

Target Group-Specific Design of Student Entrepreneurship Support – A German Example Focusing on Start-Up Motives and Barriers

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Abstract: The research project „Foundation and Entrepreneurship of Students“ (GEST-study) analyzes entrepreneurial criteria and existing cause-effect relationships within the pre-start-up process of students, in order to generate recommended actions for advancing and improving the design of student entrepreneurship support and entrepreneurship education. This benefits the entrepreneurial activity of the most innovative target group of students and academics and, thus, employment and the competitiveness of the economy. The research paper recommends a target group-specific approach within the scope of student entrepreneurship support. For this purpose, the foundation-ambition types are illustrated, whereupon their start-up motives, barriers and desiderata are compared based on a data set of approximately 1,500 students from four German universities (of applied sciences). Due to the conducted factor and cluster analyses, indeed, different requirements of the diverse foundation-ambition types are identified. Moreover, starting points at the universities and colleges in the context of student entrepreneurship support and education are suggested, followed by a demand for further research.

Keywords: Entrepreneurship Support, Start-up, Foundation-Ambition, Students, Germany

1 Introduction

Entrepreneurship and entrepreneurship education have been included as an increasingly more important strategic issue into the politico-economic discussion since the Lisbon Agenda 2000, where the European Union stipulated the strategic goal, „to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and

greater social cohesion“ [10]. This aim seems especially attainable by means of innovative business start-ups with their de facto positive effects on employment, economic growth and competition [31]. Within such a challenge of the major industrial nations, Germany seems to be gradually losing its „Champion League“ position within the domain of highly advanced technology [34]. Hence, innovative start-ups represent a most important factor in maintaining Germany’s economic position. However, for years, liquidations have exceeded the number of new companies and only a few start-ups actually contribute with their newly developed products and services to new innovation. Particularly high-potential enterprises – that strengthen innovation in Germany on the basis of structure-altering and market-exploiting products, processes and service developments – represent the fewest number of start-up firms. Therefore, simply increasing the number of start-up companies cannot solve this problem [34, 45].

Further, business conditions around the world have been considerably negatively affected by the deepening financial crisis during the last months. Similar to earlier recessions, the employment market situation is worsening substantially [23]. Whereas in the past years in Germany, because of good labor market conditions as well as reduced financial encouragement for start-up entrepreneurs, a smaller portion of the labor force ventured starting a business, the present crisis is accompanied by a contrary phenomenon, where more people consider self-employment as vocational alternative [56]. Since the difficulty of the labor shortage in a community – exposed in an enduring structural pressure to change within a competitive globalization – particularly affects the generation of young people processing or just having finished their (collegiate) education and looking for work, self-employment as an earning alternative should be directed to this target group in particular [31, 39]. In a similar manner, entrepreneurship education as well as public start-up support programs should focus upon the student and academic aim group, due to their heightened contribution to seminal innovations through which steady and skilled employment are established [5, 14, 17, 21, 27, 45, 53]. Mainly academic entrepreneurs usually found companies quickly as well as more strongly expanding start-ups than their non-academic counterparts; as well, academic entrepreneurs typify a superior level of competence and education [6, 9, 15, 41]. “Consequently, it is necessary to upgrade entrepreneurial education and assistance at colleges/universities so that students are capable of maturing to potential entrepreneurs and finally quest for and dare becoming self-employed” [39].

Suitable supportive measures have to be developed and offered to the national operating business entities as well as to potential start-ups in order to develop international economic competitiveness. Therefore, it is necessary to explore and be atuned to the motivations and reasons of individuals’ start-up decisions [45]. “Lacking knowledge of real context and interrelations exertions of influence stay at random, and arbitrary interferences possibly could slow down or even destruct

exactly those interactions working towards a structural adjustment” [51].¹ Thus, it is necessary to acquire information about the students’ desiderata within the entrepreneurial context, considering that they themselves are the decision-makers in founding their potential start-up company. [39].

Regardless of the primary importance of the business start-up process for business management [37] – entrepreneurship research frequently highlights the influence of resource endowment at foundation time upon the prosperity of enterprises [3, 6, 28] – the issue of the emergence of new companies is only infrequently addressed. Rather, the existence of entrepreneurs and businesses is simply assumed [20, 28, 29, 33, 36]. Hence, research studies primarily concentrate on entrepreneurs with already completed business foundation processes and on established business ventures [12, 28, 41].

Because of this, the pre-foundation process – as individual developing and decision process of potential entrepreneurs [43] – in general is widely unexplored [13, 28, 45, 57]. Nonetheless, the pre-start-up process usually constitutes the decisive stage of development of enterprises [31]. “An assumedly not inconsiderable number of foundation willing persons abandons their start-up intention in the course of their prearrangement; when, why and how this occurs is, so far, unexplained, although this is both managerial and politico-economically of substantial interest“ [12].²

From this follows the necessary empirical analysis of students’ and postgraduates’ entrepreneurial criteria that yields insights into an adequate design of start-up encouragement as well as collegiate entrepreneurship education [55]. Though the teachability and learnability of entrepreneurial decision-making and responsibility within academic education are repeatedly considered as empirically confirmed [11, 22, 30, 52, 54, 55], in the framework of entrepreneurship education, no consensus exists concerning a general concept [16, 55]. Hence – not only because of its basic economic importance, but also because of the immense individual consequences of the foundation decision, the pre-foundation process has to be analyzed from the students’ subjective outlook and requests [5]. “Only an individual-oriented analysis about constructive or obstructive proceedings within the pre-start-up process will identify how to raise foundation in the manner of quantity and quality based on adequate entrepreneurial encouragement, given that

¹ Own translation into English; original German quotation: „Bei nicht ausreichender Kenntnis der realen Zusammenhänge bleiben Einflußnahmen zufällig und können willkürliche Eingriffe möglicherweise gerade diejenigen Kräfte, die auf eine Strukturanpassung hinarbeiten, bremsen oder gar zerstören“ [51].

² Own translation into English; original German quotation: „Eine vermutlich nicht unbeträchtliche Zahl von Gründungswilligen gibt im Zuge der Vorbereitung ihre Gründungsabsicht auf; wann, warum und wie dies erfolgt, ist bislang ungeklärt, obwohl dies sowohl betriebswirtschaftlich als auch wirtschaftspolitisch von beträchtlichem Interesse ist“ [12].

finally the students themselves develop their entrepreneurial intention and are the decision-makers regarding their potential start-up activity” [40].

Accordingly, start-up encouragement and entrepreneurship education should be considered in terms of how best to facilitate this education, that is, in terms of procedure. Students require a continuous and integrated entrepreneurial learning process [21], in order to being able to mature as potential entrepreneurs. Moreover, the development of a concrete foundation intention is process-driven, as shown in the *Foundation Ambition Types-Model* [38]. Consequently, instead of focusing solely upon students and academics with a precise intention of founding a company, entrepreneurial education and support should be didactically directed upon *foundation-laymen* [5, 40].³

2 Foundation Ambition Types

In this empirical research project „Foundations and Entrepreneurship of Students” (GEST-study), entrepreneurship is widely defined as “the imagination, development, and realization of own objectives and visions in a competition-determined environment” [8]. Foundation refers to the – individual or team-based – creation and development of a new economic operation or undertaking such as a self-employed occupation or business start-up [18, 42].

The vocational and occupational literature describes career choice as an enlargement of the personality or interest of individuals [46, 49, 50] so that the personal employment choice is an extension of oneself and is supposedly expressed in the career selection reasons given by the individual [46]. It is supported that “individuals who choose to enter entrepreneurship differ in specific ways which are measurable from individuals with no current entrepreneurial intentions” [49].

According to the “Foundation process and founder types” [57] as well as to the “Reversed stairs-model” [53], people and students respectively are categorizable into diverse classes, each representing a possibility of realizing a business start-up [53, 57]. Welter’s model lacks differentiation concerning whether the questioned target-group already is sensitized to foundation and entrepreneurship or has not even dealt with those topics. Further, the drafted „foundation funnel“ is not suitable for describing true-to-life processes because it is assumed that all persons picked up by this model will, over time, become founders [57]. Uebelacker’s model, in which every category in the direction of the founder represents an increasing likelihood of foundation realization, seems to be more adequate

³ Further research findings also highlight existent gender and study field divergencies in the context of student entrepreneurship criteria [44].

regarding the necessary clear differentiation of the foundation propensity values enabling one to analyze them appropriately. Though it considers the target group of foundation-sensitized persons, it assumes a „drop-out“ within the change into the next category so that a fraction of a potential transition into a category with stronger foundation propensity is totally excluded [53]. This assumption does not satisfy the procedural character of the pre-foundation process in which also the foundation nonsensitized persons, over time, can mature to entrepreneurs. Thus, both models are inappropriate concerning an aim-oriented classification of student foundation propensities [38].

In order to counter this deficiency, within the scope of the GEST-study an upgraded typology with an increasing probability of foundation realization has been developed (Figure 1). The foundation ambition types are categorized in the following way. The *foundation-layman* has not dealt with foundation at all; the *foundation-sensitized* has not yet considered foundation; the *foundation-interested* has already considered foundation but has not started to prepare foundation; the *foundation-preparer* is already engaged in the preliminary foundation; and the *founder* has already founded a company. This true-to-life *foundation ambition types-model* permits a clear differentiation of the foundation propensity values with unambiguous definitions; this follows from the process-related character of the foundation; considered over time, the potential increasing probability of the foundation realization allows a persistence within each typification as well as a backslide into subordinated stages;⁴ it is not expected that all individuals eventually reach a higher classification, and it does not exclude any subcategory from a potential foundation realization [38].

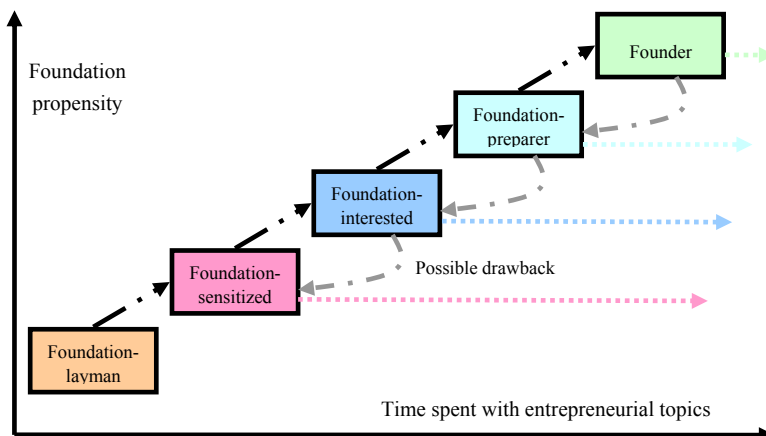


Figure 1
Foundation Ambition Types [38]

⁴ Except for the shift back to the *foundation-layman*, due to the already existent sensitization to foundation and entrepreneurial issues.

The *foundation ambition types-model* shows that a more intense examination of foundation over time enables a gradual or volatile emergence of a stronger foundation intention. Because the development of foundation propensities and the activities of foundation preparations do not necessarily follow a specified sequence of influences or operations, but rather are affected by an evolutionary process with discontinuities as well as recursive progressions [57], the model contains potential drawbacks as well as horizontal arrows which signify that (potential) founders also are able to successively or abruptly relapse into typifications with lower foundation propensities and temporarily or steadily retain their present foundation ambition. In such a scenario, the pre-start-up process can be systematically shaped by its actors, but solely within a defined scope, for which reason its outcome and completion respectively, are, in principle, unforeseeable [57]. At this point, only a procedural approach offers analyses of structural as well as situative influencing factors within the pre-foundation process [38]. The process-oriented *foundation ambition types-model* illustrates over time the potentially emerging foundation intention, whereby the postulated target group differentiation is considered [45].

3 Resource Endowment

“In reality, strategies are not just choices, but also plans. Strategies are constructed, molded and adapted in processes of interaction with environments. Entrepreneurs have the potential of learning during the process of constructing their firms, based on feedback from their outcomes” [1]. However, the result of the start-up process decisively depends on the potential founder’s available resources [7, 42] such as particular knowledge, financial capital, incentives as well as social networks are of decisive importance [2, 25, 28, 41]. Concerning entrepreneurial success factors, the entrepreneurship literature widely agrees that the person plays a major role; however, the importance placed on the person is based rather on experiences and skills than on traits [35]. Both technological and managerial knowledge seem to be pivotal in detecting and effectively commercializing on the innovative start-up ideas. Research shows that especially at universities, technological findings drawn from and often caused by improved technologies [25]. Financial capital – equity and debt – provides allocating further resources in order to materialize and implement innovative business foundations [25]. Referring to entrepreneurial incentives, advantage seems to be the most fundamental resource. Entrepreneurs aspire to individual utility, e.g. income, as well as social utility such as appreciation [25, 26]. The outcome of the start-up process depends on the person’s ability to avoid resource shortages that can be tackled especially by means of personal networks [28, 38, 41, 58]. “Such objectified social boundaries manifest access and distribution to resources and opportunities” [4, according to 24].

4 Research Design

A review of the literature and empirical studies, particularly the relevant classified pre-foundation procedural influencing factors, have been specified. On the basis of a standardized questionnaire developed [42] in 2007 and 2008, approximately 1,500 students of undergraduate as well as postgraduate study courses were surveyed during their lectures at four German universities and universities of applied sciences. Thus, the sample also includes students with several years of work, leadership as well as foundation experiences. This fact can be categorized as appropriate to managerial research [59]. Further, the personally written form of the questionnaires counters the weaknesses of online surveys; that is to say, self-selection effects are prevented [47] because within this procedure, the foundation-uninterested students are used to filling out the questionnaire. With the main focus on study courses in the fields of business administration, engineering and informatics, the study surveys particularly students whose fields of study represent the strongest start-up intention and entrepreneurial activity of their students relative to other special fields [17, 19, 32, 45, 48].

The methodical approach refers the framework of collegiate foundation propensity [41, 42] that specifies fundamental influencing factors of a potential developing foundation intention over time within the scope of the student and academic pre-foundation process [41, 42].

5 Results and Interpretation

Analyzing the differences in entrepreneurial criteria such as motives, barriers, and desiderata of the diverse foundation ambition types within the student pre-foundation process results in knowledge of an appropriate design for a target group, specifically regarding entrepreneurship support. It seems expedient to conduct *K-Means Cluster Analyses* within the scope of student start-up motives, barriers as well as desiderata in order to relate the resulting clusters to the foundation ambition types. However, before executing the cluster analyses, on the basis of factor analyses (principal components extraction and varimax rotation) reductions of the variable quantities are conducted in each case [45].

In the context of start-up motives, from a factor analysis arise two factors with eigenvalues above one that explain 45.3 percent of the total variance. However, because two eigenvalues with 0.999 and 0.985 reach nearly the value one, the reference value which determines the number of the extractable factors has been reduced to 0.98 so that, in the end, four factors are generated which together describe 67.3 percent of the total variance: (1) *material prestige mentality* (comprises the start-up motives *income*, *high income*, and *prestige*); (2) *idea and*

self-realization (comprises the start-up motives *realize ideas of one's own and self-actualization*); (3) *determination* (comprises the start-up motives *flexible hours of work, having power, and be one's own boss*); (4) *economic necessity* (comprises the start-up motive *way out of unemployment*). From the following cluster analysis arise four start-up motive-oriented clusters with case numbers between 288 and 347: (1) *material prestige mentality and determination*; (2) *low developed motives*; (3) *economic necessity*; (4) *idea and self-realization*. Appraising these start-up motive-oriented clusters regarding the foundation ambition types shows the following (Figure 2).⁵

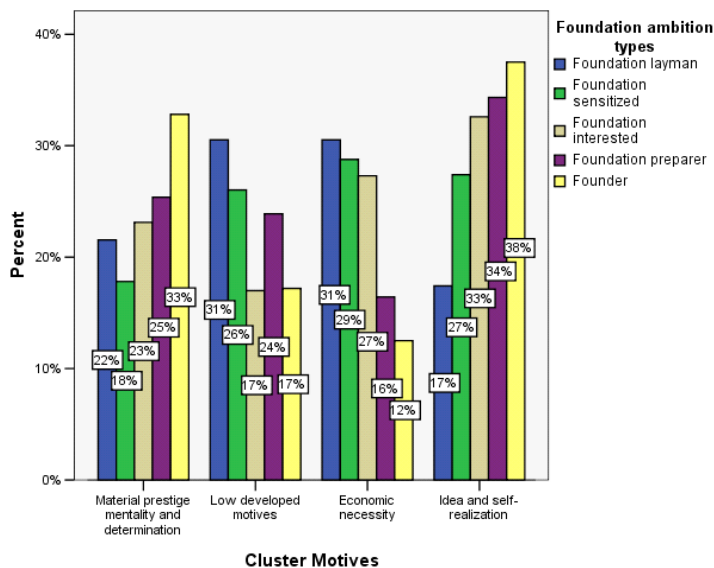


Figure 2
Clustered Start-Up Motives According to Foundation Ambitions

The *foundation-laymen* mostly – nearly two thirds of them – are equally embodied in the clusters *low-developed motives* as well as *economic necessity*. They rarely present a foundation motivation from economic self-realization. If at all, rather the push factors dominate their potential start-up tendency. This presumably could alter in case of a positive foundation climate and established entrepreneurship support programs at their educational institutions. As the example of the *foundation-sensitized* shows, the examination of entrepreneurship eventually results in a decrease of low developed start-up motives. In the meantime, realizing business ideas and self-actualizing a self-identity seem to be more interesting to them. Admittedly, the *foundation-sensitized* represent the smallest percentage that

⁵ The existent divergences are statistically most significant ($p \leq .001$).

strive for income, prestige and determination within the realms of entrepreneurship. These factors are also not decisive to the *foundation-interested* who demonstrate only slightly low-developed start-up motives. A third of them belong to the cluster *idea and self-realization*, but to approximately one quarter of the *foundation-interested*, the push factors are the crucial foundation motives. The latter start-up motivation appears to decline noticeably strongly when starting with the concrete foundation preparation, whereas the other start-up motives increase. The remarkable jump of the *foundation-preparers* within the cluster *low-developed motives*, however, indicates the foundation preparation being a critical phase in the pre-foundation process that could be overcome more easily with appropriate entrepreneurship support. After having just started a business, the *founders* infrequently represent low-developed motives or foundation motivations from economic necessities. To them, the pull factors are of pivotal importance.

Concerning the questioned start-up barriers, from the factor analysis result six factors with eigenvalues over one that describe 61.8 percent of the total variance: (1) „*knowledge/idea/partner*“ (comprises the start-up barriers *missing entrepreneurial qualification, know-how deficit, missing right business idea, and missing right foundation partner*); (2) *income statement* (comprises the start-up barriers *low turnover, and low profit*); (3) *macroeconomic framework/family & friends* (comprises the start-up barriers *politico-economic environment, cyclical state, extensive official channels, and support of family and friends*); (4) *equity/debt* (comprises the start-up barriers *missing equity, and missing outside capital*); (5) *failure/courage/risk* (comprises the start-up barriers *fear of failure, missing courage, and own financial risk*); (6) *time/customers* (comprises the start-up barriers *missing available time, and missing customer contacts*). The subsequent cluster analysis results in four start-up barrier-oriented clusters with case numbers between 171 and 393: (1) *macroeconomic and financial framework*; (2) *qualifications and income statement*; (3) *low evaluated barriers*; (4) *risk and networking*. Analyzing these start-up barrier-oriented clusters within the scope of the foundation ambition types leads to the subsequent findings (Figure 3).⁶ The *foundation-laymen* are mostly detectable in the clusters *risk and networking* as well as *qualifications and income statement*. Impartial to entrepreneurship, they lack foundation contextual knowledge. Through first contacting and acquisition of corresponding qualifications, high risk perceptions and profitability doubts concerning one's own self-employment could be relativized. Referring to the *foundation-sensitized*, the condition seems to be quite similar, whereas within this target group – due to already occurred confrontation with entrepreneurship – the start-up obstacles in general, as well as risk perception and networking in particular, constitute comparatively lower hurdles. The *foundation-interested* apparently already have dealt more intensely with entrepreneurship and have already considered the foundation possibility. That also explains, meanwhile, the

⁶ The existent divergences are statistically most significant ($p \leq .001$).

strongly reduced qualification barriers and profitability doubts of one's own start-up as well as the recurring intensifying difficulties regarding risk expectation and existing network which currently is evaluated as more important. Also, the macroeconomic and financial framework is more strongly opposed to the *own foundation* decision which also applies to the *foundation-preparers* with an already present concretization of the foundation intention. This aim group already develops a start-up concept which diminishes the risk perception and eventually leads to contacts and, furthermore, to overall lower noticed start-up barriers. Once foundation is eventually realized, affiliation with the cluster *risk and networking* is reduced by 50 percent, whereas the fractions of the low-evaluated start-up barriers double. Further, necessary qualifications mostly seem to be present, and the profitability of the *own enterprise* appears to be unproblematic [45].

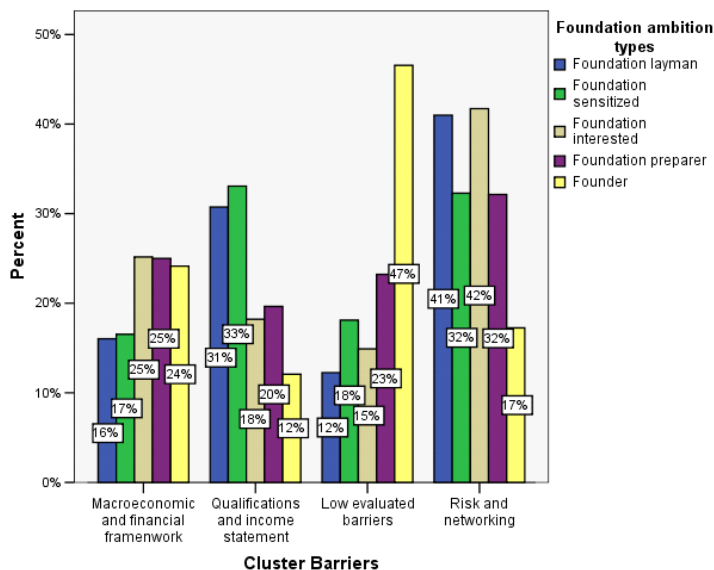


Figure 3

Clustered Start-Up Barriers According to Foundation Ambitions [45]

In the range of start-up desiderata, the factor analysis leads to three factors that together explain 58.4 percent of the total variance: (1) *individual support* (comprises the start-up desiderata *specific contact point*, *impulsion financing*, *incubator*, and *coaching and consulting*); (2) *impart basics* (comprises the start-up desiderata *business game*, *business plan workshop*, and *courses*); (3) *networking support* (comprises the start-up desiderata *contact forum with enterprises*, and *meetings and discussions with professors*). From the conducted cluster analysis follow four clusters with case numbers between 191 and 312: (1) *individual and networking*; (2) *individual and impart basics*; (3) *impart basics and networking*; (4) *low support demand*. Examining these start-up desiderata-oriented clusters

concerning the foundation ambition types leads to findings, as follows (Figure 4):⁷ The *foundation-laymen* are uniformly distributed within all start-up desiderata-oriented clusters, whereby, at first, a positive entrepreneurial mission statement has to be created at the universities. Once the students are sensitized to foundation, they desire far above average that foundation-specific basic knowledge is imparted and contact persons provided for this purpose. This – somewhat fewer – also applies to the *foundation-interested* who certainly are equally often represented in the cluster *individual and impart basics*. In this connection, it is assumedly about *foundation-interested* with already concrete business ideas who – besides basic education – also demand individual support. Both *foundation-sensitized* and *foundation-interested* seldom truly express low-support demands. However, this does not apply to *foundation-preparers* who, in addition, strongly emphasize either imparting basics and networking or individual support and networking. Assumedly, this depends on the progress of their start-up preparation. To the *founders*, especially those imparting basic knowledge as well as individual support, it appears to be vital; however, contact forums with enterprises are also evaluated as useful in order to enlarge the own network with business partners [45].

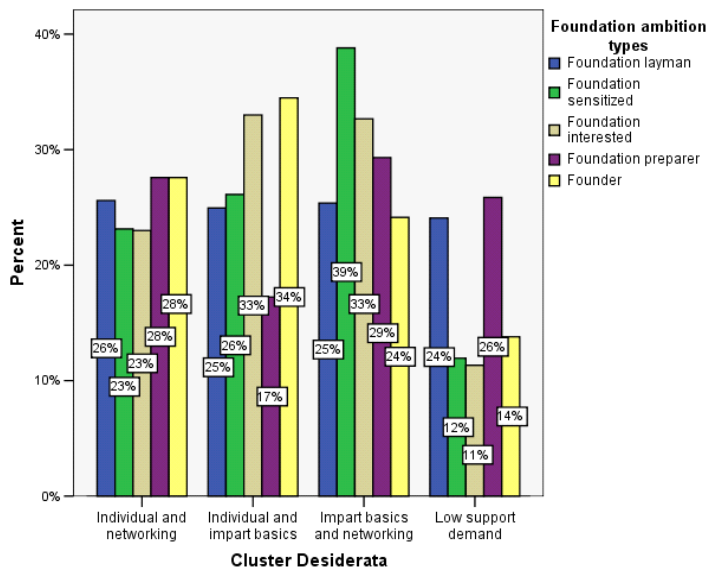


Figure 4
Clustered Start-Up Desiderata According to Foundation Ambitions [45]

⁷ The existent divergences are statistically most significant ($p \leq .001$).

Conclusions and Further Research

Entrepreneurship support should not – as this is oftentimes the case – be solely focused on and limited to financial support measures. Thus, the desiderata of potential founders without previously concretized business ideas remain unconsidered. Also, to the potential founders and to the foundation ambition types of earlier phases within the pre-foundation process respectively, an integrated entrepreneurship support at universities and colleges has to be implemented, namely, the establishment of a positive image of the entrepreneur and a beneficial foundation climate as well as a continuous student examination of foundation-relevant issues and problems in the context of lectures and, further, the implementation of a start-up-specific contact point offering both general information about entrepreneurship and specific consulting and networking services tailored to the students' and graduates' particular requirements and business ideas. Students and academics should appreciate their college and university respectively – the location where specialized knowledge about their subsequent professionalism is imparted – as advisory center of excellence regarding their individual vocational career options, considering the huge personal importance and momentousness of the foundation decision. Such contact points concerning all entrepreneurial questions and circumstances could, for instance, clarify gaps in knowledge of foundation-interested students and relativize last doubts in cases of indecisiveness or anxiety, whereby more start-up-intended students and academics could be encouraged to their own foundation realization.

The purpose of entrepreneurship education should not only be the foundation sensitization but also to impart general entrepreneurial competences within the scope of an interdisciplinary intersection of teachings with entrepreneurial aspects that, however, needs to be effected successively and with appropriate intensity. Once the students have to deal permanently and more intensely with entrepreneurship, the likelihood of eventually developing a concrete start-up interest noticeably increases. This approach to teaching entrepreneurial foundation in effect encourages the students' inventions of new business ideas and is indispensable to a market-oriented commercialization of resultant product, process and service innovations.

