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INDEX

Foreword

Psychological Context of Managerial Staff Compensation – Polish Experiences
MOCZYDŁOWSKA Joanna

The Assessment of Various Reforms with the Help of an Integral Index
(The Case of Transition Economies)
DAVOYAN Samson, SARGSYAN Arpine

World Class Organizations Know How to Optimize the Talent Value Chain
VAN DER SLUIS Lidewey E.C.

A Review of the Rise of the US Public Debt Limit: Selected Theoretical Contributions and Legislative Changes
KUREČIĆ Petar, KOKOTOVIĆ Filip, BANDOV Goran

Theoretical and Practical Aspects of Managing the Motivational Potential in an Enterprise
GAGARINSKAIA Galina, KUZNETCOVA Irina, GAGARINSKII Aleksandr

Motivation as a Source of Human Resource Risk in Hospitality Enterprises. Theoretical Approach
TOKARZ-KOCIK Anna

Protection of Personal Data in Turkish Law
YILDIRIZ Sevil

Transition from Brokerage Companies to Investment Companies on the Croatian Capital Market
JURJEVIĆ Mićo, RONČEVIĆ Ante, BUJAN Ivana

Housing Construction and Mortgage Lending in the Slovak Republic
VIDOVÁ Jarmila

Media Sponsorship as a New Promotional Tool for Tour Operators in Poland
MEYER Beata, SIDORKIEWICZ Marta

Designing a Balanced Scorecard Framework for Public Transport Organizations: The Case of IETT
CANITEZ Fatih, DEVECI Muhammet, DEMIREL Nihan Çetin, DEMIREL Tufan
FOREWORD

Last edition of the Journal of Economic and Social Development is a result of constant editorial’s effort in reaching highest academic standards. We would like to welcome new editors and reviewers who were included in the process of evaluation and our team, so we expect improvements in the paper selection process too.

Authors belong to different economic and social environments so we again hope to keep diversity of the topics, approaches and opinions. Papers were collected via the free call, not extracted from the Conference proceedings, so we hope that also improved our openness and transparency.

Our new Italian partner is doing a great job, so we hope to reach highest publishing and printing standards. We are eager to collect new serious researches and interesting results in order to keep the quality of the whole project.

Marijan Cingula
Psychological Context of Managerial Staff Compensation – Polish Experiences

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Abstract

The article is meant to become part of the scientific discussion concerning the psychological foundations shaping the compensation system and transparency of managerial staff’s salaries. It is founded on a scientifically proven assumption that in respect to salaries the employees’ assessment, including management staff, of their attractiveness is contingent on numerous factors with the most important ones being psychological in character. Through analysis the article aims to identify managerial staff’s opinions regarding the psychological aspects of the remuneration system including: integrity, justice, adequacy and transparency. To achieve this goal the author used a questionnaire which was administered to 120 representatives of middle and senior managerial staff working within the corporate sector functioning in Poland. The present study should be considered to be a pilot study. It was determined that sex was one of the variables which meaningfully influenced the psychological aspects of evaluating a remuneration system. In general, most male managers gauge their salary as satisfying whereas female managers who show satisfaction with their salary constitute less than half of the study sample. Clearly, therefore, women more often than men considered their salary to be unsatisfactory or average. In contrast to their male counterpart’s female study participants more often described their salary as fair if it was based on such factors as time needed for job completion and mental strain. Managers taking part in the study, regardless of gender, specified difficulty, the degree of responsibility connected with their job and results achieved by a team which they managed as having the greatest influence on their perception of their salary as fair. Majority of managers expect their salary not be dependent upon the financial success of the company as a whole. Additionally, they express acceptance for differences within salaries of managers working for the same organization and their direct correlation to individual accomplishment. Most management staff support the idea that salary amounts remain undisclosed but advocate transparency in the way salaries are structured.

Keywords: compensation, salaries, managerial staff’s rewarding

Introduction

Studies concerned with the relationship between senior and middle managers’ salaries and such variables as the company’s effectiveness, its value or long-term sustainability make up a large part of economics [1, 2, 3]. There are also numerous scientific studies devoted to economic and legal aspects of structuring management contracts [4] and the connection between managers’ salaries and financial slumps of companies which they manage [5, 6].
The psychological context of the remuneration system, a key factor in managers’ involvement, motivation and loyalty, is an area which has been explored far less. Although it is oft proposed that managerial staff should possess a high level of motivation stemming from self-motivation and strong sense of mission studies indicate [7] that managers consider financial motivators to be very important and that salaries are a crucial element in their assessment whether a particular organization is an attractive employer [8].

Through analysis the article aims to identify managerial staff’s opinion regarding the psychological aspects of the remuneration system including: fairness, justice, adequacy and transparency. To achieve this goal the author used a questionnaire which was administered to 120 representatives of middle and senior staff working within the corporate sector functioning in Poland.

**Literature review**

As far back as the 1960s it has been well-known that in assessing a salary an employee considers not only its nominal value or its purchasing power but also whether it is honest, adequate and just [9, 10]. This stems from the fact that the assessment of the attractiveness of salaries is very subjective. It is difficult to gain a measure of a salary using such descriptions as ‘large’, ‘fair’ or ‘big enough’ [11]. An amount of money which one employee considers as large may be seen as very small by another with those assessments changing over time. A salary that at one time may be perceived by a worker as attractive and satisfying some time later can be assessed as unattractive.

It is necessary, therefore, to consider including the psychological context of remuneration, especially the implementation of the principles put forth within the numerous works of behavioral and cognitive psychology into the process of remuneration management.

The contribution of L. Yao, L. Weihuana and L. Hao [12] to the study of psychological conditioning of the assessment of compensation is significant. These authors have shown that the psychological effectiveness of compensation is contingent on the assessment of five variables: salary level, quality of the remuneration policy, the process of salary management, rules of salary distribution and variable components of remuneration (prizes and bonuses). The works of J. Colquitt [13] are similar. He, in turn, has proven that satisfaction with a salary is dependent on the sense of fairness analyzed within several planes: process fairness, allocation fairness, interaction fairness and information fairness or equal access to information regarding the principles used to structure salaries. Fairness is assessed by employees through the comparison of the results of their work and the rewards gained for them. Every situation in which an employee gauges his salary to be inadequate in respect to his results as well as when he believes that other employees’ salaries are inappropriate in regard to their work results causes a reduction in the satisfaction he feels concerning his salary.

Through compensation the organization sends the employee a very important signal which communicates how valuable he is to his employer. The amount of that compensation in comparison to salaries of other people working within the same organization in positions with similar level of difficulty and responsibility is especially important. A salary taken as certain type of feedback becomes a tool through which the employee can build self-esteem. From the perspective of management this is crucial since self-esteem is one of main categories used to explain the results achieved by an employee. Employees who have a high self-esteem seek to maintain their positive self-image and one way to reach this goal is to attain good results at their work. People with high self-esteem display stronger motivation for completing their tasks, are more determined and are
less likely to become discouraged by changing circumstances. In this perspective self-esteem is a factor that has a bearing on the process in which the amount received as remuneration influences productivity and work quality. Over time employees with high earnings start to realize that they are very valuable to the organization and that becomes a part of their self-image translating into good results at work. However, it is not possible to conclude on the basis of this example that more is always better. Studies of J. Heyman and D. Ariely [14] show that wage levels that significantly exceed the average have a destructive impact on the quality of accomplishing tasks that require creativity and engagement.

Within the context of the problem addressed by this article it is justifiable to ask about the way disproportions in compensation influence the perception of their fairness and what is the correlation between disparity in compensation and the effects achieved by the organization. Research results dealing with this subject are not clear. On the one hand we receive reports which show that a lack in variation of compensation produces positive consequences. This pattern has been observed, among other examples, in a study concerning the relationship between differences in the compensation of managers and the company’s value. P.A. Siegel and D.C. Hambrick [15] have proven that the greater the disproportion in the salaries of top rung managers the smaller the market value of the company. A similar conclusion was drawn by M. Bloom [16] whose study concerned sport teams or organizations where cooperation is the key to success. In football the relation that the smaller the variations in compensation the greater the number of wins has been observed. It must be, however, clearly stated that in other sport disciplines, for example ice hockey or basketball, this has not been true. Players who contributed more to the success of the team expected significantly larger salaries. On the basis of the above it can be concluded that the axiological category having the greatest importance in the assessment of the amount of compensation is not equality but justice. In those companies where everyone works equally hard and has similar input into the success of the organization equal compensation is considered fair while in those companies where the input of individual members of the team to success clearly differs then disparity in compensation should be considered as fair.

Of course, the level of that variation remains a subject which remains open to discussion.

Interesting data on this matter is provided by the extensive research of S. Kiatponsan and M. Norton [17]. On the basis of a study encompassing an impressive number of respondents exceeding 55,000 from 40 countries it has been proven that, first, people understate the estimated difference between the compensation of managers and unskilled workers and second, they consider as fair a smaller disproportion in compensation than the one which is the result of their own understated estimates. For example, in the USA the actual ratio between the compensation of highest level managers and unskilled workers was 354:1, that estimated by respondents was 30:1 while the one believed to be justified and just amounted to only 7:1.

Research results obtained by Kiatponsan and Norton show also that the assessment of justice in the disproportion of compensation is culturally dependent. For example, in Denmark respondents decided that the proportion 2:1 is fair while in Taiwan this ratio is 20:1. It can, therefore, be assumed that in countries whose culture is characterized by greater distance toward authority employees consider greater differentiation in compensation as justified.

**Methodology**

The study included managers studying to attain an Executive MBA at the Polish Academy of Sciences in Warsaw. The selection of respondents resulted from the fact that the Executive MBA
studies are chosen by people with significant professional experience as well as experience in managerial positions. An average length of respondents’ job seniority in managerial positions was 8.5 years. The study sample included 38 women and 82 men with the proportion reflecting the contribution of women and men holding management positions in Poland [18]. They represented companies of various sizes with a clear predominance of large and medium companies (81% of the group) and a variety of fields. The research was conducted in December of 2017 and the main tool was a questionnaire.

The following research problems have been formulated:

1. What conditions must be met for managerial staff to consider their salary as satisfying?
2. What is the relationship between satisfaction with salaries and such variables as fairness, justice, adequacy and transparency of salaries?

The author is aware that this method is considered to produce knowledge which not is inter-subjectively verifiable and does not provide factual causes of behaviors. Regardless of criticism raised by methodologists of social sciences introspective studies are essentially the basis for all questionnaire studies and the use of their results in the diagnosis of managers’ opinion about psychological aspects of their compensation is based on a statement that has been well-documented in literature – that the employee is the best source of information about the specificity of his/her position or the fulfilled organizational role. Managers hired through a contract were intentionally chosen for this research.

Management staff about their earnings – analysis of research results

A vast majority (62.5%) of middle and senior managers evaluated their salary as satisfying with ‘rather satisfying’ chosen by 57.5% of participants. It is important that in respect to female managers taking part in the study the level of satisfaction with their salary was lower and that only 47.36% of women participating in the study marked answers: ‘rather satisfying’ and ‘definitely satisfying’ (cf. table 1)

<table>
<thead>
<tr>
<th>Is your salary satisfying?</th>
<th>Definitely not</th>
<th>Rather not</th>
<th>Partly yes and partly not</th>
<th>Rather yes</th>
<th>Definitely yes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number</td>
<td>%</td>
<td>Number</td>
<td>%</td>
<td>Number</td>
<td>%</td>
</tr>
<tr>
<td>Men (N=82)</td>
<td>7</td>
<td>8.5</td>
<td>8</td>
<td>9.76</td>
<td>10</td>
</tr>
<tr>
<td>Women (N=38)</td>
<td>2</td>
<td>5.3</td>
<td>11</td>
<td>28.94</td>
<td>7</td>
</tr>
<tr>
<td>Together (N=120)</td>
<td>9</td>
<td>7.5</td>
<td>19</td>
<td>15.83</td>
<td>17</td>
</tr>
</tbody>
</table>

* Percentages concern individual subgroups (82 = 100% of men; 38 = 100% of women)

Data from table 1 indicate statistically significant differences in responses provided by women and men. Frequently men evaluated their satisfaction emphatically (as low or high), whereas significant part of women chose more neutral opinions (average). Women declared their dissatisfaction with the amount of their salary much more often than men and the answer reflecting

* Introspection – from Latin *introspicer**, literally means “looking inside,” observing and analysing one’s own mental states, thoughts, feelings, and motives. It deals with conscious contents and processes.
this fact was selected by almost one third of female participants. Most likely this is the result of persistent differences in salaries of women and men holding similar management positions [19].

Managers taking part in the study were asked about the level to which factors evaluating their work should impact the amount of their compensation and which elements should be used to structure their salary so that they could consider it fair. (cf. Table 2).

**Table 2.** The evaluation of factors that should be considered in establishing fair compensation of managerial staff (on a scale from 1 to 5 where 1 means irrelevant and 5 means crucial)

<table>
<thead>
<tr>
<th>Evaluated element influencing the amount of compensation</th>
<th>Men (N=82)</th>
<th>Women (N = 38)</th>
<th>Whole sample (N = 120)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>mean</td>
<td>variance</td>
<td>mean</td>
</tr>
<tr>
<td>Complexity of work</td>
<td>3.85</td>
<td>0.79313</td>
<td>4.03</td>
</tr>
<tr>
<td>Difficulty of work</td>
<td>4.68</td>
<td>0.29329</td>
<td>4.66</td>
</tr>
<tr>
<td>Degree of responsibility of work</td>
<td>4.67</td>
<td>0.27296</td>
<td>4.53</td>
</tr>
<tr>
<td>Time devoted to tasks at work</td>
<td>4.14</td>
<td>0.42276</td>
<td>4.58</td>
</tr>
<tr>
<td>Mental strain relevant to work</td>
<td>4.39</td>
<td>0.38904</td>
<td>4.68</td>
</tr>
<tr>
<td>Innovativeness of working</td>
<td>4.05</td>
<td>1.18278</td>
<td>4.03</td>
</tr>
<tr>
<td>Results of team directed by manager</td>
<td>4.51</td>
<td>0.87002</td>
<td>4.29</td>
</tr>
<tr>
<td>Results of the whole company</td>
<td>3.63</td>
<td>1.42005</td>
<td>3.03</td>
</tr>
<tr>
<td>Mean wage on the market</td>
<td>3.73</td>
<td>0.96417</td>
<td>4.26</td>
</tr>
<tr>
<td>Mean wage of other managers in the company</td>
<td>4.01</td>
<td>1.07392</td>
<td>4.07</td>
</tr>
</tbody>
</table>

Source: self-elaboration based on questionnaire results

In the opinion of male managers in establishing the amount of compensation the employer should primarily consider the work’s difficulty and degree of responsibility (average grade above 4.6) as well as the results achieved by a team lead by them (average grade 4.51). Women participating in the research believed that a fair amount requires the consideration of far more elements. According to their judgment the employer should strongly consider difficulty and complexity of their work, time required for completing assignments and mental strain relevant to work (average grade of the importance of these elements was above 4.5). The influence of the sex of managers participating in the study as a statistically significant variable has been proven through an analysis of the results of the Mann-Whitney U Test (cf. table 3).

