions and resolve current problems. This is due to the fact that selection of the personnel is rather based on trust, not pure qualifications. However, it must be pointed out that trust has been recognized as a crucial factor of sharing knowledge behaviour (Lin 2007).

In this group of enterprises, it is also much easier to make changes, even radical ones, as the employees all the time function as if they were in a phase of thawing and they are ready to change the direction of their activities. This is a result of increased instability of SMEs performance.

The fact that they do not have the leading position makes SMEs constantly look for new solutions allowing them to develop themselves and catch up with their competitors. As a result, these companies are not loaded with arrogance and self-admiration, which is more typical for some large organizations that have won the race with rivals. Fear of failure makes the SMEs work harder on creating better rules concerning services, products and processes. Therefore, employee behaviour in the area of knowledge sharing is perceived and carried out in a different way in SMEs than in large enterprises. When encouraging behaviour of this type, a key role is played by the management or owners of an organization, often having managerial functions. They are facilitators of the processes of knowledge exchange among employees (Słocińska 2011). Nevertheless, their lack in knowledge concerning the awareness of the meaning of knowledge and its flow may block the flow of information between the employees and environment, at the same time negatively influencing the development of an organization.

METHODOLOGY

For examining the connection between variables the chi-square (χ^2)test was used which lets us verify the zero hypothesis about the independence of two variables X and Y or the alternative hypothesis, according to which the variables X and Y are dependent (Białek & Depta 2010). In order to determine the power of the relation of features a C-Pearson (C_P) index was applied (Białek & Depta 2010).

The research was conducted in 2013 on the group of professionally active people from the areas of Silesian Voivodeship, Lódź Voivodeship, Lesser Poland Voivodeship and Masovian Voivodeship, employed in production, trading and service companies of various size (Table 1). For the examination purpose 1200 employees were selected at random. From this sample 883 questionnaire forms correctly filled in were obtained. In the selection sample was used a method without returning.

Table 1
Sample characteristic

Features	Number	Percentage
Sex		
female	428	48.47
male	455	51.53
Total	883	100.00
Age		
under 24	300	33.98
25 - 34	232	26.27
35 - 44	166	18.80
45 - 54	128	14.50
55 or above	57	6.46
Total	883	100.00
Seniority (total number of years of work experience)		
under 1	145	16.42
2 - 5	300	33.98
6 - 15	213	24.12
16 - 25	145	16.42
26 or above	80	9.06
Total	883	100.00
Size of the company (bazed on employees number)		
large	187	21.18
middle	244	27.63
small	251	28.43
micro	201	22.76
Total	883	100.00

Source: own calculations

For testing the assumption concerning the random character of the sample a test of series of the sample randomization was applied, in which the zero hypothesis was checked. Zero hypothesis is that the sample has random character, towards the alternative hypothesis that the sample does not have random character (Domański, 1990).

For sample drawn this way on significance level $\alpha = 0.05$ there were no grounds for rejecting the zero hypothesis, that the sample had random character ($p > 0.05$), and so it was possible to make an assumption about the randomization of the attempt.

Proving the hypothesis the sample on employees has random character, authorize putting general motions with reference to the population of studied provinces.

The research was aimed at determination of personnel behaviour stimulating factors based on knowledge sharing. The respondents were asked to give their opinions about 47 statements on knowledge sharing. Their opinions were expressed in range between 1 and 5 where 1 meant “I fully agree”, 3 – “neither agree, nor disagree” and 5 meant “I fully disagree” with a statement. Table 2 contains the statements from the survey with company size correlation coefficient. This paper contains correlation coefficients statistically significant on the level $p < 0.05$. This criterion made the author focus on correlations with significant influence (statements with asterisk) and only those have been analysed herein.

Table 2
C-Pearson coefficient for the selected statements on relation between KSB and organization size.