Such a design of entrepreneurship support measures and entrepreneurship education leads to positive effects in the perceived entrepreneurial climate and start-up sensitization, interest and finally realization. Certainly, the purpose of imparting students and academics about self-employment options as an attractive vocational alternative as well as general entrepreneurial competencies, is an interdisciplinary task that requires pronounced overall competencies and necessarily further research activities.

This paper provides concrete indications regarding which phase of the pre-foundation process and which start-up support measures could be appropriately implemented and offered to the students surveyed. Admittedly, other surveys

could cause different findings, for instance result in other factors or clusters. Therefore, also students from other universities and colleges should be questioned, preferably in diverse countries with different political, economic and cultural environments as well as foundation climates and entrepreneurial activity rates. Such international comparisons could enable deeper insights into and knowledge about crucial features and interdependencies within the pre-start-up process. However, there also remains the challenge of expediently designing entrepreneurship support programs, in order to set the stage for the students' and academics' possibilities of maturing as entrepreneurial thinking and perhaps eventually entrepreneurial acting personalities.

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Innovations in Small and Medium Enterprises in Slovakia

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Abstract: Innovations have become not only very important determinant of successful development of every firm, but also their necessity. Small and medium enterprises are forced to make innovations, because they are under permanent pressure of competitors at the market. From this point of view the ability to compete in innovations plays very important role as a factor of their competitiveness. To strenghten innovation activities is one of the main task of small and medium enterprises (SMEs) nowadays. It´s also one of the priorities formulated in the strategy of building knowledged based economy in our country. The aim of the article is to give the view on the problems of developing innovation activities in SMEs sector in Slovakia. Because of the need to use a systematic approach, the stress will be given to the main factors determining innovation activities in SMEs in Slovakia and to innovativeness, which is viewed as one of the prerequisites for successful innovation activity in small and medium enterprises. The paper is elaborated as a part of VEGA project 1/0700/08 Determinants of innovation activities in small and medium enterprises in the Slovak Republik.

Keywords: small and medium enterprises, innovations, innovativeness, innovation activities, Slovak Republik

1 Introduction

Small and medium enterprises are faced more and more with the critical issue of how to respond to the changes caused by the process of globalization. To the most important changes in the business sector belong trade liberalization and movement of financial capital, information and communication technological processes, changes in international division of labour and international trade, a huge concentration of capital connected with qualitative and quantitative changes in the size as well as in a character of enterprises. The global business environment is changing very quickly. Strategic answer to all challenges resulting from changes in global business environment can be only development of economy based on innovations, knowledges and educated people [11].

Innovation is meaningful, dynamic, developing process, which result is positive change oriented on improving of transformation process in enterprises and better satisfying of customer needs [5].

OECD definition describes an innovation as a restoration and widening of products and markets portfolio, as a new designing, manufacturing and distributing methods, implementation of changes in work organization and labor force skills, etc. This definition recognize product, technological and organizational innovation.

Present approach to innovations prefers that innovation is a key word for entrepreneur; emphasizes global approach to innovations as a philosophy (way of managing of enterprises), which influences all parts of transformation process in enterprise (marketing, research and development, planning, manufacturing, managing, etc.) [5]. The ability to compete in innovations plays very important role as a factor of their competitiveness.

The aim of the article is to give the view on the problems of developing innovation activities in SME's sector in Slovakia. The article is divided into two parts. In the first part of article is analysed and evaluated situation in innovation activities conducted by small and medium enterprises in Slovakia, identified are main barriers to develop innovation activities and formulated are some recommendations how to overcome these barriers. In the last part of article is presented the importance of innovativeness, which is viewed as one of the prerequisites for successful innovation activity in small and medium enterprises.

2 Innovation Activities in Slovak Small and Medium Enterprises

Current economy tends to be characterized as a new, global and knowledge-based economy. The new, global economy is the economy of knowledges and ideas, where innovative ideas and technologies fully integrated in services and products became a key to generation of new working positions and higher life standard. Only those businesses that are dynamic are able to respond to the market demand swiftly, and are capable of research and development of new products, innovations and technological changes.

Innovations in all european countries are declared to be their priority and many various programmes within European Union are developed in order to support innovation activities in small and medium enterprises.

Innovation activities are supported primarily by those business entities, which are motivated by pressure of competition, necessity to develop and implement new technologies, to make production more effective, to penetrate to new markets, or

react to changes of business environment [7]. No doubt that we can consider innovations to be result, instrument and way at the same time, enabling to overcome mentioned necessities.

There exist no doubts about the benefits of innovations in all businesses. With the development of innovation processes in all types of enterprises, it is evident the growing role of innovations also in small and medium enterprises. Many examples confirm, that small and medium enterprises create a larger space for innovation, because they are much more flexible in comparison to large-scale enterprises. In spite of all above mentioned advantages, small and medium enterprises have also some handicaps – many of them don't own research capacities and face many financial problems.

There is a high correlation between the size of enterprises and their innovation activities. In large enterprises is the proportion of innovation activities higher according to small ones (Figures 1 and 2). This is the case of all member states in European Union. What concerns the indicator giving the proportion of enterprises with innovation activities on the total number of enterprises, it is 2,3 times higher in EU countries as it is in Slovakia [10].

Figure 1

Share of enterprises with innovation activity in total number of enterprises by their size in EU and in Slovakia in the year 2006 (in %) – indicator 1

Indicator 1	European Union	Slovak Republik
All enterprises	51	22,7
Small enterprises	37	17,4
Medium enterprises	65	31,8
Large enterprises	81	56,6

Source: Eurostat, 2008

Figure 2

Share of enterprises with innovation activity in total number of enterprises by their size in Slovakia (in %) – indicator 2

Indicator 2	2003	2004	2006
All enterprises	19,4	21,1	22,7
Small enterprises	14,6	14,9	17,4
Medium enterprises	24,2	32,7	31,8
Large enterprises	47,5	57,4	56,6

Source: Statistical Yearbook of the SR, 2008

Important indicator giving the view on innovation activities by type of innovation is share of enterprises with innovation activity in total number of enterprises by type of innovations in Slovakia (Figure 3).

Figure 3

Share of enterprises with innovation activity in total number of enterprises by type of innovation in Slovakia (in %) – indicator 3

Indicator 3	2003	2004	2006
All kind of innovations – total	19,4	21,1	22,7
- Successful innovations	18,5	20,0	21,6
Product innovations only	11,9	3,7	4,9
Process innovation only	1,5	7,1	8,1
Product and process innovations	5,1	9,2	8,6
- On-going or abandoned only innovations	0,9	1,1	1,1
Enterprises without innovation activity	80,6	78,0	77,3

Source: Statistical Yearbook of the SR, 2008

Positive is viewed the growth in number of enterprises implementing the processes innovations. While product innovations enable to reach the competitive advantage through changes in the product/services which an enterprise offers, processes innovations have the tendency to rationalize the production through changes in the ways in which product/services are created and delivered ¹.

National Agency for Development of Small and Medium Entrepreneurship in Slovakia conducted with the INFOSTAT and Statistical Office of the Slovak Republic in the year 2005-2006 research on the sample of 1070 small and medium enterprises oriented on the analysis and evaluation of the state of SME's in Slovakia. Special section of the research was aimed at identification of main innovation activities conducted by small and medium enterprises in Slovakia as well as on identification of main barriers to develop innovation activities in SMEs. Results of the research [12] confirm, that 35% of surveyed SMEs with innovation activities have improved technology of production, 19% of SMEs have developed and implement quite new product (mostly from industry production) and 35% of SMEs have innovated their product/service [12]. As the most important contribution from implementation innovation activities SMEs have identified: raise of turnover (72%), lower costs of production (40%) and raise of exports (14%) [12].

¹ Enterprises with innovation activities are those enterprises that have had any kind of innovation activity during surveyed period, i.e. have introduced new products or processes or have had on-going or abandoned innovation activity. Product innovation was realized when a product (good, service) is new or significantly improved with respect to their fundamental characteristics or technical specifications. Changes of a solely aesthetic nature or pure sale of production innovations wholly produced and developed by other enterprises are not included. Process innovation includes new or significantly improved production technologies, new and significantly improved methods of supplying services and delivering products. Purely organizational or managerial changes are not included [14].

As the main barriers to develop innovation activities by small and medium enterprises were identified:

- 1 Small and medium enterprises in Slovakia give as the main barrier to develop innovation activities lack of financial sources. The results of above mentioned survey confirm, that most of innovation activities were financed by their own financial sources. Low utilization of other financial sources is in many cases the consequence of a weak informativeness about other alternative sources of finance [13]. As a source of finance could help various loan guarantee schemes for small and medium enterprises, schemes to support the start-up enterprises, venture capital, but also various EU programmes (especially initiative JEREMIE). To fulfil the aim – to improve innovation activities by small and medium enterprises – it requires to be more active in the process of drawing financial means from EU funds.
- 2 As a factor of insufficient innovativeness in small and medium enterprises was identified low awareness about the impact of innovations on their economy and competitiveness. This fact involves fear that small and medium enterprises don't perceive innovations as a competitive advantage. In other words: it's necessary to develop the innovation awareness in Slovak small and medium enterprises; attention has to be given to human resources for innovation [9].
- 3 Small and medium enterprises have identified as one of the barrier for innovation the lack of innovation infrastructure. Only a small part of small and medium enterprises possesses sufficient capacities as well as know-how for realization of all activities of innovative process, therefore it is needed to fill this gap with services of specialised consulting organisations. The aim is to create effective system of specialized consulting services for support of innovations. It's also helpful to complete and extend existing infrastructure for support of innovations to the same level of leading European countries. It contains mainly technological incubators, technological and innovation centres and scientific parks. An important is also support of existing network of supporting organisations such as RPIC, BIC, CPK and others.
- 4 The positive examples from EU countries confirm, that the participation of small and medium enterprises in networks and clusters, support of partnership's building is the way, how to involve small and medium enterprises into innovation activities. Innovation process of a higher level calls for improvement of interaction between small and medium enterprises, research institutions and universities and for creation of various effective networks and partnerships [15]. Many positive examples in Slovakia (from commerce, services, automobile industry, machinery industry, wood industry) confirm the advantages of this progressive form of organization.

- 5 The example of how to use the opportunities which offers globalization for small and medium enterprises (especially in countries with small internal market) represent firms born global (global start-up firms) [2]. They play an important role in the development of innovation. Born global firms operate in businesses where the product life cycle is very short (for example information and communication technologies). Firms which are born global are set up to exploit international market opportunities in almost in any sector. These firms destroy the classical forms of entering the international market and they adopt a global approach to the business from the beginning. Born global firms are becoming the driving power of radical innovations in the new economy. They create new markets for new products.

It can be stated, that a systematic approach to innovation activities in small and medium enterprises calls for:

- generating ideas and permanent accumulation of all impulses which could lead to innovations,
- creative human resources,
- ability to judge the reality of innovation ideas,
- effective team work,
- ability to manage innovation projects,
- cooperation with external institutions (universities, research institutes, consulting agencies),
- ability to judge the risk,
- ability to possess the right courage and spirit,
- motivating all workers,
- implementing systematic education.

In today's entrepreneurial practice innovations must be natural part of any entrepreneurship. Permanent and regular innovation is becoming a competitive necessity; to be successful in the future requires interrupting conventions. There is a time of changes and the only way how enterprise can be successful is to accept these changes, adapt to them and utilize them.

3 Innovativeness in Activities of Small and Medium Enterprises

Innovativeness plays a central role in the knowledge-based economy; it is practically omnipresent and concerns all areas. Innovativeness means creativity, the ability to come up with new thoughts, ideas and a unique way of combining or connecting. Small and medium enterprise that encourages innovativeness creates preconditions for new procedures and solutions. When managers talk about the need of changes in an enterprise, they usually mean encouraging the innovativeness of the employees. Accordingly, we understand the term innovative management as the management whose methods and techniques of managing are based on accentuating innovativeness, i.e. encouraging new, creative solutions. This requires some creativity of human potential in SMEs, implementation of new, progressive methods and techniques of personnel development, implementation of knowledge management, as well as pro-innovative firm's behaviour. Every improved, changed or new solution is a result of an innovative and creative approach [1].

Being creative means seeing ideas or objects in a different context, either by recognizing their inherent potential to be used in a different way, or by putting previously unconnected ideas together to create something completely new.

Employer's interest to develop innovation activities requires a certain level of proinnovative culture in a firm, where employees are involved into the process of business policy formulating and are challenged to submit new innovative ideas.

Managements in slovak small and medium enterprises are looking for the best management practices in Europe and worldwide. Our managers (mainly of middle and older age) are a bit disadvantaged in comparison with their colleagues abroad, as they must train alongside their working career and have little time for development of their capabilities and characteristics. In a relatively short time they must master the contents of a lifelong preparation of Western managers. It's clear, that creative methods – their mastering and usage – are one of the means how to minimize the gap.

Famous is the system „Innovativeness action“, which was developed by Consultation and training centre in creativity and innovation in Canada. The system serves as a support of organization's inovativeness by applying creative potential of human resources. It aims to create new products, new production procedures, new markets and new strategies in order not to stay ahead of competition. The system uses creative process to transform the knowledge of organization's employees to the knowledge with added value. It consists of five steps:

1 The structure and program of voluntary participation with an aim to develop, support and assess initiative and creativity

It is evident that developing the innovative environment in SMEs calls for the distinctive quality of leadership, coupled with management knowledge and abilities. Innovative organizations do not happen by chance. They are the end products of good leadership and management. The essence lies in getting the balance right between freedom and order, between the anatomy of the parts and the integrity of the whole.

The innovative organization is the reverse image of bureaucracy: flat rather than pyramidal; decentralized decision making and developed responsibility; informal instead of formal; emphasis on lateral as well as vertical interaction; rules kept to a minimum; positive about appropriate and properly calculated risks.

One way how to harvest new ideas is to introduce what could be called innovative systems, notably Suggestion Schemes and Quality Circles, which are designed to encourage and harvest ideas at work.

A leadership team that is eager for innovation is much more likely to enjoy a successful and profitable Suggestion Scheme. The Suggestion Scheme should be as simple as possible. The more complicated and bureaucratic it becomes, the less effective it will be. Suggestion scheme is the innovative system that is highly individualistic. By contrast, Quality Circles do employ team creativity. For a Quality Circle is a group of 4 to 12 people coming from the same work area, performing similar work, who voluntarily meet on a regular basis to identify, investigate, analyse and solve their own work-related problems. The Circle presents solutions to management and is usually involved in implementing and later monitoring them. Each Circle has a team leader. Within an organization the groups are supported and coordinated by a facilitator. Quality Circles have flourished best in Japan (the Japanese are usually much more creative in groups than as individuals).

2 Develop organizational culture and positive environment for creativity development in the organization

The attitudes, personal qualities and skills of leaders in organizations stand out as a group of vitally important factors in innovation. Be they supervisors or first-line managers, middle managers or executive directors, the leaders of an enterprise can do a great deal to encourage creativity.

The top leadership team – the chief executive and executive directors – need to show visibly that they are committed to the strategy of innovation. Their weight and influence is necessary to overcome the barriers and resistance to useful change which innovators often encounter. The top management team should seek ways of making their commitment to positive and useful change visible to all concerned.

Building innovative organization is a long-term perspective. Flexibility is the key quality to the truly innovative organization. The flexible person, team or organization is capable of responding or confirming to changing or new situation. That places a high premium on communication. In organizational terms it means to create an entrepreneurial and matrix-type management structure while preserving the efficient monitoring system.

It is virtually impossible to innovate without accepting an element of risk.

Management commitment, a long-term perspective, responsiveness to change and acceptance of risk are all contributors to the right culture or climate in which new ideas can arise and significant changes implemented.

Innovative organizations encourage participation in decision making, problem solving and creative thinking. They have policies or guidelines rather than rules, keeping the latter to the minimum. They have good internal communications, more by word of mouth than by memo or letter.

Team creativity cannot be organized, but there are structures which encourage it. The ethos of a group or organization is obviously important. The right climate will encourage people to express ideas, however half-formed. Members are able to discipline themselves in order to suspend judgement. They listen for ideas. They build and improve on one another's contributions. In other words, the conversation in that organization is positive, confident but realistic, and essentially constructive. Criticism is necessary, too, because it is a vital ingredient in effective thinking.

3 Develop a diagnostic tool that would enable the assessment of the performance in creativity and innovation

It means, that the special system how to assess the performance in creativity and innovation is implemented.

Without systems and proper controls sensibly applied, there can be no organization worthy of name. It requires leadership and management to achieve productive order without sacrificing freedom and creativity. Developing the diagnostic tool to assess the performance in creativity it should be taken into account that:

- Creative people tend to be more open and flexible than their less creative neighbours. They bring a freshness of mind to problems. They have usually exhibited the courage to be different and to think for themselves. They are comparatively more self-motivated and often addicted to their work.
- Creative people stand in special need of encouragement and appreciation. The recognition of the value or worth of their contribution is especially important to them, particularly if it comes from those whose opinions they respect.

- A creative person tends to be most effective if allowed to choose the area of work, and the problems or opportunities within that area, which arouses deep interest.
- Creative people need conversation with colleagues in order to think, not for social intercourse. Organizational structure should facilitate these formal and informal interactions.
- Creative people respond well to an organization which encourages them to take calculated risks.

The above conditions become motivational in conjunction with the inner interests and drivers of creative individuals. The quality of an innovative organization depends ultimately and largely upon the quality of the employed people. Machines do not have new ideas. Computers cannot create. Money alone cannot create a satisfied customer... Creative leadership means the kind of leadership that encourages, stimulates and guides the process of innovation from beginning to end. The challenge of innovation is largely the challenge of leading creative people.

4 Think of, develop, implement and assess a training program focused on development of creative potential of individuals

To operate an innovative organization with a culture of team creativity does presuppose a trained and educated workforce. Apart from technical training, everyone today needs training in the skills and techniques of effective thinking: analysing, imaging (using the brainstorming technique), valuing, and how the mind works – especially the positive part played by the unconscious mind in restructuring problems and providing solutions.

A broader education is also to be encouraged, for an innovative organization is by definition also a learning organization.

5 Introduce reward system (financial or other) designated for employees that contribute significantly to the efforts in creativity development in the organization

There are various more or less important but still significant factors which matter to the creative individual, such as its tolerance of a degree of unconformity, the opportunity to work alone as opposed to always being a member of a group and the level of financial reward.

There are many examples how the right implemented reward system can support the employee's effort in creativity development in the organization.

Central aspect of innovative management is a human being as a unique personality with his/her own development, with a need to learn and pass on the knowledge, a man producing values, who is creative, able to understand the necessity of change and is willing to adapt to it. Sensible managers support innovative ideas that can

form a base and space for new opportunities. It is obvious that an effort to innovate (in the broadest sense of the world) should be inherent in every small and medium enterprise.

Conclusion

Slovak republic as a small country has to build their own prosperity and competitiveness especially through the ability to acquire and to implement new knowledges into the new products, processes, technologies and services.

Small and medium enterprises are forced to make innovations, because they are under permanent pressure of competitors at the market. From this point of view the ability to compete in innovations plays very important role as a factor of their competitiveness.

The contemporaneous financial and economic crisis has impact on all areas of business activities and results in problems with free accessible financial sources which are needed to finance investments, especially innovations. Despite the crisis there is just the time to support innovativeness, education and to use all accessible financial sources on innovation activities in order to raise their competitiveness and thereafter also competitiveness of the whole slovak economy.

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The Influence of a Family on Ethical Behaviour of a Family Enterprise

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Abstract: Family enterprises are defined as a special type of enterprises. The involvement of a family in the enterprise is what makes these enterprises unique. The research presented in the paper aims to broaden our knowledge about the influence of a family on the ethical behaviour of a family enterprise. The case study research methodology was applied to explore the influence of a family on the constitutional elements of the enterprise ethical behaviour. The pre-designed questionnaire was used in conducting face-to-face interviews with 28 managers who were in most cases also owners of the studied enterprises.

Keywords: family, family enterprise, case study, ethical behaviour

1 Introduction

At the most basic level a family enterprise may be defined as an enterprise, which is controlled by members of a family. However, family enterprises are not homogenous. Empirical research has revealed that, among others, family enterprises vary regarding the degree of family involvement in ownership and management [2, 3, 54, 63]. The family is an intimate room where the core values, culture as well as ethical climate of the family as well as of the broader environment is shaped, and where the first social relationships are formed, which differ from relationships with people outside the family circle. The process of family education and upbringing form the foundation for the focused expectations of every single family member upon which the trust and firmness of family relations are built [5]. The family system forms fundamental principles, core values, which can be seen as the guidelines in setting the vision, mission and goals of a family enterprise. Because of the importance of the family influence on the ethical climate and culture of a family enterprise system (influenced through the family core values), it could be possible to observe and value the level of family influence on the ethical behaviour of a family enterprise as well.

Considering the scientific theory, literature, and various research cognitions on family enterprises, we set our research questions as follows: Does a family influence the ethical behaviour of a family enterprise?

The aim of the research presented in this paper was to examine the influence of a family on the enterprise ethical behaviour through the observation of enterprise ethical core values, culture, and ethical climate as the constitutional elements of the enterprise ethical behaviour [10]. To be able to determine the family influence on enterprise ethical behaviour we examined the differences in ethical core values, culture, and ethical climate between family and non-family enterprises.

2 Literature Review

2.1 The Influence of a Family on the Enterprise Core Values

In society, values help to define people's "core" thinking: what they love, hate, or are just indifferent to [31]. In an enterprise, values serve to convey a sense of identity to its members, enhance the stability of its social system, direct a manager's attention to important issues, guide subsequent decisions by managers, and facilitate commitment to something larger than self [8, 32].

Hood argues [21, 29] that values are the point at which the individual intersects with society. The author classifies values in terminal values (desirable end-states of existence) and instrumental values (modes of behaviour or means of achieving the desirable end-states). Hemingway and Maclagan [23] prove that enterprises' ethical behaviour depends on formal adoption and implementation of enterprises' ethical programmes, which can be considered as the result of and are associated with the changing values of individual managers.

In a context of enterprise ethics, it is very important that organizations provide a moral environment for employees. Various authors [36, 41, 42] developed the term ethical leadership, where development of a specific value or set of values is important for enterprise's success as integrity, prudence, courage, temperance, and justice. Morris [43] argues that core values of every organization need to reflect their ethical content. Thommen [59] proposed the categorization into three dimensions of an enterprise's credibility (responsible, communicative, and innovative behaviour) considered as the "highest" value. Marrewijk [40] is of an opinion that for the enterprise's success the enterprise's core values as order, success, community and synergy are of relevant meaning. These four core value systems have further strong relation with the enterprise culture and enterprise climate.

García-Marzá [17] argues that there are interests common to all stakeholders, which in order to be satisfied demand a specific orientation in management decisions and actions. Considering this, the author proposes basic or core values that represent the corporate constitutional framework, responsible for establishing the basic rules for subsequent definition of relationships and strategies among various stakeholder groups. In his opinion, if we eliminate any of these values, a dialogue will no longer represent a process of reaching agreement but will become a mere strategy or compromise, where the final outcome is decided by the more powerful side. García-Marzá [17] proposes the following core values:

- *Integrity*: coherence between what is said and what is done.
- *Credibility*: trust in the expectations placed in the company.
- *Fairness*: equal distribution of burdens and benefits.
- *Dialogue*: possibility for participation and consensus mechanisms among the various groups involved and/or affected.
- *Transparency*: truthfulness, intelligibility and accessibility in internal and external communications structures.
- *Dignity*: respect for and encouragement of human rights and values involved in reciprocal recognition between individuals.
- *Legality*: compliance with laws and legal provisions.
- *Civic commitment*: contribution to local and regional development, co-responsibility for social order.
- *Environment*: position on the maintenance and improvement of the environment.
- *Responsibility*: capacity for anticipation of and response to social expectations and demands.

These are the so-called ethical values [17, 31], which help to establish and maintain the standards that delineate the “right” things to do and the things “worth doing”. Such ethical values influence individual’s choices and lead to actions which every organization supports. Some authors [6, 17, 31] believe that when the ethical values of an enterprise are widely shared among its members, the enterprise’s success will be enhanced.

According to Dyer [14] two important “family factors” drive behaviour in family businesses: familial goals and values. Sharma [54] and Klein [34] exposed the influential role of family businesses’ founders on family businesses’ values; due to their long tenures and the centrality of their positions in their family and firm, founders exert considerable influence on the culture, core values and performance of their firms during and beyond their tenure.

Koiranen [37] identified the top values of old Finnish family firms (based on self-assessments of the present active family executives working at the top level)—namely, honesty, credibility, obeying the law, quality, and working hard, which are all modes of good ethical conduct. Koiranen further determined that values of yielding good economic return to owners, willingness to grow, and willingness to achieve social recognition are scored surprisingly low. Based on their analysis of 50 family business mission statements, Dumas and Blodgett [12] identified specific top values: quality, commitment, social responsibility, fairness, respect and integrity. The values of honesty, trust, reputation, and truth occurred less frequently in the mission statements.

According to Dyer [14] the value of altruism plays a unique role in family firms that is not generally found in other kinds of enterprises. Altruism is self-reinforcing and motivated by self-interest because it allows the individual to simultaneously satisfy both altruistic (other-regarding) preferences and egoistic (self-regarding) preferences [52]. Altruism compels parents to care for their children, encourage family members to be considerate of one another, and makes family membership valuable in ways that both promote and sustain the family bond. These bonds lend family firms a history, language, and identity that make it special. Altruism also fosters loyalty, as well as a commitment among its leaders to the firm's long-run prosperity. On the other hand, the altruism can cause parents to threaten their children with moral hazard. Because altruism partly stems from parents' desire to enhance their own welfare, parents have incentive to be generous even though that increased generosity may cause their children to free-ride [52]. So when the value of altruism is breached in families, it may be replaced by antipathy and the emotions of hate and jealousy [14].

Family business core values are discussed in literature, but often without empirical support of the family influence on core values; there is also lack of family versus non-family enterprises comparative studies on core values.

2.2 The Influence of a Family on the Enterprise Culture

Enterprise/corporate culture is a multifaceted construct, and has been defined as encompassing the assumptions, beliefs, goals, knowledge, and values that are shared by organizational members [8, 30, 45, 49, 50, 51, 53].

Various types of enterprise/corporate cultures have been identified – related to the dynamic nature of the industry concerned [20] and to the size of the organization [19]. Several classifications have been proposed; the most often cited being those of Schwartz [53], Deal and Kennedy [8], Hofstede [24, 25, 26, 27, 28], Schein [49, 50, 51], Sathe [48], and Cameron and Quinn [7]. Hofstede [24] proposed that enterprise culture could be classified by comparing the degree of individualism versus collectivism, the apparent power-distance metric, the tendency towards uncertainty avoidance, and the bias between masculinity and femininity.

In the Thommen's [59] opinion, an enterprise should emphasize its culture to the level where it comes into accordance with the enterprise's vision and strategy. To judge and analyze the enterprise culture, the author [57, 58] refers to the following criteria:

- *The level of anchoring* can show how much the values and norms are accepted by the co-workers. The higher the level of anchoring is – the stronger the impact of enterprise culture on employee behaviour.
- *The level of agreement* defines the collective character of cultural norms and values. The effect of an enterprise's culture is stronger if same values and norms are shared by the majority of co-workers.
- *System compatibility* is the level of harmonization of enterprise culture with all other systems of an enterprise. The greater the impact of cultural values and norms on these systems, the easier and better they can be implemented.
- *Compatibility with the environment* means external focus. The enterprise culture should be developed in harmony with the economic culture in which the enterprise functions. It can happen that a business loses its focus to customers and consequently its reputation, which also results in decreased popularity as a potential employer.