**Table 3.** The influence of managers’ sex-analysis of the results of the Mann-Whitney U Test

<table>
<thead>
<tr>
<th>Evaluated element influencing the amount of remuneration</th>
<th>Mann – Whitney U Test</th>
<th>Asymptotic pertinence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Complexity of work</td>
<td>1284.5</td>
<td>0.099</td>
</tr>
<tr>
<td>Difficulty of work</td>
<td>1537.5</td>
<td>0.883</td>
</tr>
<tr>
<td>Degree of responsibility of work</td>
<td>1368.0</td>
<td>0.195</td>
</tr>
<tr>
<td>Time devoted to tasks at work</td>
<td>901.0</td>
<td>0.001</td>
</tr>
<tr>
<td>Mental strain relevant to work</td>
<td>1178.0</td>
<td>0.015</td>
</tr>
<tr>
<td>Innovativeness of working</td>
<td>1468.5</td>
<td>0.591</td>
</tr>
<tr>
<td>Results of team directed by manager</td>
<td>1348.5</td>
<td>0.161</td>
</tr>
<tr>
<td>Results of the whole company</td>
<td>1083.0</td>
<td>0.006</td>
</tr>
<tr>
<td>Mean wage on the market</td>
<td>1085.0</td>
<td>0.005</td>
</tr>
<tr>
<td>Mean wage of other managers in the company</td>
<td>1498.0</td>
<td>0.717</td>
</tr>
</tbody>
</table>

Source: self-elaboration based on questionnaire results
Most managers who participated in the study (regardless of gender) in large part expect the employer not to make their salary dependent upon the results of whole company (average grade under 3.5). However, a variance analysis of their answers shows a considerable diversity in their opinions in respect to this topic. A principle which has been well documented by science that people do not want their salary to be dependent on factors over which they have no direct control was confirmed. Relatively low importance of innovativeness as a determinant for the amount of compensation can be similarly evaluated. Studies show [20, 21] that innovativeness, including organizational innovativeness, is a core competence of managers which the employer must acknowledge. In Polish organizational reality the innovativeness of managers is often hindered by strict rules and may be a reason for the participants’ belief that innovativeness should not influence wage levels to a greater degree.

An important issue considered within the study was fairness of earnings related to their individualization. As many as 87.5% of respondents answered positively to the question whether they would accept a situation where they earn less than managers who have better work results with the same percentage declaring that, in general, employee compensation should be strictly related to individual work results.

Respondents of the present study are strongly against the complete transparency of wages. As many as 90.1% of respondents answered ‘no’ to the question: ‘Should information concerning managerial staff’s salary be public’. However, they also believe that the rules governing as well as all components used in the structuring of employee salaries should be public.

**Conclusions**

Since the research included 120 representatives of managerial staff it should be considered to be a pilot study. The obtained results enable the formulation of hypotheses which could later be used in further quantitative research with a significantly larger research sample. Study results allowed the author to conclude that sex of management staff meaningfully influences psychological aspects of compensation evaluation. Majority of the male managers evaluated their salary as satisfying whereas female managers who were satisfied with their salary constituted less than half of the study sample. Additionally, women have described their salary as unsatisfactory or average more often than men. The disparity between men’s and women’s salaries existing in Poland, even though the law prohibits all discriminatory practices, may also be a factor in explaining such feelings.

Female managers participating in the study more frequently than their male counterparts believed that their salary was fair if it was structured with consideration to such factors as time needed for job completion and mental strain relevant to the job being performed. Regardless of gender managers taking part in the research thought that difficulty and degree of responsibility connected with a job as well as results achieved by the team managed by them should have the largest impact on their salary for them to consider it fair. Most managers expressed their belief that their compensation should not depend on the results of whole company. Majority of management staff also declared an acceptance of differentiation in their salaries within the same organization and would like them to be strictly linked to an individual’s work results. In large part they would like salaries to remain undisclosed and transparency in the rules used to structure them.

The quantity and structure of the study sample was insufficient to obtain an answer to the question whether there is a statistically significant relationship between the perception of the size
and fairness of salaries and such variables as: age, job seniority or industry represented by the employer of the participant.

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The Assessment of Various Reforms with the Help of an Integral Index (The Case of Transition Economies)

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Abstract

Authorities of different countries develop and implement various socio-economic reforms. All those reforms pursue one goal; to respond relevantly to internal and external challenges, maintain sustainability in not only economic, but also social and political areas.

Socio-economic reforms have made structural adjustments worldwide. These adjustments are addressed to multidimensional economic and social issues. Not only social, but also economic development, sustainability and international competitiveness of a country is widely dependent on effective implementation of socio-economic reforms in an observed country.

There are different methodological approaches in quantitative assessment of reforms. These methods are proposed by different international organizations, researchers and research centers.

Among all methods, index assessments are used widely. Thus, economic reforms are assessed though many indexes (i.e. Global Competitiveness Index, Global Innovation Index, Economic Freedom Index, Human Development Index, Social progress index etc.).

The main objective of our research is to develop a new methodology, which addresses to development of an integral index of various reforms that will include as many indexes as possible that partially assess different areas of reforms. With this paper, we aim to assess how effectively have governments of the observed economies in transition (Armenia, Georgia, Azerbaijan, Moldova, Ukraine, Romania, Bulgaria and Slovakia) implemented social-economic reforms. We create a new and unique methodology that enables researchers to make comparative analysis on the many aspects of reforms and transformations. The results of the integral index of Reforms give an opportunity to define directions in which countries have implemented reforms more effectively compared to others and in which direction reforms have implemented less efficiently for each country observed.

Keywords: Method, transition, factor analysis, reforms, comparative, index, economic, corruption, weighted average, effectiveness, assessment, development
1. Introduction to Socio-Economic Reforms

Given the importance of various reforms, governments of different countries develop certain programs and policies to make these reforms more effective and feasible. The issue of successful implementation if the above-mentioned programs is even more relevant for developing economies. The issue becomes more important for countries in transition, as they need special and focused political approaches in their “way to a market economy and economic liberalization”.

Socio-economic reforms in nations in transition, are addressed to the following social concerns:
1. Poverty;
2. Malnutrition;
3. Mortality Rates;
4. Illiteracy, etc.

Main goals of implementing reforms are embodied in directions described below.
1. Creating employment opportunities with special emphasis on job opportunities for unskilled workers;
2. Employment opportunities for unskilled laborers can be created specially in heavy industries with the implementation of effective economic reforms;
3. Bring down the general level of poverty;
4. Raise the average standard of living in the society;
5. Provide basic social facilities like health-care education;
6. Provide better living conditions especially to the rural poor;
7. Ensure proper sanitary conditions, eradication of illiteracy;
8. Contribute significantly to social development.

The phenomenon of reforms has a long history, its roots come from Adam Smith’s century’s old question: How do countries become rich? From the very start of reforms in the early 1990s, the most important objective in transition economies was to raise living standards by boosting output. The increasing interest and importance of various reforms caused debates over the choice of reform strategy that was fueled by the deep production falls experienced in all transition economies.

This situation emphasized, that Adam Smith’s question essentially epitomized the discussion of which reform strategy was most likely to be successful.

Since then, any researchers have tried to assess efficiency of reforms and their impact on economic sustainability.

Despite huge contribution to the analysis of reforms, a number of issues related to the choice of reform strategy and its impact on growth remain unresolved. Among them are;
- What is the relative importance of individual reform elements?
- Can different reform elements substitute for each other or are some reforms complementary in the sense that their implementation has to be synchronized or sequenced to obtain favorable results?
- How rapidly should reforms be implemented?

2. Overview of Methodology

As already mentioned, we purpose to assess comparative efficiency if reforms implemented in economies in transit with the help of an integral index, which we call “Integral index of Reforms”.

14
The new index has 20 indexes as its components (Legatum Prosperity Index, Social Progress Index, Global Innovation Index, Network Readiness Index, Corruption Perception Index, Enabling Trade Index, Environment Performance Index, Tourism and Travel Competitiveness Index, Doing Business Index, Global Peace Index, Economic Freedom Index, Democracy Index, Human Development index, Bertelsmann Transformation index, Global Gender Gap Index, The Basel AML Index, Enabling trade index, Logistics performance index and Human Capital Index). These component-indexes unveil implemented reforms of countries in different directions.

Given the issue of component indexes varying in different intervals, we normalize them in the interval of (0;1).

One of the most outstanding aspects of our methodology is quantitative assessment that gives an opportunity to define the scale of each index that we measure with the help factor analysis. Each component sub-index has its weighting coefficient, which is calculated with the help of SPSS program. The weighting coefficients represent the comparative importance of a given sub-index in formatting the overall index (they represent the extent to which the given sub-index describes and measures the reforms implemented in observed countries).

Thus, the components included in the integral index of Reforms are as follows;

1. **The Global Competitiveness Index (GCI)** – The World Economic Forum annually publishes the Global Competitiveness Report, describing the Global Competitiveness Index. The index contains 3 sub-indexes, which, in turn, are based on 12 pillars (infrastructure, institutions, market size, health and primary education, higher education and training, etc.). The spectrum of the GCI includes 119 indicators1.

2. **The Index of Economic Freedom** – The Index of Economic Freedom is being published by The Heritage Foundation and The Wall Street Journal since 1994. The index assesses the economic freedom of countries through 12 pillars2. All pillars of the Index are scaled equally. The scores of individual pillars range from 0 to 100; countries that get 100 are the freest economies of the world.

3. **Doing Business** – The index assesses business activity in different countries on the basis of 11 areas of regulation (starting a business, dealing with construction permits, getting credits, paying taxes, etc.)3. The Doing Business index is calculated by the World Bank and International Financial Corporation.

4. **The Human Development Index** – The Index measures a standard of living, the literacy rate, the life expectancy in order to compare and assess the human potential of different countries4.

5. **The Democracy Index** – The Index is published by the Economist Intelligence Unit. It includes 60 indicators grouped in five pillars: electoral process and pluralism, civil liberties, functioning of government, political participation, and political culture5.

6. **KOF Index of Globalization** – KOF Index is released by the Economist Intelligence Unit6. The Index measures the three main dimensions of globalization: economic, social and political.

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2 [http://www.heritage.org/index/about](http://www.heritage.org/index/about) The index was previously calculated according to the results of 10 pillars, but the methodology has changed since the launch of the index’s 2016 edition.
5 [https://www.eiu.com/topic/democracy-index](https://www.eiu.com/topic/democracy-index)
7. **The Global Innovation Index (GII)** – The index was first published in 2007 by INSEAD. The index assesses innovation capabilities and results in evaluated economies. The GII consists of two sub-indexes: The Innovation Input Sub-Index and the Innovation Output Sub-Index, each built around pillars\(^7\).

8. **The Corruption Perception Index** – The Index published by Transparency International anti-corruption organization. It measures the perceived levels of public-sector corruption based on different assessments and business opinion surveys\(^8\).

9. **The Global Peace Index (GPI)** – The index measures the relative position of nations’ and regions’ peacefulness. It includes 23 indicators that measure the existence of absence violence or fear of violence\(^9\).

10. **Legatum Prosperity Index (LPI)** – Legatum Prosperity Index is an annual ranking based on a variety of factors including wealth, economic growth, education, health, personal well-being, and quality of life. The index is based on 8 sub-indexes and 89 different indicators. The LPI is developed by the Legatum Institute\(^10\).

11. **Travel and Tourism Competitiveness Index (TTCI)** – The index is published by the World Economic Forum and assesses the extent to which nations and regions are putting in place the factors and policies to make it attractive to develop the travel and tourism sector\(^11\). The Index scores range from 1 to 6. The TTCI is based on three main sub-indexes (regulatory framework; business environment and infrastructure; human, cultural and natural resources).

12. **Environment Performance Index (EPI)** – The index measures the observed countries’ performance efficiency on high-priority environmental issues in two broad policy areas: protection of human health from environmental harm and protection of ecosystems\(^12\). The index is calculated by the research Centre of Yale University.

13. **Global Gender Gap Index (GGGI)** – The Index was first published in 2006 by World Economic Forum\(^13\). It benchmarks national gender gaps of evaluated countries on economic, political, education- and health-based criteria.

14. **The network Readiness Index** – The index is developed by the World Economic Forum and Cornell University. It assesses the influence of information technologies on the health and wellness of the citizens of evaluated economies. The NRI includes 4 sub-indexes, which, in turn, are based on 53 indicators\(^14\).

15. **The BASEL AML Index** – The Basel AML (anti-money laundering and counter terrorist financing) Index measures the risk of money laundering and terrorist financing of countries based on publicly available sources\(^15\).

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\(^7\) [https://www.globalinnovationindex.org/](https://www.globalinnovationindex.org/)
\(^10\) [http://www.prosperity.com/](http://www.prosperity.com/)
\(^12\) [http://epi.yale.edu/chapter/methods](http://epi.yale.edu/chapter/methods)
\(^15\) [https://index.baselgovernance.org/](https://index.baselgovernance.org/)
16. **The Social Progress Index** – The index is developed by the initiative of the Oxford University in 2013. The SPI measures the level of social development and wellbeing, it is based on 12 pillars (that include 52 indicators), grouped in 4 sub-indexes.

17. **The Enabling Trade Index** – The ETI is first published in 2008 by the *World Economic forum*. It is a comprehensive toll to assess the country’s inclusion in international trade. The index covers all possible areas of international relations, and is based on 4 sub-indexes, 7 pillars and 56 indicators.

18. **The Bertelsmann Stiftung’s Transformation Index (BTI)** - The BTI analyzes and evaluates the quality of democracy, market economy and political management in number of developing and transition countries. It measures successes and setbacks on the path toward a democracy based on the rule of law and a socially responsible market economy.

19. **Logistics Performance Index (LPI)** – The LPI is calculated by the World Bank. It uses six key dimensions to benchmark countries’ performance. The index’s scorecards demonstrate comparative performance – the dimensions show on a scale (lowest score to highest score) from 1 to 5 relevant to the possible comparison groups – of all countries, region and income groups.

20. **Human Capital Index** – The Index is released by the World Economic Forum and ranks 130 countries on how well they are developing their human capital. The Index’s score is calculated on a scale from 0 (worst) to 100 (best).

Thus, the integral index of Reforms is calculated with use of the following formula.

\[ R_{ind}^j = \sum_{i=1}^{n} x_i^j S_i^j \]

Where:

- \( R_{ind}^j \) – The Integral Index of Reforms,
- \( x_i^j \) – the weighting coefficient of each sub-index,
- \( S_i^j \) – the score of the j country according to the results of i index,
- i=1, 2, ... n – component indexes (which we named “sub-indexes). For example, i=2 Social Progress Index,
- j2=1, 2, ... m – observed economies in transition

### 3. The Observed Countries and Weighting Coefficients

For the purpose of conducting a comparative analysis on the effectiveness of socio-economic reforms implemented in different countries, we have calculated a new Index, named the integral Index of Reforms (IIR). Our database covers the indicators assessing the reforms in various areas during 2010-2016. The indicators are collected from the basic 20 component-indexes, measured

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16 https://www.socialprogressindex.com/
18 http://www.bti-project.org/en/home/
19 https://lpi.worldbank.org/
by different international organizations and research centers. The database includes indicators for the following countries (economies in transition);

- Armenia;
- Georgia;
- Azerbaijan;
- Moldova;
- Ukraine;
- Romania;
- Bulgaria;
- Slovakia.