N	Survey statements	Correlation coefficient ($p < 0.05$)
1.	Information is more important than knowledge	0.1793755*
2.	Knowledge is more important than information	0.1638893*
3.	I often share information with other co-workers (superiors, colleagues)	0.1194327
4.	I often share knowledge with other co-workers	0.1329559
5.	I trust my superior in terms of information shared (quantity, truth, reliability)	0.1334340
6.	I trust my superior's decisions	0.1116921
7.	My superior is able to communicate objectives and tasks	0.1482940*
8.	My superior informs me about positive opinions about my accomplished task	0.1287150
9.	My superior informs me about negative opinions about my accomplished task	0.1297248
10.	My co-workers have knowledge I wish to possess	0.1714773*
11.	This knowledge tells: I know what to do	0.1463670*
12.	This knowledge tells: I know how to do it	0.1444576*
13.	This knowledge tells: I know why to do it	0.1077522
14.	This knowledge tells: I know where to look for information	0.1159311
15.	This knowledge tells: I know people who have necessary information	0.0951556
16.	This knowledge tells: I can do old things in a new, better way	0.1339599
17.	This knowledge tells: I know who can give me instructions helpful in task implementation	0.1110777
18.	This knowledge tells: I have excellent relations with my co-workers	0.1021392
19.	My colleagues / co-workers have no problems in communication	0.1111588
20.	My superior trusts me in terms of information I share	0.1479979*
21.	My co-workers/colleagues are dedicated to work	0.1060554
22.	My superior is dedicated to work	0.1066270
23.	I feel integrated with my team	0.1592976
24.	I obtain all information necessary for my duties / tasks	0.1579242*
25.	I need to find my own information to perform my duties	0.1334489
26.	My co-workers share knowledge with me only in exchange for different knowledge from me	0.1537712*
27.	My colleagues share knowledge in order to get “gratitude debts”	0.1272310
28.	My colleagues share knowledge, being aware that they create their image of a competent expert this way	0.1157529
29.	My co-workers share knowledge because they like to help others	0.1130502
30.	My co-workers share knowledge because this sharing makes their work faster and more efficient	0.0915099
31.	I don't share my knowledge because for I am afraid of becoming redundant and replaced	0.1318827
32.	I feel safe in my organization	0.1740244*
33.	My organization rewards sharing knowledge	0.1613459*
34.	My superior rewards sharing knowledge	0.1096881
35.	I see my work as meaningful	0.1561357*
36.	I enjoy sharing knowledge with my co-workers (superiors, colleagues)	0.1050874
37.	I feel respected in my organization	0.1148958
38.	I often ask what to do when I perform my tasks	0.1294236
39.	I often ask how to perform my tasks	0.0982881
40.	I often ask about necessary information sources when performing my tasks	0.1165635
41.	I often ask who could help me in my tasks	0.1070772
42.	In my work, I mainly count on myself	0.1244748
43.	In my work, I believe that mistakes are the way to learn	0.1739351*
44.	In my work, I believe that I can try doing old things in a new way	0.1546992*
45.	I am allowed to make mistakes in my work	0.1157962
46.	Knowledge is my property, I need to protect it	0.1359067
47.	My co-workers enjoy sharing knowledge with me	0.1435034*

Source: own calculations

STUDY RESULTS

In many papers and opinions there are noticeable errors in the understanding of knowledge as a term, narrowing it to the pure information considered to be vital. That is why the research was also aimed at analysing this problem. Personnel in large organizations are relatively more likely to value information before knowledge.

Medium-sized, micro and small organizations employees tended to value knowledge more (Figures 1 and 2).