Considering the criteria above, Thommen [58] differentiates between strong and weak enterprise cultures. An enterprise with a strong culture is one with a high level of values and high norms anchoring, a high level of agreement, as well as high system and environment compatibility.

Considering the above stated scientific cognitions on enterprise culture Cameron and Quinn [7] proposed a classification comprising four culture types for audit and comparison purposes – Clan, Hierarchy, Market and Adhocracy. A *Clan culture* is typical of an organization that concentrates on internal maintenance with flexibility, concern for people, and sensitivity for customers. It puts an emphasis on human relations, and adopts flexible operation procedures focusing on internal relationships. Values include cooperation, consideration, agreement, fairness, and social equality. Such an organization is generally a very friendly place to work, and employees contribute a lot personally to the working atmosphere. It is like an extended family, where leaders are thought of as mentors, and loyalty and tradition bind the organization firmly. An *Adhocracy culture* is a culture in which the organization concentrates on external positioning with a high degree of flexibility and individuality that is supported by an open system that promotes the willingness to act. It is generally a dynamic, entrepreneurial, and creative place to work, where people stick their necks out and take risks. Leaders are visionaries and use innovative and successful means, producing unique and original products and services. The organization values creativity, willingness to experiment and take risk, personal autonomy, and responsiveness. A *Market culture* is working

towards clear and rational goals that are achieved through high productivity and economical operation. It tends to be result oriented and to concentrate on getting the job done. Its members value competitiveness, diligence, perfectionism, aggressiveness, and personal initiative. Its leaders are inclined to be hard-driving producers, focused on outperforming competitors and remaining at the forefront of their field of endeavour by maintaining stability and control. The term “Market” is not to be confused with the marketing function or with customers in the market place. It represents a focus on transactions with external bodies, such as suppliers and customers. A *Hierarchical culture* focuses on maintenance of the internal system and strives for stability and control through clear task setting and enforcement of strict rules. Accordingly, it tends to adopt a formal approach to relationships, where leaders need to be good coordinators and organizers and toe the party line. It places a high value on economy, formality, rationality, order, and obedience.

The organizational culture was found to be an important and distinct characteristic of family businesses [2, 35]. It was included in the method for assessing the extent of a family influence on any enterprise (i.e., alternative method for defining a business as a family one) – the so-called F-PEC Scale of Family Influence. The F-PEC scale comprises three subscales; culture, power, and experience. The culture subscale assesses the extent to which family and business values overlap as well as the family’s commitment to the business [2]. Denison, Lief and Ward [9] believe that the continuity of the founder’s values in the company’s culture could explain their research results, which indicate that family businesses have a distinct, performance-enhancing culture. Because these founder cultures are nurtured by succeeding generations of family, culture in family-owned firms is difficult to replicate and as such may be a source of strategic advantage. Typically, the family business culture has a uniquely close relationship with the local community’s culture [33].

Research results [60] indicate that family firms have different organizational cultures than non-family ones since family firms present a greater commitment of employees to their firms, a better working environment and therefore greater organizational harmony as well as management that is more long-term oriented. Vallejo [60] also concludes – based on research results – that family firms have stronger cultures than non-family ones. However, Barnett and Kellermanns [4] suggest (based on the results of different studies) that family firms are often characterized by authoritarian leadership cultures that tend to monopolize strategy and other decision processes. Based on his study, Dyer [13] identified four types of family business cultures – paternalistic, laissez-faire, participative, and professional – based on seven categories of assumptions of how organizations view the self, society, and world. Dyer found the paternalistic pattern to be the most common culture in family firms studied, especially in first-generation family firms. In succeeding generations, more than two thirds of the paternalistic firms experienced culture change, with the majority becoming professional cultures.

Based on the review of the existing family businesses culture studies we can conclude that there is lack of family versus non-family businesses comparisons. The organizational culture is included as an important element in assessing the extent of a family influence on an enterprise and by these important criteria for defining an enterprise as a family one.

2.3 The Influence of a Family on the Enterprise Ethical Climate

Ethical climate concepts remain popular as a means of understanding the right-brain-based ethical atmosphere in enterprises. For the purpose of our discussion, we will use ethical climate concept as proposed by Victor and Cullen [61]. In their opinion, an institutional normative system can be considered as an element of culture, although enterprise culture is more comprehensive and includes the patterns of behaviour, artefacts, ceremonies, and special language. Observers of organizational ethical climate discuss only those organizational norms that concern practices and procedures with ethical consequences in only a segment of the organizational culture.

Victor and Cullen [61] describe the enterprise climate as perceptions that “are psychologically meaningful molar descriptions that people can agree characterize a system’s practices and procedures”. Further on, the authors argue that the prevailing perceptions of typical organizational practices and procedures that have ethical content constitute the ethical work climate. In their opinion, ethical climate is conceptualized as a general and pervasive characteristic of an organization, affecting a broad range of decisions. Ethical climate therefore “informs”/influences members of the organization what one can do and what one ought to do regarding the treatment of others. The authors believe that climate types represent perceived norms of an organization or group with an ethical basis.

Based on the ethical criterion and locus of analysis, Victor and Cullen [61] argue, that five major types of ethical climate occur in enterprises:

- The *Caring climate*, where employees are expected to act in a way which is best for all enterprise stakeholders.
- The *Rules climate*, where employees must obey rules and procedures determined by the enterprise.
- The *Law and code climate*, where employees are expected to respect and obey the law as well as codes and professional standards.
- The *Instrumental climate*, where fulfilment of individual interests is in focus.
- The *Independence climate*, where employees are expected to follow their own moral beliefs in their decision making.

The review of the existing literature on family businesses in the field of ethical climate reveal the lack of studies on family businesses ethical climate as well as there is no studies on differences regarding ethical climate between family and non-family enterprises. Few studies have examined ethics in family businesses [16], differences in ethics between family and non-family businesses [1], or social responsibility [15]. In continuation we discuss the main findings of these studies.

Results of the empirical research carried out by Adams and co-authors [1] indicated that no significant differences exist between family and non-family businesses regarding types of ethical dilemmas encountered, pressure to act unethically, contents of ethics codes, ratings of self and others' ethical behaviours, company responses to ethical problems, sanctions or support for ethics-related behaviour, or level of moral reasoning represented by ethical decisions. However, respondents in non-family-owned firms were much more likely to report having a formal code of ethics than those in family-owned firms. The difference in formalization is supported by the authors' findings that family businesses are more likely to rely on role modelling to encourage ethical behaviour and on the informal transmission of behaviour norms among members than non-family-owned firms. Thus, non-family-owned businesses appear to rely primarily on formal means, such as an ethics code, ethics training, and sanctions.

Additional research [15] indicates that family firms are more likely to be socially responsible actors than firms without family involvement due to the fact that families see their images and reputations as inextricably connected to the firms they own, and therefore will be unwilling to damage those reputations through irresponsible actions on the part of their firms. Gallo [16] called attention to the problem of ethics violations related to gaining and maintaining power in family businesses. In particular, ethics violations can occur when family business leaders forget that the business, as an "organized community of people", is much more than its owners and that those who control and run it also have responsibilities to the people working there as well to clients, suppliers, other institutions, and society in general.

3 Research Question

Considering the scientific theory, literature, and various research cognitions on family enterprises, we set our research questions as follows: Does a family influence the ethical behaviour of a family enterprise?

To answer our research question we designed four research constructs:

- C1: Determination of the status of an enterprise (family/non-family).
- C2: Examination of the ethical core values of an enterprises.

- C3: Examination of the type and strength of culture of an enterprise.
- C4: Examination of the type of ethical climate of an enterprise.

4 Research Methodology

In the presented research we examined the enterprises' ethical behaviour through the observation of their ethical core values, culture, and ethical climate. To be able to determine the family influence on enterprise ethical behaviour we examined the differences in enterprise ethical core values, culture, and ethical climate between family and non-family enterprises.

For our research on differences in core values, culture and ethical climate of family and non-family enterprises, we chose a case study research methodology. As proposed by Yin [62] we used a multiple case study approach in our research, where replication logic was possible. We used pre-designed questionnaire for conducting face-to-face interviews with 28 managers (in most cases also owners) of Slovene enterprises.

Within our first research construct, we determined the status of the examined enterprises based on the level of family influence. The influence of a family on an enterprise was measured by the percentage of the family ownership and by the perception of the top management (entrepreneur, owner-manager) to be a family enterprise. The status of a family enterprise was given to an enterprise in which the majority of ownership was in the hand of a family and the enterprise was perceived by top-management as a family one.

Within the second research construct, we examined the enterprise core values. The ethical enterprises should have applied the majority of core values with ethical content as defined by Garcíá-Marzá [17] and discussed previously in the text. The questions within this research construct were formulated so that the respondent defined the importance of the listed core values containing the ethical content as proposed by Garcíá-Marzá [17]. The questions under this construct were closed-ended where the respondent defined the importance of a specific core value by giving a assessment from -3 to 3. The maximum assessment is therefore 33 and the minimum assessment -33.

The third research construct was designed to determine the type of enterprise culture, following the methodology developed by Cameron and Quinn's [7] Organizational Culture Assessment Instrument (OCAI). Following the methodology developed by Cameron and Quinn [7], the culture types (Clan, Hierarchy, Market, and Adhocracy) can be assessed by observing the six key dimensions of enterprise culture:

- *Dominant Characteristics*: the degree of teamwork and sense of belonging, level of creativity and dynamism, focus on goals and competition, reliance upon systems, and emphasis on efficiency.
- *Organizational Leadership*: the leadership style and approach that permeate the organization. In earlier research, Quinn and Rohrbaugh [46] described eight nominal categories of leadership and later incorporated these into theOCAI review process. The roles identified were mentor, facilitator, innovator, broker, producer, director, coordinator, and monitor.
- *Management of Employees*: how employees are treated, degree of consultation, participation and consensus, working environment.
- *Organizational Glue*: bonding mechanisms that hold the organization together, such as cohesion and teamwork, loyalty and commitment, entrepreneurship and flexibility, rules and policies, goal orientation, and competitiveness.
- *Strategic Emphasis*: organizational strategy drivers, long-term development of human capital, innovation, stability and competitive advantage, growth and acquisition, achievement of goals.
- *Criteria for Success*: how it is defined and who is awarded profits, market share and penetration, sensitivity to customers and concern for people, development of new products and services, dependability, and optimization of costs.

Considering the relevant theoretical as well as empirical argumentation (discussed previously in the text) that for successful implementation of certain enterprise culture enterprises would have to strive under the strong enterprise culture our third research construct was designed in a way to determine the strength of enterprise culture as well, following Thommen's [57, 58, 59] cognitions and criteria for culture strength determination (discussed previously in the text).

To define the ethical climate type within the fourth research construct the questionnaire followed the methodology developed by Victor and Cullen [61]. Authors proposed five types of ethical climate which were discussed previously in the text.

5 Research Results and Discussion

5.1 Family/Non-family Enterprises Status

The research results on the status of the examined enterprises revealed 11 (39.28%) family enterprises and 17 (60.71%) non-family enterprises as shown in Table 1. We performed our interviews in 6 (21.42%) micro-, 7 (25%) small, 7 (25%) medium, and 8 (28,57%) large enterprises as shown in Table 2, classified on the basis of the Slovenian Companies Act.

Table 1
Enterprises distribution – family /non-family ones

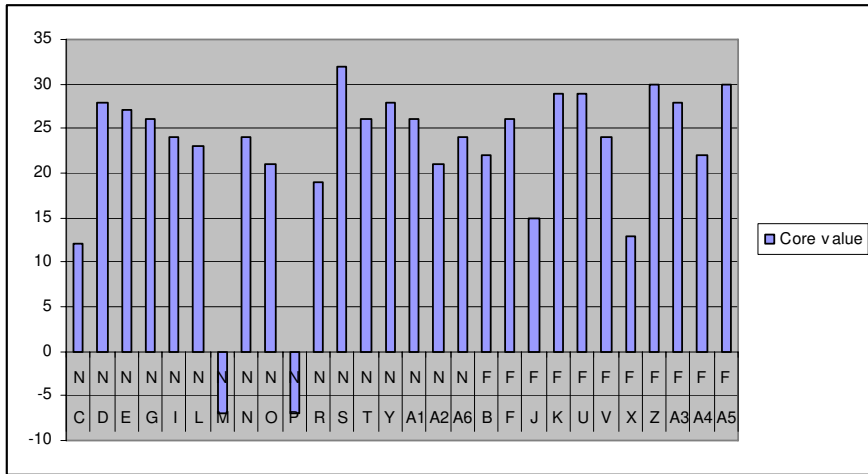
Family vs. Non-family enterprises	No. of enterprises	Percentage
Family	11	39.28
Non-family	17	60.72
TOTAL	28	100

Table 2
Distribution of enterprises by size

Enterprise size	Micro	Small	Medium	Large	TOTAL
No. of enterprises	6	7	7	8	28
Percentage	21.43	25	25	28.57	100

5.2 Enterprise Core Values

It is very important for enterprises to provide a moral environment for employees; therefore, the core values of an enterprise need to be ethical in nature. Our research showed that the majority of the enterprises examined had a positive attitude towards the core values with ethical content. However, our research results found two examples, that were the enterprises M and the enterprise P, both non-family enterprises, with a negative attitude toward ethical values (as shown in Figure 1). The enterprise M is a small enterprise (30 employees), narrowly specialized within its main business activity, with a low level of competitors at the market. This may be why the owners and managers of the enterprise do not have positive attitude toward ethical core values and further do not care about the enterprise's ethical behaviour. On the other hand, the enterprise P is a medium enterprise (220 employees). In addition to the enterprise's negative attitude toward ethical core values, the research revealed serious business problems resulting in the firm's declining effectiveness and efficiency. The existential problems of the enterprise resulted in neglecting the ethical problems and generating negative attitude toward ethical core values, culture, and climate. Thus, in Figure 2, we can observe a negative trend in value consideration in relationship with the enterprise status: family versus non-family enterprise.



N = Non-family enterprise; F = family enterprise; B – A6 = enterprises examined

Figure 1

Core values consideration in the examined enterprises

Considering the total assessment stated by the respondents expressing their attitudes towards the core values with ethical content (as shown in Figure 1 and Figure 2) we can conclude that family enterprises on average show more positive attitudes (average value 24.36) towards core values with ethical content as non-family enterprises do (average value 22.12).

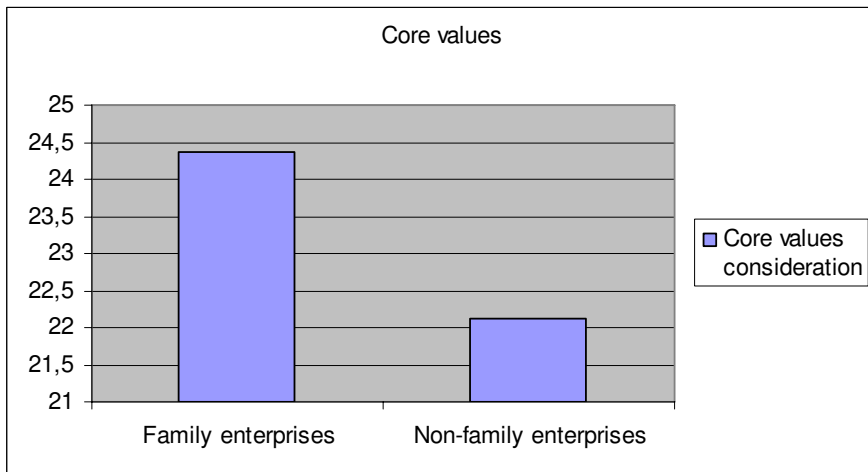


Figure2

Core values consideration in family and non-family enterprises

5.3 Type and Strength of Enterprise Culture

The results presented in Table 3 and Figure 3 show that in family enterprises, the Clan culture (72.72%) prevails. Consequently, family enterprises are more personal, where employees also act like family; leadership is considered as mentoring. The management in the enterprises observed was characterized by teamwork and participation; employees showed a high level of mutual trust and commitment to their enterprises. Studied family enterprises emphasized human development, trust, and openness.

The Clan culture (41.17%) prevails in non-family enterprises as well, following by the Market (23.52%) and Hierarchical (29.41%) culture characteristics. Considering this fact, we can conclude that non-family enterprises are more dynamic in the entrepreneurial sense: people are willing to take higher risks, they are more competitive and achievement oriented. Although a high degree of “care for people” is present in non-family enterprises, these enterprises showed a strong tendency to innovation and risk taking, market aggression, and orientation towards results. The management in these enterprises expressed high demands and achievements. Our research findings showed that people in these enterprises trusted each other, but on this basis there was a high commitment to innovation and goal accomplishment. Therefore, new challenges and prospects for new opportunities in these enterprises are very important. According to their striving for success, our research noticed their goal of domination of the marketplace.

Table 3
Type of enterprise culture

	Family enterprise	Non-family enterprise
Type of culture	%	%
Clan	72.72	41.17
Adhocracy	18.18	5.90
Market	0	23.52
Hierarchical	9.10	29.41
TOTAL	100.00	100.00

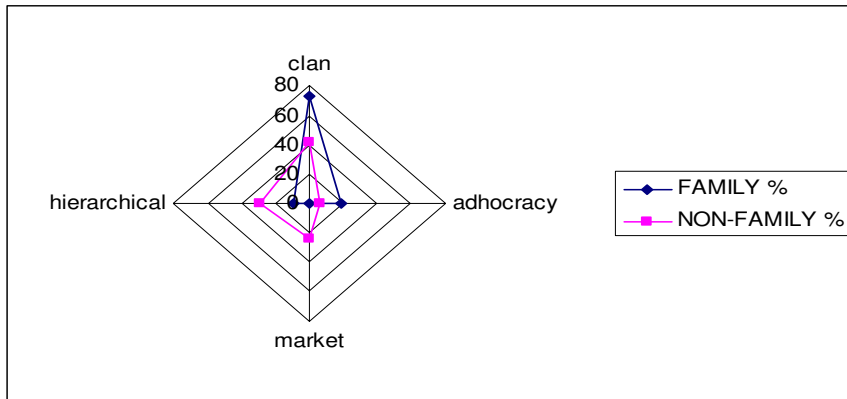


Figure 3

Type of enterprise culture considering the status family/non-family enterprise

Considering the levels of anchoring and agreement, the system compatibility, and the compatibility with the environment, our research results show (see Table 4 and Figure 4) that a strong enterprise culture can be found in family (45.46%) as well as in non-family (41.18%) enterprises, where people share the same norms and values. In the non-family enterprises we can observe a higher level of competitiveness and individualism, and since the strength of culture in non-family enterprises is on average weaker, we can state that the norms and values are not as common, in comparison to family enterprises. As shown in Table 4 and Figure 4 our research cognitions show that family enterprises on average face strong and middle culture, where on the other hand besides strong and middle non-family enterprises face weak culture (23.52%) as well.

Table 4
Strength of enterprise culture

	Family enterprise	Non-family enterprise
Culture strength	%	%
Strong	45.46	41.18
Middle	54.54	35.30
Weak	0	23.52
TOTAL	100.00	100.00

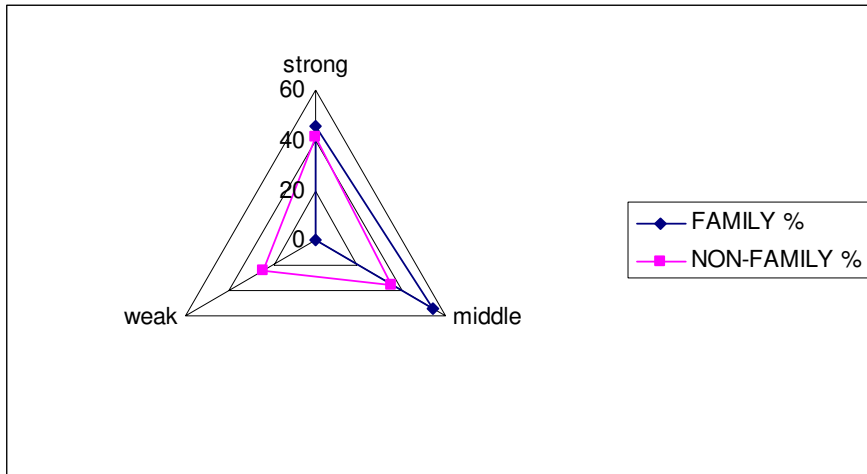


Figure 4

Strength of enterprise culture considering the status family/non-family enterprise

5.4 Enterprise Ethical Climate

In the frame of an ethical climate examination, our case study research followed the methodology developed by Victor and Cullen [61]. As shown in Table 5, in enterprises studied within our research all five types of ethical climate (Caring, Rules, Law & Code, Instrumental, and Independence) were identified.

Table 5
Type of ethical climate

	Family enterprise	Non-family enterprise
Ethical climate type	%	%
Caring	45.45	17.65
Rules	27.27	52.95
Law&code	18.18	23.52
Instrumental	0	5.88
Independance	9.10	0
TOTAL	100.00	100.00

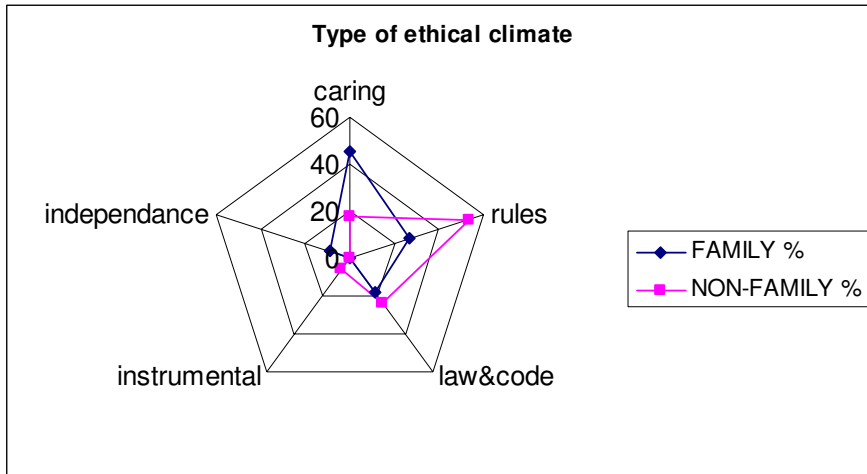


Figure 5

Type of ethical climate considering the status family/non-family enterprise

As shown in Table 5 and Figure 5, our research showed that in the majority of family enterprises, a combination of Care (45.45%) and Rule (27.27%) ethical climate type is present. Family enterprises expect their employees to react and act in a way best for all enterprise stakeholders. On the other hand, the research showed that it is very important for family enterprises that their employees follow the rules and procedures set by the enterprise.

In the case of non-family enterprises, the research results reveal that enterprises implement a combination of Rule (52.95%) and Law and code (23.52%) ethical climate type, which implies that following the rules and procedures determined by the enterprise as well as respect for law and professional standards play an important role.

Conclusions

Among small and medium sized enterprises there is an important share of family businesses - between 41.99 in 52.69 percent of family businesses [11]. The importance of family business within the economies and the importance of the particularities of family businesses is argued and discussed by various established authors and researchers [18, 22, 38, 39, 44, 47, 55, 56, 63].

The aim of our research was to examine the influence of a family on the ethical behaviour of a family enterprise. We conceptualized our research as a comparative one focusing on studying differences between family and non-family enterprises regarding ethical core values, culture and ethical climate as constitutional elements of enterprise ethical behaviour. The main findings of our research are:

- family enterprises on average show more positive attitudes (average value 24.36) towards core values with ethical content as non-family enterprises do (average value 22.12)
- the Clan culture (72.72%) prevails in family enterprises
- the Clan culture (41.17%) prevails in non-family enterprises as well, however the Market (23.52%) and Hierarchical (29.41%) culture characteristics are present as well
- a strong enterprise culture can be found in family (45.46%) as well as in non-family (41.18%) enterprises
- family enterprises on average face strong and middle (54.54%) culture, where on the other hand besides strong and middle (35.30%) non-family enterprises face weak culture (23.52%) as well
- in the majority of family enterprises, a combination of Care (45.45%) and Rule (27.27%) ethical climate type is present
- in the majority of non-family enterprises a combination of Rule (52.95%) and Law and code (23.52%) ethical climate type is present.

Our research results reveal that a family influences to a certain extent core values, culture and ethical climate of an enterprise, bearing in mind that the family influence on the enterprise ethical behaviour was measured by the family involvement in the ownership and by the perception of the top manager (in most cases also the owner) of the enterprise as a family one. Thus, more research should be done in order to better understand the influence of the family on the ethical behaviour of an enterprise. Future research should examine separately core values, culture, and ethical climate of a family as well as of an enterprise.

The results of our research are based on self-assessments which were the only possible alternative and unfortunately could not be questioned or tested by outsiders' evaluation. We are aware that opinions on the business can vary strongly according to the characteristics of the person offering them. When multiple people within the company were interviewed, the wider view of each company would be at our disposal. Therefore, any forthcoming study, this limitation should be taken into consideration.

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Strategic Intent, Confucian Harmony and Firm Success

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Abstract: This paper argues that by using the Confucian concept of harmony as its strategic intent a firm can be both ethical and successful. Using the work of Peter F. Drucker, Michael Porter, and Gary Hamel and C. K. Prahalad the paper discusses the role of strategic intent as a contributing factor to firm success. The paper then discusses how the Confucian concept of harmony fulfills the concept of strategic intent and how harmony can contribute to the development of a successful and ethical organization. The paper concludes with a brief discussion of the applicability of Confucian ethics to the financial services industry.

Keywords: Strategic Intent, business ethics, Harmony, Confucianism

1 Introduction

The collapse of the US financial services industry has sent shock waves throughout the global economy. The world economy is in recession. Firms are retrenching, workers laid off and the length and depth of the slowdown unknown. While this is happening, Wall Street bankers have rewarded themselves with over \$ 18 billion of bonuses (Dash and Bajaj, 2009). While bonus payments may not be illegal, they defy logic. The year 2008 was anything but a good year in American financial services. The industry is in ruins. US banks have already received billions in aid and considerably more may be needed. Storied firms have ceased to exist and others forced into mergers. Yet, bankers have found the resources to reward themselves for “a job well done.”

This paper will argue that the Confucian concept of harmony can contribute to both firm success and moral behavior. Confucian harmony does not mean uniformity and monotony. Difference and disagreement are normal aspects of life. It welcomes diversity and difference. What harmony requires is the management of difference and diversity for mutual success. Harmony seeks to build successful

institutions and individuals. When applied to business activities harmony can contribute to strong industries, successful companies and moral individuals. In short, good people make for good business.

2 Strategic Intent

Over fifty years ago Drucker defined the purpose of the firm as customer focused (1954). In his view, the customer defined value through the purchase of a business's products and services. The firm's mission was to provide the products customers need by fulfilling current needs and anticipating future ones. According to Drucker the fundamental business requirements are knowledge and understanding. To successfully understand the business situation, a firm needs knowledge of its environment, its capabilities and potential disruptions to the match between the two (1994). Furthermore, success is dependent upon innovation. Innovation is based upon knowledge and understanding and allows the firm to remain competitive. Innovation is not synonymous with change although innovation often means change. Innovation is the ability to develop commercially a new organizational method or invention, where commercialization reflects market acceptance of what is new (1985). For Drucker, strategic intent is a "theory of the firm" which realizes the alignment of firm capabilities with customer requirements.