As already mentioned, we have calculated weighting coefficients for each component sub-index of the Integral Index of Reforms (see Table 1).

<table>
<thead>
<tr>
<th>SUB-INDEXES</th>
<th>WEIGHTING COEFFICIENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Global Competitiveness Index (GCI)</td>
<td>0.0762</td>
</tr>
<tr>
<td>The Bertelsmann Stiftung’s Transformation Index (BTI)</td>
<td>0.0708</td>
</tr>
<tr>
<td>Doing Business</td>
<td>0.0693</td>
</tr>
<tr>
<td>The Index of Economic Freedom</td>
<td>0.0641</td>
</tr>
<tr>
<td>The Democracy Index</td>
<td>0.0632</td>
</tr>
<tr>
<td>The Human Development Index</td>
<td>0.0621</td>
</tr>
<tr>
<td>The Corruption Perception Index</td>
<td>0.0602</td>
</tr>
<tr>
<td>The Global Peace Index (GPI)</td>
<td>0.0582</td>
</tr>
<tr>
<td>KOF Index of Globalization</td>
<td>0.0574</td>
</tr>
<tr>
<td>The Social Progress Index</td>
<td>0.0574</td>
</tr>
<tr>
<td>The Global Innovation Index (GII)</td>
<td>0.0531</td>
</tr>
<tr>
<td>Legatum Prosperity Index (LPI)</td>
<td>0.0462</td>
</tr>
<tr>
<td>The BASEL AML index</td>
<td>0.0412</td>
</tr>
<tr>
<td>Global Gender Gap Index (GGGI)</td>
<td>0.0351</td>
</tr>
<tr>
<td>The Enabling Trade Index</td>
<td>0.0345</td>
</tr>
<tr>
<td>Travel and Tourism Competitiveness Index (TTCI)</td>
<td>0.0341</td>
</tr>
<tr>
<td>Logistics Performance Index (LPI)</td>
<td>0.0341</td>
</tr>
<tr>
<td>Environment Performance Index (EPI)</td>
<td>0.0307</td>
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<tr>
<td>Human Capital Index</td>
<td>0.0302</td>
</tr>
<tr>
<td>The Network Readiness Index</td>
<td>0.0219</td>
</tr>
</tbody>
</table>

4. The Results and Comparative Analysis

We have applied the described methodology for the observed economies in transit and have calculated the integral index of Reforms for 2014-2016\(^{22}\).

Thus, the results (Fig. 1) witness, that the process of transforming the economy was successfully implemented in Slovakia, which is the leader among the observed economies.

Another outstanding advantage of our research, is that it gives an opportunity to separate the indicators that positively influence on the process of implementing reforms in the observed economies, and the ones that have a negative impact.

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\(^{21}\) Missing data were competed using the method of “similar objects” and using average indicators.

\(^{22}\) For bringing the results to a single scale, we have normed the scores in the range (0-1)
We have made selective analysis for Armenia, Moldova and Georgia. Thus, main factors influencing positively on the efficiency of reforms in Armenia are the following:

1. Health,
2. Quality of primary education,
3. Ease of starting a business,
4. Quality of demand conditions, etc.

Indicators, having negative impact on Armenia’s reforms were:

1. Corruption,
2. Intellectual Property rights,
3. Infrastructure,
4. Institutions, etc.

Efficiency of reforms in Georgia was mainly influenced by:

A. Positive influencers;
   1. Judicial independence,
   2. Rule of Law,
   3. Low rates of inflation,
   4. Government efficiency, etc.

B. Negative influencers;
   1. Infrastructure,
   2. High rate of unemployment,
   3. External conflicts,
   4. Competition in domestic markets, etc.

Competitiveness Potential of Moldova is generally conditioned by the following factors;

A. Positive shift;
   1. Innovation capabilities,
   2. Ease of paying taxes,
3. Technological readiness,
4. Infrastructures, etc.

B. Decline;
1. Access to financing,
2. R&D expenses,
3. Government effectiveness,
4. Corruption, etc.

These results are applicable in evaluating governance and policymaking processes in different countries. As it was mentioned above, this method of conducting comparative analysis can be extended and applied to any country and groups of countries depending on given circumstances.

5. Conclusions

As a consequence, we can make the following concluding remarks;
1. The integral index of Reforms measures the comparative efficiency of reforms for 2014-2016. Its outcomes reveal the indexes and directions of reforms were implemented in the observed transition economies.
2. The results of our research certify that we can provide guidance for the authorities of countries with the help of the Integral Index of Reforms about the factors that led to progress and changes that negatively impacted the results of reforms and constrained the opportunities of countries to realize their potential.
3. We have more important theoretical, methodological and empirical issue to include various indexes that partially reveal quantitative assessment of reforms in some areas. So the synergy effect of those indexes will help to reveal reforms with more integrity.
4. As we had the changes of the indexes that significantly influenced the change of the comparative effectiveness of countries, we could evaluate the pillars that caused the improvement of the results.
5. The suggested methodology can be applied in both various areas, in economics and other social sciences.

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World Class Organizations Know How to Optimize the Talent Value Chain

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Abstract

In the new world of work is human resource management a necessary but not sufficient condition for competitive advantage. Organizations stay in business by investing in people with capabilities from an HR-perspective, but that is only the first step. In this article the next steps that lead to a value-driven company are analyzed and depicted in a new conceptual model of the talent management process.

Organizations could investigate this model to build a talent-powered and value-driven company. This investigation advances companies to prevent a waste of human potential and to act more effective as investor in people and cultivator of talent.

Keywords: Talent management, human resources, capital, assets, engagement, development, capacity, performance

Introduction

Results of seeding processes can hardly be controlled because of organic processes behind harvests. However, you will never get apples by planting beans. What steps do companies take in order to transform talent into value? How do they identify what seeds – in terms of talent – they need to sow, given the yield they aim for? The purpose of this article is to answer these questions from a multidisciplinary perspective on the talent value chain in organizations.

Talent value chain

Fundamental organizational concerns such as attracting, assessing, appraising, promoting, and rewarding individuals are to a large degree a result of the values and norms of organization members. All these elements of talent management offer potential for expressing the organizational principles and core beliefs. The intension of this article is to show that in this era employers and employees should partner in their joint purpose, in general, to improve lives. The article is written from an organizational point of view. When employees find personal alignment and a sense of identification between the broader purpose of the organization and their personal goals, there is a better chance that these individuals will be engaged and motivated to help the organization succeed [1]. This means that smart organizations will fill their talent pipeline with people that not only have brainpower, skills, abilities, personal characteristics that matter but also personal values, anchors, and motives that are aligned with the greater good that the organization strives for.

Our study illustrates how individuals matter to organizations and how organizations matter to society if their purpose if ignited. Frontrunning organizations seem to turn talent as raw capacity into value with a balanced talent value chain similar to a triple jump of planting potential,
cultivating passion for purpose, and harvesting performance. We analyzed what happens behind the scenes of this triple jump. Our main question was: How do these best-in class companies manage the pipeline of organizational talent?

**Predictors of performance**

Many organizations haven’t figured out the predictors of the productivity and flourishing of their employees. Is it their set of capabilities that makes them successful, or their curiosity, engagement, commitment, or will? Or is individual performance and job success most of the time a matter of luck and coincidence? Or is it guidance and leadership? Although we still don’t know the magic formula behind success, we do know that 1) behavior is a function of individual and contextual variables, and that 2) the identification of potential performance is subjective, contextual, and time-dependent. In other words, future productivity is not only a matter of skill or will; other people, context and situations do have an impact too.

What does this mean for organizations? Their efforts to predict future performance and added value have a lot of limitations. A recent study by consultants of Egon Zehnder showed that only 24% of the senior executives consider their talent selection and development approach to be a success. They found that this is extremely costly because people’s advancement and eventually their engagement leads to less turnover [2]. Nevertheless, the need to invest in the right talent that becomes engaged and productive is high.

**Contextual Talent Development U-path**

We build on the talent value chain as theoretical concept that reflects the transformation process of human resources into human assets with the organizational principles, purpose and culture as contextual and moderating factors. From the current HR literature, we derived a conceptual model that clarifies the road that talent follows in purpose-driven organizations. Fig. 1 depicts the four parts of the talent value chain as talent management process.

![Conceptual framework – Talent Management Model (TMM)](image-url)
Fig. 1 shows how modern organizations fuel their talent value chain. They search and enable human capacity as their resources (1), engage and reinforce organizational talent (2), develop and inspire human capital (3), and reward and recognize people as human assets (4). We consider these elements of talent management as vital steps of the contextual talent development U-path. This path starts within the macro-environment of the organization, i.e. the labor market. This is the so-called external organization. From there, talent management moves towards the internal organization, i.e. the organizational culture and design. In this meso-context human capability turns into human productivity.

This path depicts the talent value chain in organizations that are platforms and magnets for people that want to unleash and develop theirs and others full potential.

**Metaphor**

From an employer’s perspective, this means that employees are hired for their capabilities, lead and developed to be productive, and encouraged to show off the values and normative goals of the company. As seeds that are thoughtfully selected and carefully planted to grow and flourish in the direction of the light, so are employees deliberately picked out in order to develop and blossom as image of the organization and to become a representative of the firm. Besides, human assets are employees who make the organization an attractive place to work. This mechanism reinforces the human power of the organization.

Following these conceptual notions and framework, we examine in this paper the steps that companies take in order to transform talent as input variable into value as output variable of the talent management process. Besides, we identify the employee development phases – in terms of talent states, related to the talent management process.

We build on theory in the field of strategic human capital and the field of organizational behavior as well as the more specific HRD theory. It is our intension 1) to contribute to the conceptualization of HR processes in organizations, 2) to conceptualize talent management as a relative new discipline, 3) to help organizations to optimize their talent value chain, and 4) by doing so to diminishing the waste of talent in organizations.

**Strategic Talent Management**

Talent management has a strategic place in organizations. In the remainder of the article, we will unfold the logic that generated Fig. 1. The four vital steps of the talent value chain will be described in more detail.

**Four strategic steps of talent management**

**Step 1: Human Resource Management – Searching & Enabling HR**

Human resources are the raw material of organizational processes. In the field of strategic human resource management has been an explosion of theory and research examining human resources (HR) as a collective (unit-level) driver that contributes to firm performance and competitive advantage [3]. The new world of work with increasing availability of massive data, enormous computer power, and open sources asks for new competencies and new paradigms in the search for the ‘right’ HR. Here are some suggestions, based on a recent study of Van der Sluis [4].
Search for:

a. Personal qualities. Invest in people with good quality of personal health, knowledge, skills, abilities, and other characteristics.

b. Personal background and network. Invest in people that connect with the company values. This could be based on individual learning environments in the past, like their childhood, socio-economic status of family members, and educational institutions, but also on jobs and work experience.

c. Personal mentality. Invest in people with an energy level that fit the company culture. Next to that, the level of willpower, work attitude, ambition, and self-leadership could be indicative.

The search for people that can and will be enabled in an organization goes back to the question what you see if you look at people. This sounds cryptically, but it means that talent detection is personal. All people differ in their way they watch other people and how they weight biographies, credentials and reputations. For example, some leaders are fact-based and look mainly at former performances and track record. Others are convinced that personal abilities predict future performance and therefore assess and select people based on their IQ, emotional intelligence, adaptability, etc. And there is another group of executives who try to detect potential talent based on attitude and motivation that can be derived from personality types and career drives. From an academic standpoint, there is no right or wrong talent perspective-based tastes differ. Board members can define their own taste. The shared vision on the organizational talent taste reflects the human capital standard on company level.

People in the boardroom need to develop their taste in relation to their investment philosophy and their ability to define their taste in terms of common beliefs, notions and norms.

Boardroom members should have a common understanding about what human resources add value and where this comes from. On the individual level, they should become more aware of their own biases in assessing and judging employees and in selecting and enabling future leaders and directors in the company. The more transparent they are about their view of man and their perspective on the ‘right’ people for the work in the organization, the clearer the selection and promotion criteria for employees are.

Step 2. Organizational Talent Management – Engaging & Reinforcing OT

The second step of talent management aims for mental onboarding and capturing the full potential. Furthermore, by engaging and reinforcing employee’s talent managers should optimize the returns on investments in human resources. This requires leadership and managing people in the most effective and efficient way. Transformational leadership seems to be the best recipe for success. This is a style of leadership in which the leader guides through inspiration and builds on the commitment of the members of the group [5].

This step can be defined from a number of perspectives. For example, a process perspective, a cultural perspective, a developmental perspective, a planning perspective, or a competitive perspective. The implications of each perspective on the transformation of organizational talent into human capital are quite stark [6]. In step 2 of the talent value chain the focus lies on talent management from a process perspective. This perspective links with leveraging human capabilities with the purpose of the company, i.e. creating and maintaining value for individuals and society.

This perspective draws attention on processes, structures and systems that should enable employees to perform and tap the full potential of human capital resources. Achieving a high
performing or talent-driven organization, where individuals are expected to find the best opportunities to show-off their potential, could be a result of this perspective on talent management.

Step 2 starts with explaining why the organization exists and should bring everyone on the same page in terms of what they aim for. From Satya Nadella, CEO of Microsoft since 2014, we learn that a business leader should empower the people in the organization to be able to engage customers and transform the world in a better place. All employees should feel empowered and trusted by their manager. In other words, OT managers are chief’s engagement officers, e.g. empower people to build on their strengths and reinforce good behavior and contributions to the greater good.

**Step 3. Human Capital Management – Develop & Inspire HC**

Organizational leaders and operational managers play a critical role in leveraging organizational talent to generate performance and development [7]. Multiple meta-analyses support this relationship [8]. It is widely assumed that firm leaders’ ability to motivate, shape, engage and encourage subordinates affect the organizational citizenship behavior (OCB), quality of work relationships, employee performance, productivity and added value [9].

Leaders who transform organizational talent into human capital navigate on the 4 P-compass of an exploitation-oriented organization: productivity, profit, purpose, and prosperity, and on the 4 C-compass of an exploration-oriented organization capacity, culture, context, and societal climate.

From a strategic talent management perspective, these notions suggest that step 3 will be optimized if the talent management is embedded in a learning culture. Namely, a team or company in which everyone is engaged in identifying and solving problem enables continuous improvement of performance and productivity [10]. Leaders that develop and inspire people shape them into human capital that can grow and serve as human assets of the company. Managers should take responsibility for the motivation, energy and productivity of the employees that are privileged to manage. ‘The key is to getting more output for the same investment’, as Mark Hurd, CEO of Oracle said in 2016. Following this statement, managers should partner with employees, partnering for performance and learning. By knowing their motives and their drives you can make a difference in the learning and development of employees. The ability of supervisors to get under the skin of every employee and to delve deep into what drives people has positive effects on leveraging individual capacity to productivity on the organizational level. Also, managing an inspired and learning workforce also includes providing employees with clarity and feedback specific to their work.