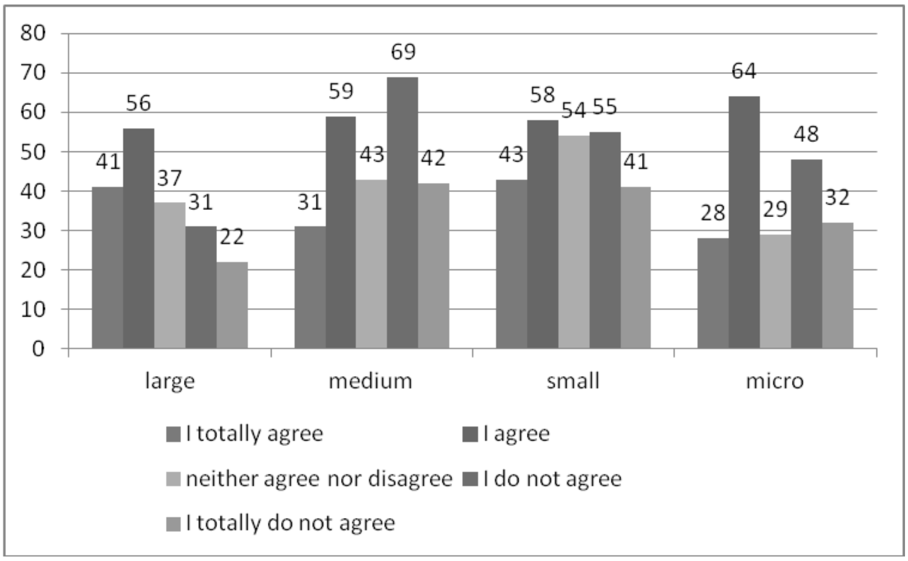

Figure 1. Answers for the statement: Information is more important than knowledge, according the company size (answers in number for N=883)
Source: own calculations

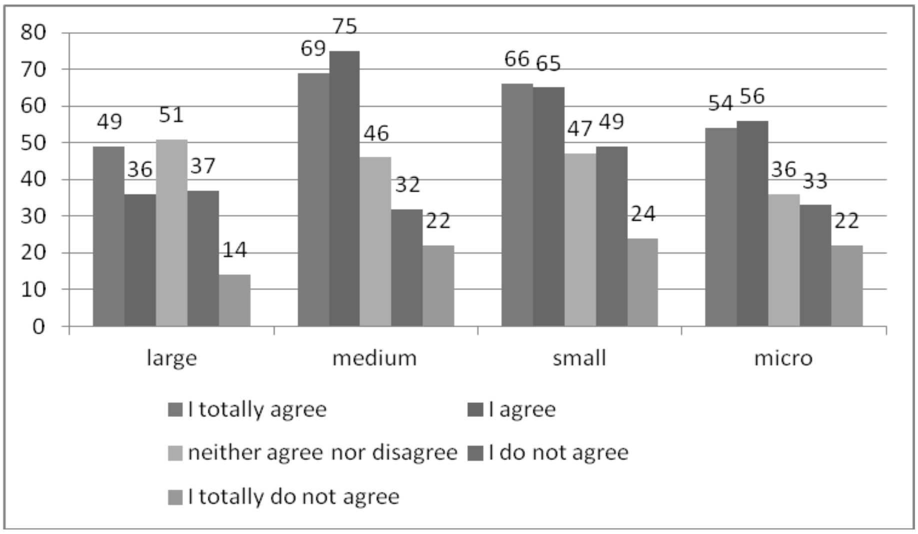

Figure 2. Answers for the statement: Knowledge is more important than information, according the company size (answers in number for N=883)
Source: own calculations

Such distribution of answers may be explained by the fact that large organizations have high specialization of duties. As a result, the employees rarely get to learn more about other co-workers' jobs and about contribution they make to the total company result. Moreover, narrowed duties stimulate routines without the necessity to complete knowledge. Large organizations use computer knowledge management systems, built as huge data storages or cooperating information modules, helping in fast generation of statistics and statements. This may create an illusion that information and its availability and processability help to manage the organization properly and make the decisions aimed at work efficiency increase. However, information management tools may not necessary be helpful in building individual and organizational knowledge.

The situation is different for the SME sector, where employees often are responsible for various tasks and need to know the specific character of their colleagues' jobs as well. This is clear in small and micro organizations, where work management requires flexible activity with the ability of quickly taking over other colleagues' duties, which, on one hand, stimulates learning ability, but on the other, requires strong involvement in knowledge sharing skills. Even vacation is possible only when one employee explains and passes one's duties to another.

The above is confirmed by the analysis of personnel opinions on the attractiveness of co-workers' knowledge, where the staff of micro-companies is definitely leading, with 56% of respondents fully agreeing with the statement that their co-workers have the knowledge, they wish to possess (Figure 3).