Hamel and Prahalad focus on the concepts of strategic intent and core competencies. Strategic intent is an imprecisely defined future organizational condition.

"Companies that have risen in global leadership...began with ambitions that were out of proportion to their resources. But they created an obsession with winning at all levels of the organization and that sustained that obsession over the 10-to-20 year quest for global leadership. We term this obsession 'strategic intent.'" (1989, p. 64).

"The dream that energizes a company... Strategic intent is our term for such an animating dream... As the distilled essence of a firm's strategic architecture, strategic intent also implies a particular point of view about the long-term market or competitive position that the firm hopes to build over the coming decade or so. Hence it conveys a sense of direction...It holds out to employees the promise of exploring new competitive territory. Hence, it conveys a sense of discovery. Strategic intent has an emotional edge to it; it is a goal that employees perceive as inherently worthwhile. Hence it implies a sense of destiny" (1994, p. 129).

Strategic intent provides direction, focus and motivation for the entire organization. In addition, it plays a role as an organizing concept in the firm's architectural and organizational development.

If strategic intent is the organizational and motivational energy in the organization, core competencies are the foundation. While immediate success is the result of market acceptance of current product or service offerings, future success depends upon the ability to anticipate market possibilities, customer needs and the skills required to develop the organizational capabilities necessary to develop future successful products.

“The diversified corporation is a large tree. The trunk and major limbs are core products, the smaller branches are business units, the leaves, flowers and fruit are the end products. The root system that provides nourishment, sustenance, and stability is the core competence...”

Core competencies are the collective learning in the organization, especially how to coordinate diverse production skills and integrate multiple streams of technology...

If core competence is about harmonizing streams of technology, it is also about the organization of work and the delivery of value” (1990, p. 82).

The successful firm, therefore, is organized hierarchically and harmoniously from competencies through end products. Competencies provide the basics that allow the firm to execute its strategic intent because intent will never be realized unless the organization has the skills and capability to achieve its desired destiny.

In addition, Hamel and Prahalad emphasize not only the acquisition and development of core competencies but also that successful companies must use external relationships to acquire or develop further critical core competencies. (1990, p. 80) They recommend looking externally for partners who can help improve the business. Poorly managed firms look to external relationships as sources of inputs or cost reduction. While this is important, well-managed firms also look for partnerships that can help in the maintenance and acquisition of critical knowledge. The well-managed firm is an inward and outward looking organization where the customer is the justification for all internal and external relationships.

3 Confucian Harmony and Ethics

Confucianism is one the world's leading philosophies and ethical systems. At the risk of over simplification, it may be summarized with one word: knowledge. *The Great Learning*, for example, requires the moral individual to "investigate things" and to understand "what are the root and the branch." All Confucian understanding is based upon knowledge. Individuals cannot become moral, self-improvement is impossible, and relationships unworkable without knowledge. Fundamental to Confucianism is virtue. Philip Ivanhoe describes Confucianism as character consequentialism. "Character consequentialism recognizes that the passion of certain virtues *usually* leads to the realization of certain good consequences above and beyond the possession of the virtue itself" (2001, p. 56, italics in the original). Usually is an important qualifier. Virtuous behavior often leads to good outcomes but even if that is not the case, it is good to be good. Bad behavior cannot lead to good results.

Confucian ethics applies several important principles – individual development and responsibility, relationships, and proper behavior emphasizing moral virtue – all leading to virtuous individuals, sound relationships and ultimately harmony. The primary focus of Confucian ethics is the moral development of the individual. It is the moral responsibility of the individual to develop a virtuous character through obtaining moral knowledge and self-improvement, which can be obtained only through study and practice. Behavior is based upon virtues such as benevolence, righteousness, respect, trust and the golden rule. However, while individuals must be moral, behavior is always relational. Relationships are based upon names, such as the well-known Confucian relationships of father/son, minister/subject/friend/friend.

Names denote how people should behave toward others in the relationship and are based upon moral and technical knowledge, where technical knowledge is knowledge required to perform the particular name correctly. While technical knowledge is important, moral knowledge must guide it application. Moral people must fulfill their name correctly. To fulfill a name correctly one must live the virtues and obey the golden rule. Moral behavior must recognize that relationships are reciprocal and are often based upon mutual dependency, where the proper fulfillment of all names in the relationship depends upon each name being executed correctly. Benevolence demands that individuals in reciprocal relationships must act in ways that are supportive of the relationship and leave members of the relationships better off or, at least, not worse off. The golden rule is fundamental to Confucianism. "Tsze-kung asked, saying 'Is there one word which might serve as a rule of practice for all one's life?' The Master said. 'Is not RECIPROCITY (sic) such a word? What you do not want done to yourself, do not do to others'" (Analects, XV, xxiii, p. 301). The application of the Confucian virtues and the golden rule directs individuals to behave in relationships for the

mutual benefit of all members of a relationship and not just the individual so that success is both collective and reciprocal.

The emphasis on names and relationships has been labeled the fiduciary society (Lu, 2001). In this view “a fiduciary community is grounded on “shareable values’. These values are ‘mutual respect, the division of labor, pluralism, natural hierarchy and peaceful coexistence” (Lu, pp. 85-86). Trust (Xin) is the cardinal virtue which supports fiduciary relationships because without trust reciprocal relationships cannot function for mutual benefit.

(W)e can imagine that a fiduciary or xin community would be one in which human relationships would be established on mutual trust (xin ren) and creditable prestige (xin yu) which derives solely from the virtues of carrying the burdens of one’s commitment and maintaining one’s creditability (xin yong), setting great store by righteous commitment (xin yi), speaking one’s heart-mind and truthfulness and faithfulness (xin shi), and believability (ke xin) and reliability or dependability (xin lai)... To describe this scenario in Meng Zi’s (Mencius’) terms, the manifestation of nobility, of which xin is one, is highly valued and completely dignified (Lu, pp. 89-90).

While all members of a fiduciary society are required to behave morally, the shared values of natural hierarchy and division of labor demand, even more, that leaders conduct themselves ethically. In hierarchical relationships characterized by a division of labor, power and responsibility flow upward. In this situation the higher a person is in the organization, the more control and influence he has and the more his behavior impacts those below. Consequently, the need for trust becomes more important, since those in the lower relationships have less control over those above.

In this sense the rectification of names becomes an important Confucian concept. As Confucius observed, if a relationship is not performing properly it is because names are not being fulfilled correctly. What is incorrect must be rectified and made correct. When names are performed properly relationships operate effectively. When relationships are correct they will benefit all parties in the relationship. Thus Confucians understand that to achieve good outcomes relationships should be mutually beneficial to those in the relationship. This leads Confucians to be skeptical of individual benefit. While it is permissible for an individual to benefit this must not be at the expense of others in the relationship.

“Your majesty... (w)hat is the point of mentioning the word “profit”? All that matters is that there be benevolence and rightness. If your majesty says, ‘How can I profit my state?’ and the gentlemen and counselors say, ‘How can I profit my person?’ then those above and those below will be trying to

profit at the expense of one another and the state will be imperiled” (Lau, 1970, p. 49).

“Now if you should practice benevolence in the government of your state, then those in the empire who seek office would wish to find a place at your court, all tillers of land to till land in outlying parts of your realm, all merchants to enjoy the refuge of your market-place, all travelers to go by way of your roads and all those who hate their rulers to lay their complaints before you. This being so, who can stop you from becoming a true king” (Lau, 1970, p. 58).

The above quotations from *Mencius*, the early Confucian classic, illustrate some important aspects of Confucian ethics. Individual behavior is based upon the cardinal virtues of benevolence and righteousness. Relationships must be advantageous to all members. Senior leaders must play a particularly important role in the creation of a moral society by demonstrating good example. Confucianism is a leadership ethic which views hierarchy as the natural order. Therefore, if relationships and society are to be successful it is crucial for leaders to be good people. Senior leaders are powerful and power must be exercised in the best interest of themselves and those for whom they are responsible. Otherwise relationships and organization will not be mutually advantageous and good results are much less likely.

This brings us to a discussion of Confucian harmony. In the metaphysical sense harmony is the alignment of heaven, earth and man into the “mandate of heaven.” In this condition, all relationships are being fulfilled correctly and everything is in its proper balance. It is the condition human beings should strive to achieve. This illustrates the essence of harmony. It is about organizing and bringing different parts into cooperative relationships. Harmony is not only about similarity; it welcomes difference and diversity, so long as the different and diverse seek cooperation for mutual benefit (Li, p. 583).

In the early Confucian Classics harmony is illustrated by music. Many different instruments playing together are needed to make music. Each instrument makes a different sound and must be played by a skilled musician. In music, difference can be combined to make harmony so long as the musicians understand musical principles and are willing to apply them in a cooperative effort for the mutual benefit of musicians and audience. If we continue this analogy, one musician and instrument can make harmony by playing different musical notes correctly and several musicians and instruments can achieve a similar objective by acting similarly. In life as in music individuals should strive to behave correctly and seek harmonious relationships for mutual benefit.

However, life is not so simple that in all situations individuals understand and accept an objective and are willing to work together for its achievement. Conflict is a part of human life. Confucians understand this also. Conflict exists and must

be managed successfully. Often Confucianism is presented as favoring harmony above all else. This is a stereotypical interpretation. Although harmony is an important Confucian value, Confucian ethics recognizes disagreement and debate and provides methods of conflict management (Leung et al., 2002). Reasonable people often disagree about many things. What is important is an individual's approach to conflict and disagreement. If disagreement and debate is approached in the spirit of trust, cooperation and mutual benefit, character traits fundamental to Confucianism, then self-improvement, relationship development and mutual benefit can emerge in a "dialectal" process of interaction. Harmony, while a significant objective in human relations, must not be achieved by sacrificing benevolence and righteousness, two cardinal Confucian virtues. In the Mencius discussion mentioned above Mencius clearly, though politely and respectfully, informed the king of the primacy of benevolence and righteousness. Nothing, not even harmony, supersedes them.

‘A man who mutilates benevolence is a mutilator, while one who cripples rightness is a crippler. He who is both a mutilator and a crippler is an ‘outcast.’ I have indeed heard of the punishment of the outcast ‘Tchou’, but I have not heard of regicide” (I. B: 9).

For Mencius, the cardinal virtues of benevolence and rightness (righteousness) are of supreme importance and cannot be superseded by harmony. As the above quotation suggests the removal of an immoral leader who violates these virtues is permitted and, perhaps, required. Bad leadership should not be rewarded.

4 The Applicability of Confucian Ethics to Business

The application of Confucian ethics has important implications for successful business management. If we approach management from the perspective of human relationships, it is useful to view a business as a complex series of specific relationships that must be executed properly if a firm is to be successful. These relationships progress from ones between workers, to relationships between firms, to those between firms and customers. For relationships to be executed well they must be among moral and competent individuals with the knowledge and good character, names, if you will, to fulfill them correctly. For success, whether in personal or business life, is ultimately the result of competent people applying knowledge. Managers in various responsible positions must possess knowledge: knowledge of the customer; knowledge of the skills, competencies and innovations required to fulfill customers' met and unmet needs; and the ability to apply appropriate knowledge effectively, which is knowledge separate from the rest. Furthermore, if we view these relationships as fiduciary, we can expect good outcomes most often due to character consequentialism.

We have argued that strategic intent as harmony will enable all members of a firm's relationships to focus on knowledge development and application and to work toward cooperative and mutually successful associations which will enable a firm to strive for successful long-term customer relationships. There remain two additional issues in our discussion of harmony and strategic intent.

Some Confucians dismiss business activities as fundamentally immoral because of the need for profit and competition. To traditional Confucians, these pursuits are lowly for the person of character and they create disharmony. If the word "profit" is understood in the narrow sense of the pursuit of individual gain then, yes, it is often destructive to smooth functioning relationships and disharmonious. If we view profit more broadly as wealth creation, then business pursuits and success become not only acceptable but necessary. Mencius recognized the need for agricultural production, that is, wealth creation. Indeed, in the earlier times, the emperor needed to have a basic understanding of agriculture and played a significant role in agricultural rituals. The Neo-Confucians understood the need for commerce and made specific provision for it in their approach to Confucianism (Wood, 1995). Furthermore, profit is necessary to business success. Profit is the result of wealth creation, needed to fulfill relationships with creditors and shareholders and necessary to fund future success. Without profit, a business could not fulfill its social and economic responsibilities.

Similarly, competition is viewed by many Confucians as a manifestation of disharmony. It can appear that way, especially at times of great industrial and commercial transformation. However, we can understand the relationship between competition and harmony by applying the above discussions using Michael Porter's view of industry development. "The presence of the right competitors can yield a variety of strategic benefits that fall into four categories: increasing competitive advantage, improving current industry structure, aiding market development, and deterring entry" (1985, p. 202). Competition offers customers choice and demands that firms work diligently to develop the business and offer superior products and services. If firms compete well the result will be organization and industry improvement and development and satisfied customers.

In Confucian terms, competition is a relationship of constant change among firms and customers. These relationships can be viewed not only as disagreement but also as a debate and dialogue among all members in the relationship. Competitive relationships must be approached without deceit or the intent of eliminating competition, because competition is a means to knowledge and improvement. Competition is a form of dialogue where participants can reconcile differences that can result in mutual success and development. In this sense competition represents a continuous process of development towards harmony and reconciliation.

This opens the related issue of the moral consideration of competitors. One must approach these relationships morally by applying the cardinal virtues of benevolence and righteousness, along with the associated virtues of respect and

honesty. Competition is healthy. Firms must embrace it, and approach it correctly if they wish improvement and success. One should not view competitors as enemies but as collaborators seeking knowledge, improvement and mutually beneficial relationships. If character consequentialism is implemented all members of the many business relationships inside and outside of firms will have the best opportunity for success.

The pursuit of harmony is a quest for learning, understanding, and fulfillment. It satisfies the requirement of strategic intent because it is long-term, motivational and worthwhile. To seek harmony is to explore and investigate the knowledge needed for both individual and collective success. It strives to develop beneficial human relations. Above all it requires positive human development.

Conclusion

We began this paper with a brief review of the wreckage of the global financial markets precipitated by the collapse of the U.S. financial services industry. This was brought about by the selfish and destructive behavior of the mortgage brokerage and investment banking business. Lawrence McDonald (2009) describes the selfish, feeding frenzy that was the mortgage origination business and the marketing of the various mortgage backed securities sold by investment banks such as Lehman Brothers (p. 182 ff). Whatever the innovative potential of structured investment vehicles, collateralized debt obligations and so forth, when based upon unsound mortgage origination practices, deceit and unfettered greed, collapse was the likely outcome. Individual behavior was predicated upon personal gain and not mutually beneficial relationships. This is amply demonstrated by the behavior toward mortgage customers who were sold deceptive products and the marketing of toxic securities to unsuspecting investors. Strategic intent became short term gain rather than a focus on the long term strategy, core competencies, outstanding products, and firm success. In short, disharmony was the watchword of the financial services industry. In the end, not only did the financial industry collapse but the fall-out contributed to a much wider global economic crisis.

The application of Confucian ethics may not have prevented the collapse of the U.S. financial services industry but following its precepts could have mitigated the severity of the crisis. The foundation of Confucian ethics is character consequentialism, the virtuous person who performs their name within mutually beneficial relationships. If we apply this concept to business organizations, we would conceive of a firm as a series of fiduciary relationships beginning with supplier relationships through organizational relationships culminating in the customer relationship. This conception of a firm would focus management on the development of the knowledge, skills, behaviors and relationships crucial for long term success. By focusing on harmony, relationships will be mutually beneficial and the behavior of each individual will contribute to the long-term success of individuals and firms as well as industry development.

Acknowledgement

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The Impact of the Economic and Financial Crisis on HRM and Knowledge-Management in Hungary and Slovakia - Empirical Research 2008-2009

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Abstract: According to Ervin László [1], a Hungarian member of the Club of Rome, crisis is a natural phenomenon in human society. The present crisis, however, is very different from earlier ones, in that it has spread very rapidly to all countries in the world and – he asserts – we are very close to a global collapse. This, in other words, is the first true global crisis. Our study aims to discover what action Hungarian companies plan to take in relation to human resource management and, concurrently, knowledge-management in this financial and economic crisis. With a brief review of the literature we demonstrate the role of knowledge and human capital in a period of depression and we then present the findings of empirical research which we undertook in Hungary from November 2008 to February 2009 and, in early March 2009, in Slovakia. We finally attempt to draw conclusions by means of a country comparison, at the same time highlighting both the limitations of our research and our future related plans.¹

Keywords: Management, Human Resource Management, Economic and Financial Crisis, Hungary and Slovakia

¹ This study was submitted as part of a 78233 research assignment of National Scientific Research Found (OTKA).

1 Crisis Theories

1.1 A Brief History of Earlier Crises

If we are to understand better the present financial and economic crisis, it is necessary to look briefly at the basic characteristics and principles of crises in general and the history of earlier events. Béla Hamvas [2] wrote:

“Thus, before beginning to discuss the real nature of crisis, we should ask the following question: can we talk about a crisis? [...] The world has always favoured thoughts that cause panic. People, especially masses, like to be in terror. [...] But what is the reality in this? Is there a crisis at all? Isn't it a constantly existing thing? There is always a crisis.”

It is, of course, the case that the concept and appearance of crisis in public thinking are not new. An apocalyptic mood is frequently to be seen in ancient history – adopted, for example, by Lao-Zi, the Buddha and Heraclitus. The Old Testament prophecies of Joseph, when he forecast seven-year cycles of good and bad harvests for Egypt, are an early example. It is interesting that this observation reappears later in the 7-13-year medium-term cycles of Juglar. Is there really a specific regular change in socio-economic events?

The development of the capitalist system and the regular provision of data have allowed this question to be examined and rationalised also from an economic-statistical standpoint, and theories hold that certain systematic elements of various lengths are visible during crises. The most important economic theories in which periodicity are highlighted can, perhaps, be summarised as follows:

Kitchin [3] identified 3-5-year economic cycles mainly linked to company inventories - which cause fluctuations in economic performance. This research was based on statistical data published by the financial institutions of the USA and the United Kingdom between 1890 and 1922. Later, Joseph A. Schumpeter [4] used these results in his studies and it has been shown by analysing the Dow Jones Index that the Kitchin theories still apply.

The research by Juglar focuses our attention on longer periods. The theory, which mainly refers to sectors and is based on fixed investment cycles, defines 7-11 year periods in which the trough between waves is shown by overproduction and financial market crises. The periodicity of this cycle can be seen clearly in connection with the current collapse of stock market prices and also, for example, in similar movements during the earlier Russian financial crisis. Since the reappearance of major infrastructural investment by companies is visible within such periods, the Juglar cycles can be closely connected with Kuznets's theory on 15-20 year construction cycles.

One of the most popular theories is that of the Kondratiev [5] Long Wave Cycles. The Kondratiev theory, formalised in 1920 but neglected until the 1929 world crisis, identifies 45-60 year-long periods (see Exhibit 1). Both the up-slopes and down-slopes of the wave have their different repetitive characteristics. Before the up-slopes begin, significant changes can be observed in economic conditions: methods of production and exchange change radically, the use of technical innovation accelerates and new money transmission methods are introduced. At the improvement stage, the social shocks, wars and tensions increase in frequency. During down-slopes the price-gap between agricultural and industrial products increases and a prolonged agricultural depression appears.

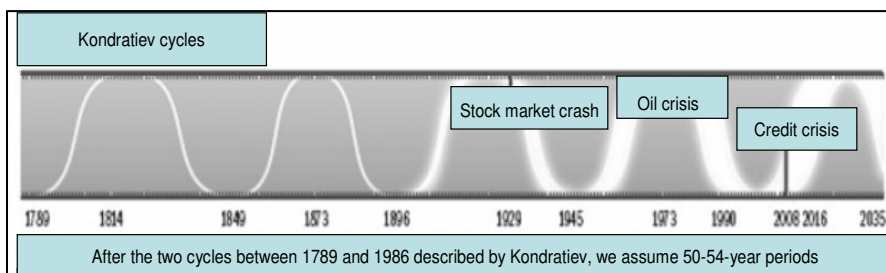


Exhibit 1

Kondratiev cycles

Source: Schweitzer, A. (2008). Economic cycles – is there a parallel with the 1929 crisis?

HVG, Vol. 44

The so-called secular trend cycle spans an even longer period of time than does the Kondratiev cycle. These cycles, of varying lengths, can enhance or attenuate each other's effects – as can the wavelike motions known from physics – depending on whether the direction of the waves as they meet is the same or the opposite (see Exhibit 2). Kondratiev established in his original work that the medium-term cycles (Juglar) conform to the long-term. During the down-slope, periods of long and deep depression are seen in the Juglar cycles, whereas, in the up-slopes of the K-waves, an increasing proportion of the Juglar cycle shows both longer and stronger development.

After this brief review of the theoretical approaches, it will be useful to look at earlier crises. The effects of the different cycles always intensify in those cases when the two curves augment each other in the same direction. This was true in 1816-1817 when the peak of the Kondratiev-wave (the end of the war boom) met that of the upward secular trend which had started in 1740 [6]. This K-wave, negative trend ended around 1848 - at different times in different geographical locations. After 1873, the Juglar and Kondratiev cycles met in 1929 in the form of a global crisis.

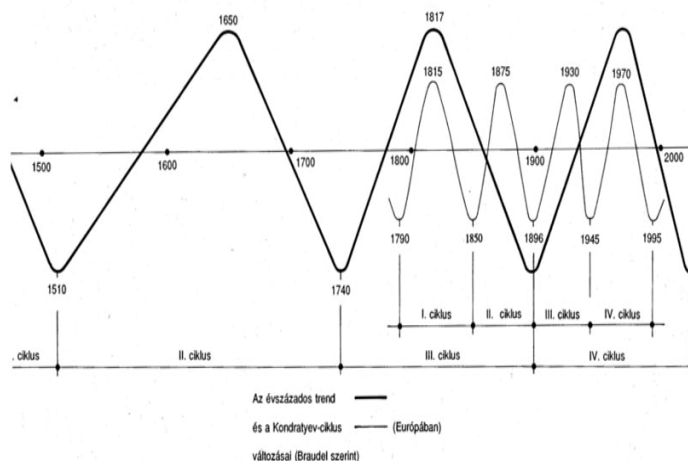


Exhibit 2

Constructive and destructive interference of the Kondratiev cycles and the secular trend

Source: Kehl, D., Sipos, B. (2009). The long-term tendencies of the producer price of leather and the different leather goods in the USA Part I. (In Hungarian) <http://www.bimeo.hu/bor-cipo/2007/070101.html>, 02-02

The overproduction and financial crisis spreading from America lasted for four years. US credit played an important role in the post-WWI reconstruction of Europe and this was realised primarily in the form of the movement of capital. That is to say, American investors bought European government securities. However, this source of funds had diminished by 1929 since investors chose to invest on the stock market due to its higher returns. Liquidity problems then arose in Europe. Due to the earlier strong boom, domestic markets in North America had strengthened and new share-issues appeared increasing more and more rapidly due to the easy availability of funds – which produced opportunities for speculation. At the same time problems had arisen in the real American economy where car sales had dropped and labour was being laid off. Due to the rapid decline in returns from the stock market, banks were unable to satisfy the need for cash and liquidity problems arose. To deal with this situation, banks tried to withdraw credit but this led to deposits shrinking. This trend spread to the commodities market and governments were unable to solve the crisis by restoring bank liquidity by repurchasing government paper through their central banks. Bankruptcies spread from Europe, and the events of 1931 in Vienna caused new problems. Broadly speaking, we can say that the crisis which occurred in Europe displayed different features, and whilst we can talk specifically about money transmission and financial crisis in Western Europe, in Eastern Europe the crisis was concerned with agriculture and sales [7].

In Hungary, due to the new politico-geographic situation after World War I, dependence on the external market was high, internal demand was insufficient and the country as a whole depended heavily on a favourable international economic climate. The previous connections with Vienna were replaced by international loans; the country sank deeply into debt and was more and more entangled in financial markets in an increasingly complex way. The price gap between agricultural and industrial products gradually rose and returns deteriorated. Due to high production costs and to favouritism at national level, unsaleable goods and huge losses accumulated in agriculture as earlier exports collapsed. The high level of debt seriously handicapped the process of automation and modernisation which had already begun. In agriculture prices declined, whilst in industry it was production which declined. In three years the number of people employed in the industrial sector fell by 25% and the value of production by 35%. The boom caused by preparations for war was only a part solution, given the heavy dependence on Germany and the resultant bilateral contracts. State intervention (by customs-related action) was needed to protect the economy and agriculture received subsidies amounting to almost 650-700 million pengos² [8].

As the crisis showed different characteristics in different countries, the methods of dealing with it also differed. Central European countries typically introduced foreign exchange restrictions aimed at preventing an outflow of gold and foreign currency, and most countries began to protect their domestic markets by customs duties and import restrictions. In attempting to reduce imports, exports were stimulated by a (sometimes hidden) devaluation of the national currency due to overproduction, and agriculture was transformed by supporting investment. Clearly, what had been a totally free market was replaced by necessary government intervention, as, for example, with the New Deal.

The Oil Crisis of the 1970s may be still more interesting.

“Here not only did one of the Juglars overlap another, longer cycle, but also a Kondratiev and a secular period collided with each other.” [6]

² The pengő (sometimes written as pengo or pengoe in English) was the currency of Hungary between 1 January 1927, when it replaced the korona, and 31 July 1946, when it was replaced by the forint.

2 The Current Situation

2.1 “Cash Cows” are Needed

Hugh Courtney [9], the Dean of the Robert H. Smith Business School at the University of Maryland, published a book which attracted considerable attention post-9/11 (i.e., September 11th, 2001): it was entitled “20/20 Foresight: Crafting Strategy in an Uncertain World”. The author thinks that companies should prepare to scrutinise their financial situation from several points of view. He suggests that they should continually analyse their market opportunities and the steps taken by their competitors. According to the author, those companies which have a number of so-called “cash cow” products and services will be in a less difficult situation in the present uncertainty. If we look at companies in the developing world (China, India, Russia, etc.) those with a sound financial base and which are relatively cheap to finance will be in the best position. In his opinion, Tata (India) will be one of these, since its Western competitors will be forced to carry out significant company reconstruction or will even be forced to withdraw from certain areas. This company will probably be able to retain positions already gained and also to penetrate areas abandoned by its competitors.

2.2 Many Uncertain Outcomes

Bryan [10] thinks that the first important thing which the strategic analysts of every company should do is to pose two simple questions: *What do we know about the current situation?* and *What don't we know?* He offers his own answers:

- The whole world economy is affected by the fact that the financial sector has ceased to function normally.
- Various governments have been making remarkable efforts to mitigate the consequences of the crisis but the effects are not yet visible since a great deal of time has to pass before we can see the effects of government intervention at all clearly.
- It is also obvious that the global financial market has significantly weakened and lacks efficient coordination and monitoring mechanisms. Instead of global regulation, nationalism and pessimism will grow stronger among the major economic actors.
- Due to the increase in the role played by the government, taxes will probably rise and the regulatory function of the state will be increased.