**Step 4. Human Asset Management – Reward & Recognize HA**

The fourth step of talent management heralds the transition between human capital and human assets. In this phase people are rewarded and recognized by their managers as assets of the organizations. Managers should be aware of the fact that relationship quality in supervisor-subordinate dyads serves as an important contributor to individual and team performance. Low productivity mirrors therefore not only the output or quality of an employee; it also reflects the quality of the employment relationship between employer and employee [3].

That being said, in phase 4 employees could become human assets by their self-leadership and organizational citizenship behavior (OCB). OCB is closely connected with individual performance and the added value of an employee to the company [11].

Rewarding and recognizing strong performers, and training managers in how to elicit that employees represent the fourth phase of the TM-model as depicted in figure 1. It underlines the crucial role of assessment criteria and performance management norms in modern business
organizations. World-class organizations have these normative aspects of talent management in place and do not underestimate the effects of that regarding their HR-, OT-, HC-practices. The result is a successful mix of employees who are living stones of the corporate mission, values and purpose.

Conclusion and Recommendations

The new world of work urges organizations to invest in people who can become the value drivers of the company. As competition for all sorts of talent heats up around the world, organizations can’t afford to continue treating people as human resources. Employee attitudes, energy, motivation, and other mental factors differentiate the firm from competitors in a manner where it may achieve above-normal returns [12]. Human resource management is a necessary but not sufficient condition for competitive advantage [13]. Organizations stay in business by investing in people with capabilities from an HR-perspective, but that is only the first step. Next to that, they align people’s strength and/or potential with required tasks and roles and with learning opportunities. This second step relates to guiding employees towards expected behavior and performance aligned with the mission and purpose of the organization. The main themes here are engaging and reinforcing people that are employed in the organization, i.e. organizational talent.

After that, organizations take the next step in terms of investing in the development and growth of people by inspiring them to become valuable for the organization. Human resources that cost money but also add value to an organization are defined as human capital. This third step is followed by the final step of transforming human capital into human assets. This is achieved by rewarding and recognizing employees for the value they have added to customer experiences or employee journeys in the company. In this phase of the talent management process managers let people shine as signatures of the company norms and values. This step is the end of the talent development process and the beginning of the next iteration of the talent value chain. The business case for strategic talent management is built on these notions.

Organizations could follow this model and talent perspectives. A scientific approach to talent development and organizational performance – focused on identifying potential for performance, understanding that performance, development, engagement, and motivation are contextual, and giving employees the experience, attention, respect, trust and support they need to succeed – will be an extraordinary source of competitive advantage in the coming decades. And it will help many more people transform themselves into valuable assets they were always meant to be.

Work is about improving lives by partnering for performance and movements forwards economic growth and social progress. This article helps companies to prevent a waste of human potential and to act more effective as investor in people and cultivator of talent. These aspects are not only aspects of economic sustainable companies but also parts of corporate social responsibility. In sum, world-class organizations know how to optimize the talent value chain and let us all win.

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A Review of the Rise of the US Public Debt Limit: Selected Theoretical Contributions and Legislative Changes

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Abstract

For the most of its history, the US public debt has neither been a factor that, aside from rare crisis periods, acted as a factor of significant worry, nor was it a topic present in relevant policy debates. A key element often overlooked in the debate regarding the long-term sustainability of the public debt of developed economies is the legal framework that should prevent macroeconomic imbalances. The aim of this paper is to assess, through theoretical argumentation, the historical significance of the public debt in the USA. The paper concludes that the USA requires a more coherent and precise legal framework that will ensure the long-term stability of the American economy.

Keywords: public debt; legal framework, macroeconomic imbalances; the USA

Introduction

The debt-growth nexus has received renewed interest among academics and policy makers alike in the aftermath of the recent global financial crisis and the subsequent euro area sovereign debt crisis. Cross-country experience shows that some economies have run into debt difficulties and experienced subdued growth at relatively low debt levels, while others have been able to sustain high levels of indebtedness for prolonged periods and grow strongly without experiencing debt distress (Chudik et al., 2015: 1).

A rather new development is that authors such as Farmer and Schelnast (2013:185) have begun questioning the sustainability of the US public debt. A key element often overlooked in the debate regarding the long-term sustainability of the public debt of developed economies is the legal framework that should prevent macroeconomic imbalances. There is perhaps a key reason why the US is in such a significant position in setting the trend with dealing with macroeconomic imbalances while still not placing in question the validity of the US government bonds or their other external obligations. The US government shutdown and how close the USA came to defaulting its public debt are acts that had very significant consequences. One very significant viewpoint is the following: If the strongest and one of the most developed economies of the world can default on its foreign debt, what is to stop far more heavily indebted countries such as Greece from defaulting on their foreign financial responsibilities? The sustainability of the public debt of several European countries, often referred to as the PIIGS countries, has been questioned by several authors (Robbins, 2015; Connolly, 2012).
As the USA cannot default its public debt or any of its other external obligations without severe and very dire consequences to the international economic system, it continues to interpret its own legislative framework flexibly. The US policy-makers are aware that any kind of default on external obligations will have long-term effects on the entire international economic system. Therefore, they are left with only two options – both unpopular, yet one significantly more efficient and with far less public backlash. One consists of various measures that would increase budget revenue such as increasing investments or raising taxes. The second of these is especially unpopular and there is therefore a far simpler solution to the problem – raising the public debt limit.

The public debt limit in the USA is simply defined by the aggregate amount the public debt may reach, not considering even the ratio of public debt-to-GDP or the primary budget deficit as the Maastricht criteria do. The history of the US policy-making in that regard can be summarized as choosing to constantly raise the public debt net limit. This paper aims to theoretically consider the previously mentioned hypothesis and signify the long-term dangers of such an approach.

A Theoretical Approach to Understanding the Relevance of the Public Debt

In the long-lasting debate regarding austerity policy perhaps one of the most perceived indicators is the public debt-to-GDP ratio. The start of such a view is perhaps in the aftermath of the Maastricht Treaty, but a new surge of “threshold” economics was caused by the findings of Reinhart and Rogoff (2010a, b). The concept that an arbitrarily chosen percentage of public debt-to-GDP ratios may be associated with significant economic disturbances is especially welcome to pro-austerity policy-makers. That concept is perhaps intuitively even more easily understandable in member-states of the EU where based upon the Maastricht criteria of fiscal convergence there are several such thresholds. While the concept of threshold economics is intuitively understandable from a political or layman point of view, it firmly depends upon key entirely economic concepts.

Most notably, as Reinhart and Rogoff have themselves confirmed they believe that there is a causal bivariate relationship between the public debt-to-GDP ratio and GDP growth (Reinhart and Rogoff, 2013). While using arbitrary targets may be a useful practice in the sphere of politics where it is difficult to obtain consensus, such an approach, without adequate evidence, may provide unwanted results. It should also be noted that Reinhart and Rogoff (2013) distanced themselves from conservative politicians that portrayed the 90% threshold as the “magic threshold that transforms outcomes”.

The most comprehensive critic of Reinhart and Rogoff’s hypothesis was conducted by Hernon et al., (2013) where they replicated the study conducted by Reinhart and Rogoff (2010b) and concluded that there is no significant difference between the growth rates with countries that have an economic debt higher than 90% and countries that have smaller debt-to-GDP ratios. They concluded that the calculations made by Reinhart and Rogoff (2010b) are influenced by coding errors, selective exclusion of available data and unconventional weighting of summary statistics (Hernon et al., 2013: 2-3). Perhaps most importantly, Hernon et al., (2013: 3-4) note that many pro-austerity politicians have begun referring to the Reinhart-Rogoff (2010b) hypothesis as an irrefutable fact.

There are significant difficulties in understanding the relevance of the public debt to economic growth in such conditions. What is significantly more understandable from an economic viewpoint is considering a wide range of macroeconomic variables when detecting macroeconomic imbalances, as is the case with the Maastricht criteria of fiscal convergence, rather than considering a singular threshold. All of these criteria help promote a more stable fiscal policy in the member-
states of the European Union, while panic from the 90% threshold and the use of austerity measures to avoid this threshold by any means necessary may have a negative impact on the economy. It should also be noted that, although the European Commission has formally started the Excessive Imbalance Procedure in several of its member-states that failed to conform to one or several goals of the Maastricht criteria of fiscal convergence, they have not used the strictest measures of financial sanctions which they have the legal right to enforce (European Commission, 2016). In a state where compliance with the criteria is more flexible, the criteria of fiscal convergence may present more of a suggested framework of good policies or targets which all member states should strive towards rather than a completely formal system where all of the criteria are adhered to at all times. The USA would definitely benefit from having such a framework that also might help refocus the attention of the public on the issue of macroeconomic imbalances.

For a large, developed economy such as the economy of the USA, the problem lies not in the public debt itself. The current debt of the USA, despite its historically high levels, is serviceable.

With the adequate governance, the USA can be able to sustain such a high level of debt in the short-term while focusing on a policy of sustainable growth to combat the rising debt in the middle and long term. The question therefore shifts to what mechanisms of transfer from the public debt or other elements that provide evidence of macroeconomic imbalances transfer to economic growth. Checherita-Westphal and Rother (2012:1401-1402) have identified that the public debt negatively affects private saving and investment, public investment and total factor productivity in the twelve-euro area countries they observed.

Regarding this issue, there are competing theoretical interpretations of the impact of public debt on economic growth. As emphasized by Dornbusch and Draghi (1990), the first approach is called the Ricardian Equivalence view and the basic hypothesis of such a view is that assets and liabilities cancel each other across time and generations, which means that the level of public debt does not impact the net worth of households nor does it impact aggregate spending. The simple approach of D. Ricardo suggests that, in theory, the government can fund itself through either funding or taxes.

This view suggests that borrowing money in order to decrease the fiscal burdens of the populace do not have any consequences for future generations. Barro (1974) initially provided views that mostly conform with the Ricardian view, yet after Buchanan’s (1974) critique of the lack of a comparative analysis between the effects of taxation and the public debt, Barro (1980:941) ultimately modified his theory in a manner to consider the “Ricardian invariance as a valid first-order proposition”, yet he introduced “second order considerations involving the excess burden of taxation to obtain a determinate (optimal) amount of debt creation”.

A differing approach is considered by Keynesian economics, where one of the central ideas is that fiscal policy can be used in order to actively influence aggregate demand. Both of these views have been considered by economists who have attempted to prove several key aspects of these hypotheses. Motley (1987) claims that it is especially difficult to quantify certain aspects of the Ricardian hypothesis, thus making it difficult to make a conclusive recommendation, although his conclusion is that there are some empirical elements that suggest that an increase in the government debt does not stimulate private consumption, thus meaning that households recognize that debt interest payments must be financed out of future taxes. Taylor et al., (2012) especially emphasize the return of Keynesian style of thinking in the aftermath of the 2008-9 Crisis and ultimately concluding that there is a positive effect on growth from a higher primary deficit. A number of empiric papers have further expanded such a view, especially combating the Reinhart-Rogoff (2010a, b) hypothesis. This is especially reflected in the work of Panizza and Presbitero (2014:38), where they focus on the fact that there is no empiric evidence that the public debt constrains growth.
in developed economies. However, high levels of debt may cause contractionary policies which in accordance with their research are ill-advised in times of a recession.

Fincke and Greiner (2015) point out the neoclassical point of view that there is a possibility of high levels of public debt crowding out investments, especially in emerging markets. This view is especially interesting when contrasting it to that of Panizza and Presbitero (2014), as it displays the full scope of disagreement amongst authors on the actual impact of the public debt – economic growth nexus. One of the aims of this paper will be to theoretically assess, through qualitative analysis of the relevant documents, the state of the American legislature regarding macroeconomic imbalances. On the other hand, as is further explained in the data and methodology section, this paper empirically focuses, by using several relevant methods of time series analysis, on determining whether the Reinhart-Rogoff (2013) bivariate causality hypothesis has any merit. The key contribution of this paper is not only advancing the understanding of the widely discussed causality issue (Reinhart and Rogoff, 2010a, b; Lainà, 2011; Cherif and Hasanov, 2012; Panizza and Presbitero, 2014), but also advancing the understanding of the legal framework in context of the policy debate of containing macroeconomic imbalances. Such an interdisciplinary approach will allow us to consider both the econometric issue of causality, while also addressing the possible strengths and weaknesses of the US legal framework, with providing objective policy recommendations.

Selected Empirical Studies of the Influence of the US Public Debt on GDP

Dar and Amirkhalkhali (2014) conducted a study on a sample of 23 OECD economies in the period of 1996-2007 and in most cases failed to find any evidence of statistically significant negative impact of public debt on economic growth. Ahlborn and Schweickert (2016) conduct an empirical analysis of three country clusters with different economic systems; these clusters are Liberal (Anglo-Saxon), Continental (Core EU) and Nordic (Scandinavian). The authors conclude that there is a statistically significant difference between the country clusters and that in less developed countries the effect of public debt on GDP is negative, while in more developed states it is neutral or positive (Ahlborn and Schweickert, 2016).

Chudik et al., (2015) specified a heterogeneous dynamic panel-threshold model and provide a formal statistical analysis of debt-threshold effects on output growth, in a relatively large panel of 40 countries, divided into advanced and developing economies, over the period 1965-2010. We study whether there is a common threshold for government debt ratios above which long-term growth rates drop off significantly, especially if the country is on an upward debt trajectory. The authors did not find a universally applicable threshold effect in the relationship between debt and growth, for the full sample, when accounted for error cross-sectional dependencies.

Eberhardt and Presbitero (2015) analysed the empirics of the debt–growth nexus within a standard neoclassical growth model. Using the total public debt data from 118 developing, emerging and advanced economies over the period 1960 to 2012 the authors have found that long-run debt coefficients differ across countries and provide some evidence that countries with higher average debt-to-GDP ratios are more likely to see a negative effect on their long-run growth performance. This result is consistent with higher debt ratios being associated, on average, with lower GDP growth rates (Reinhart and Rogoff, 2010a, b).

Mercinger et al., (2015) concluded that there is a statistically significant difference between the impact of public debt on economic growth in the EU member-states that have acceded before 2004 and the new EU member states. Most significantly they note that the threshold effect where there
is a more negative impact of public debt on economic growth is lower in the new EU member states (Mercinger et al., 2015). Gómez-Puig and Sosvilla-Rivero (2015) conducted Granger causality tests on the EMU countries and concluded that there is no negative causality in the period from 1980-2009, but they find evidence of negative causality between public debt and economic growth in the period of 2009-2013.