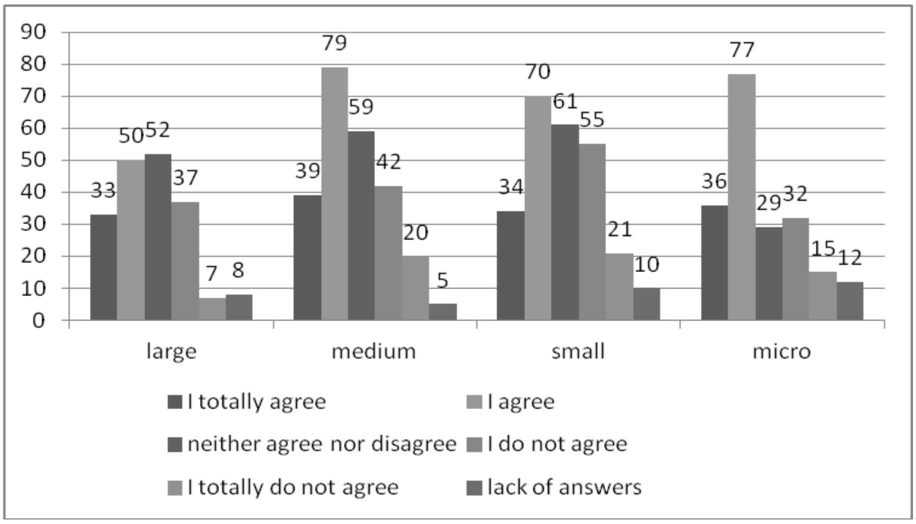

Figure 3. Answers for the statement: My co-workers have knowledge I wish to possess, according the company size (answers in number for N=883)
Source: own calculations

Such a result is surely caused by the fact that micro-companies' personnel may watch their colleagues at work and assess their professionalism, which usually is not related to substantial knowledge but to practical problems resolving skills. This is confirmed by the relations between the organization size and type of desired knowledge. Here micro-companies' personnel came forward for whom the "I know what to do" and „I know how to do it" type of knowledge was the most desired. It is surprising, however, that second place was taken by large companies' employees, who found the very same knowledge attractive, but focused more on the skills connected with tasks performed.

The attractiveness of "I know what to do" knowledge could come out of lack of leadership skills, however in the analysed cases the staff of micro- and small organizations were usually enthusiastic about their superiors' abilities in the communication of objectives and tasks. This is surely related to the fact that these organizations are more open and direct in their structures, which helps to improve interpersonal relationships (Figure 4). This is also confirmed by the relatively highest response from micro-organizations, confirming the highest level of team integration.

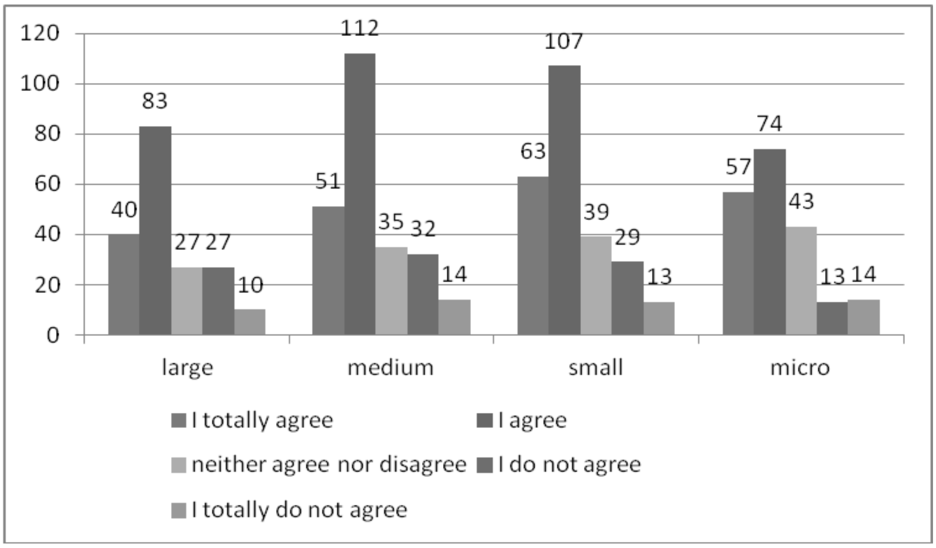

Figure 4. Answers for the statement: My superior is able to communicate objectives and tasks, according the company size (answers in number for N=883)
Source: own calculations

We may presume that knowledge desired by micro-companies' staff came out of its members lack of substantial knowledge necessary in resolving problems. This could be confirmed by the statements concerning trust of their superiors in terms of information shared by employees (Figure 5). Within the group of micro-companies, the lowest percentage of employees confirm high superior's trust, while the largest percentage among the personnel of small and medium companies' felt their superior's do not trust in information shared by the subordinate personnel.