- The era of cheap credit is about to end and so the main structure of many plans will need to be reviewed and previous concepts pruned where necessary.
- A new business model is needed in this situation, and, in the author's opinion, the era of corporate management which is inflexible or based on high gearing is about to end. Significant company reconstruction will become necessary. According to one of the most recent surveys, 54% of American companies plan to take such steps.

2.3 Possible Scenarios

The same author, Bryan, envisages four different scenarios for the future of the world economy. Several parts of the model described in Exhibit 3 are rather unrefined, but the model may still prove useful for strategy-makers. Based on the latest IMF forecasts [11], the Hungarian World Economy Research Institute has outlined three different scenarios. In these, the world economy has a better chance of early recovery than was forecast at the beginning of this year.

The present crisis is very different from earlier ones in that it has spread very rapidly to all countries and has brought the world close to global collapse. Company markets are shrinking and sales are decreasing, and for these reasons different solutions are proposed at international, national and company level. Many compare the present situation to the earlier Great Depression and the remedies then applied, but, in fact, serious changes have taken place since then. One of the most important differences has occurred in the structure of national economies. Compared to the earlier (e.g. 1929-33) crisis, the significance of the service sector has grown remarkably, while that of the agricultural and industrial sectors has decreased. This means that substantial strengthening has occurred where "the connection with material processes is secondary" even though the employment factor remains significant. Here productive capital can be found embedded into work, in the head of the employees [12]. We believe, therefore, that corporate methods of handling the crisis cannot follow previous patterns; the old recession scenarios cannot work. This results partly from the character of the crisis. This statement refers especially to those organisations where intangible assets play an important role and where production is connected to knowledge - as opposed to tangible assets – and this also includes the state sector [13].

<p>Scenario 1: Remarkable improvement in the whole world economy</p> <ul style="list-style-type: none"> ▪ Recession to turn into recovery in the short-term ▪ Effective regulatory regime ▪ Cost of capital renewal moderates ▪ Closely linked trust among economic actors 	<p>Scenario 2: Moderate improvement in the world economy</p> <ul style="list-style-type: none"> ▪ Improvement expected in 1-1.5 years ▪ Moderately successful regulatory regime ▪ Significant improvement in some countries ▪ Increasing trust among economic actors
<p>Scenario 4: Severe global recession in the world economy</p> <ul style="list-style-type: none"> ▪ Recession to last at least 5 years ▪ Significant decline in all geographical locations ▪ Very strong defensive and nationalistic attitudes expected in all countries 	<p>Scenario 3: Moderate global recession in the world economy</p> <ul style="list-style-type: none"> ▪ Recession to last 1-2 years ▪ Rigid regulatory regime ▪ Moderate defensive, nationalistic attitude characteristic of some countries

Exhibit 3

Possible scenarios for the future of the world economy

Source: Bryan, L. (2008): Leading through Uncertainty. The McKinsey Quarterly, December.

<http://www.mckinseyquarterly.com>

3 The Role of Knowledge in Times of Crisis

3.1 Lay-Offs – Wealth Loss

The crisis management solutions of companies appear from time to time in the daily press [14]. This is mostly by means of news of reduced working time or of lay-offs. In most cases this is clearly necessary to avoid insolvency or bankruptcy. However, dismissing employees can bring long-term problems as well as offering short-term survival.

One of the basic assumptions of knowledge-management is that information and human capital play an increasing role on the input side. Much of the value of a company lies in its human capital - the knowledge latent in people's heads - and this is a factor crucial for competitiveness and improved corporate performance.

In a crisis situation, however, companies pay insufficient attention to retaining knowledge (and its holders). They mostly use the “lawnmower principle” in cost reduction, attempting to economise on the highest cost component - wages. This, however, can only be effective to a limited extent. The rationale of Boda [15] helps us to understand the background. When we talk about costs, we sacrifice resources for the sake of profit, and whoever examines the utilisation of resources will try to reduce costs by any means possible. This approach, however, can be wrong. Costs occur in operating and not at the point of investment. We can divide costs into two categories: operational and capacity (maintaining and preserving the condition of the assets). Assets make profit and costs have to be assigned to their operation. In knowledge-based companies – totally knowledge-based companies exist, but totally non-knowledge-based do not – as discussed above, human capital is the most productive asset. Human resource is a particular good since its investment value is low (not needing to be purchased) but its operation is rather costly. “That cost management cannot be efficient which looks only at profits and costs (...) only those can manage costs efficiently who use the most effective assets and operate them in the most efficient way” [14:27]. In this sense, dismissing equals scrapping. This can only be effective if the “asset” cannot generate a profit which covers the cost of investment (which is, in the case of the human factor, almost zero) and exceeds operational costs. However, laying-off is in general not necessarily a good solution.

Rumelt [15:4] also draws attention to retaining employees and professional communities: “Focus on employees and communities which you will keep through the hard times. Good relations with people you have retained and helped will be repaid many times over when the good times return.”

We contend that an organisation can lose certain elements from its knowledge-base following crisis-driven lay-offs:

- Losses most of all in the fields of human capital, personal competencies, individual knowledge, employee proficiency and in the related synergies.
- Some part of the external structure (client capital) which stems from an individual’s network of connections. (The codified elements, such as trademarks, brand name and image, suffer a smaller loss)
- Losses are probably least in structural capital, since processes and structures are less connected to “heads” – that is, to human resources.

3.2 Knowledge-Management – Long Term Investment into Success

Knowledge and knowledge-sharing have become most important factors of organisational potential in this environment of rapid change and unpredictability, since it increases competitiveness. [17]

According to Salojärvi *et al.* [18], in the case of Finnish SMEs, the maturity of knowledge-management is positively correlated with long-term growth and sustainability. Companies with a more comprehensive and strategic approach to knowledge-management are growing more than those who lack this. Their study concludes that a conscious approach to knowledge-management is not enough in itself, since half of the companies in the sample did not show growth. In the rapidly developing Finnish SMEs, knowledge-management activities were carried out in a comprehensive and balanced way. The faster growth of knowledge companies was also indicated by Sveiby in his book published in 2001.

The McKinsey Management Consultant Company in advising on strategy also argues for organisational knowledge and innovation [19]. According to them, those companies which reduce R&D costs in a recession in order to economise are making a mistake. Of course, R&D produces no short-term revenue and profit, and so cutting costs in this area may appear to be an easy solution, with many clearly feeling that they can produce savings both simply and instantly. We are not thinking of “cash-cows” since, as Courtney [9] affirms, companies which have a number of so-called cash-cow products and services and which are cheap to finance will be in a much better situation – although it may still be difficult to find a way out of the crisis without raising question marks and without new, pioneering solutions.

General cost-cutting and reducing R&D costs also carry a serious negative message. The knowledge-workers, e.g., engineers, who represent the main non-material wealth of an organisation and ensure its innovativeness, are left with a negative impression of the company. Instead of cut-backs, organisations should take a more strategic approach to R&D costs and retain key employees. The crisis should be considered as some kind of opportunity. [19]

According to different empirical studies carried out both in and outside Hungary, headcount cutting is frequently used among lower-skilled workers at the beginning of a crisis [20]. Later this rationalisation tool may be extended to more highly educated employees and managers also.

Following Hewitt Associates’ benchmark study on Hungarian HR in time of crisis [21], companies can be grouped into four categories as follows:

- Traditional firms follow full-scale, cost-cutting strategies. They save costs in all types of HR operations and activities.
- A further group of traditional firms carry out differentiated cost-cutting strategies in different HR fields.
- A third group of firms are not strongly affected by the crisis. They concentrate on short-term financial solutions, introducing flexible HR solutions and outsourcing some HR activities.

- Finally, firms in a growth phase looking for optimal HR solutions implement total compensation and competency development systems.

An empirical analysis of HayGroup [22] shows that basic headcount cutting is not considered as a most frequently used HR Tool among international companies.

4 Results of our Empirical Research

4.1 Hungarian Samples

After our review of the literature we looked for empirical confirmation from the corporate sector. Do they think as the authors suggest - or do they have other preferences? Do they use the traditional tools or do they react proactively? To answer these questions we use the results of a questionnaire survey which we conducted in November 2008 and February 2009. We used a web-survey in Hungary, twice sending the questionnaires electronically to more than 3,000 companies, and we received a total of 253 valid responses relating to the expected impacts of the negative economic and financial events in the fields of company management, salaries and HRM.

4.1.1 Characteristics of the Hungarian Companies Surveyed

The sectoral classification of the respondents is shown in Exhibit 4.

Sectors	Percentage
1. Industry	28.9
2. Trade	26.9
3. FMCG	1.6
4. Financial sector	4.3
5. IT	3.2
6. Telecommunications	0.8
7. Transport	2.8
8. Energy	1.6
9. Economic services	30.0
Total	100.0

Exhibit 4

Sectoral classification of the companies surveyed

Source: Authors' own research

The great majority (81%) of the respondents have fewer than 100 employees, the proportion of those with more than 500 being 8.2%. In terms of annual turnover, 71.5% of the companies in the sample generated under 1 billion forints, 13.2% between 1 and 5 billion and the remaining 15% exceeded 5 billion. Private companies dominate (over 90%), and the ratio of foreign-to-Hungarian enterprises is 20:80. Most companies (78.9%) are based in Budapest. In general, we can say that, although the composition and size of the sample do not represent Hungarian enterprises in all respects, when we consider the list of respondents, the great majority of them showed the expected changes extremely clearly.

In our questionnaire we tried to extract answers to several groups of questions and we selected a number of topic areas for the purpose of this study:

- The likely impacts of the current negative economic and financial events
- The action(s) planned
- The planned rates (%) of salary increase for 2009 by job sector
- The planned changes in HRM and knowledge-management

4.1.2 Effects of the Current Negative Economic and Financial Events

Our respondents were clearly aware of the crisis and more than 75% stated that it had already reduced their growth. 80% expected it to have negative effects on their Hungarian markets and 40% expected the same on their EU markets. The majority assumed that inflation would be relatively low - below 7% (see Exhibit 5).

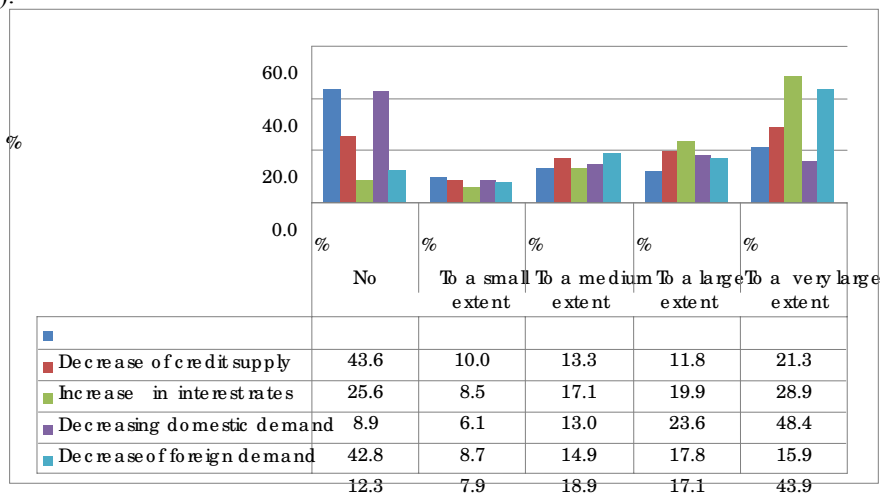


Exhibit 5

Effects of the economic and financial crisis

Source: Authors' own research

4.1.3 Action Planned

68.2% agreed that action needed to be taken to avoid the negative impacts of the crisis and that it was not enough to continue to run the business in the old way.

Our questions can be grouped into two categories: The first (2-5) comprise a group of reactive, defensive steps, involving traditional, belt-tightening activities which basically face the (already evident) effects from a cost-cutting perspective. The second group (6-9) refer to possible proactive, offensive options. The answers here see solutions in finding new approaches, albeit adapting to change, by increasing sales, capturing new areas and markets, improving efficiency or creating new strategy (as opposed to maintaining old practices (Exhibits 6 and 7). Respondents were less willing to answer this question, and we received the fewest responses (176) to the “No action needed” option whilst most (240) companies looked towards the option of cost reduction.

It seems obvious that reducing costs has a clear priority for the companies, but opinions differ on the way this has to be done. Whilst the need to postpone investment is unequivocal, companies prove more cautious in connection with redundancies. Less than a third stated that it was vital to take this step. (Note: We should mention that the impact of part-employment (4+0 or 4+1) programmes already started may be included in these answers.) Companies, in fact, much prefer to freeze salaries. In respect of the latter, the most frequent answer was “Extremely typical” whilst in relation to redundancies it was “Not at all typical”. However, while the answers “Not at all typical” and “Not very typical” were dominated in respect of postponing investment and freezing salaries largely produced the other three answers. As Boda [15] stated, companies try to avoid “asset scrapping” and prefer to freeze salaries.

It would be unreasonable to examine such corporate behaviour merely from a knowledge-management point of view, and it is clear that social interactions, emotions and the social assessment of companies have a strong influence on decision-making. However, it cannot be deduced from the answers given that companies shy away from lay-offs on these grounds alone, and, even if we investigate this issue from the knowledge-management standpoint, it is not the case that it is practical for a company to retain all its employees. In the knowledge-era – as Sveiby [12] put it – it is reasonable to mechanise or outsource repetitive, mechanical tasks and keep expensive human resources for constantly changing tasks. On the contrary, however, our survey revealed that companies do not make such distinctions. It is also untrue that labour is handled differently in the more knowledge-intensive sectors. We cannot show any correlation between specific industries, lay-offs and the subsequent issue of redeveloping the labour force. We believe this to mean that even those companies which employ knowledge-workers and which rely heavily on intangible assets, are largely unaware of the importance of knowledge-management: they follow the traditional strategies of crisis management and do not make lay-off decisions based on

knowledge-management factors. It is quite evident (independent of knowledge-management) that different industries are affected by the crisis to different extents.

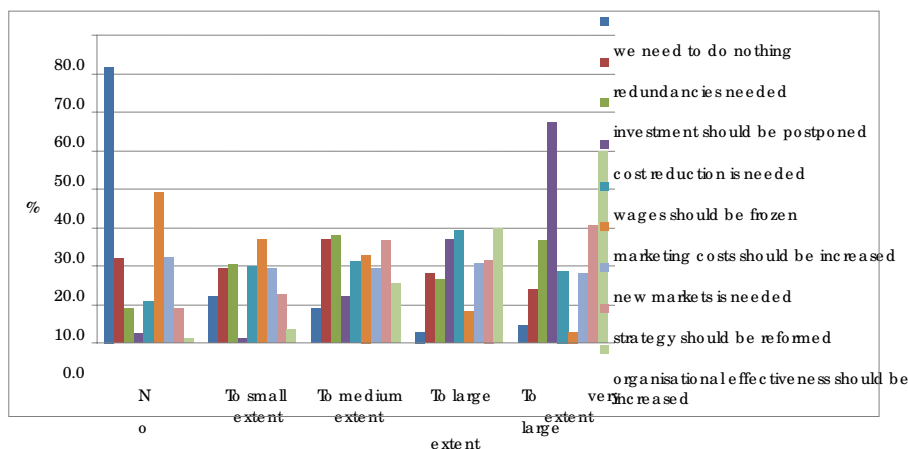


Exhibit 6

Action planned to reduce the effects of the crisis

Source: Authors' own research

4.1.4 Planned Changes in HR

With every question more than half of the respondents plan to take no steps in this field. A freeze on hiring received the highest percentage (44.2%) – not surprising, in the light of the foregoing – and lay-offs and changes to performance management were also mentioned frequently. The companies citing lay-offs roughly equal the number of respondents who classified redundancies as “Extremely typical” in question 5. A total of 18.6% plan changes in the field of knowledge-management, this suggests that companies see no relationship between this field and a solution to the crisis. The problem which appeared several times in the 2005-2006 KPMG surveys emerges again in this and in the previous question, namely that companies do not understand the advantages of knowledge-management and cannot grasp how this tool can benefit them. Although they have the appropriate IT background and their willingness to share knowledge is increasing, companies do not see a future in this method [23]

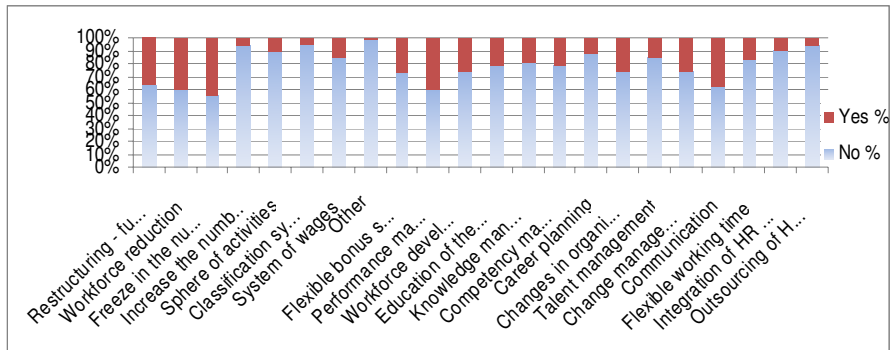


Exhibit 7
Planned changes in HRM

Source: Authors' own research

The change of performance management showed a significant correlation in respect of salary increases for sales personnel. This group was the best rewarded of the job categories, although the difference (on average, no more than 3%) was not especially high. It is evident that many companies try to solve their problems by increased sales – in other words, by selling more of the same products in the same way. In terms of both the action planned and changes in HRM, it is almost exclusively the old methods which are followed.

4.2 Characteristics of the Slovakian Companies Surveyed

In our research we had 107 respondents from Slovakia. The sectoral classification of the sample is shown in Exhibit 8. They were recruited through correspondence students at the Janos Selye University³ from Southern and South-Eastern Slovakia. We used a hard-copy version of the web-survey questionnaire (discussed under Hungarian Companies Surveyed in this article) to question our respondents, most of whom were managers or owners of SMEs.

More than 75% of the companies are SMEs. 76.6% of them have fewer than 500 employees, 67.7% have an annual turnover below €50 million. The majority operate in the private sector (75.7%), and have Slovakian owners (64.8%). Compared with the Hungarian situation, the capital city does not dominate; most (78.3%) operate from Bratislava and from the provinces of South and South-Eastern Slovakia.

³ This University is located in Komarno (Slovakia). Its students belong to the Hungarian minority but are bi-lingual, speaking both Hungarian and Slovak fluently.

Sectors	Valid Percent
Industry	27.1
Trade	22.4
FMCG	0.9
Finance	18.7
IT	0.9
Telecommunications	1.9
Transport	8.4
Energy	0.9
Business services	18.7
Total	100.0

Exhibit 8

Sectoral characteristics of the Slovakian firms

Source: Authors' own research

4.3 Sample Comparison

Comparing the two samples, we might say that Micro- or Very Small companies feature more strongly in the Hungarian group and Medium-sized companies (in terms of employee numbers) are 15% more frequently found in the Slovakian sample, although the broad SME sector dominates both. The financial sector is stronger, and the business services sector weaker in the Slovakian as opposed to the Hungarian. The ratio of ownership (public to private) is nearly the same in both cases.

4.4 Effects of the Negative Economic and Financial Events

Surprisingly, Slovaks seemed to be less committed regarding the crisis. Only 30% predicted that the crisis would cause a decrease in growth, 69% saying only that the current financial problems would place a heavy burden on growth. Slovaks were also more optimistic regarding markets. Compared to the Hungarians, 37.5% fewer Slovakian respondents thought that the crisis would have a significant effect on their domestic markets, and the same trend was evident for EU markets (30% fewer negative responses). There was no significant difference for overseas markets.

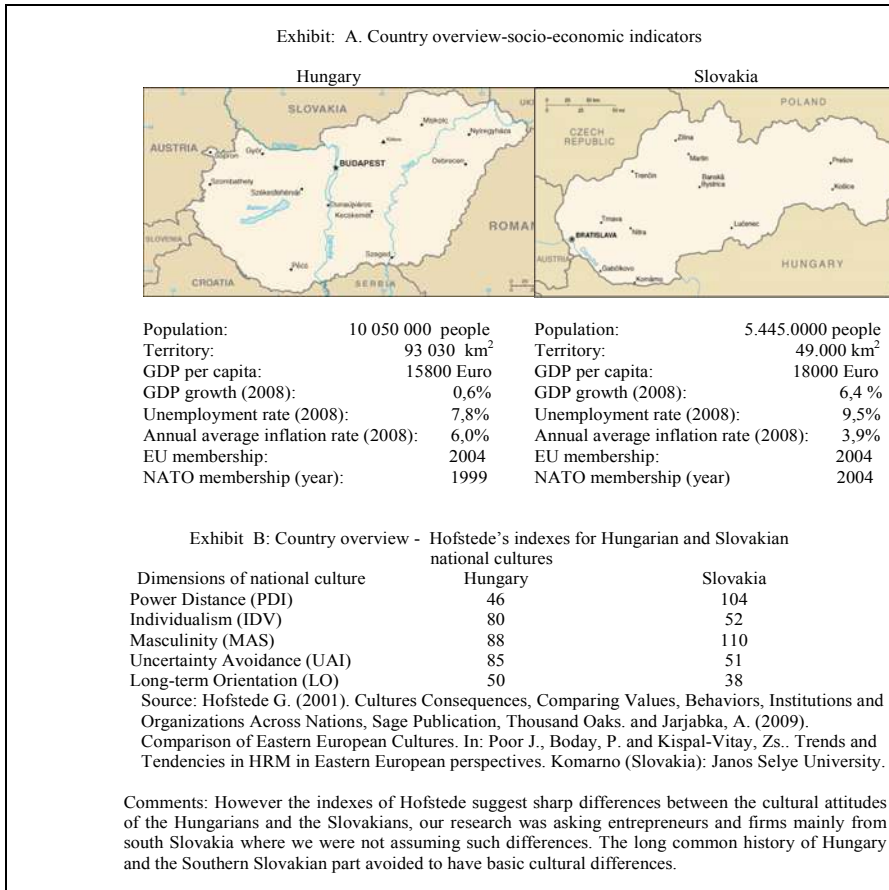


Exhibit 8

Country overview – Hungary and Slovakia

The cross-tabs analysis also showed a significant and medium-strong correlation between the expected growth rate of the companies and the nationality of the respondents. Hungarians expected significantly less growth in their companies than Slovaks.

	below 0%	1-3%	3-5%	5-10%	10-15%	15%	Total
Slovakia	28.6%	41.8%	19.8%	6.6%	3.3%	.0%	100.0%
Hungary	56.3%	20.6%	9.2%	6.3%	4.2%	3.4%	100.0%

Exhibit 9

The difference between Slovakian and Hungarian companies in the expected rate of growth of the company in 2009

Source: Authors' own research

Regarding action to be taken, most respondents in both countries agreed that the statement: “we have to do nothing to reduce the effect of the crisis” is either not true or true to only a limited extent. There are small differences between the countries regarding lay-offs. In general, we see that Hungarian firms are more willing to downsize, but only to a limited extent. However, in respect of the other reactive-type answers, there are notable differences between the two countries. Exhibit 9 shows that Hungarians tend to use reactive strategies more radically than do Slovaks. In the three reactive categories (postponement of investment, cost reduction and a wage freeze) the differences between the two countries all exceed 24% in the “very large extent” category.

Actions	Countries	No	To a small extent	To a medium extent	To a large extent	To a very large extent
1. Postponement of investment	Slovakia	13.9	25.7	29.7	24.8	5.9
	Hungary	16.1	13.9	22.0	17.5	30.5
	Difference	-2.3	11.8	7.7	7.3	-24.6
2. Cost reduction	Slovakia	7.8	13.6	34.0	30.1	14.6
	Hungary	3.3	3.8	17.1	23.3	52.5
	Difference	4.4	9.8	16.9	6.8	-37.9
3. Wage Freeze	Slovakia	39.8	21.4	17.3	14.3	7.1
	Hungary	17.4	10.1	20.2	20.6	31.7
	Difference	22.4	11.3	-2.8	-6.4	-24.5
4. Increased marketing expenditure	Slovakia	39.6	28.1	20.8	9.4	2.1
	Hungary	35.4	16.3	25.8	9.1	13.4
	Difference	4.2	11.9	-5.0	0.3	-11.3
5. New markets	Slovakia	30.5	31.6	23.2	14.7	0.0
	Hungary	19.4	12.2	24.3	19.4	24.8
	Difference	11.2	19.4	-1.2	-4.6	-24.8
6. Strategic reform	Slovakia	9.3	15.5	36.1	28.9	10.3
	Hungary	7.8	7.8	27.5	20.2	36.7
	Difference	1.5	7.7	8.6	8.7	-26.4
7. Organisational effectiveness improvement	Slovakia	5.1	16.3	35.7	31.6	11.2
	Hungary	8.8	3.9	21.9	24.1	41.2
	Difference	-3.7	12.4	13.8	7.5	-30.0

Exhibit 10

Chosen strategies to reduce the effects of the crisis (by country)

Source: Authors' own research

The marked cells show that Slovakian values are significantly higher (by over 10%) than the Hungarian. The related red marks distinguish the weaker categories, and, as red signs are only seen in the “no”, “small extent”, and “medium extent” categories, we can conclude that Slovakian firms are willing to use these strategic tools less. Options 4 to 7 show the proactive strategies which organisations might follow to reduce the effect of the crisis. The green and the red cells suggest the same trend as seen in the reactive categories. In the “very large extent” categories

Hungarian companies feature more strongly, since they accept the need to implement these strategies more radically. Slovaks are more moderate.

Regarding crisis-related plans for HRM, the difference is not as noticeable as for strategic action. We still see that, in each category, less than half of the respondent Slovakian companies are preparing to take HR action. In our cross-tab analysis Slovakian firms showed no significant differences from Hungarian organisations in respect of:

- Freezing staff numbers
- Increasing staff numbers
- Compensation system
- Workforce development
- Performance management
- Management training
- Knowledge-management
- Competency management
- Career planning
- Change in organisational culture
- Talent management
- Change management
- Communication
- Flexi-time
- HRM integration

In these categories Slovakian organisations tend to react to the crisis as Hungarians do. Surprisingly, in both countries talent- and knowledge-management attracted fewer than 20% positive answers, and so we conclude that companies do not realise the power embedded in intangible assets and in the improvement of the knowledge-capital of organisations. They do not believe that differentiated, quality employees could find a way out of the crisis through innovative solutions.

We have identified six categories where significant differences do exist in crisis-related HRM activities among the Hungarian and Slovakian companies. The results are shown in Exhibit 10. We see a different direction in these categories from that in the strategic plans. More Slovakian companies tend to use HR tools than Hungarian. The largest gap occurs in changing or implementing flexible bonus systems. For us it means that Slovakian firms are willing to emphasise more individual performance in countering negative trends in the company. The

interesting point is the huge gap in the category concerning workforce reduction. Hungarians, however, were stronger in the strategic “dismissal” category, and in terms of HRM, Slovaks are more willing to dismiss employees.