Cecchetti et al. (2010) indicated that since the 2008 economic crisis there has been a very significant rise in the public debt-to-GDP ratio and they further conclude that if the public debt levels are not curbed, these debts will become unsustainable. Hall and Sargent (2015) analysed the public debt and its historic values since 1939. Their primary conclusion is that the majority of changes between 1950 and 1983 were nominal adjustments used to account for inflation, but they believe that the changes that happened after 1983 the real debt increase outpaces the inflation rate, and that hence there is a real growth of the public debt (Hall and Sargent, 2015:42). A similar historic study was conducted by Edwards et al., (2015), where they analysed the unilateral restructuring of the US public and private debt by the Congress in June 1933. They have concluded that the decision to unilaterally restructure their debt, conflicting with the majority of existing modern economic theory, did not have a significant impact on the ability of the US Treasury to issue new securities (Edwards et al., 2015:23). Gallagher and Collins (2015) analysed the effect of the crises of 2011 and 2013 and conclude that in both these instances there was a case of “flight-to-liquidity”, marked by significant outflows from money market funds.

Lainà (2011) conducted an analysis of the relevance of the public debt on GDP for the USA in the period 1959-2010 and concluded based upon the results of the Granger causality test and Impulse Response Functions that it is difficult to achieve economic growth while also reducing the total level of debt. Cherif and Hasanov (2012) implemented a VAR analysis of impulse response functions for the USA, considering the change in GDP and public debt-to-GDP ratio and concluded that the safest policy to deal with excessive debt is stimulating economic growth. Based upon the conducted literature review it is possible to determine that there is no consensus regarding the direction of causality of the relationship between economic growth and the public debt. There is also a noted literature void, as very few studies regarding the US focus on a longer time period, such as the one observed here.

**The US Legislation Regarding Macroeconomic Imbalances**

The US public debt is regulated by a series of laws that are implemented and ultimately modified by the Congress. There are several relevant actors in the development of American fiscal policy.

This is due to the fact that the President and his cabinet, as representatives of the executive branch, propose the budget that the Congress must then approve with a majority of its votes. The President of the USA cannot pass a budget using executive actions or any other kind of unilateral measure. Executive actions are the only de facto legislative capacity of the President and they have a significantly limited legal capacity in comparison to laws implemented by the Congress. The question of executive actions that go directly against the wishes of Congress are also usually done considered a cost-benefit analysis of both public opinion and the political downsides to such acts (Christenson and Kriner, 2015).

While executive actions have had a significant effect in regards to crucial military decisions in the history of the USA, no executive actions have attempted to usurp the role of the Congress as the key policy-maker regarding fiscal policy. A rare example may be found during the presidency of Bill Clinton, when he implemented an executive action regarding collecting delinquent child
support (Bureau of the Fiscal Service, 2016). Such a question had limited political value, but did not in any way attempt to significantly challenge the authority of the Congress. The key law in the maintenance of macroeconomic imbalances in the USA is the Federal Claims Collection Act of 1966. There has been previous legislation regarding the public debt limit, but this is perhaps the first relevant legislative document that has not significantly been altered to this day. The main difference between the times this document was voted into law and today is the constant rise of the public debt limit. Since 1966 Subchapter 3101, which regulates the public debt maximum total amount, has been amended 18 times (Bureau of the Fiscal Service, 2016).

It is possible to conclude that the changes are far too often and sometimes do not consider the long-term perspective. The practice that is slowly being implemented in the EU, starting with the adoption of the Maastricht criteria of fiscal convergence, present a far more significant indicator rather than the aggregate amount of the public debt. The data clearly suggests that the debt ceiling was raised multiple times during the post-1973 Oil crisis and the post-2008 Global economic recession. From the start of 2008 to the end of 2010 the public debt ceiling was modified five times, from 10 trillion to more than 14 trillion dollars (Federal Claims Collection Act, 2011). If Subchapter 3101 is purely an administrative figure that can be changed at any time it further decreases the value of the US legal framework regarding macroeconomic imbalances.

The fact that the USA was in serious damage of defaulting its foreign obligations has become a matter of increasing concern regarding both investors and other interested parties.

Ostro (2014) has emphasized that there is a strong need for long-term legislation, as the current situation where the public debt ceiling is part of day-to-day politics may present a danger to the credibility of the USA and decrease the investors’ trust. As the current solution was unsustainable and realistically lead to the possibility that the USA might default its foreign obligations, a new solution was proposed. The President and the Secretary of the Treasury could, when necessary, increase the public debt ceiling (Budget Control Act, 2011). This ad hoc solution indicates a strange precedent in which the key legislative body of the USA is delegating its legislative authority to other key actors. A possible explanation is the complex dynamic between the Republican and Democratic Party, as well as there being no consensus within the general public on how to balance the federal budget (Blendon and Benson, 2012:21). These and multiple other elements are the primary causes of why this highly significant question will probably have to be dealt with by the next administration.

Conclusions

The public debt of the US cannot be compared to the cases of less developed countries or in countries where there are extreme cases of macroeconomic imbalances, such as the case of the “PIIGS” countries in Europe. It is important to note that lack of regulation sometimes enables certain sectors of the US economy to advance their agenda so that they aim for the short-term economic growth while ignoring possibly dangerous long-term consequences on the entire economy. An example that perhaps best reflects this behaviour is the 2008 Global Economic Crisis where lack of regulation of the banking sector and manipulation of the actual value and sustainability of mortgage bonds paved the path to a global crisis (Whalen, 2008). Crotty (2009) noted that the direct cause of the 2008 Crisis was the deregulation process started in the 1970s.

The current high level of the US public debt is far from damaging as it is to the European economies for several reasons. Perhaps most importantly, investors know that the US public debt, even at a level where it has surpassed 100% of its GDP, is sustainable and as it can be seen from
our empirical analysis there is currently no short-term or long-term causality going from the public debt towards economic growth which indicates rejection of Reinhart and Rogoff’s (2013) claim of bivariate causality. It is also not accompanied by the high unemployment, especially youth unemployment rates present in parts of Europe that prevent the recovery of economic growth (FRED, 2016). Agreeing on and implementing a more comprehensive legal framework would be a significant step in ensuring that the high levels of public debt do not cause long-term structural imbalances in the US economy and are not left insufficiently regulated such as the banking sector at the start of the 20th century, which expands on Ostro’s (2014) call for a more comprehensive long-term legal framework.

REFERENCES


Theoretical and Practical Aspects of Managing the Motivational Potential in an Enterprise

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Abstract

In this article the author considers the reasons for lay-offs of the employees and trainees, analyses theoretical aspects of the motivational potential of enterprise employees, identifies the relationship between labour and motivational potential, and presents the principles for managing the motivational potential.

Keywords: Motivational potential, retail, personnel turnover, incentives, work activity

1. Introduction

Retail trade occupies one of the leading positions in the share of employed population and helps people to solve one of the most important tasks: improving the standard of living through meeting the people’s needs for quality goods at affordable prices. In the past three years, there has been a marked decline in economic performance among companies working with imported products; besides, the negative impact of external economic conditions is exacerbated by a trend towards lower labour productivity. One of the reasons for this situation is the low return from the workforce in companies due to high level of staff turnover in retail enterprises and shortage of qualified personnel trained in sales techniques.

Modern retail network is open for changes system that interacts with the business environment as efficiently as possible. The rate of system’s responsiveness directly affects the competitiveness of the organization and the pace of further development. Effect of retail network’s reaction depends on the employees’ competence level, their ability to make competent and balanced managerial decisions, that is, on “labour potential”. In current continuously changing business environment, the labour potential can be defined as a set of certain physical, psychic and spiritual qualities of an employee that determines the opportunities for the employee to participate in the work activity, achieve high results and improve his/her personal qualities in the work process. Let’s consider the differences between the motivational potential and the labour potential of the organization (Nagibina, 2016).

2. Theoretical aspects of the research

The author suggests the following concept of the organization's motivational potential (Fig. 1).
Main task of HR-service at the enterprise is to analyse the level of motivational and labour potential of personnel to identify and unleash the abilities of each employee in full and timely.

Personnel assessment system in the company will help any modern organization, not only retail chain, build a system that motivates the increase of labour potential. Personnel assessment and motivation system was tested in Roskoshnoye Zreniye (Luxurious Vision) eye care chain operating
in “premium” niche. The results of regular assessment of the labour and motivational potential of the employees made it possible to identify “weak” spots in the motivation system in the company as a whole and increase operating performance (Kibanov et al., 2014).

3. Analysis of problem status in the enterprise

Before entering in more detailed analysis of the labour and motivational potential, we focus on the personnel structure of a retail chain. This structure has following characteristics:

- 82% of total number of employees are under the age of 32 years;
- Significant proportion of sales personnel are employees with no completed higher professional education – 29%;
- Long duration of initial training (up to 3 months) in specifics related to medical optics for new employees;
- More than 31% of sales personnel with experience of 3 years and up;
- High personnel turnover, comparable to that of cellular retail – 59%. It is worth noting that in 2016 the percentage was overestimated deliberately to select the most promising in terms of sales staff (high average receipt, high percentage of personal target sales quota). 91% layoffs are voluntary terminations. To further analyse the motivation of employees, we will consider the main reasons for the dismissal of employees and trainees in 2016: (all diagrams reflect the results of survey among the enterprise employees).

![Fig. 2. Reasons for termination of trainees in retail chain, 2016 [source: the author]](image1)

![Fig. 3. Reasons for termination of employees in retail chain, 2016 [source: the author]](image2)
Analysis of the reasons for terminations of trainees (employees with work experience of up to 3 months, who are yet in trial period), the main problems are related to low wage. For the period of training with a salary-bonus system of remuneration (bonus depends on personal sales volume), the trainee’s salary of the trainee is quite low. After successful completion of training, the trainee can independently make complex orders, write medical prescriptions, and his/her salary becomes 2-3 times higher. Also, quite important for experienced employees is location of the future workplace.

Despite of the current situation in the labour market of the Samara region shows decline in workforce turnover, the retail labour market is always dynamic. This is due to possible quick employment without any professional requirements to employee’s skills and large number of vacancies.

Such a high personnel turnover in retail sector is directly related to the need for continuous replacement of employees terminated for whatever reasons, and expenses for additional efforts to retain and train the staff.

![Most efficient and positive examples of employee incentives](source: the author)

**Fig. 4.** Efficient and positive examples of employee incentives [source: the author]

![What increases the work activity of employees?](source: the author)

**Fig. 5.** Work activity of employees [source: the author]
In order to increase the work activity of employees, we propose the following scheme (Fig. 8). Main task of HR-service at the enterprise is to analyse the level of motivational and labour potential of the personnel to identify and unleash the abilities of each employee in full and timely.

**Fig. 6.** Better performance of the unit [source: the author]

**Fig. 7.** Efficient incentives [source: the author]

**Fig. 8.** Principles for managing the motivational potential [source: the author; Gagarinskaia et al., (2014, 2016)]
4. Conclusions

We propose a concept: the motivational potential of the retail chain organization consists of the motivational potentials of individuals (employees) and identification of their needs by using key performance indicators to achieve high performance of the organization.

Thus, the tools for managing labour motivation developed in the article make it possible to implement in the retail enterprises a scientifically grounded practical approach that ensures an increase in its competitiveness in the retail sales market. Possibilities of further development of the topic of the article may include studying the trends in the field of employment in retail sector; creation of the concepts of labour motivation management in retail sales, the issues related to developing the staff policies, strategies and technologies of personnel management aimed at improving the work performance, as well as the study of factors.

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Motivation as a Source of Human Resource Risk in Hospitality Enterprises. Theoretical Approach

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Abstract

The aim of the article is to present opportunities and threats resulting from motivating personnel for the operation of hotel enterprises.

During the scientific process, the following research hypothesis was adopted in the study: enhancing the process of human capital management in terms of motivation enables reducing the human resource risk level in hotel enterprises, that is contributes to minimizing its negative effects (e.g. excessive employee turnover) and, simultaneously, generates more positive effects such as an increase of loyalty and commitment of the employed personnel.

In order to verify the theses formulated in the study, the following research methods were applied: a critical analysis of literature, an analysis of source documents (i.e. statistical studies, research agencies’ reports), observation, interviews, survey research, and techniques of visual presentation of findings.

Keywords: Motivation, human resource risk, hospitality enterprises

Introduction

A hotel enterprise consists of a team of people, as well as tangible and financial assets that form a separate entity with its own economic, technical, spatial and legal nature, and is engaged in professional business activities of offering accommodation (rooms) against payment and providing services related to it. [1]. The increasing turbulence of the market environment makes it necessary for hotel businesses to be different from other parties involved in the market game and to consolidate their own unique position in public awareness. That is not provided by the financial or tangible resources, at the disposal of hotel businesses, because they are easy to imitate by competitors. The only organization subsystem, characterized by the uniqueness in both individual and team dimension is created by people. Giving the company their knowledge, skills, abilities, their own value systems, the people contribute to the creation of a specific culture and organizational climate, which determines the diversity of the whole system, which is the hotel business [2].

The work process in a hotel enterprise is of a different nature than the one found in production enterprises. This dissimilarity is mainly a result of the specific nature of hotel services as they cannot be made-to-stock, stored or delivered to clients’ places of living [3]. The simultaneity of production and consumption of services is a factor that influences the employment structure and work organization in hotel enterprises. This characteristic means that work in the hotel industry is continuous, multi-shift and includes the whole week, with Sundays and holidays [4]. Thus, it is
hard to standardize the work time and limit it to 8 hours a day. Hotels must operate 24 hours a day and, additionally, the tourism movement is intensified during the tourism season, what increases the workload of operational staff. Despite the technological development, machines cannot replace humans in the process of providing hotel services. The essence of hotel work is still a direct contact of a staff member with a tourist and this entails the necessity of employing relatively large personnel.

Initiative, cooperation and commitment of the whole staff are needed for the survival and development of a hotel business in an increasingly more competitive environment. The way how the personnel treat their duties depends on motivational activities undertaken by a hotel enterprise.

The motivation process is connected with risk which may involve undermining the market position of a hotel enterprise caused by inappropriate employees’ attitudes and behaviors and result in the provision of a product of a quality that does not meet customers’ expectations.

Human resource risk is a type of micro-organizational and micro-social risk, that is risk connected with an organization’s social system. It can be defined as involvement under conditions of uncertainty in activities concerning personnel [5]. Depending on speed and accuracy of the undertaken motivational activities it can pose a threat (loss for) to or be an opportunity for business activity.

The aim of the article is to present opportunities and threats resulting from motivating personnel for the operation of hotel enterprises.

During the scientific process, the following research hypothesis was adopted in the study: enhancing the process of human capital management in terms of motivation enables reducing the human resource risk level in hotel enterprises, that is contributes to minimizing its negative effects (e.g. excessive employee turnover) and, simultaneously, generates more positive effects such as an increase of loyalty and commitment of the employed personnel.

In order to verify the theses formulated in the study, the following research methods were applied: a critical analysis of literature, an analysis of source documents (i.e. statistical studies, research agencies’ reports), observation, interviews, survey research, and techniques of visual presentation of findings.

**Motivational Activities in Hotel Enterprises in Poland**

Motivation is a set of factors that cause, direct and sustain people’s behaviors [6]. Motivating employees to work involves a range of individually personalized motivational instruments.

Compensation is considered to be one of the most important and often dominating motivator.

Employee compensation is one of the most neglected motivational functions in hotel businesses.