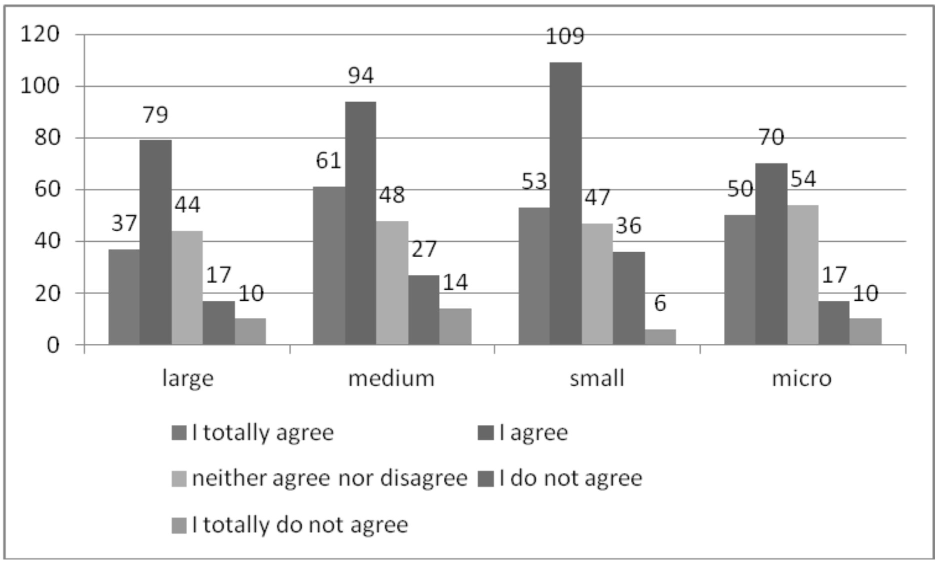

Figure 5. Answers for the statement: My superior trusts me in terms of information I share, according the company size (answers in number for N=883)
Source: own calculations

The respondents, when asked whether they were able to obtain all information necessary for their duties, were in the majority positive about this still the largest percentage of employees satisfied with the information they could obtain were found in medium companies. The second place was taken by micro-companies.

These statements need to be connected with the ones about perceiving one's work as meaningful (figure 6). The micro-companies' personnel was much better in perceiving the meaning of their work, which is definitely related to organization size. They are more able to place their work in the structure of the company performance and to describe their work imput into final company results. Almost the same level of positive opinions was expressed by medium companies' staff.

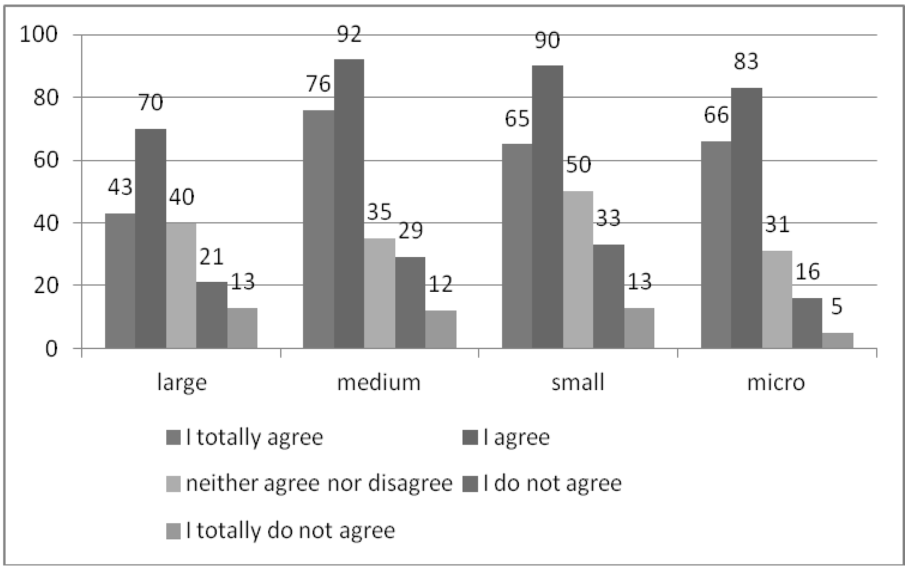

Figure 6: Answers for the statement: I see my work as meaningful, according the company size (answers in number for N=883)
Source: own calculations