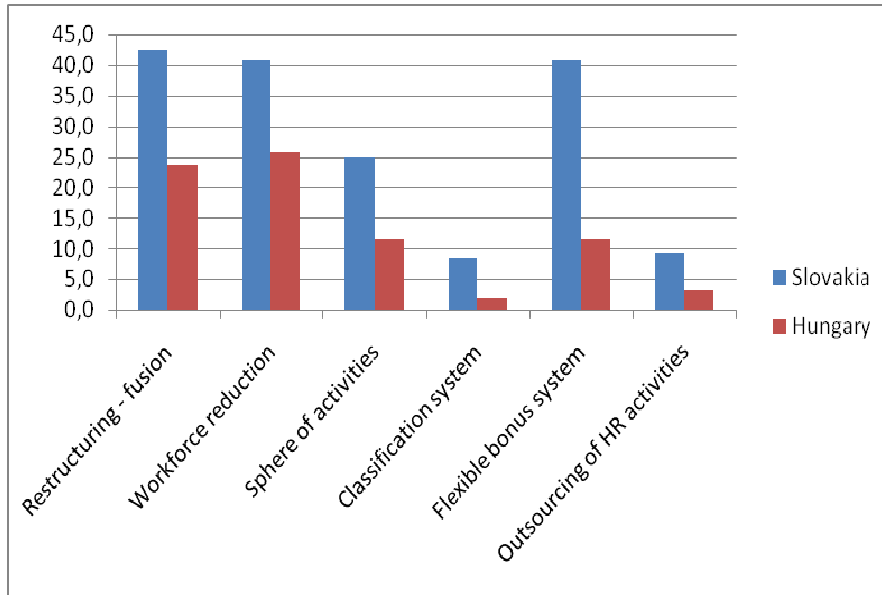


Exhibit 11

Significant differences in crisis-related, planned HR activities between Hungarian and Slovakian companies in 2009 (%)

Summary, conclusions

In times of crisis companies apply different methods to ride out the storm. The underlying reason is often short-term survival and to avoid the overhanging threat of bankruptcy. However, they put the future at risk in several ways by lay-offs and by the thoughtless handling of assets. By losing human capital they jeopardise the innovativeness which ensures flexibility and they lose the driving force of growth: their intangible assets. The comprehensive, strategic-level management of knowledge leads to faster growth and to recovery. Earlier crisis management solutions work with little success in the changed economic environment.

However, our questionnaire survey revealed that companies still tend to prefer old solutions, and, in terms of similarities, we were able to identify features common to both countries:

- They try to avoid lay-offs but the underlying reasons are social rather than knowledge-management related, since no difference could be detected between companies applying this method in different industries.

- The majority of companies are not planning to innovate in the HR field, since they do not believe this to be a solution. The underlying reason may be a lack of appreciation of the advantages of knowledge-management.
- Surprisingly, in both countries talent- and knowledge-management attracted fewer than 20% positive responses.

Certain divergences were, however, noticeable between Hungarian and Slovakian companies:

- Hungarians expected significantly less growth in their companies than Slovaks. At the beginning of 2009 this was, perhaps, not surprising since, for Slovakia, a stronger GDP forecast and the successful introduction of the Euro supported this confidence.
- Hungarians tend to use reactive strategies more radically than do Slovaks, a tendency which can be explained by the weaker financial and economic situation of Hungarian companies.

Limitations and directions for future research

Our results are based on two empirical research studies undertaken in Hungary and in Slovakia in 2008 and 2009. From these it is clear that any effort to generalise regarding this or any other region affected by the damaging effects of the global crisis would be premature. A further potential weakness is the choice of Hungary and Slovakia to represent the effects of the global crisis on HRM and knowledge-management. Our research processes and models were designed for use in both Hungary and in Slovakia (where slightly different cultural and economic factors would, no doubt, apply), but our respondents in Slovakia belonged to the Hungarian minority and were students at a Hungarian-Slovak university with the result that cultural differences were minimal. The major contribution of our primary questionnaires relates to meeting a stated need for the “deep, but narrow understanding of meaning and process that can be provided by detailed comparative case studies. . .” [24]

In terms of subsequent research, we have standardised our approach to conducting a similar survey in other countries of the region, and this project is now underway. We duplicated this research and conducted studies (consistent with our model and on parallel issues) in Romania and in Bulgaria in April 2009 and we are currently engaged in analysing and summarising our research results. We plan to complete a four-country-based comparison (Bulgaria, Hungary, Romania and Slovakia) in the last quarter of this year.

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What Makes Higher Education Knowledge-Compatible?*

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Abstract: An empirical research is under way at Faculty of Business and Economics, University of Pécs planned to be conducted among approx. 800 Bologna BA (BSc) students in 2009, including the reinterpreted model of Probst and Raub (1998) which summarizes the components of knowledge management. In the study we apply the definition of knowledge-based services to higher education institutions in order to explore various aspects of the role of the university as a site of knowledge management, ranging from active student participation in higher education to the methods and tools that can be used for knowledge scouting, caring and developing at university. We intend to identify clusters of students in line with the phases of the knowledge model as the result of the research. Our hypothesis is that there are some biases among these phases, i.e. these clusters; so the aim of our research is to reveal the reasons for the asymmetrical nature of the process and to find out the prospects how to moderate it – with providing recommendations to the strengthening of each knowledge management phase. Other purpose of the study is the generalization of results in order to determine conclusions by literature which are valid to the whole higher education system.

Keywords: knowledge management, higher education, knowledge-intensive business services (KIBS)

1 Introduction

Fundamental focus of knowledge management models is the analysis of the expansion and quality of organizational knowledge processes. Underlying principle of knowledge management is that organizations recognize the quality and quantity of knowledge they possess. There is no one organization which does not acquire, store or distribute knowledge some way. The question is that if they apply their knowledge capital effectively, what is the added value of it with which this capital contributes to the total value of the products/services and customers of the organization.

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The main goal of knowledge management is to raise the value of the organization with the application of the existing knowledge and intellectual capital within the organization. One basic assumption of knowledge management is that the enhancement of knowledge base can support the organization in achieving a better position in competition. In the field of knowledge management it is an accepted assumption for circa two decades that knowledge means much more than the sum of data and information as it includes the ability of application and utilization of information as well [1].

Higher education institutions have great opportunities in the field of practicing knowledge management tools [2]. In the focus of this study there is a novel interpretation of the process of knowledge management, according to which knowledge is not applied to organizational knowledge; this study examines the knowledge transfer between the higher education institutions (as knowledge intensive service providers) and the students (as clients). Students represent such networks the elements of which are capable of knowledge sharing and knowledge distribution among each other.

Based on the experiences of the last years within the frames of mass education, deviation is implicitly higher regarding the number of excellent and lagging students, but the reason for this is not only the increased number of students. Take a look at a company's example: two organizations having the same facilities could perform so differently – difference is often caused by that added value which is the consequence of the effective way of knowledge management application. According to the axiom of Davenport-Prusak [3] organizations which promote cooperation and information sharing outperform others.

The aim of our survey is to prove the hypothesis which states – on the analogy of organizations competing in the marketplace – that the success of students through their years spent in university and after on the labour market depends on how much they succeeded in learning the best practices of knowledge management.

2 Growing Role of Knowledge-based Services

In the past two decades knowledge intensive business services (KIBS) were observed fields of interest. Difficulties in finding a common understanding are connected to different aspects of KIBS, for which it seems reasonable to find factors which allow us to distinguish between business services generally, and knowledge-intensive services. [4]

To start out we will look at the definition of Miles, according to which there are companies which “provide knowledge-intensive inputs to the business processes of other organizations – knowledge-intensive business services such as computer services, R&D services, legal, accountancy and management services,

architecture, engineering and technical services, advertising, and market research” [5]. A similar perspective can be observed in views stressing the proficiency of the service provided: „Knowledge-intensive business services are expert companies that provide services to other companies and organizations” [6]. A definition containing basically the same elements as the definitions above, is accepted by the European Commission, according to which “knowledge-intensive business services are companies that provide inputs – based heavily on advanced technological or professional knowledge – to the business processes of other organizations” [7], emphasizing three major features of KIBS: professional service, external service, and knowledge-based service, which will be described later in detail.

Companies providing knowledge-intensive services are called knowledge-intensive firms (KIFs) by some authors, and are fundamentally companies which sustain their competitive advantage through processes of knowledge creation [8], and do this “by solving their clients’ problems through the direct application of knowledge” [9]. Thus, in knowledge-intensive firms knowledge has more importance than other inputs, and human capital, compared to other kinds of capital: to physical or financial capital, dominates [10] [11]. The performance of organizations which provide knowledge-intensive services has an effect on the performance of their clients. While at most organizations knowledge is embodied in processes or products, at knowledge-intensive service organizations it resides in the experts and its application is mostly customized, based on the clients’ needs [9]. In case of a higher education institution this expert – client relationship also exists, we can find it in accordance with lecturer – student relations.

The KIBS-sector contains many different kinds of KIBS. Here, we only outline the most important features of these sectors. (See more in [4].)

- Knowledge-Intensity
- Growth Rates, Market Relations
- Expertise, Professionalism, Self-Regulation
- Value-Creation, Innovation.

The European Union [7] and the OECD [12] recognized the importance of KIBS as well and supported projects connected to knowledge intensive sector. However, in this shift towards knowledge-based services and towards the development of these kind of services usually such services are mentioned which derives from the business sector [6], [7], [12].

Nevertheless, there are several arguments to deal with not only in case of business organizations but in case of other kind of organizations as well. On one hand, because similarities can be seen between the processes of business sector and the processes of public and third sector organizations’ tendencies, as managing knowledge has become an important issue not only in business sector but in public

and nonprofit sector as well [13], [14], [15]. On the other hand, because the issue of knowledge management in other sectors compared to the profit-oriented sector is still of low importance. So it is necessary to examine organizations of these sectors, among them higher education as well [16], to provide one more proof of the existence of knowledge asymmetry.

To be able to investigate on knowledge processes in higher education institutions, we should have a look at the determining success factors of knowledge processes at first. When we have considered the discussion on knowledge processes in universities, we have found that characteristics of the organizations should have been considered. For this, we find it appropriate to view those features of universities, producing and delivering service to the public, which can have an impact on successful implementation of knowledge management programs. We should consider the following elements: [17]

- Actors of knowledge processes
- Development of a supporting organizational culture
- The existence of an appropriate communication system
- Barriers of knowledge transfer and the causes of it
- Methods of making knowledge available to all interested people
- Knowledge flow is influenced by overlapping fields of activities, and cooperation with other organizations
- Willingness and capability of universities to investment in technology
- Performance measurement methods.

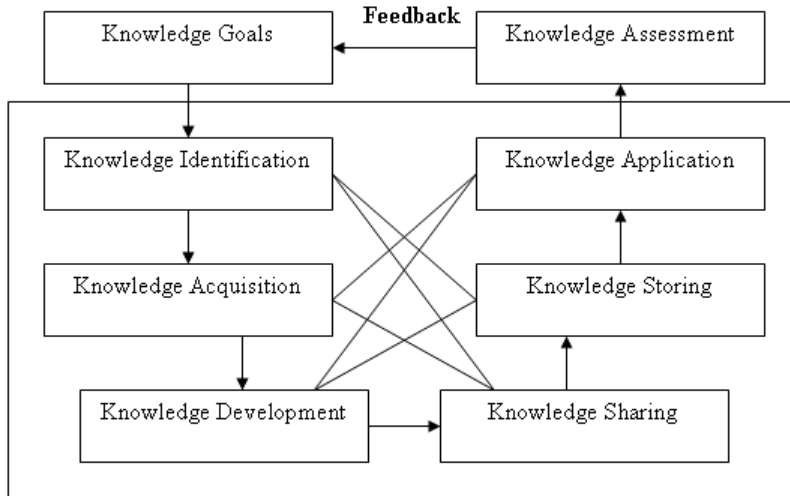
Synthesizing these information, we concluded, that the model of Probst and Raub (1998) can be perfectly interpreted to higher education institutions concerning knowledge processes and the elements of it. In the next phase we intend to present our approach on that.

3 Model of the Empirical Research

The most effective knowledge implementing students ('knowledge students' as an aphorism of knowledge workers) create networks within the frames of which they can continuously develop themselves. According to Cross-Davenport-Cantrell [18] formal education means only the starting point of the knowledge acquiring process. Higher education institutions have already realized that "job for life" is no longer the future of their students. Universities intend to prepare their graduates for the labour markets they are likely to face and enhance the career opportunities for those already in employment. [19] So now this is the time for students to make

this realization as well. The more successful knowledge user would like somebody to be, the more emphasis he/she has to put on interpersonal relationships, on participating in diversified networks.

From the models on knowledge processes, we based our theory on the model of Probst and Raub [20].



Process of Knowledge
Source: Probst-Raub (1998)

The process of knowledge consists of two cycles – an internal and an external one – in which building on the previous element and the idea of feedback exists from the beginning to the end.

Interpretation of the internal cycle to knowledge management in universities is the following:

3.1 Knowledge Identification

This phase means the identification and review of information and knowledge processes and sources after determination of knowledge goals. According to our assumption students have to know what kind of knowledge they need to have and how they can obtain this knowledge. For this the followings have to be examined:

- on one hand the existing data-, information- and knowledge processes and that how much these meet the requirements,
- on the other hand – based on the analysis of processes – needs for data, information and knowledge have to be determined.

Through the phase of knowledge identification, concerning competition among students, it is vital that already existing knowledge become recognized. This applies to skills and competencies providing personal competitive advantages and to the know-how of knowledge acquisition as well. As a result of the knowledge identification phase the transparency of students' (and other members of the organization – e.g. lecturers') knowledge needs to be achieved, which means that all members of the organization (the university) access all kind of information and that everybody knows who is the expert of what. One of the possible and often used tool of ensuring transparency is to make so-called knowledge maps, which include the internal and external information carriers of the organization (experts, lecturers, databases, important internet links, etc.), the important characteristics of them (e.g. way of access, field of interest they can provide information on, etc.), relations among them, the flow of information. With the help of knowledge maps students can easily find the person or database who or which can help them in a certain topic. Knowledge maps draw up the differences (gaps) between student clusters under the results of the empirical research.

3.2 Knowledge Acquisition

In the knowledge acquisition phase we need to aspire to obtain the missing knowledge. Possible ways of this in case of Bologna BA students, participating in the analysis are the followings:

- Utilization of relationships: collecting the information which can be obtained from lecturers, different programs, professional competitions and media
- Cooperation: collecting experiences and information during cooperation with partners. Spectrum of the cooperation can be from the loose relations (common tender, project) to the cooperation among organized frames (student organizations, student college).
- Purchasing knowledge: purchasing standards, software, literature, importing best methods, etc.

Higher education institutions can also contribute to these processes with fostering the mission that students need to have access to the intellectual resources of the university in a diverse and learner-centred culture that promotes the intellectual and civic engagement of students, faculty and staff with each other and with institutions as well. [21]

3.3 Knowledge Development

It is not enough to collect knowledge to have real competitive advantage. Sveiby [22] concludes the following on the relation between information and knowledge:

- Information abundance does not result automatically in better knowledge;
- Importance of the user has grown instead of the service.

This is particularly true in such knowledge oriented organizations among which (in a previous part of this study) universities were classified. Knowledge development is an attempt for students to generate the necessary knowledge themselves. We think of development of ideas, models, skills, products, processes, etc. This knowledge does not have to be newly created; it is enough if it is new for one certain person. Already in one work of Bögel [23] experimentation emerged among the ways of enhancing knowledge capital. He stated that in every part of the organization can good ideas emerge; it is the task of the leader (the lecturer) to encourage these initiatives, to provide opportunities for the good conceptions. For this, supporting organizational culture is elementary, as it creates balance between structure (order, regulation, control) and chaos (change, innovation).

Knowledge can not be developed directly, only in an indirect way with the increase of individual and collective creativity. If the level of individual or collective creativity is high, knowledge develops almost on its own. To improve creativity, you can use the following instruments:

- To improve individual creativity: to create the proper environment. It involves the recognition of creativity, to tolerate mistakes (to a certain degree), to allow students to choose projects freely, to listen to creative ideas and implement them.
- To improve collective creativity: emphasis is primarily on the promotion of communication. Such groups need to be established members of which are glad to work together, to communicate with each other. This results automatically in synergy, where the performance and knowledge of the group is much higher than the sum of the knowledge and performance of the individuals.

3.4 Knowledge Sharing

The aim of knowledge sharing (or knowledge distribution) is to multiply knowledge. Knowledge transfer has two main parts: the transmission part and the absorption part by a certain individual or group. If knowledge is not accepted by the consignee, knowledge transfer will not be implemented. To make the knowledge available does not mean knowledge transfer. It is not even sure that transmission and absorption is valuable and profitable. It happens only if the new knowledge causes some kind of change in behaviour or it lead to such novel ideas which then result in different behaviour. How easy to understand and anchor knowledge depends on the type of knowledge. Explicit knowledge can be embedded into methods, documents and databases and can be exactly forwarded. Transmission of implicit knowledge [24] requires wide range of personal relations.

Transfer connection can be a partnership, a mentorship (tutorial system) or the system of professional practices. These relations presumably promote some kind of knowledge transmission method – from explicit knowledge to the hidden one. Electronic technology and knowledge maps are the part of the infrastructure of implicit knowledge transfer.

3.5 Knowledge Storing

This phase includes the assurance of the identified, acquainted or developed, distributed or utilized knowledge in order to be available in the future again. Connected to the fixing of knowledge, the assurance of searching and availability has to be mentioned. Here belongs the continuous, regular and conscious updating and data protection to a necessary extent. Knowledge can be fixed or saved in the following ways:

- Individual saving: individual students are efficient knowledge stores but this does not mean a solution in the long run as in the case of higher education institutions, the basis of students always keep changing, and when a student leaves his/her saved knowledge leaves as well.
- Collective saving: groups can be regarded as knowledge storing entities, collective sense saves information more effectively than individuals in many cases. Here participants need to take care of the proper flow of knowledge within and among the groups, such as regular meetings, note-taking.
- Electronic saving: knowledge existing in an explicit form can be saved in information systems as well. We need to take care of that the saved information should be searched, current and appropriate in its quality. Low-quality or out-of-date information have to be deleted.

According to our assumptions distinct student clusters will represent significant differences in the efficiency of methods and techniques of knowledge saving. Other sources and explanatory variables of knowledge asymmetries will be the subject of our survey – mainly with the aim of eliminating.

3.6 Knowledge Application

Knowledge application has to ensure that knowledge is used productively. This is the purpose of knowledge management: to utilize knowledge. It means that the toolkit of knowledge management needs to adapt to the user, here to the lecturers and students and they have to be involved in the establishment of activities. Processing of knowledge contents have to touch the spot in order to the user of the knowledge may receive goal-oriented information on what he/she has to learn.

Interpretation of the external cycle to knowledge management in universities is going to be a remarkable part of the empirical survey as well, planned phases are the following:

3.7 Knowledge Goals

When defining goals, we have to determine what competencies need to be created, stored and/or developed at students. In practice definition of knowledge goals is a difficult task as knowledge management is quite a young discipline, the lack of common language may hinder the determination of goals.

3.8 Knowledge Assessment

At the introduction of knowledge management we have to face the problem that based on experience what cannot be measured seems to have no importance. Measuring knowledge revises the achievement of goals and the transparency of changes in organizational knowledge. According to Davenport and Glaser [25] key of knowledge management's success is (among others) the implementation of measurement culture in which time and money spent on the knowledge system needs to be certified. In order to be able to survey the whole system, the organizational culture needs to be measure-oriented. Its interpretation in case of universities is equal to an efficient responsibility system which requires the knowledge and application of the delivered information. Particularly, exchange of knowledge to future success on the labour market should be emphasized, for which the tutorial system applied at the University of Pécs Faculty of Business and Economics provides a proper framework.

Summary

„New knowledge always begins with the individual.” [26]

It is important in the Bologna BA studies to apply new up-to-date educational methods and techniques which can foster the support of talented students and which ensure structured frames to the permeability between different educational levels [27]. Knowledge-oriented organizations which characteristics are quite similar to the ones of KIBS (Knowledge Intensive Business Services) give numerous knowledge management tasks to all of the stakeholders of the organization. In case of higher education institutions this has a particular importance in case of university and faculty leaders and students. Different character of knowledge management is not only an organizational aptitude; it is a question of observable competencies in case of students. Mass education (supported by Bologna process) especially strengthens this knowledge asymmetry phenomenon. The European University Association outlined 10 key success factors in the Prague Declaration [28] for European universities to be able to cope with the challenges of the rapidly changing environment. These are:

- widening opportunities for participation in and successful completion of higher education;
- improving researcher careers;
- providing relevant and innovative study programs;
- developing distinctive institutional research profiles;
- shaping, reinforcing and implementing autonomy;
- increasing and diversifying income;
- enhancing quality and transparency;
- promoting internationalization;
- increasing and improving the quality of mobility;
- and developing partnerships.

If any conclusion can now be drawn, it is the need and opportunity to reveal the place of knowledge asymmetries and the possibilities of reduction. BA students have to be the subjects of knowledge management process, the phases of which provide different ways to handle the asymmetries and lacks, and as a final goal – to abolish them. Based on empirical experiences the implementation of the task can be conducted in the hope of success. This study and the planned research contribute to all of this with their own toolkits.

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The Examination of the Competitiveness in the Hungarian SME Sector: A Firm Level Analysis

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Abstract: While the research on competition has been increasing in popularity amongst scholars, there is a lack of studies focusing on the firm level competition especially in Hungary. Even less is known about the competitiveness of the smaller size businesses. The newly created conceptual model is configured to fit to the small business setup as well as to the available data set. The model contains 19 individual variables and seven pillars. The methodology is unique in the sense that it incorporates the weak points, called bottlenecks over the seven pillars of competitiveness. The individual level competitiveness points are calculated for each of the 695 businesses. The competition points collerate significantly with the selected three measures of competitiveness, increase of sales, employment and export. The cluster analysis prevails high differences amongst the seven groups of businesses.

Keywords: competitiveness, SME

1 Introduction

The basic aim of this article is to identify and analyze the factors of competitiveness in the case of Hungarian small and medium size enterprises (SMEs). While the competitiveness literature includes a large number of articles and books there is still a lack of papers focusing on a firm level analysis and small business. Even less is known about the competitiveness of the Hungarian small businesses. Therefore a comprehensive, theoretically based, empirically tested analysis of the Hungarian SMEs could provide valuable insight about the problems Hungarian smaller size businesses face.

The paper structures the following way. Chapter 2 gives a snapshot about the competitiveness literature. We argue that most followers of Michael E. Porter use the top-down approach emphasizing the role of institutions, clusters or industry and pay less attention to the bottom-up methodology, and the inside, firm level factors of competitiveness. Since small firms are not a scaled-down version of

large businesses, most traditional models provide an inadequate tool to analyze the competitiveness of smaller business units. Building on previous resource based view literature we present a conceptual model of competitiveness that is adjusted to fit to the small business framework (Chapter 3). Chapter 4 includes the description of the data set and describes the empirical methodology followed by the analysis of the results (Chapter 5). Correlation coefficients are applied to show the connection between the competition points and the different measures of competition. Chapter 6 provides the application of the results. The cluster analysis technique serves to identify dominant competitive strategies over the factors of competitiveness and the performance of the businesses. Finally the paper concludes.

2 Literature Survey

While competitiveness is one of today's "buzzword" widely used amongst politicians, media or professionals, the concept of competitiveness is relatively new. Moving away from the traditional Ricardo idea of comparative advantages, Porter's diamond model aims to explain the competitive advantages of the nations [1]. The competitive position of a nation depends on the factor endowments, demand conditions, the support of related industries, and the firms' strategy, structure and rivalry, argues Porter. These four factors together affect other four components that determine the competitive position of the nation. The four components are the availability of skills and resources, the information that firms use how to apply these skills and resources, the goal of the businesses and the pressure of the firms to renew, innovate or invest. In addition, the government can also play a role by effective industry and antitrust policies, stimulating demand and specialized factor creation.

Since Michael Porter's novel approach, there have been many followers [2] [3] [4]. A development of the original Porter diamond model resulted the competitiveness index reported yearly by the World Economic Forum (WEF). Porter and Schwab [5] define competitiveness as the mix of institutions, policies and factors that influence the level of productivity of a country. The index identifies twelve pillars, and the significance of these factors (pillars) varies over the different phases of development. Basic institutions, infrastructure, macroeconomic stability, health and primary education are important for low developed factor driven economies, higher education and training, goods and labor markets efficiency, sophisticated financial markets, technological readiness, market size are vital for efficiency driven economies, while business sophistication and innovation are the key elements of innovation driven countries.

Although the national competitiveness refers to the ability of a country to compete globally, others focus more on the determinants of local competitiveness [6] [7].

The importance of clusters in local competitiveness is also acknowledged by Porter [8]. An elegant amendment of the Porter model in regional development is provided by the pyramid model of Lengyel [9]. Despite numerous improvements there are serious doubts about the proper interpretation of competitiveness in regional levels. Recent Nobel laureate Paul Krugman claims that competitiveness is empirically unfounded, the concept of international competition is wrong and consequently national economic policy focusing on competitiveness can be harmful [10]. In the light of Krugman, Budd and Hirmis [11] argue that regional competitiveness is based on the combined competitive advantage of firms and the comparative advantage of a regional economy. Examining the determinants of innovative behavior Sternberg and Arndt [12] finds that internal firm specific characteristics dominate over region-specific or other external forces, reinforcing the importance of individual firm level behavior in general.

Another advancement of Porter's theory is the five forces model of industrial competitiveness. The degree of rivalry, the treats of substitutes, the power of buyers and suppliers, and the treats of entry shape the industry [8] The firm can position itself in terms of two basic strengths that are cost advantages and unique products. By understanding the industry trends leading managers can formulate efficient strategy to gain competitive advantage over other businesses. Low production costs and consequently lower than competitor prices are the core of the cost leadership strategy. Differentiation means that the firm offers unique products/services to its costumers and charges a higher price for it. The central element of the differentiation strategy is product innovation. If the firm applies either the cost leadership or the differentiation to a narrow market segment then we talk about the focus strategy. Maintaining costumers loyalty by tailor-made products/services or sustaining the lower pressure of local competition are the central tenets of the focus strategy.

Over years there have been many new developments in the field of competition. Chaudhuri and Ray [2] summary article provides a two-dimensional classification: one is at the level of analysis (nation, industry, and firm) and the other is the types of used variables. Out of these possible approaches we focus on the firm level investigation.

Of course, the Porter's view is not the only way to examine the competitiveness of the businesses [13]. Besides traditional theories such as the structure-conduct performance (SPC) the competency theories provides a useful alternative to Porter. The competency theories include the resource-based theory, the dynamic capabilities theory, and the knowledge-based theory. A common characteristic of these theories that they give a decisive importance "to the firm's internal rather than to its external conditions for understanding its competitive market position" [14, p. 13]. In the following we rely mainly on the well-known resource based view (RBV) out of the competence theories.