Salaries in the hotel industry in Poland are lower than the average ones in this economy. Median salary in the hotel industry in 2016 was PLN 2900 gross in comparison to PLN 3783 gross in the national economy [7]. In addition to the fact that salaries in the hotel industry are relatively low, one may find dysfunctional activities occurring in terms of compensation in hotel businesses. These are connected with not informing employees about the compensation methods. Other problems related to a pay policy are:

- delayed salary payment,
- disproportionately high compensation of relatives and their acquaintances in relation to workload;
- no payment for overtime.
Apart from direct compensation, the effectiveness of a motivation system is determined by offered perks and benefit packages. They may include such elements as a corporate mobile phone, laptop, private health insurance, additional life insurance, coupons for free lunch in a hotel restaurant, holiday vouchers, coupons for free stay at one of hotels of the chain. Nonfinancial motivating tools also include: intangible rewards (letters of commendation, diplomas, commemorative medals and cups), in-kind rewards (albums, books with dedications) etc. These instruments are most often less expensive than financial incentives and, under some conditions, they are more effective. Creating opportunities for employees to develop their qualifications is also part of efficient motivation. As a result, it is essential to develop a comprehensive training programme that is tailored to the expectations of workers and the goals of a hotel business.

Training can be defined as a process of expanding knowledge by employees and improving their skills and abilities necessary to accurately perform tasks in their current job and of creating the possibility to further develop their skills, knowledge and competence with a view to future promotion, relocation or organizational change [8].

From the point of view of shaping the market position of a given hospitality facility, having an appropriate training policy that produces well educated and trained personnel is essential.

Both grassroots and management personnel should be involved in the development process. The newly employed staff should be trained first as it is rare for a new employee to possess all the qualifications and skills necessary for the job. This is particularly true in the hotel industry, where virtually every facility is unique. Apart from the basic introductory job training, the continual so-called personnel reeducation is necessary. Systematic improvement of competence through continual training courses for employees in order for them to gain new skills and qualifications is standard practice in the international labor market.

There are many benefits to training employees of hospitality facilities, such as [9]:

- it shows the employees that they are important for the enterprise,
- it motivates the employees to deepen their knowledge and use their new skills,
- it increases commitment and devotion in the employees,
- it improves communication with employees, especially if there are joint workshops for the staff and the managers in order to develop methods of solving specific problems.

In practice, it is possible to distinguish between different types of training cultures:

- beginning with low training culture – where the board considers training to be a cost, not an investment, there is a lack of connection between the non-systematic and fragmentary training and the company’s strategy,
- through moderate training culture, where the importance of training is higher,
- to strong training culture, characterized by a connection between the training and the strategy of the organization and permanent education of employees with the use of innovative forms of training, regarded as a method gaining competitive advantage.

Unfortunately, despite rising awareness of the importance of training for the development of an organization, low and moderate training cultures are prevalent in Polish hotel enterprises. The lack of sufficient financial resources is a significant factor limiting training. High costs are an obstacle to carrying out continual training for over fifty percent of entrepreneurs.

The basic aim of a motivation system is to stimulate people to fulfil their company missions and reach the company goals, while taking account of the needs and expectations of employees [10].

Wrong decisions in terms of motivation may lead to a high employment fluctuation rate.
Nature and Consequences of Staff Turnover in Hotel Businesses in Poland

A high staff turnover rate remains one of the fundamental problems of the hotel industry in Poland. It is partly caused by a high increase in numbers of hotel businesses and demand for experienced employees. However, the main reason behind this phenomenon is not competitive enough remuneration and motivational rules applied by hotel companies.

In 2016, an analysis of staff turnover in the hotel industry was conducted. The survey was aimed at hotel management staff in Poland. Managers from 350 hotels, across all sixteen voivodships in Poland, participated in this research. The largest group of survey respondents (85%) consisted of managers from three-star hotels. The next group size-wise (12%) managed four-star hotels. Other respondents represented one-, two- and five-star hotels. The rate at which employees resign from work varies depending on the position held (Fig. 1).

According to 36% respondents, a high turnover rate (over 50%) can be most often found at the Front Desk. Other hotel departments with high staff fluctuation rates are Kitchen and Restaurant (32% and 14% of responses, respectively). It is also quite common in hotels that housekeeping employees resign (8% of responses). A rather high retention rate is observed on the managerial positions, as only 1% of the researched businesses indicated a high turnover rate in that workforce group. None of the surveyed hotels registered voluntary turnover among the administration employees.

We may look at staff fluctuation as an involuntary phenomenon, which results from legal regulations or employer’s will (e.g. contract expiration, reduction in force, retirement), or a voluntary one. There are much more reasons behind voluntary resignation and they mainly depend on an individual approach of an employee or may be a sign of mistakes in the motivation process (Fig. 2).
The research showed that the main reason behind resignation from work for 50% respondents is unsatisfactory compensation. Among other factors indicated by respondents were personal reasons, economic migration or lack of development possibilities.

Apart from low salaries, the research findings point to the limited promotion and career development opportunities as well as lack of respect and support from a superior as significant reasons for employees leaving a company. All of these factors demotivate and contribute to high staff fluctuation in hotel businesses.

A high staff fluctuation rate brings a range of negative consequences for a hotel business and its workforce [11], namely:

- additional responsibilities for remaining hotel personnel,
- costs of a new recruitment and selection process,
- loss of employee’s knowledge and experience for the benefit of competition,
- negative image of a hotel as an employer,
- lower quality of service,
- loss of regular customers.

If an employee resigns from work, it reflects negatively on the hotel remaining personnel who have to deal with additional responsibilities while simultaneously carry out tasks planned earlier.

Some workers see this as an opportunity to stand out, but others cannot cope with the new situation and are unhappy. It is often the case that these employees are required, irrespective to their regular responsibilities, to help with training new staff. If this only happens occasionally, the necessity of taking up additional workload does not become a problem. However, if a staff turnover rate is too high and results in an almost permanent workforce deficiency than the morale of staff may go down and they might be less engaged in their work.

The staff fluctuation phenomenon involves the need to hire new employees and this in turn means additional costs for a business. Their largest component is most often expenses related to the recruitment process, which are fees and charges for placing job advertisements in the press or work agency fee. Another element is work time cost of managers involved in the recruitment and selection process for the replacement of a departing employee. It may turn out that several job interviews have to be conducted or the Assessment Centre method have to be used in order to fill some positions. There are also costs of induction to a position and proper training of a new employee, as well as administrative costs related to introducing a new person in the organization.
(preparing a job contract, setting up personal files, etc.). While the abovementioned procedures are being executed, the position remains vacant. For a company, it means that productivity will be lower for a few weeks. Furthermore, workers need to be paid for overtime. That is why it is difficult to estimate a total cost of this process. The scale may vary a lot and depends on the position.

Besides generating direct costs, employment fluctuation causes loss of other resources, especially if an employee undergoes intensive training in a hotel and resigns from the position before the employer gets return on this investment. The situation is even worse when this employee resigns in order to be hired by the competition. In such a case, a hotel not only loses such resources as knowledge and experience, which an employee usually obtains at the hotel’s expense, but it must also consider that they will be used by another employer to gain a competitive advantage.

A high staff turnover rate is also disadvantageous for a company because of the competition on the labour market. If a hotel cannot retain employees, it will quickly gain a reputation of a bad employer. As a result, job-seeking professionals will not consider a particular hotel as a viable option in their career plan.

It should be noted that employment fluctuation may be also negatively perceived by customers.

This aspect may be very important for positions which require from employees to know individual clients’ needs and preferences as it has a key impact on the reputation of an organization.

If staff are dismissed or changed too often in a hotel company (e.g. front desk staff, waiters, kitchen staff, masseurs), in the best-case scenario, it will result in lower customer loyalty but, in the worst case, it will lead to a general opinion that the service levels are significantly lower, which in turn means a negative company image on the market.

**Model of Motivating that Reduces the Level of Human Resource Risk**

Usually, only some general human behavior patterns are taken into consideration when building a motivation system in a hotel company, while it is necessary to analyses many different conditions related to the characteristics of a person to whom various motivators are applied.

The multitude of factors that differentiate personal goals of each employee in a company requires that a company develops such a motivation system that enables all employees to fulfil their individual personal needs and simultaneously ensures that an organization reaches its own goals.

Figure 3. shows the synthetic model of motivating that reduces the level of human resource risk.
As Figure 3 shows, effective motivational activities in a hotel enterprise require commitment and cooperation of the top management representatives, line managers (immediate superiors) and human resource department employees. The role of the top management involves setting out a vision that concerns the functioning and directions of development of an enterprise as well as formulating its strategy. It is an important task as a company’s strategy and goals resulting from it directly translate into particular tasks appointed to employees. The essence of tasks stipulated in the presented model of motivating also requires special activities from line managers and human resource department employees. Immediate superiors’ participation in the motivation process includes many activities - from the delegation of tasks among employees, through the selection of motivators, to the identification of causes of dysfunctions in terms of motivating. The role of HR department employees involves undertaking activities strongly influencing the effectiveness of motivating employees (such as recognizing personnel’s expectations and assessing the level of satisfaction from the work done). The original model of motivating shown figure 3 should contribute to increasing opportunities that result from human capital management in an enterprise and, simultaneously, affect reducing risks connected with it; therefore, it can contribute to the human resource risk reduction. Figure 4 shows in detail relations between motivational activities and human resource risk.

Fig. 3. The synthetic model of motivating that reduces the level of human resource risk

*Source: own work*
In the model of motivating presented in Fig 4, an employee having specific needs is a subject and employees’ attitudes and professional activities desired by a hotel enterprise are an object.

There are two types of goals, formulated by an enterprise and an employee [12]. The model’s fundamental assumption is the compatibility of goals of the motivated person and the motivating person. Due to the complexity of the issue of human resource risk and motivating employees, the devised theoretical model, which generalizes the research reality, requires that each hotel enterprise individually adapt detailed assumptions to the specificity of a given entity, especially the selection of appropriate motivational incentives.

It is important that they are accurately selected, tailored to the type of employee’s tasks and value system and that cohesion of motivational activities is ensured, or even that they enhance each other. Employee motivation and engagement in achieving company goals is most efficient when employee and organization goals are identified [13].

Process of employee motivation in the hotel industry should consists of two stages. In the first one, the so-called hygiene factors should be provided, that is job security, appropriate pay and interpersonal relations. However, according to F. Herzberg’s theory [14], these will only eliminate dissatisfaction. In order to achieve genuine employee commitment, internal factors should be used which lead to job satisfaction through improving job content, expressing recognition, creating prospects for professional development.
In order to increase the efficiency of a motivation system in a hotel company, it is necessary to regularly verify motivational activities connected with identifying irregularities. Therefore, hotel companies should:
- devise individual procedures for assessment of the efficiency of a motivation process,
- identify dysfunctionalities of a motivation process using the results of periodic employee evaluation,
- conduct a regular analysis of employees’ expectations and aspirations.

It is obvious that employees’ expectations are changing, while the principles of a motivation system are formal and are of a static nature. Therefore, the assessment of a motivation system should be conducted on a regular basis and its principles and enforcement should be adjusted by correlating them with the changing expectations of employees.

One should remember that there are differences between employees in terms of their qualifications and engagement within each company. That is why the repercussions of their resignation from work may vary. Some people can be easily and cheaply replaced, while others are difficult to replace, especially if the same level of efficiency is to be achieved. For that reason, each group of employees should be treated differently. Motivational activities should be focused on employees that possess extensive professional knowledge and whose resignation may cause most problems for an organization and generate high costs.

An innovative character of the research I conducted in this article mainly results from an attempt to transfer current knowledge of risk to the human resource field at the mesoeconomic level (in the hotel industry) and the micro-economic level (in a hotel enterprise), taking account of in particular types of risk generated as a result of motivational activities.

In terms of the presented approach, the issues of human resource risk in the hotel industry discussed in this article have not been subject to a scientific discussion in Polish and foreign literature. This monograph supplements a theoretical gap in terms of analysing relations between motivating and human resource risk at the micro-economic level. The study also fills out an empirical gap stemming from the poor recognition of human resource risk in service enterprises, especially from the hotel industry. The author’s original method of human resource risk reduction through motivational activities proposed in this article can contribute to economy as a scientific discipline and serve as the basis for further research broadening knowledge of the character of human capital components and human resource risk in service companies.

REFERENCES


Protection of Personal Data in Turkish Law

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Abstract

The rapid development of information and communication technologies has caused personal data to be shared and spread more easily. Consequently, protection of personal data has become an important need. Personal data is defined as; any data about a real person whose identity is identified or can be identified. Within this context, not only the basic personal identification information such as the person’s name, surname, date and place of birth, but any other personal data that can be directly or indirectly make such person identifiable, such as phone number, motor vehicle plate number, social security number, passport number, personal background, photo, video or audio records, fingerprints, genetics data, IP address, e-mail address, equipment identities, hobbies, preferences, contact persons, group memberships, family information etc. are included within the scope of personal data.

The right of the protection of personal data is included among the basic personal rights and freedoms. It is vital for the protection of the person’s privacy and for the empowerment of democracy and the principle of the state of law. The basic reason for the protection of private life, including personal data, through constitutional guarantee is to allow for the free development of personality and to provide the person with a free environment where the person can be alone with himself/herself and his/her acquaintances without being disturbed by the state or by other people.

Many legal arrangements have been made particularly on the international arena for the protection of personal data, which is one of the rights of personality. Among these, the Convention No. 108 for the Protection of Individuals with regard to Automatic Processing of Personal Data is the most significant one. This paper aims to analyze the Turkish law and legislation with regard to the protection of personal data. The current situation will be assessed with regard to conformance to international legislations.

Keywords: Information technologies, Protection of personal data, Turkish Law

1. Introduction

As information and communication technologies began to be part of our daily lives as they widespread, “information” began to gain value when compared with previous periods. Increased usage of “Information” in all kinds of economic and social activities of the community, made it necessary for this information to be transmitted in a fast and reliable way with reasonable costs and this change being lived through in economic and social ground began to be expressed with the concept of “information community” (Murray, 1998, p.112). Increase in the alternatives regarding the transmission, storage, alteration, classification, and searching of said information has brought up the question as how to protect the personal data defining and specifying an individual without giving any harm to the fundamental rights and freedoms.
Protection of personal data aims to protect the individual rights and freedoms during the processing of these data. In this frame, right to protect personal data aims not only to protect the data itself as being independent of the rights and freedoms of the individual but it also aims to protect the freedoms of the individual. Therefore, protection of individual data serves to protect the fundamental rights and freedoms of individual against unlimited collection, recording, usage, and transfer of personal data by the public bodies. The adjustments made for this purpose, define the principles of having access to these personal data, using these data and processing them in general meaning and they provide various rights to the individual in cases where they are used by violating these principles (Kong, 2010, p. 443).

Threats developing against personal data which can be defined as all kinds of information suitable for specifying the identities of individuals, has made it necessary to develop a defense mechanism against the surveillance technologies and it was seen that it was required to have law for the protection of personal data. Adjustments aiming to inspect the person being related with personal data, has first come out in 1970s in Europe as the computers developed fast and central data banks were established and in time they spread around the world (Kaya, 2011, p. 331).