The research aimed to identify dominating reasons of KSB in terms of the company size. And it was revealed that in the opinion of respondents of micro and medium-sized organizations their colleagues based their KSB mainly on the principle of reciprocity (Figure 7). This means that employees share knowledge providing that other employees also take such action.

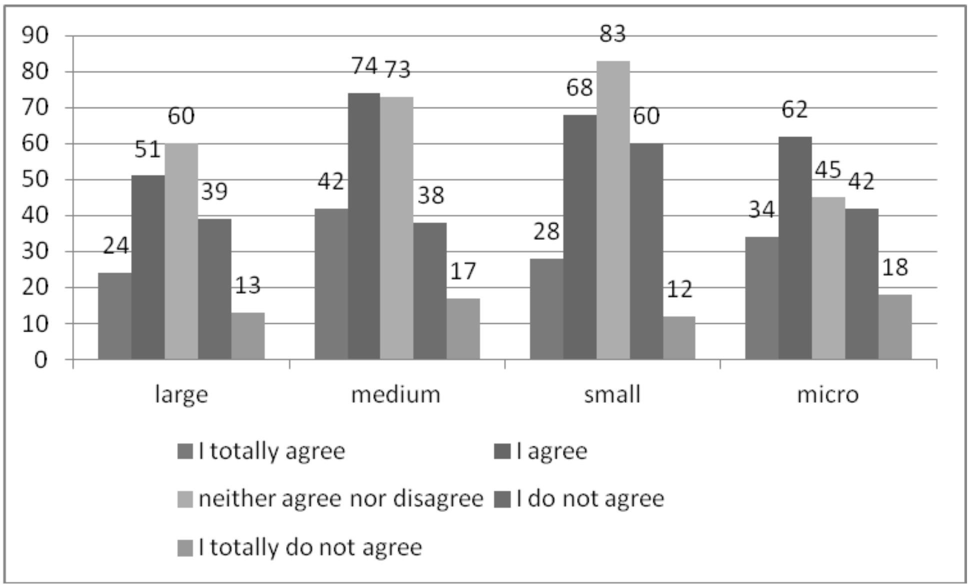

Figure 7. Answers for the statement: My co-workers share knowledge with me only in exchange for different knowledge from me, according the company size (answers in number for N=883)
Source: own calculations

The research found that bigger the organization is, the less secure the employees feel. This is even more surprising than expected, because large organizations provide much better protection of vocational rights and employment stability, which is not the case in micro- and small enterprises. The high security factor is reflected in micro-companies' staff conviction of being allowed to do "old things in new ways" and to "learn from their mistakes".

It has been also noted, that bigger organization size causes a decrease in knowledge sharing popularity among co-workers. This implies that knowledge sharing is strongly bonded with personal relations between colleagues and only slightly related to company knowledge management policy.

CONCLUSIONS

It should be noted, that there are not many research results on the creation of knowledge within organizations and knowledge exchange among employees. The basic assumptions of the theoreticians and practitioners in the area of knowledge management are centred on obtaining, growth and using already existing knowledge. There should be also highlighted a significant role of modern information technologies in these processes.

The research results allow us to make a few conclusions on behavioural patterns in knowledge sharing regarding the organization size factor. The main conclusion is related to the relatively positive opinion on interpersonal knowledge sharing in micro-companies. The regularity discovered is probably influenced by direct relations inside the working environment and usually based on spontaneously developed behaviours rooted in close group relations, rather than stimulated by conscious company policy in this matter. Relatively poor in knowledge sharing are large organizations, which apparently avoid stimulating such activities. The situation of the medium-sized and small enterprises sector situation puts medium companies in a slightly better position. Nevertheless, it is difficult to confirm whether companies in this sector run any planned personnel behaviour shaping activities in case of KSB.