According to the RBV theory, to sustain competitive advantage, the firm has to have unique resources. Barney [15] list four characteristics of this unique resources: (1) valuable basically means that the resource should be effective and efficient, (2) rarity takes into account the specificity of the resource, (3) imperfect in-imitable refers to the difficulty to reproduce the resource, and (4) substitutability involves the availability of alternative resource. A resource, that can be interpreted as asset, competency, organizational processes, information, knowledge or capability is considered to be unique if it is valuable, rare, difficult to imitate and has no close substitute. Moreover, distinctive resources lead to sustained competitiveness and superior returns [7]. Whilst the RBV literature lists several factors of competitiveness the knowledge-based view of the firm identifies knowledge as the single most significant resource of the firm because it is relatively rare, difficulty to imitate, and socially complex [16].

Besides the identification of the factors of competitiveness it is equally important to combine together the elements [17]. The configuration theory, originated by Dennis Miller, argues that the elements of a system cannot fully be understood in isolation, so the investigation of the system as a whole is inevitable [18]. While it is easy to copy a single element, the competitive advantage lies "...in the power of the orchestrating theme and the degree of complementarity it engenders among the elements" [19 p. 13]. Miller describes three potential application of the configuration such as concepts, typologies, taxonomies and organizations [20]. From our perspective, the third approach is the most relevant when configuration is interpreted as a quality or property that varies among organizations.

While the national and regional level competitiveness is well researched there is a lack of firm level investigation in Hungary. The most significant series of researches about the competitiveness of Hungarian medium and large firms has been done by the Chikán Attila led research group at Budapest Corvinus University. Over fifteen years and three series of questionnaires and interviews the research group could identify the changes in the competitiveness of the Hungarian businesses. By 1995-96 Hungarian firms adapted the most important element of the competitive market economy. The competitiveness of domestic businesses had improved over the 1995-2000 time period: the quality improvement of leadership, management techniques, human resources, financial performance contributed to increased efficiency and financial performance. At the same time Hungarian businesses lagged behind foreign firms in the areas of marketing, innovation, production, logistic and information management.

The results of the latest 2004-2006 survey are contradictory. On the one hand, the performance of the Hungarian businesses was in close relation to the most important factors of competitiveness (strategy, HRM, adaption capability, information management, etc.), but on the other hand, the differentiation of the Hungarian business sector continued. While large foreign owned firms can compete globally, there is a relative lag in innovation, information management, production-organization management, HRM techniques, amongst others [3]. It

also worth noting that due to the negative changes in the macroeconomic environment Hungary has been continuously falling in the Global Competitiveness Index in the 2004-2008 time period. Alarming sign that we are only ahead of Romania and Bulgaria in the European Union rank of GCI competitiveness [5].

There have been other sporadic, small sample researches focusing on the competitiveness of the Hungarian SMEs. Kadocsa [21] identified a few management and organizational methods that affected positively the competitiveness of the Hungarian SMEs. It came as a surprise that family businesses are proved to be more successful than non-family counterparts. Márkus et al [22] focused on two things: first, identifying the factors of competitiveness, and, second, providing a useful analytical framework for analyzing competitiveness in a small business framework. While the statistical-econometric methodology proved to be useful to group/cluster the businesses, the small number of the variables and the sample of only 100 did not make possible to evaluate the competitiveness of Hungarian SMEs.

3 The Conceptual Model

Our basic aim is to investigate the competitiveness of Hungarian SMEs. Therefore, we rely mainly on firm level investigations to build the conceptual model. Embedded mainly in the RBV literature, we define firm level competitiveness as competencies in available physical and human resources/capabilities, networking, innovational, and administrative routine processes that allow a firm to compete effectively with other firms and serve costumers with valued goods/services. Inside resources, capabilities, and processes together form the basic competencies of the businesses that should fit to the costumers' need (demand conditions) and to the competitive pressure of the firms within the industry as well as the treat of substitutes (supply conditions) [23].

While there is an agreement amongst leading scholars that basically firms and not nations and regions compete [1] most competitiveness concepts model firm competitive behavior within the framework of national or local environment [24]. This approach assumes that the macroeconomic or industry specific characteristics, institutions, and policies affect the performance of the firms in a given geographical entity, industry, cluster region or nation. The application of regional, national and aggregated firm data is also typical in this top-down approach. Whereas this methodology can be useful to institutional development, it does not help us to understand the behavior of an individual firm or the varieties of different firm characteristics in the same industry. This approach misses not only a vital microeconomic, firm level aspect of competitiveness but also has the tendency to view aggregate variables in an inappropriate way (see Krugman's critique [10]). As a consequence we consider the bottom-up approach as a more

useful way to understand the differences in firm level competitiveness. Although, the external, institutional factors of competition can be important this model incorporates only internal factors, that is a potential caveat. However, the individual performance of a particular business can also contain the mediated effects of institutions that lessens the magnitude of a mistake.

Since most competitiveness theories and empirical studies focus on large firms the conceptual model should reflect that small businesses are not scaled down version of large firms but they differ in organizations, style of management and the way of competition [25]. For example, out of Porter's three strategic choices of cost leadership, differentiation and focus, only the last is appropriate to small business [8]. Analyzing the WWW offered new opportunities Tetteh and Burn [26] claims that small firms have to apply entirely different strategies and management techniques than large firms. Leadership and management differences in the small business - large firm setup are reinforced by Gray and Mabey [27]. Despite increasing globalization, small firms compete mainly in the local, domestic markets or market niches. SMEs frequently face the lack of proper inside resources that makes essential to develop human resources and innovation [28], [29]. As a consequence networking, outside collaboration, co-operation as well as efficient inside knowledge-sharing methodology are the core of effective competition of the smaller sized businesses [30], [31].

The following problem is how to identify the relevant factors of competitiveness. While the strategic management and the RBV literature lists several individual factors appropriate to competitiveness (see. e.g. [32], [25], [33], [34]) we can apply only a few number of these factors due to limitations in the research. The suggested conceptual model is presented in Figure 1.

According to Figure 1, out of the seven pillars, five ones constitute the core competencies of the businesses, physical and human resources or capabilities on the one hand, innovation, networking and administrative routine processes on the other hand. Core competencies provide the possibility to be competitive; however, competencies should be adjusted to the other two pillars, to costumers (demand conditions) and to competitors (supply conditions). Competitiveness can be measured basically by relative performances of profitability and efficiency. Other measures such as growth and export are also frequently applied success criteria of competitiveness. Since we do not have profitability or efficiency data (bracketed terms), we can quantify the level of competitiveness by growth and export willingness.

The interaction and the fit of the seven pillars are vital. Similar to other competitiveness models, this one also relies on the benchmarking view. The benchmark businesses are those that possess high level of technology, various information communication tools (ICT), heavily invest and relies on outside debt and capital if it is necessary, have highly educated and frequently trained human resources as well as competent management, innovate products, technology and

marketing, have R&D capacity or continuously collaborate in innovation, co-operates, frequently builds on outside resources, have sophisticated multi-party decision making and knowledge dissemination system, has low level of rivalry, increasing markets, unique product, and high demand from wide range of geographical area within the country.

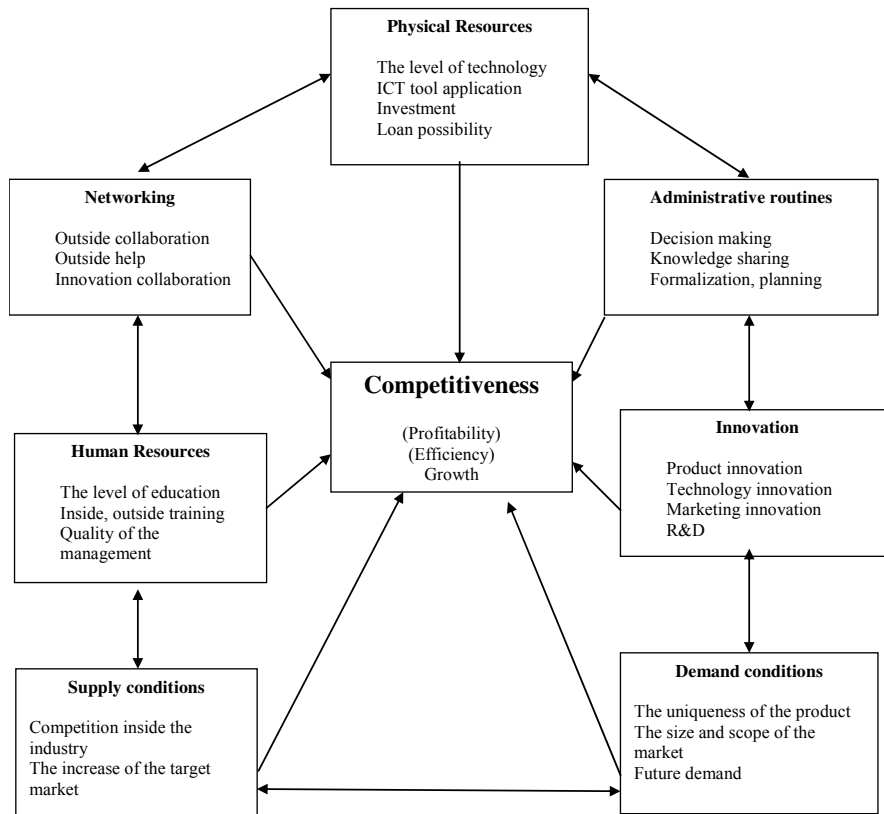


Figure 1

The conceptual model of SME competitiveness

4 Data Description and Methodology

A data set of 700 serves to examine empirically the competitiveness of the Hungarian SMEs. The aim of the data collection was to examine the basic factors of competitiveness and growth in the Hungarian SME sector. Besides collecting the basic data, the survey included nine blocks and 53 question groups covering all major functional fields of the business from strategy through innovation,

knowledge management, HRM, finance, risk management, and marketing. The examined time period is 2004-2007. For this present analysis we applied 24 question groups including 109 questions altogether. While the survey included several types of questions, in this study we apply mainly those that had only two alternatives to select Yes/no. The “do not know” answers were considered as “no”. In the cases of question groups, 4-6 point Likert scale variables were created. The number of created variables, reflecting to Figure 1 is 23, altogether.

The survey was conducted in April-June 2008 by a professional vendor company named Szociográf Market and Survey Research Co. After an initial telephone call for approval a face-to-face interview was carried out with one of the owners who were part of the top management in the case when the firm had with less than 20 employees, and one of the top executives – not necessary having ownership in the business – in the case of larger firms.

The initial sample is based on OPTEN company database that includes all the present and former businesses registered in the Business Registry¹. The aim was to collect a total sample size of 700 in the sub-sample of firms having at least two employees. Firms were randomly selected but the vendor company paid attention to regional size and industry representativeness. The size distribution of the sample as compared to the total number of businesses reported by the Hungarian Statistical Office (HSO) is presented in Table 1. We also show the response rates in different categories.

Table 1

The distribution of the sample based on the number of employees in 2007 as compared to the total number of the same size businesses in 2006

Number of employees	Total number/ percent of businesses in 2006*		Initial Sample		Final Sample		Response rate (%)
	Frequency	Percent	Frequency	Percent	Frequency	Percent	
2-9	193 092	84,5	963	58,3	373	53,7	38,6
10-49	29 388	12,9	538	32,6	230	33,1	42,9
50-249	5 010	2,2	127	7,7	75	10,8	59,1
Over 250	924	0,4	25	1,5	17	2,4	38
Total	228 490	100,0	1628	100	695	100,0	41,4

**Based on the report of HSO (2008)*

Since the response rate was lower than expected we increased the number of firms ending at asking for survey participation 1628 firm altogether. Finally there were 702 businesses having at least two employees participated and completed the questionnaire in the survey. After cancelling the inappropriate businesses because of missing data or inconsistent answers, the sample size for further analysis reduced to 678 small businesses and 17 large firms. The overall response rate was

¹ More information about it can be found in the following OPTEN website: <http://www.opten.hu/ismerteto/cegtar-translation-en.html>

41.4%. In order to avoid having a large number from the smallest sized businesses stratification was applied.

The following problem is how to combine together the variables in the firm level? There are several possibilities from factor analysis, cluster analysis to simple methodology such as addition and just calculating the average values. Regression techniques are improper because of the strong correlation between the different factors of competitiveness, i.e. multicollinearity. Here, we apply a three step method, called the penalty for bottleneck.

1 The calculation of the pillar values In the cases of the variables constituting a particular pillar we assume that there is a partial substitutability amongst the variables, therefore after normalization we simply calculate the averages of the variables to receive the values of each of the seven pillars.

2 The calculation of the penalty for bottleneck (PFB) points from the seven pillars: The following problem is how to combine together pillars. In the sense of Miller (1996) we consider the complementarity of these pillars. Therefore the combined effect of these factors is the key to the overall level of competitiveness. In order to calculate the joined influence we apply a new methodology developed by Acs and Szerb [35] and called the penalty for bottleneck (PFB).

This notion of bottleneck is important for strategy purposes. The conceptual model suggests that physical resource, human resources, innovation, networking, administrative routines, supply and demand conditions interact; if they are out of balance, competitiveness is inhibited. The seven pillars are adjusted in a way that takes this notion of balance into account. The value of each pillar is penalized by linking it to the score of the pillar with the weakest performance in that firm. This simulates the notion of a bottleneck; if the weakest pillar were improved, the overall competitiveness would show a considerable improvement.

Technically, the bottleneck is achieved for each pillar by adding one plus the natural logarithm of the difference between that pillar's firm score and the score for the weakest pillar for that firm to the score for the weakest pillar for that firm. Thus improving the score of the weakest pillar will have a greater effect on the competitiveness than improving the score of stronger pillar. For example, assume the normalized score of a particular pillar in a firm is 0.60, and the lowest value of the pillar is 0.40. The difference is 0.20. The natural logarithm of 1.2 is equal to 0.18. Therefore the final adjusted value of the pillar is $0.40 + 0.18 = 0.58$. Larger differences between the pillar values implies higher penalty.

The PBF methodology is consistent with the Miller configuration theory emphasizing the combined interplay of the pillars.

3 The calculation of the overall competitiveness point of the individual firms The overall competitiveness point of an individual firm is simply the sum of the six PFB adjusted pillar values.

5 The Basic Results

First, we examine the calculated competitiveness points for each business in relation to the competitiveness performance measures and to some basic demographic characteristics of the business. Both the normalized and the PFB adjusted pillar correlation values are reported (Table 2). The simple average competition points perform slightly, but insignificantly better than the PFB adjusted values if we compare and evaluate the connection between competitiveness points and performances based on the correlation coefficients. The question is logical: Why should we prefer the application of the PFB adjusted way of calculation? The reasoning refers to another important policy question: How to improve the competitiveness of the business? Since the PFB adjustment considers the weakest link in the pillars, the enhancement of that particular pillar has a positive effect on all the other pillar values. Therefore the enhancement of the bottleneck is vital to improve the whole competitiveness of the businesses.

The highest correlation coefficient can be found between the planned increase of sales and the competitiveness points, followed by the planned increase of employment and the percentage of export. The actual growth rate of sales shows only a lower level of correlation with competitiveness, sometimes neither the sign nor the significance of the correlation is proper. This implies that present competitiveness is a better predictor of future than recent growth of sales. All seven pillars correlate positively with all the measures of competitiveness, and only the human resource is insignificant out of them. Taking into account the weakest link – i.e. adjusting for bottleneck - the human resource pillar becomes significant. Altogether, human resources explain the expected growth of the business and export only weakly. This finding is consistent with other human resource studies showing a moderate development of HR strategies in the Hungarian SME sector [36]. Supply conditions (competitive pressure) and innovation processes show the highest correlation with competitiveness performance measures.

Size, as can be expected, is also positively related to competitiveness (coefficient = 0,37), hence, larger businesses are more competitive. In a smaller extent, the same is true for the age: Older businesses are more competitive (coefficient =0,10). The reason behind this latest finding is probably the learning effect, older business are more experienced than younger firms. Moreover, we have no information about the ventures that went out of business over the examined time period.

Table 2

The correlation values of the competitiveness points and the measures/characteristics of the business, normalized and PFB adjusted values

	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1 Planned sales increase	0,52	0,35	0,20	0,29	0,07	0,32	0,25	0,27	0,38	0,25	0,32	0,12	0,32	0,28	0,31	0,42
2 Planned employment increase	1,00	0,37	0,23	0,23	0,06	0,19	0,30	0,24	0,40	0,27	0,26	0,10	0,20	0,30	0,27	0,39
3 Supply condition, normalized		1,00	0,21	0,16	0,10	0,17	0,23	0,17	0,98	0,24	0,20	0,13	0,18	0,25	0,21	0,47
4 Demand conditions, normalized			1,00	0,25	0,04	0,28	0,21	0,21	0,23	0,98	0,28	0,07	0,28	0,23	0,24	0,47
5 Physical resources, normalized				1,00	0,19	0,44	0,31	0,44	0,21	0,32	0,98	0,25	0,44	0,35	0,48	0,63
6 Human resources, normalized					1,00	0,17	0,13	0,17	0,13	<u>0,08</u>	0,22	0,99	0,18	0,15	0,20	0,42
7 Innovation, normalized values						1,00	0,46	0,30	0,29	0,44	0,56	0,28	1,00	0,53	0,43	0,77
8 Networking, normalized values							1,00	0,29	0,29	0,30	0,37	0,20	0,47	0,99	0,36	0,67
9 Administrative routines, norm.								1,00	0,20	0,26	0,45	0,21	0,31	0,31	0,98	0,59
10 Supply condition, PFB adjusted									1,00	0,29	0,27	0,18	0,31	0,32	0,26	0,57
11 Demand conditions, PFB adjusted										1,00	0,38	0,14	0,44	0,33	0,32	0,60
12 Physical resources, PFB adjusted											1,00	0,29	0,57	0,42	0,53	0,73
13 Human resources, PFB adjusted												1,00	0,29	0,23	0,26	0,51
14 Innovation, PFB adjusted													1,00	0,54	0,45	0,79
15 Networking, PFB adjusted														1,00	0,40	0,73
16 Inside routines, PFB															1,00	0,70
17 Calculated competition point PFB																1,00

Bold: Significant at P=0,01 level, Underlined: Significant at P=0,05 level

Table 3

The correlation coefficient between the individual (subjective) view about competitiveness and the seven normalized, non-adjusted values of the seven pillars

Individual view about competitiveness	Competition points	Supply condition	Demand conditions	Physical resources	Human resources	Innovation	Networking	Admin.routines
Unique products	0,41	0,34	0,33	0,22	0,13	0,25	0,27	0,22
Advanced technology	0,42	0,31	0,27	0,21	0,21	0,23	0,34	0,22
Advanced ICT tool	0,33	0,24	0,15	0,13	0,21	0,14	0,35	0,16
Continuous innovation	0,38	0,24	0,23	0,19	0,17	0,18	0,35	0,23
Low cost product	0,14	0,11	0,02	<u>0,08</u>	0,03	<u>0,09</u>	0,15	0,05
Individual marketing	0,24	0,16	0,10	0,13	0,18	0,09	0,23	0,15
Quick response to costumers demand	0,26	0,06	0,14	0,22	0,22	0,19	0,07	0,18
Outstanding product management	0,36	0,20	0,18	0,26	0,17	0,17	0,30	0,25
Outstanding leadership	0,30	0,17	0,14	0,21	0,21	0,10	0,19	0,26
Outstanding HR	0,28	0,19	<u>0,09</u>	0,22	0,18	0,13	0,18	0,18
Outstanding location	0,22	<u>0,08</u>	0,05	0,16	0,11	0,11	0,20	0,14
Strategic partners	0,30	0,18	0,14	0,21	0,11	0,17	0,27	0,18
Outstanding subcontractors	0,32	0,16	0,12	0,32	0,11	0,22	0,16	0,24

Bold: Significant at P=0,01 levelUnderlined: Significant at P=0,05 level

We have asked the businesses to provide an individual (subjective) view about their competitive advantages of their businesses. In all thirteen categories the respondents were asked to point whether the particular item is not their competitive advantage (value 1), only moderately competitive (value 2) or strongly competitive (value 3) factor. The correlation matrix between the individual (subjective) view about competitive advantages and the actual findings about the value of the seven pillars is provided in Table 3.

According to Table 3, most of the connection between the subjective and the actual variables of competition is moderately strong but highly significant. The correlation in every category is the highest in terms of the competition points, expressing the importance of the combined competitiveness of the business. While the subjective and the actual categories of competitiveness are not exactly the same, it can be expected that the correlation is higher between the similar categories. For example unique products should highly correlate to demand, supply conditions and innovation, or outstanding HR with human resources. This expectation is only partially valid, according to table 3. It worth noting that the correlation coefficients between networking and the subjective measures of competitiveness are relatively high implying that the capabilities to use outside resources is a vital aspect of small business competitiveness.

6 The Application of the Model and the Relevance of the Results

In this chapter we provide a further practical application of our model and the results. The calculation of the competitiveness points makes possible to rank the businesses. Since these points contain condensed and reduced information about the competitiveness of the individual business they can be considered as having limited value for particular strategy improvement. Therefore the analysis should base upon not the single point value but on the seven pillar values of the businesses. Moreover, the normalized values rather than the PFB adjusted values offer a more appropriate method for the analysis because they refer to the original situation of the business.

Cluster analysis In the following we analyze the basic competition strategies of the firms in terms of the seven pillars with cluster analysis technique. The combination of the pillars provides an inside view about the components of the dominant competitive strategies of the businesses. The three measures of competitive performances (planned increase of sales, employment and percentage of export) are also included as explanatory variables of cluster membership. At the same time, competition point, the size of the business and the age of the business

values are also calculated and reported, however, they are not part of the cluster analysis. Table 4 reports the results.

Table 4
The cluster of the firms in terms of the seven pillars of competitiveness

Clusters	1	2	3	4	5	6	7	Aver.
Planned sales increase	0,256	0,146	0,441	0,522	0,227	0,258	0,558	0,287
Planned employment increase	0,262	0,161	0,271	0,466	0,174	0,235	0,646	0,252
Percentage of sales exported	0,077	0,040	0,177	0,074	0,064	0,840	0,902	0,183
Supply conditions	0,454	0,274	0,513	0,577	0,318	0,398	0,543	0,398
Demand conditions	0,434	0,370	0,638	0,551	0,438	0,515	0,631	0,471
Physical resources	0,296	0,244	0,526	0,390	0,379	0,401	0,522	0,354
Human resources	0,316	0,202	0,416	0,317	0,430	0,273	0,385	0,315
Innovation	0,071	0,019	0,563	0,054	0,054	0,096	0,412	0,119
Networking	0,552	0,112	0,513	0,277	0,224	0,273	0,686	0,298
Administrative routines	0,397	0,251	0,638	0,552	0,563	0,482	0,691	0,464
Competition points	2,140	1,271	3,469	2,235	1,999	2,057	3,491	2,071
Size	2,396	1,874	3,215	2,735	2,814	3,016	3,870	2,637
Age	2,571	2,358	2,708	2,265	2,400	2,547	2,609	2,483
Number of businesses	91	151	65	68	140	64	23	602
Percentage of businesses	15,12	25,08	10,80	11,30	23,26	10,63	3,82	

Table 4 prevails huge differences in the SME sector. Average competition points of the clusters range from 1,27 to 3,49 from the lowest to the highest values. The individual competition points range from 0,61 to 4,84. Since the highest value is 7, even the best business reaches just only 69% of the potential competitiveness.

Out of the seven clusters, the 23, cluster 7 firms perform the best. Out of the seven pillars they rank first in two, and second in other four pillars. Their relatively weak point is the human resources. The average competitiveness point is 3,49, the highest of all seven group with relatively well balanced performances over the seven pillars. As a consequence, not only the competition points but all the competition measures – planned sales increase, planned employment increase and export – are the highest in this group. These businesses are the largest, the oldest and export the most in all seven clusters. These firms definitely compete in the international markets. The main problem is their minimal number: only 3,82% of the total businesses belong to this category.

Based on the competition point values, 65 businesses belonging to cluster 3 perform second. Excellent demand conditions, good physical resources, high innovation and well balanced performance in all seven pillars. Their competitive performance is a little below to that of the first group. While they plan to increase considerably the sales, the planned increase of employment is barely above the average. The exporting activity of the businesses is low, so they produce and compete mainly in the domestic market.

68 businesses belong to cluster 4, with 2,235 average competition points, slightly above the overall average. The performance of these businesses in terms of expected sales and employment growth seem to be better than the previous group despite their lower points of competitiveness. The individual analysis of the seven pillar values demonstrates considerable differences. The only thing where cluster 4 businesses are better than cluster 3 businesses, out of the seven pillars, is the supply conditions meaning that they sell relatively unique products/services in a not too high competitive environment. However, the low level of innovation activity does not reflect to this uniqueness. Maybe the excellent supply position is the result of a previous innovation activity. Examining the other demographic characteristics, these businesses are the youngest and their size is about average. Another alternative explanation about the good performance is the well positioned start-up strategy that has had longer lasting effect on the performance of the business.

91, smaller than average, businesses belong to Cluster 1 that ranks number four in terms of the competition points. Their strong point is the excellent networking, but innovation is out of any acceptable range. While supply conditions are relatively good, demand conditions are not favorable implying that they should improve, increase their customer base. The planned increase of sales and employment is about average.

Cluster 6 businesses overall performance in terms of planned increase of sales and employment and competitiveness points are very similar to the previous cluster 1 businesses. The most important difference is in internationalization: While cluster 1 businesses produce almost exclusively to domestic markets, cluster 6 businesses show high exporting activity. The comparison of the seven pillar points suggests an unbalanced performance: Over than average demand conditions, physical resources and administrative routines, about average supply and networking activity, and below average innovation and human resources.

The competitiveness of Cluster 5 businesses is slightly below the average so are their expected sales and employment growth. Low exporting, relatively bad supply and demand conditions characterize these ventures. The level of human resources is excellent, physical resources and administrative routines are over the average, but networking and mainly innovation are below the average, providing an uneven level of the seven pillars of competitiveness.

Cluster 2 businesses, the largest group with 151 businesses, 25% of the sample, is at the bottom of competitiveness with very low, 1,271 points. They seem to be the absolute losers in the competition race. Harsh competition, inadequate demand, low physical and human resources without proper administrative routines innovation or networking all contribute to the low competitiveness points. Their performance is the worst in every category, so they have to make improvements in all seven pillars if they want to be alive in the market. Regarding the future growth of sales and employment they expect decline or a very low increase, at best. In addition, these ventures are the smallest; this may explain their limited competitiveness position.

Summary and Conclusion

In this paper we presented a potential way to examine the competitiveness of the small businesses. Since most firm level competitiveness models aim to investigate large, mainly international firms, we created a new conceptual model that fit better to small business setup. The conceptual model contains 23 individual variables and seven pillars. The resource based theory and Michael Porter's theory of competitiveness served as a basis to construct the seven pillar model of competitiveness. A potential drawback is that this conceptual model still prefers larger size businesses and lacks to incorporate institutional factors. The incorporation of sectoral differences would also be useful. Since most small firms do not have any administrative routines sell only in a narrow niche markets and have very low innovation capabilities, it can be expected that most micro businesses would have a low level of competitiveness. Moreover, the availability of the variables limits the empirical application of the model.

A stratified representative sample of 695 Hungarian businesses provided the basis of the empirical investigation. The calculation of the competition points is unique in the sense that it incorporates the weak points, called bottlenecks in terms of the seven pillars. Competition points collerate significantly with the selected three measures of competitiveness, planned increase of sales, employment and export. In addition, the calculated points of the seven pillars correlate significantly with the subjective view points of competitiveness reported by the entrepreneurs.