Even though our country, being a state of law that is democratic and respectful to human rights as being stated in 2nd article of Constitution dated 1982, is a member of organizations like United Nations, European Council and OECD, it could not transfer the principles accepted by international institutions in this area to its national law for a long time as there was no private law protecting personal data. By adding a sub clause to the 20th article of Constitution in 2010 for the regulation of private life which stated: “Everyone has the right to request the protection of his personal data.

This right also comprises notification of the person about his personal data, having access to these data, requesting them to be corrected or erased, and learning whether they are used in line with their purpose or not. Personal data can only be processed in situations where permitted by law or as per the explicit consent of the person. Basis and procedures as regards to the protection of personal data are regulated by law.”, protection of personal data of individuals was openly secured by the constitution. This regulation was criticized in that the conditions under which the protection of personal data could be restricted was not specified in the doctrine and that an independent organ to inspect the processing of personal data was not stipulated (Cengiz, 2016, p. 85).

“Contract for protecting the individuals against personal data’s being made subject to automatic processing” with no.108 which was prepared within the body of European Council as being opened for signature on the 28th of January, 1981 and being put in effect on the 1st of October, 1985, was not approved for a long time although it was signed by our country on the 28th of January, 1981 and finally as it was approved according to the law regarding ‘Contract for protecting the individuals against personal data’s being made subject to automatic processing” with no. 6669, and it was put in effect on the 18th of February, 2016.

In the regulations of many states in Europe, laws regarding the protection of personal data are present for more than forty years (Kong, 2010, p. 442). Almost all of the modern states have introduced fundamental laws regarding this subject. It can be stated that for certain reasons there is an increasing pressure on the states not having made any adjustments regarding this subject, for the protection of personal data by the fundamental laws in national regulation. The first reason for this tendency is that importance was given for the protection of fundamental rights and freedoms in countries where there used to be authoritarian regimes before, in order to avoid experiencing similar cases. Another reason is the desire to eliminate the obstacles in front of commerce that develops through technology and mainly electronic trading. Third reason is realization of required
amendments in the regulations of countries which would like to have trade with European countries as per the reason that the transfer of personal data to countries not providing sufficient protection of personal data has been prohibited according to European Union Directive with no 95/46/EC (Korkmaz, 2016, p. 221).

Although there are scattered provisions regarding the protection of personal data in our regulation, lack of a private law defining fundamental principles as being integrating, was seen as an important deficiency for a long time. All of the reasons stated above are present for having a fundamental law to protect the personal data in our country. Firstly, the outcomes of unjust interference to the individual rights and freedoms like unlawful tagging and security investigations at various periods in our country, reveal the damages that could occur in cases where personal data are not protected sufficiently. In case the required and sufficient measures are not taken, the probability for these kinds of unjust applications to occur in democratic managements always exists besides the authoritarian regimes. Having a private law in Turkey as regards to the protection of personal data is a requirement first of all as it is a fundamental human right. Furthermore, it is required to protect personal data in order to avoid our country to remain behind in economic activities like electronic trading that advances. Besides, as it is prohibited to make the transfer of personal data to countries which do not provide sufficient protection as per 25th and 26th articles of European Directive with no 95/46/EC, in order to enable effective trading to be realized with these countries and to avoid experiencing various problems due to the specified provisions, it is important to make an adjustment in our country in this direction. Furthermore, an adjustment to be made in this subject is also required as regards to the candidacy process of Turkey in European Union. The first committee to prepare a private law for protecting personal data in our country was established in 1989 but they could not complete their studies (Johnson, 2007, p. 46).

Law draft prepared for the protection of personal data was sent to Presidency of the Grand National Assembly of Turkey on the date of 18.01.2016 by the Presidency. Committee of Justice has presented their report about the proposal on the date of 12.02.2016. The law for the Protection of Personal Data with no.6698 was finally accepted at the Grand National Assembly of Turkey of the 24th of March, 2016 and it became a law.

2. The Concept of Personal Data the Purpose of Law

The concept of personal data has been defined on the 3rd article of the law. Accordingly, all kinds of information relating to a real person whose identity is specified or could be specified, is being considered as personal data. A person’s being specific or being specifiable has been defined in the justification as making that person definable by associating the existing data with the real person somehow. This definition complies with the definition of personal data made both in the European Council Agreement with no. 108 and in the European Union Directive with no. 95/46 (Cengiz, 2016, p. 88).

In the first article of the Law for the Protection of Personal Data with no.6698 with the heading of “Purpose”, the purpose aimed to be attained by the law has been defined. Accordingly, the purpose of Law for the Protection of Personal Data is: “To protect the fundamental rights and obligations of real and legal entities and mainly the confidentiality of private life while processing personal data and to regulate the liabilities of real and legal entities processing personal data and the rules and procedures which they shall comply with.”

In the justification of article, it was stated that with the article the purpose of Law was defined and that this purpose was to discipline the processing of personal data and to protect the
fundamental rights and obligations stipulated in the Constitution, mainly being related with the confidentiality of private life. In the justification it was also stated that with the law it was aimed to protect the right of privacy of people which gained importance recently and to regulate the liabilities of real and legal entities and the rules and procedures they must comply with. As the article text is reviewed, we can see that the purpose of law has been adjusted within the frame of 20th article of the Constitution. The article is in parallel with the 1th article of European Union Directive with no 95/46 (Korkmaz, 2016, p. 48).

2.1. Processing of Personal Data

Processing of personal data has been defined in the 3rd article of Law as: “All kinds of processes realized on the data like obtaining personal data through partially or completely automatic paths or through non automated paths on condition that they are part of a data recording system, their being recorded, stored, maintained, amended, readjusted, disclosed, transferred, taken over, being made attainable, being classified, or being avoided.”. Therefore, all kinds of transactions realized on data starting from the point where personal data is attained for the first time, have been evaluated as processing of personal data. Apart from these, combining personal data, correlating them with other data, their being erased, and other processes realized for this purpose as covering a wide range of area, are also considered within the definition of processing of personal data (Kaya, 2011, p. 329).

In the 4th article of Law for the processing of personal data, the principles have been adopted. These are compliance with law and rules of honesty, being correct and updated as required, being processed for specific, clear, and legitimate purposes, being related, limited and restrained as per the purpose for which they are processed, and being stored for a period required for the purpose of their being processed and as being stipulated by the related legislation.

Processing of personal data has been linked with certain conditions. First of all, general rule for the transaction of processing is to obtain explicit consent of the related person. Or else, the processing of personal data has been prohibited. The concept of explicit consent has been defined in the law as consent that is based on being informed about a specific subject and which is expressed as per free will. In the articles 2/h and 7/a of the Directive with no.95/46, the consent of relevant person has been considered among the cases which legitimates the processing of data (Kılınç, 2012, p. 1093).

As regards to the processing of data, there are certain cases when having the consent of data owner is not required. These cases are (Tekin,2014, p. 249):

- Having an explicit provision in law relating with the processing of data,
- Inability of relevant person to express his consent or its being required to protect the life and body integrity of relevant person, for whose consent no legal validity is attached, or some other person,
- The requirement for the processing of personal data of the parties on condition that they are directly related with the formation or realization of a contract,
- It’s being required for the data responsible to execute his duties
- In cases where the data have been made overt by the relevant person,
- It’s being obligatory for a right to be established, used, or maintained,
- It’s being required for the data to be processed as regards to the legitimate interests of data responsible on condition that no damage is given to the fundamental rights and freedoms of relevant person.

In the 6th article of the Law, data of people relating with their race, ethical origin, political view, philosophic beliefs, religion, sectarian, or other beliefs, dressing, membership in unions,
foundations, or associations, health, sexual life, penal sentence, and security measures as well as their biometric and genetic data have been considered as personal data having private quality. In the 3rd sub clause of the article, personal data relating with health and sexual lives have been regulated privately in a different way than the others. Accordingly, all of the personal data other than those relating with health and sexual lives, could be processed in cases specified by the law without getting the explicit consent of the relevant person. But processing of these two types of data having private quality, could be possible if they are realized by people or authorized institutions having confidentiality obligation with the purpose to protect public health, preventive medicine, medical diagnosis, execution of treatment and care services, planning and management of health services and financing. Law requires for the measures being specified by the Council of Protecting the Personal Data to be taken in order for personal data with private quality to be processed (Ayözger, 2016, p. 188).

2.2. Transfer of Data
Transfer of data has been divided as domestic and foreign transfer as per the law. Transfer of personal data to other people within the country is subject to the rules stipulated for the processing of data. In this respect, for the realization of transfer process, first of all the consent of relevant person should be obtained. For realizing transfer to foreign countries, in addition to these conditions mentioned, it was stated that it is required for sufficient protection to be provided in the related foreign country (Küzeci, 2010, p. 76). Countries where there is sufficient protection will be determined and announced by the Council. In case the country to where data transfer will be realized does not provide sufficient level of protection, it is required for the data responsibly in both countries to undertake this protection as written and permit should be obtained from the council. As regards to the transfer of data to foreign countries, similar adjustments exist in the directive with no. 95/46. In the Directive, a system has been adopted which prohibits the transfer of data to third countries where there is not sufficient level of protection (Ayözger, 2016, p.188).

2.3. The Tasks of Data Responsible
Data responsible has been defined in the 3rd article of Law as: “Real or legal entity specifying purposes and tools for the processing of personal data as being responsible for the establishment and management of data recording system.” This person is responsible from all kinds of processes realized as relating with the data. It is required for data responsible to enlighten the data owner about his identity and the identity of his representative, if any, about the purpose of processing data, about the people to whom the data will be transferred and the purpose of transfer, the method of collecting data, and its legal reason (Kılınç, 2012, p. 1096).

Acting in contradictory to the obligation to enlighten, to provide data security, and to realize the decisions taken by the council, as including the liability to unregister and to make notification, has been adopted as being a crime according to the law.

As within the scope of obligation to enlighten, data owner has the right to learn whether any processing has been done on his data or not, to obtain information about the purpose and method in case such processing is done, to be notified about third parties to whom his personal data has been transferred within or outside the country, to ask for the correction of any possible deficiencies or mistakes as relating with processing of personal data, to make objection to analysis outcomes of processed data being obtained through automatic systems, to request for the data to be erased or destroyed, and to ask to be indemnified due to the losses incurred as a result of unlawful acts (Tekin, 2014, p. 256).
Institution for the Protection of Personal Data, being responsible from the implementation of law, has been established. The decision-making body of the institution being composed of council and presidency, is the Council of Protection of Personal Data. The tasks of the instruction are to follow up the applications and legal developments in national and international ground, to make research and investigation regarding this subject, to cooperate with the relevant institutions and associations, and to make proposals as regards to the subject matters required (Kaya, 2011, s. 329).

3. Conclusions

All kinds of information belonging to a person which makes a person defined or definable are considered as personal data. Protection of these data is a fundamental human right. Obtaining and processing of personal data in an uncontrolled way, is threatening many fundamental rights and freedoms, and mainly the confidentiality of private life. In our country with the addition of provision with no. 20/2 to the Constitution in year 2010, the required legal basis for the protection of personal data has been established. Thus, individuals began to be protected at Constitutional level. But it has taken a long time to complete this regulation, being important as regards to the data protection law, with a special law of implementation as relating with the subject. Turkey has remained as the only country which has signed the Contract of European Council with no.108 but which could not approve it since a private law being specified as obligatory in the contract could not be introduced. This situation has given rise to a problem as European countries did not transfer personal data to countries where there was not sufficient protection. As a result of the studies carried out, the Law for the Protection of Personal Data was accepted on the 24th of March, 2016.

As the law is investigated, it is seen that adjustments being parallel with Contract with no.108 and the Directive with no.95/46, have been made. Accordingly, it was adopted as the fundamental principle to process personal data according to the conditions specified in the law, to enlighten the data owners, to establish an authority for inspecting and regulating this area, and to take the necessary measures as relating with data security.

Furthermore, with the Law that was prepared by considering current and future requirements, it was aimed to catch up with the contemporary standards and to provide protection in this direction.

In order to minimize the problems that could arise as relating with this subject, it is especially important to inform the individuals and relevant institutions about data security and to improve their consciousness.

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Transition from Brokerage Companies to Investment Companies on the Croatian Capital Market

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Abstract

The purpose of this paper is to describe the position of mediators in the Croatian stock market as well as to point out the need of repositioning due to essential changes caused by the EU acceptance and new development possibilities. Different social, political and economic changes and developments in Croatia reflected on the capital market, its institutions, players, dynamics, size and strengths. Through the Zagreb Stock Exchange, and the Varaždin Equity Market which gradually turned in to the Varaždin Stock Exchange, and later became a part of the Zagreb Stock Exchange, all positive and negative field lines are reflected as well as their results. The paper starts with describing the position and function of the capital market as an integral part of the overall financial market. Many players saw the developed capital market as a chance for a rapid progress of the Croatian economy, as well as catching up to more developed democratic economies. The following part describes the role of mediators and brokerage companies as significant factors in the Equity market. The third part is focused on the condition of the Croatian capital market development, with a special review of an essential change in the legislation, following the Croatian acceptance in the EU, by which brokerage companies transitioned into investment companies, substantially changing the role of mediators in the equity market. The brokerage company repositioning strategy from the role of “wholesale” agents into investment companies is described in the fourth part. The paper is completed by showcasing the business methods of conventional investment companies which exist on the still undeveloped Croatian market, without significant influence on the overall Croatian economic progress.

Keywords: capital market, brokerage companies, Investment Company, transition, Croatia

Introduction

The process of transformation and privatization of the ownership of the Croatian economy started in 1991 and considered the capital change in economic thought but also all other social processes in the young country.

The introduction of capital markets as an important part of the financial markets means the introduction of alternative sources of economic development financing, rapid and efficient allocation of capital and the possibility of attracting significant amount of foreign capital. The creation of the capital markets prompted formation of companies for securities trading. Brokers are supposed to increase the market dynamics and accelerate market processes so that a market could fulfill the intended functions. The role of brokerage companies, i.e. companies, almost exclusively,
amounted to the mediation in securities trading with a very narrow range of other activities for which they were registered. The new legal amendments from 2009 have significantly changed the role of brokerage companies, which were given new opportunities on the one hand, but they were imposed new organizational, staffing and capital requirements on the other. Due to the mentioned, brokerage companies have grown in investment companies.

With all the options that are consequently provided for brokerage companies, they are still inadequately influencing the development of the market, i.e. using provided possibilities. It is quite clear that it is impossible to survive by pursuing classic brokerage or so-called “discount” brokers whose primary function is to mediate in securities exchange. There has been a restructuring of brokerage companies with few powerful brokerage companies persisting in the market, who managed to reposition, and are currently operating as investment companies under the new Law on Capital Market.

The first part of the paper tries to define a difference between capital markets and money markets, both making an integral part of the financial market. Second part of the paper aims to clarify the role of brokerage companies as participants in the capital markets and their functioning in terms of the investment company. The third part shows the Croatian capital market in the various stages of its development over the past 20-years, and the impact of the legal aspects. Consequently, fourth part presents the strategy of brokerage companies repositioning that were until recently “discount” brokers and should now act as an investment companies with the purpose to act in harmony with enterprises using all possibilities for development provided by the capital market.