Organizations should transform, evolve and develop together with the knowledge flowing through them. Therefore, an organization should not only process knowledge actively, but also produce it. At the same time, the members of an organization have to go beyond a passive attitude and become active advocates of knowledge and innovations. In the case of the SMEs, with reference to the advantages of stimulating KSBs, there should be included: autonomy of the employees in the area of decision making, agreement to experimentation as a problem solving method, and non-routine actions as well as close interpersonal relationships fostering building of trust. The limitations of SMEs in the area of knowledge acquisition in a process of knowledge sharing are mainly the results of: limited own knowledge resources of a given organization (not many employees, poor qualifications), functioning rather on the basis of a survival strategy, not according to the strategy of development, propensities to literal duplication of action schemes realized by other organizations and the conviction of the members of the company management staff that their decisions are infallible.

Presented research results certainly do not cover a broad spectrum of issues regarding to KSB in SMEs. The complexity of the presented problems indicates the need for further studies to gain additional insight into the KSB.

REFERENCES:

BIAŁEK, J. & DEPTA, A. (2010): *Statystyka dla studentów z programem STAT_STUD 1.0. (Statistics for the students with the STAT_STUD 1.0. program).* Warszawa: C.H. Beck.

CICHOBŁAZIŃSKI, L., SLOCIŃSKA, A. (2009): *Knowledge Management. Handbook.* Czestochowa: Politechnika Częstochowska.

CICHOBŁAZIŃSKI, L. (2013): *Mediator w sporach zbiorowych jako doradca organizacyjny – perspektywa narracyjna. (The mediator in collective disputes as an organization-narrative perspective).* Problemy Zarzadzania, Vol.11, No 3(43), pp.61-72.

CZARNIAWSKA, B. (1999): *Writing Management. Organization Theory as a Literary Genre*. Oxford: Oxford University Press. DOI:10.1093/acprof:oso/9780198296140.001.0001

CZARNIAWSKA, B. (2013): *Trochę inna teoria organizacji. Organizowanie jako konstrukcja sieci działań. A little different theory of the organization. (Organizing as a design network of activities)*. Warszawa: Wydawnictwo POLTEXT.

DAVENPORT, T. H. PRUSAK, L. (2000): *Working Knowledge,* Boston, Massachusetts: Harvard Business School Press. DOI 10.1145/347634.348775.

DAVIES, N.J., STEWART, R.S. WEEKS, R. (1998). *Knowledge Sharing Agents over the World Wide Web*. BT Technology Journal, Vol. 16, No 3, pp. 104-109. DOI 10.1023/A:1009638100845.

DOMAŃSKI, C. (1990): *Testy statystyczne. (Statistical tests)*. Warszawa: PWE.

LIN, C.P. (2007): *To Share or not to Share: Modeling Tacit Knowledge Sharing. Its Mediators and Antecendents*. Journal of Business Ethics, Vol. 70, pp.411-428. DOI 10.1007/s10551-006-9119-0.

LIN, C.P. (2008). *Clarifying the Relationship Between Organizational Citizenship, Behaviours and Knowledge Sharing in Workplace Organizations in Taiwan*. Journal of Business and Psychology, Vol. 22, pp.241-250. DOI 10.1007/s10869-008-9067-z.

NONAKA, I. TAKEUCHI, H. (2000): *Kreowanie wiedzy w organizacji. Jak spółki japońskie dynamizują procesy innowacyjne. (Creating knowledge in an organization. As Japanese companies dynamize innovation process).* Warszawa: Poltext.

PROBST, G., RAUB, S., ROMHARDT, K. (2004): *Zarządzanie wiedzą w organizacji. (Knowledge management in organizations).* Kraków: Oficyna Ekonomiczna.

SŁOCIŃSKA, A. (2011): *Importance of Manager as a Facilitator to the Processes of Knowledge Exchange*. In: F. Bylok & L. Cichobłaziński (Eds.) *People and the Value of an Organization* (pp.288-300). Częstochowa: Wydawnictwo Wydziału Zarządzania Politechniki Częstochowskiej.

WANG, S. & NOE, R. A. (2010): *Knowledge Sharing: A Review and Direction for the Future Research.* Human Resource Management Review, Vol. 20, pp. 115-131. DOI:10.1016/j.hrmr.2009.10.001