The competitiveness points of the individual firms range from 0,61 to 4,84 implying the even the best firm is just reaches only 69% of the potential points. The average value is 2,07, about 30% of the maximum available value of 7. The results reinforce that innovation is the weakest point on the average in the examined businesses followed by networking and human resources. The cluster analysis shows high differences amongst the seven groups of businesses in terms of competitiveness in the Hungarian SME sector. Moreover, the clusters represent the dominant competitive strategies of the Hungarian SMEs. While the top group constitutes only 3,82% of the businesses around 25% of the ventures have an average of 1,27 competitiveness points, that represent only 18% of the potential seven points. The performance of the clusters over the seven pillars of

competitiveness is generally unbalanced. Even the best group lacks the proper level of human resources. Only two groups, 12,7% of the whole sample considers innovation as a major part of their competitiveness.

A further potential application of the model is to provide tailor-made strategy suggestions to individual businesses by improving the weakest link.

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What Makes a Teacher Bad? - Trait and Learnt Factors of Teachers' Competencies

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Abstract: The study focuses on the characteristics of teachers as can be gathered from the experiences of pupils. Our aim is to explore the situation and the traits of bad teachers on the basis of pupils' opinions. We asked current and already graduated secondary school pupils to evaluate their former teachers. We assumed that, on the basis of the pupils' experiences, we would be able to identify in these bad teachers the personality traits, cognitive and emotional elements, mistaken interpretations of their situation and role, competence deficits and other patterns of behaviour that led to the negative attitudes of their pupils. We carried out our survey with the involvement of secondary school pupils, engineer teacher trainees and engineering teachers who graduated in the past five years. We asked respondents to remember their secondary school teacher they deemed the worst and identify up to three characteristics that made them think of that person as a bad teacher. Using our experiences from earlier research projects and preliminary studies, we used semantic analysis to place the responses into five categories. We were able to classify more than 90% of the responses into these categories. The traits thus gathered were then divided into two groups on the basis of whether they are personality dependant or acquirable. It can be shown that the deficiencies in personality dependant elements (personality, emotional acceptance, humour) were the basis of the pupils' negative evaluations. Criticism concerning areas that are more easily acquirable (pedagogical shortcomings and knowledge of the subject) was also significant, but clearly less so than in case of personality dependant flaws. We have also attempted to analyse the forms of appearance of teacher's flaws, as well as the facts playing a role in their appearance and subsistence.

1 Introduction

On the basis of the results of a research project, we should think over once again how a "bad teacher" can be recognised. Why does higher education fail to properly select teacher candidates, what makes a bad teacher choose to stay in a situation fraught with frustration, and what can be done in order to help them?

One recent characteristic of recent years, even decades, is that those preparing for a career as a teacher are chosen from an ever weaker pool of candidates also in

Hungary. Higher education is increasingly showing the traits of mass education. In the new system of engineering teacher training (the BSc/MA programmes) there are few applicants, and they also arrive with increasingly weak results. The regulations have opened the doors wide to masses of modestly trained applicants. In order to maintain the quality of education in secondary schools, and also with a view to the mental health of the pupils, it is necessary that we try to filter out from teacher training and secondary schools those who are not suitable for this career. Based on studying the situation of bad teachers, the deeper knowledge of their characteristics obtained this way may provide opportunities for corrective actions both in schools and also during teacher training, and can also serve as a foundation of a well-grounded selection procedure. Since in recent decades our task has been shifting from choosing the best talents toward filtering out the less suitable applicants, it is timely that we define the circle of those concerned.

Our method is based on opinions provided by the pupils, and even though this is only one factor in the evaluation of the teachers, yet it is also perhaps the most important one. If the pupils cannot accept the teacher as a partner, the work of the latter becomes almost impossible. The teacher's knowledge of the subject, his educational work and personality values cannot be enforced, and the overall efficiency of the teacher suffers as a consequence.

The precondition of work is mutual acceptance and cooperation, which is primarily the result of the accepting emotional attitude. [10] The cognitive elements, the knowledge and intellectual level of the teacher are less frequent targets of criticism, unlike the interpersonal interface that determines the relationship between the teacher and the pupil. It is well known that teacher education is only the first stage of becoming a teacher, of the process of career socialisation. This is what causes one of the difficulties of the selection, since the local spirit and the style of the school in which one starts to teach is another opportunity (or threat?) in the formation of the role model, working style and personality of the new teacher.

The selection of good teachers in terms of quality and the development of the supporting system is continuous task, as well as permanent challenge to public education. [12]

2 The Discussion of the Research Findings

The collection of the data took place by way of voluntary, anonymous questionnaires distributed among pupils in technical secondary schools, engineering teacher training students and engineering teachers who graduated in the past five years. The current form of the questionnaire evolved on the basis of the experiences of prior surveys administered in the preceding years. The respondents filled in the questionnaires in their classes in case of secondary school

pupils and in study groups in case of college students, with the researchers being also personally present at the time. The engineering teachers in the sample, who graduated within the past five years, received a request, along with information on the purpose of the research project in e-mail, and also submitted their responses electronically. We asked the respondents to remember their worst secondary school teacher and write down up to three traits of that very person that distinguished him or her from the other teachers. Our findings are based on the surveys carried out in 2006.

The sample is not representative, which means that the conclusions are valid primarily only within the sample examined, but can also prepare the way for a strictly representative survey which can confirm or modify the trends identified in this research.

Our sample consisted of 497 respondents:

1st Engineering teachers who graduated from the Budapest Polytechnic College within the past five years, 49 persons (60% male and 40% female)

2nd Engineering teacher training students at the Budapest Polytechnic College, 73 persons (63% male and 37 % female)

3rd Pupils of a secondary school in Budapest, 375 persons (87% boys and 13% girls)

The respective age groups of the respondents were 24 to 30 in case of college graduates, 20 to 25 for college students, and 16 to 19 in case of secondary school pupils.

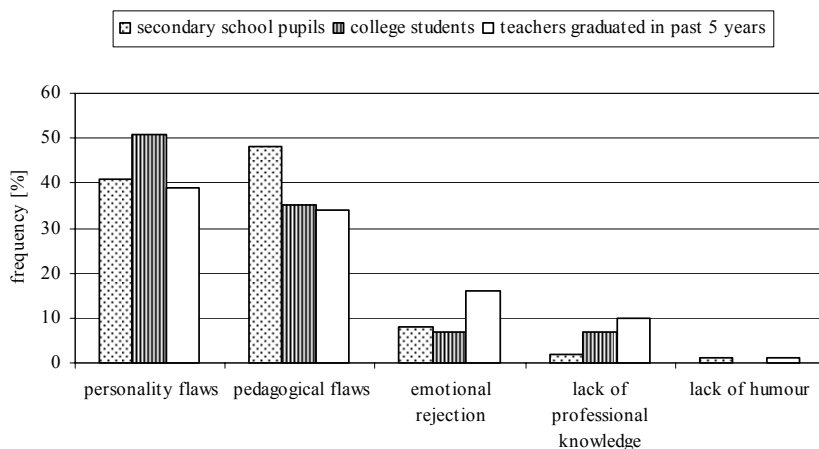


Figure 1

A comparison of the characteristics of bad teachers

The most frequently mentioned reason for the rejection of teachers was personality flaws, such as “lazy, disorganised, aloof, nervous, stressed, conceited, impetuous, moody, dumb, indifferent, stubborn...” The first two groups – of personality and pedagogical flaws – account for nearly 90% of all traits mentioned. [13]

The easier path of change concerns the elements that can be learnt, or acquired since these mobilise the self-protection mechanisms less. The practical methods of the development of pedagogical skills – class observation, micro-teaching, pedagogical and teaching practices, case analyses, group discussion of experiences, etc. – have a formative effect by way of their reflections not only on the cognitive structures but also on the personality. [5]

The changing of bad reflexes, patterns and habits, as well as the building up of new ones is conceivable by way of individualised training and supervision. [1]

In the responses of secondary school pupils, pedagogical flaws were mentioned more frequently than personality flaws. This difference may be the result of the perception of this age group. They also evaluated certain phenomena as pedagogical methods which were really rooted in the personality. Saint Thomas Aquinas, Pestalozzi and other theoreticians have emphasised the importance of the personality [9]; now, however, the analysis of the pupil's recollections led to similar results.

The second most frequently mentioned characteristic was the lack of pedagogical merits and the various related pedagogical flaws (we also included the didactic flaws here). “He cannot maintain discipline, cannot explain the material well, I do not like his methods, all he does is dictating, his classes are boring...” Behind the pedagogical flaws we can often find difficulties with the interpretation of the teacher's role, attribution mistakes, and false reflections.

We found a surprisingly low proportion of characteristics referring to emotional rejection. The absence of this merit, so characteristic of good teachers, was found almost negligible in our survey. [13] As phrased by the pupils, emotional rejection was manifested in the following ways: “not interested in the pupils, not paying attention to us, scorning the pupils, acting superior.” The signs of emotional rejection also exercise their effect through metacommunicative channels. In the long run it is virtually impossible to hide the emotions. This can define the teacher as an enemy, and can give rise to an increasingly strong mutual rejection, which impairs the efficiency of teaching and learning and is also detrimental to the atmosphere in the classroom. The teacher and the pupils become mutually suspicious of each other, and will think of evil intention behind every word or act of the other. The highly relevant words of Viktor E. Frankl also hold true for negative assumptions: “We find in the world what we were looking for in it.” Our assumptions can influence the future. [4]

The lack of professional knowledge as a characteristic feature of bad teachers was found in a mere 2-10% of the responses only. Our assumption is that even bad

teachers are able to satisfy the demands of secondary school pupils with respect to the knowledge of the subject taught. The lack of professional knowledge is mentioned more frequently with the increase of age of the respondents. Professional knowledge appears increasingly more important with age; it is assumed that the possibility for the utilisation of the knowledge is increasing, so much so that they were more sensitive to the lack of such knowledge in their responses. At the same time, the frequency of responses falling into this category did not exceed 10% even in case of engineer teachers with a degree. The pressure to meet the standards in the knowledge of the subjects taught is strong: any mistakes cannot be hidden for long, and therefore, the clearly visible mistakes on which they receive feedback must be corrected and the deficiencies made up for. The elements related to general education, interpersonal and emotional skills, however, are more difficult to measure. With the knowledge of the expectations in the teacher's role, within a certain limit, the disturbances of the psychological balance can be compensated for and hidden on the level of controlled behaviour. Pupils may regard teachers as good on the basis of their personalities or pedagogical merits even if the material they teach is not up-to-date or in case they make professional mistakes but in a good style that creates interest in the pupils. Similarly, teachers may be considered as "bad" even if they teach modern materials of high professional quality, but the material is not worked out in sufficient details and their teaching style is boring, dry and unconvincing. In the engineering education, the professional knowledge can be well measured in case of the various subjects, and therefore, the selection of students who are not suitable on the basis of their knowledge of the subject is easier. But who dares to select a teacher candidate on the basis of his personality, lack of style or unethical conduct?

In a previous study we carried out humour proved to be the fifth most frequent merit of a good teacher, and therefore we assumed that its absence would also appear as a characteristic feature in this survey. We can state that the lack of humour or the use of destructive humour (as ridicule or scorn) did feature in the responses with a frequency that could be evaluated.

3 Can a Bad Teacher Become a Good Teacher?

Before we rely on the mandatory knee-jerk reaction of educators and give a positive answer to this question, let us briefly consider the results of the survey. The majority of the characteristics that determine the quality of teachers are dependent on their personalities. However, even the best therapists rarely reported a real change of personality in their patients after several years of working with them.

Neither do we (at schools) have such strong tools at our disposal, nor the voluntarily cooperating “bad teachers” who demand change for the most part.

Another reasonable, but not very humane considerations should also be discussed. This involves the perspective of the employer. Would they want to continue to employ a teacher who appears to be inadequate for the job? Would they want to invest a lot of energy and time into people, if in a significant number of cases there will be no returns on this investment?

Could it be humane to keep “bad teachers” in the profession when at the same time it is clearly not humane with the pupils they would teach?

If we want to keep on the track of pedagogical optimism nevertheless, we should return to the results. In the United States (and also elsewhere) there have been many attempts at showing that teachers with higher qualifications are also more efficient (better) teachers. Surprisingly, these attempts – even though on the basis of such a hypothesis, the positive interrelation appeared almost certain – were able to demonstrate no, or only very weak connections. [6]

As part of our research project, we placed the characteristics of bad teachers mentioned by pupils into personality dependant and acquirable categories. In the categories shown in Figure 1, personality faults, lack of emotional acceptance and lack of humour (or using destructive humour) were included in the personality dependant category.

The acquirable categories included overcoming pedagogical shortcomings and obtaining knowledge of the profession/subject, since these are easier to learn.

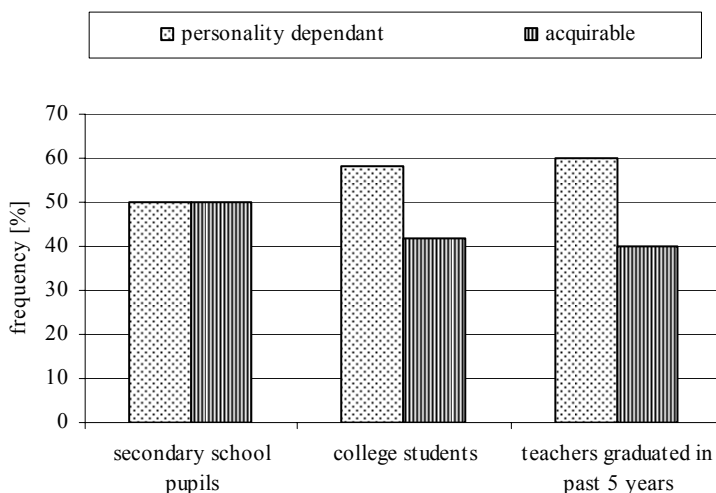


Figure 2

The proportions of personality dependant and acquirable characteristics of bad teachers

The results of the research project show that rejection can happen for two main reasons: by way of negative personality traits, dispositions, or due to the lack of acquirable competencies and incorrect understanding of the role of the teacher. With the categorisation of the results we can separate the personality dependant flaws and problems from areas that can be acquired, including in particular the pedagogical area. We have reason to assume that many elements of pedagogical work are built on the basis of the personality, and therefore, a significant part of the flaws considered pedagogical in their nature actually arise from the personality or the interpretation of the teacher's role. The personality dependant factor shown in the results of the research (Figure 2) is, therefore, at least that important, and with the further analysis of the background, this proportion may even be higher.

From the above we can draw the conclusion that those considered as bad teachers can improve their evaluation by way of enhancing their pedagogical preparation and professional knowledge, which are relatively easy to develop. Teacher training, as well as the in-service training of practicing teachers, provides good opportunities for the development of these areas. If we do not achieve the cooperation of the students, the new methods in themselves will not yield the expected result. The knowledge gained in the course of the training, and especially the experiences gathered, can lead to personality development also without a specific aim to this effect. Real changes, however, can only be expected from altering the relationship model and the role model. This is a process full of conflicts, which can only be successful with a skilled personal helper, a supervisor, or a Balint group. The deep and internal change meets much resistance in the emotional and cognitive constructions. [11]

4 Why is it Difficult to Escape being a Bad Teacher?

What patterns and regularities govern the situation of bad teachers? How does someone find himself/herself in such ignominious company? Why do pupils treat them in a hostile manner? How can this predicament be resolved?

The interface of the relationship is decisive in the estimation of a teacher, and the quality of the relationship depends on the teacher's personality and understanding of his role. Whether the pupils can accept the teacher as a person loosely related to their own group or they will consider him as a member of an enemy group almost totally detached from them is also decided here. This decision is not only dependant on the teacher, but is also influenced by the internal atmosphere prevailing in the teaching staff and generally in the school. Whether they like it or not, teachers are also members of this group, and therefore, general opinions formed about teachers and attitudes toward them will inevitably prejudice the pupils' opinions with respect to them.

If, on the basis of the first impressions, they accept the new teacher in certain situations as a group member, then even the morally less developed pupils will treat him/her with a more loyal behaviour that is due to members of one's group. This reduces conflicts, makes working together more efficient, and therefore, the teacher's values and patterns of behaviour that may be different from those of the group will be easier to accept. New, positive elements different from the group's will also be integrated into the process of socialisation. On the basis of levels of moral development defined by Kohlberg, those between the ages of 12 and 18 are typically a heterogeneous group in terms of their stages of development. [8] The formation of groups that provide coherence and safety and formulate easily achievable norms is a possible response to the uncertainties of the social space, the challenges causing anxiety. [11] Members of the group are on different levels of moral development. Individuals also waver between various developmental stages during the course of their everyday activities. The first two stages of the pre-conventional level, as defined by Kohlberg, are present in these groups. It is typical that they only observe the rules applicable to a given situation if someone enforces these rules or observance is also in their own personal interest. On the next moral level, the principle of "live and let live" takes its course. Here, the interests of the others are also taken into consideration, provided that they do not seriously conflict with their own aims. The conventional level of moral development is also present. This can be easily achieved by the majority, and is indispensable from the point of view of forming long-lasting groups. This is suitable for the formation of group norms. In this third stage, interpreted on the conventional level, the mutual interpersonal expectations, relationships and interpersonal conformity are the supposed characteristics. [2] The rules within the group are observed, and it is known by all how a "good boy" conforming to the norms of the group should behave.

But can the teacher be a loosely attached, "honorary" member of this group? The moral "umbrella" of the group may also provide protection those who are accepted and considered as good teachers. On the other hand, however, the group will show its bad side toward teachers who are considered as bad and therefore rejected. This way, it conserves the distance and gives rise to conflicts. The emotional relationships with individual pupils, groups of pupils or whole classes, as well as the personality traits, are decisive factors in the estimation of a teacher by the group. The observance of the rules is important due to the expectations of the immediate environment.

Loyalty is needed towards group members. The rules of the game must be observed within the group, but the same rules no longer apply to those outside the group. Woe betide any outsider! Even higher levels of moral development can be identified in the 12 to 18 age group, but these are mostly found in circles of solidarity within the group. This higher level of moral reasoning, already experienced within the group, is less frequently used with respect to outsiders (also in case of adults). In case of poorly socialised, disadvantaged groups, this

step back takes place between lower levels. Egoistic, aggressive behaviour, breaking the rules and using morally objectionable methods against outsiders, persons defined as the enemy, is not only allowed, but even considered a heroic act. Cases of verbal and physical violence against teachers recently are becoming increasingly frequent in Hungary also. Teachers have less and less authority resulting from their status. Unfortunately, the community of teachers also appears less as an elite team certainly deserving recognition. Such recognition can be achieved by way of personal, individual performance. The confidence and recognition granted in advance is negligible.

A teacher or a group of teachers can easily become the enemy, and as such, a target. What can help avoid this is when the group respects the teacher and accepts him/her as an external member.

If the community prestige of the given teacher is low, and the values in his/her personality, behaviour and style are not discovered, the group will define him/her as an enemy. This hostile reaction will be strengthened if the teacher fails to make an effort for the fair handling of the interface of their relationship.

In the course of our research project we discovered that the estimation of teachers shows a correlation with the interpretation of the teacher's own role. For example, submission before one's pupils shows a fatal misunderstanding of the teacher's role, and the response of the pupils' group will include the minimising of their willingness to cooperate, showing contempt and playing harsh practical jokes.

The finding of Ryans in his research concerning teachers, namely that good teachers have a more positive opinion of their pupils, gains a new interpretation (Ryans, 1991). Indeed, pupils show their worse side toward bad teachers. Therefore, the opinion of these bad teachers, on the basis of their personal experiences, will understandably be worse than the opinion of those other teachers whose pupils consider these others good teachers, who will thus actually have better impressions about the same group of pupils.

5 How does Personality Disorder or Confusion about One's Role Appear?

We examined the responses of college students (N=73) concerning bad teachers in further categories. More than 90% of the cases could be defined as a personality disorder or confusion about the teacher's role. We were trying to find what patterns of behaviour this group shows.

In terms of the forms of their manifestation, most of them can be placed in three categories of behaviour, as follows:

1st Superior: this group of bad teachers was usually described with the adjectives authoritarian, scornful, aggressive and cynical.

2nd Unmotivated, burnt-out: indifferent, apathetic, tired, negligent, disinterested, ill-prepared.

3rd Inferior: indecisive, unable to maintain discipline, dumb, sensitive, allowing chaos in class, lacking authority, too obedient, quiet.

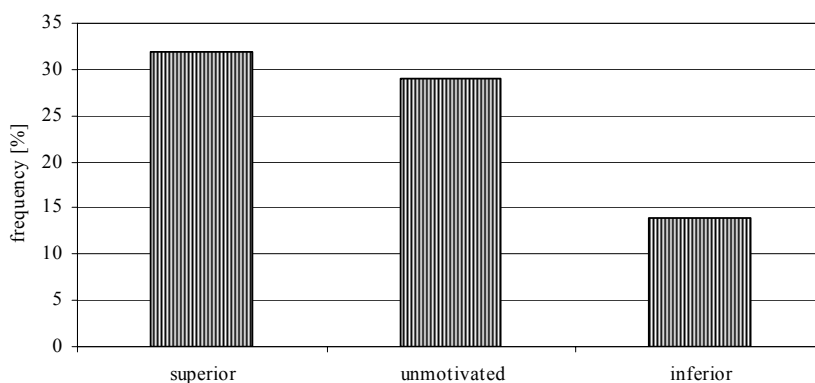


Figure 3

Forms of appearance of personality disorders or confusions about one's role

These data are revealing in terms of the relationships to the pupils as someone the teacher must work with together, the poor management of the relationship interface, as well as the lack of perception of the reality. All three of these make the healthy, realistic, efficient cooperation, concentrating at the tasks at hand, and higher-level intellectual work more difficult.

The teachers considered as bad by their pupils found (at least) three routes of escape instead of realistically evaluating and solving the problem. Thus, they withdrew from the realistic zone.

Teachers positioning themselves as superior to their pupils artificially increased the formal distance of authority, and blamed all failure on the pupils. Such teachers think they are always right, which means that they are invulnerable, and they want their pupils to become something completely different. “What a wise man seeks is in himself, what the fool seeks is in others” (Confucius).

Burnt-out, unmotivated teachers dull their senses and withdrew from participation in the events, and can thus have no real joy or major sorrow either. They just survive while exerting minimal energy. They are no longer able to really experience the conflicts, or they just do not care about the whole thing.

Teachers who subordinate themselves into an inferior position just accept and suffer the situation, and have very little power to influence it in any way. They do not even really understand their own predicament. If they do nothing, they believe, they can minimise the trouble.

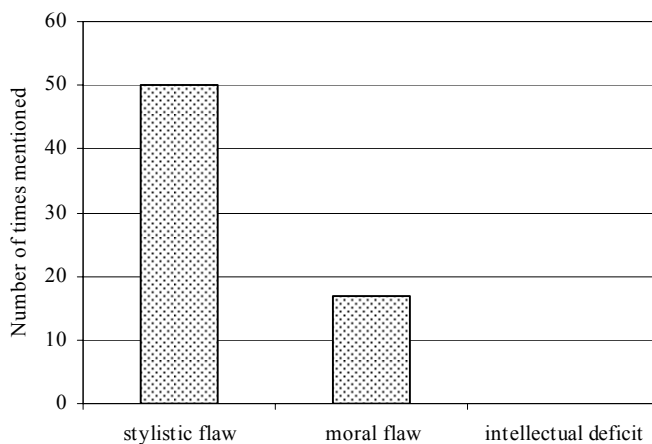


Figure 4
Types of flaws

Reversing the aphorism “the style is the man himself” we can say that the flaw in one’s style is the flaw in one’s person(ality). Bad style can indeed be revealing of internal disturbances and the strong lack of coherence.

Moral inadequacy (if indeed this is what we are dealing with, and it can be proved with respect to the given person) is unacceptable in case of teachers. Its development in the short term can only bring results on the surface. Real improvement can only be expected in case of a total change of one’s value system, the likelihood of which is very low in case of adults. It is usually only the very infrequent real cathartic events that can launch such changes, which are turns of fate and cannot be planned in advance.

It is surprising that intellectual/educational deficit was not found as the cause for the bad evaluation for a single teacher. In some cases, early cultural or socialisation deficit may be in the background of a teacher’s bad style. These are due to formal behavioural deficiencies and not to the given person’s confusion of values, although it may appear as the latter.

Bad teachers have therefore been found suitable for the job after at least two filters until the time when the negative experiences described above were caused in the course of their work with their pupils, which was the source of the poor opinions.

They have passed the filter of teacher training, which – as we know – only disqualifies someone in case of serious delinquencies. They have met the formal

expectations of pedagogical training, even if they only reached as far as one of the first stages of moral development in Kohlberg's system. [7] Under the pressure of external expectations, they have observed the rules of behaviour during the teaching practice. And for an immature personality power – even that very small power a teacher has – is like a drug.

The role of the second filter is played by the principals of the school who decide on hiring these teachers. In these situations, it is primarily the academic results and good manners that dominate, which prove that the applicant can learn, take exams and play roles; however, pupils also get to see a different side of the teacher in the classroom: the human being, the personality, the accepting or the rejecting partner.

This career offers a sense of success also to many people who in their own age group and among similarly trained co-workers would not succeed so well. The role of a dominant and clever person (assuming a superior position) is attractive to those wishing to compensate for their immaturity.

We do not want to offend with these words the colleagues suitable for a teaching career, who are talented or can at least perform at an average level. Without them, the majority of schools would have to be closed down. Their work is important. The teaching career is not only open for geniuses. The conditions are not ideal either, especially not in Central Europe. One with an average intellect can also be a good teacher, as the above opinions by pupils prove.

The analysis we provided applied to bad teachers, those who are deemed by their pupils as unsuitable for the job, have an imbalanced personality, are stuck in their situation and inadequately work together with the pupils, as well as to such formerly good teachers who have burnt out, people who cannot change their situation on their own or perhaps do not even want to. [3]

They are trapped in this situation fraught with conflicts, from which they can see no way out and can rarely find pleasure in their work. The situation is bad for these teachers and bad for their pupils as well.

In institutes of higher education (and also in some secondary schools) laws require that the teachers be evaluated on the basis of students' opinions. This can be a suitable tool for recognising bad teachers, especially if the evaluations are not just a formality.

The changing of the situation of bad teachers is in the real interest of all sides, yet such situations often remain hidden. After the recognition, the in-depth analysis of the situation and the planning of the method of assistance become possible with the involvement of the teacher's superior and a psychologist, always with the necessary discretion as appropriate in such personal matters. The resolution of minor difficulties of adequacy is possible, even desirable, in regular discussions of cases and in Balint groups.

Conclusions

All this paper is about the empirically identified characteristics of "bad" teachers. To be a "good" teacher, however, it is not enough not to have the mentioned characteristics of "bad" teachers. Those, who are not "bad" teachers, are not automatically "good" teachers. We have good reasons to believe that the lack of these disadvantageous characteristics represent only the necessary but not the sufficient conditions to be a "good" teacher. We have given certain answers to the question: "What makes a teacher bad?". This research can be considered only a starting point of an other research aiming at the other important related question: "What makes a teacher good?". We'll target this topic in our next paper.

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