Fifth part presents the investment companies which have to fulfill are required staff, organizational and capital conditions adapted from the market.

**Capital Market as a Part of the Financial Market**

Financial market can be defined as the place of supply and demand of funding. Turnover is carried out by using certain financial instruments. Financial instruments are, in the broadest sense, contracts which contain rights and obligations arising out of a financial relationship. Therefore, the financial market can be defined as a place of turnover of financial instruments.

Capital market is important for analyzing of the role of investment companies, which are an important part of the financial market and enable the connection of financial and real investment.

In this regard we highlight the importance of capital market functions, as part of the financial market, that allows alignment of different interests of various market participants so that the value of shares becomes a fundamental motive of business of public limited companies. Capital market by its size and diversity plays an increasingly important role in present-day global economic development because it enables to the countries, natural persons, citizens, financial institutions and all interested parties’ numerous positive effects. [1] Capital market can be defined as a set of relationship between long-term demand and supply of funds. [2] It is the most important from the point of view of long-term funds acquiring necessary for business and expansion of joint stock companies and other companies. Companies require funds for various purposes. Furthermore, working capital is needed for daily business operations and long-term financing requires formation of fixed funds, financing of expansion and development of new processes or products. [3] A company can create long-term funds in the following ways:

- Internally, through the internal cash flows, or
- Externally, through banking system or public capital markets, according to the size and nature of a company [4].

62
In developed market economies, with developed financial systems, when a company is listed in the stock exchange corresponding development will be faster compared to non-listed companies due to the fact that funds will be more available. Decision on going public presumes publication of company information which imposes additional costs of data collection or audit [5]. Institutions operating in the Croatian capital market, regulatory, service and other institutions must prepare necessary infrastructure for efficient work and supervision of capital market. Capital market institutions in Croatia are as follows:

- Central Depository and Clearing Company (hereinafter SKDD);
- Croatian Financial Services Supervisory Agency (Hanfa);
- The Agency for Market Competition Protection;
- The Directorate for Supervision of Insurance Companies;
- Croatian National Bank (hereinafter HNB);
- Stock exchange. [6]

Increase of economy efficiency, portfolio diversification and financial development possibility many attributes to the development of capital markets.

The development of capital markets can be seen from the point of view of market regulation, but also as preferences of companies raising funds in the capital market. The development of the market can be revealed in the types of securities traded. It is well known that the European stock markets are more conservative than the stock markets in the US when using certain types of derivatives etc.

In Table 1 it can be seen that according to the valuation criteria Zagreb Stock Exchanges can be compared with regional stock exchanges. Therefore, it can be concluded that the growth potential of the domestic capital market is limited. Also, inflow of fresh capital is conditioned by valuations which are not in underestimated, but in “fair” levels compared to the region. To sum up, some additional concrete conditions should be created, compared to the region which could influence attracting the fresh capital to the domestic market. [7] To put it short, the economy has to grow in order to use positive market influence in attracting additional capital for faster and more efficient investments.

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<td>1,95</td>
<td>4,81</td>
</tr>
</tbody>
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Despite the good legal framework, functional training and considerable progress in market development and efficiency, for the majority of transition countries it could be assessed as shallow, narrow, non-transparent and insufficiently developed. Dominant form of financial intermediation in these countries is done by banks which makes those countries more bank oriented to the rest of the Europe.

According to current legislation, companies operating with securities that are primarily intermediaries in the capital market are called investment companies. Investment companies are legal persons whose regular business is the provision of one or more investment services to third parties that perform one or more investment activities on a professional basis.
Brokers and brokerage companies is the colloquial name for the companies operating with securities. Such a name for a company operating with securities was used under the application of the Securities Act. Until then, brokerage companies have performed only the simplest tasks on the capital market and operated as so-called discount brokers. Companies trading with securities receive additional possibilities for operating in the capital markets according to the Capital Market Act (CMA) [8], which was applied from 1st January 2009, and were expected to become generators of positive developments in the capital market.

By adopting the CMA and the full harmonization of Croatian legal framework to that of the EU, brokerage companies have now become investment companies with more opportunities to develop new services that have so far been generally reserved only for banks, or were not present et al.

Securities trade company or now investment company in Croatia is registered to perform the purchase or sales of securities by order of a client, investment consultancy, trading in speculative purposes, the operations of special stock exchange trade, portfolio management, agent for the IPO process, underwriting and transference agent services.

More recently, brokerage houses offer some services and activities that are traditionally provided by banks. Investment companies’ activities maintain liquidity in the financial market and encourage events necessary for the functioning of the market.

Brokerage houses in time, enabled by legislative changes, gained a lot more space and become investment companies. They should be included more in the investment processes. Investment companies should encourage investment processes to be financed through the capital markets and encourage new issues of shares. There is a wide range of activities and services in the capital market that could improve business processes in companies and in which investment companies could find its role. [9]

Investment companies should take initiative and show to the business entities advantages that could be provided to them through the capital market, especially in financing investment projects.

In the US, until 1975 brokerage companies were achieving fixed provision which didn’t make it possible to create competition among brokers. Until that, the Congress enabled for the brokers to charge fees to their clients. That decision brought to the development of two different types of brokerage houses:

- Offering full service and
- Discount brokerage houses.

Discount brokers are simpler and trade according to client’s demands. If an investor wants to buy securities, he or she calls a discount broker and files a request. He or she does not offer any advices or services of market research. The main reason why discount brokers remained in the Croatian capital market and why most of the investment companies also operated are relatively good turnovers and yields on the Zagreb Stock Exchange by 2008. Some try that even today when the market turnovers have reduced to only 10 percent of turnover from 2007, but it is evident that in the future this will not be possible. The main sources of revenues for those brokerage houses were:

- fee per client order, i.e. the percentage of mediation in trade;
- property investments, i.e. the acquisition of shares in a brokerage company and
- portfolio management, where it is possible to charge a management fee, or a percentage of the profits that the client receives on the basis of growth of the portfolio value over time.

Classic expenditures of discount brokers are:

- staff costs,
- material costs and
services of market infrastructure (Stock Exchange, SDKK, Hanfa).

It is clear that this is only a basic simplest activity that a brokerage company can perform in the market.

Unfortunately, such a bad situation continues until today. From 2008 until today many brokerage companies were closed, more than 30, who have not managed to reposition themselves as a successful investment company. For commercial banks, brokerage activities were abolished only if a shutdown of the entire banking system happened (Center Bank, Credo Bank).

Re-positioning of brokerage companies to become viable investment companies depends on the environment (the degree of market development, entrepreneurial climate and the economic cycle phase, and power and possibilities of competition, both between investment companies and the other participants of the capital market: banks, leasing companies, funds, etc.).

According to the Companies Act, investment company is a legal person whose regular business is the provision of one or more investment services to third parties, i.e. performing one or more investment activities on a professional basis. Investment services and activities are:

- reception and transfer of orders in relation to one or more financial instruments,
- execution of orders on behalf of clients,
- trading for own account,
- portfolio management,
- investment consulting,
- services of underwriting, i.e. financial instruments sales on a company commitment basis,
- services of underwriting, i.e. financial instruments sales without a company commitment basis,
- management of multilateral trading platform. [10]

Support services referred to in Article 5, paragraph 2 are: storage and administration of financial instruments for the account of clients, including custodianship and related services such as cash management, or collateral, granting credits or loans to an investor to enable him to conclude a transaction with one or more financial instruments; if the transaction includes the company granting the credit or loan, consulting on capital structure, business strategy and related issues, as well as consulting and services related to mergers and acquisition of shares in companies, foreign exchange services if are related to the provision of investment services, investment research and financial analysis, as well as other recommendations relating to transactions in financial instruments. [11]

Investment companies should, on the narrow and shallow capital markets such as Croatian, provide a wide array of services that could be registered. Specialization is simply not possible, nor the survival of so called “discount” brokers. Investment companies send to their clients weekly and monthly reports on the state of the market and a variety of information, information and recommendations which encourage them to invest in securities or in various corporate actions in the capital market.

The fall in clients’ fees and investment income on own equity caused by the fall in turnover on the Zagreb Stock Exchange was offset by some new revenues so that companies could operate positively. Interests on loans granted have become especially significant and which, according to the old legislation could not be granted, then the sales of financial instruments and charged interests on financial instruments, investment research and financial analysis.

Investment companies are usually established within the commercial banks as independent units for securities trading. In this case the investment company easier cover operating costs due to the fact that banks have created the infrastructure to support the operations of such organizational unit (accounting, compliance, IT, internal audit). Investment company that now operate as separate
companies (Ltd. or joint stock companies) have a much heavier task when it comes to positive financial operations of the company as they have significant organizational, personnel and capital requirements to be met on the very shallow and underdeveloped capital market in Croatia.

In the process of EU accession and in compliance with the acceptance of *acquis communautaire*, as *conditio sine qua non* of successful process of accession, for the further progress of negotiation process it was especially important settlement of financial capital market in Croatia which practically implied adoption of European legal norms, directive for capital market settlement – Markets in Financial Instruments Directive [12], 2004/39/EC (hereinafter MiFID) and other relevant legal regulations; and finally adoption of new legal regulation that would integrally and in detail regulate capital market in Croatia. The goal of MiFID is to adjust the level of protection of investor and enable cross-border services in whole European Union by ensuring greater price transparency at the same time.

On 1st January 2009, Croatia adopted a new regulation, the CMA, which fully replaced former Law on Securities Market and put in order, in a very different way, business practice of entities authorized to conduct transactions with financial instruments, conditions for organized financial instruments trading, the issuance of securities through public offering process, investor protection and holders of the securities protection, dematerialized securities and the organization and powers of the central Depository and Clearing Company (former central Depository agency), the stock market etc. CMA regulates the following areas:

- provision of investment services, investment activities and related ancillary services,
- establishment, operation, supervision and termination of investment companies,
- fund for the protection of investors,
- establishment, operation, supervision and termination of market operators,
- rules of trading on regulated market and multilateral trading platform (MTP)
- offer of securities to the public and regulated market listing,
- information about issuers of securities listed on the regulated market,
- prohibition of market abuse,
- operation and control of the operator clearing and/or settlement,
- storage of financial instruments as well as clearing and settlement.

The organizational implications of applying CMA reflected in:

- establishment of the compliance function with the law “Compliance”,
- establishment of the internal audit function,
- organization of the department of risk management,
- establishment of a strict control of the process of decision-making, information flow,
- protection of business secrets,
- integration of “up to date” protection of computer systems,
- implementation of the “disaster recovery” plans etc.

CMA significantly enhances price transparency requirements before and after the transaction, especially for companies that frequently and systematically trade on its own account.

CMA sets new and stricter organizational requirements regarding conduct of business in regulated companies, particularly in the area of:

- internal audit,
- risk management,
- outsourcing, systems and control, and
The challenge of CMA is in the coordination of information technology department and front, middle and back office of financial markets which would help to harmonize business with regulations.

According to the above mentioned genesis of creation, objectives of implementation, ways and terms of adjustment of the EU Member States, as well as those in the process, it can be stated that new legislative framework was formed that completely sets new rules of the game trying to protect investors and seeking to provide them with the best services at the best price with a maximum protection by the trading venue, to the supervisory agencies that are catalysts of application of the directives. All this puts in front of the entities, to which the directive relates, considerable expenditures regarding material and personnel and therefore necessarily financial expenditures, which in its extensiveness undoubtedly threaten the existence of small, weak financial companies, which will not be able to fulfill all the requirements of the regulator. The mentioned ultimately leads to the consolidation of the market of these financial services.

This means higher costs for investment and other financial companies, and possibilities that are opened for strong investment companies in conducting trade will also impose strong competition with the stock exchanges. The introduction of MiFID through the CMA inevitably leads to reduction in the number of investment companies but companies that can successfully adapt will be given greater operating space.

List of investment services, financial instruments and trading venues which will be regulated is expanding, duties of the competent control authorities are being explained and specific operating and implementing business requirements for companies that provide services trade are being prescribed.

The need for new regulations resulted from the increased number of financial and investment services for clients and the increasing sophistication of financial instruments. Companies that provide these services under the same conditions as the others will have greater access to cross-border clients within the European Union, which may result in an increased volume of transactions in the investment company large enough for the establishment of competitive price transactions and the corresponding promotion of its services. With more transparent financial market investors will have a far greater choice.

Many investment companies might find in this an opportunity for greater use of shared services within the group in order to reduce costs and make best use of existing information technology, infrastructure, back-office and at the same time remain cost-competitive. The benefit of the increased volume of transactions will also direct the investment companies to increased cross-border mergers as they will try to increase the customer base faster than their competitors.

The practice of developed markets showed that investment companies are an extremely important link between financial markets and the real sector, necessary for development and well-functioning. They are important only from that point of view and they can stay on the market only in that way.

The investment potential of the Croatian capital market in addition to individual investors make banks, insurance companies, pension funds, domestic mutual funds and other institutional investors. Croatian market is still not interesting to foreign investors. Given the current investment potential of domestic institutional investors, surprisingly the turnover on the Zagreb Stock Exchange is still very weak if we consider the last 10 years and that fact that primary securities market in Croatia is still extremely underdeveloped.
The initiative of the European Commission for the development of a single EU capital market, the so-called Union Capital Markets (UTK), could significantly affect the future of the Croatian capital market. The priorities of the European Commission are presented in the documents on the UTK, on which the country is currently conducting a public debate:

- revision of the Prospectus Directive,
- expanding the base of investors in small and medium-sized enterprises (SME),
- revival of securitization,
- promotion of funds establishment for long-term investments, so-called. ELTIF,
- strengthening of the market for private placement securities.

In accordance with the Companies Act, in Croatia, investment services and investment activities and related ancillary services are provided and performed by investment companies, credit institutions and companies for managing open investment funds with a public offering and that of the investment services may only provide investment consultancy and portfolio management.

There is a notable difference in market position and business operations between investment companies and credit institutions engaged in investment and brokerage business in small organizational units. Credit institutions in the form of domestic commercial banks use its strong position in the financial market and regulate organizational infrastructure, which enables them to achieve greater profits. Namely, the financial results of some credit institutions dealing with investment and brokerage business in the capital market are presented within financial statements of the credit institutions. Investment units of credit institutions use previously organized services of credit institutions for their business and investment companies must build the entire organizational structure. All this requires additional costs which is the main reason why in the last five years the number of investment companies, active in the capital market, rapidly reduced.

Investment companies, capital and organizationally smaller companies are given the opportunity to develop by the fact that credit institutions are larger companies, more lethargic and reluctant to change, especially if they are part of a larger system, and will therefore introduce innovations more slowly and, more importantly, lower the costs of services.

The near future will be difficult for the entire financial industry and will be marked as a period of strong steps forward in technological and organizational terms, but also in the efforts of taking significant market share on the domestic market by a few major companies.

Ambitious investment companies understood the situation and adopted new business rules very quickly and concluded that they have to survive and reposition for two basic reasons:

- negative market tendencies that led to general distrust of investor to the capital markets, on both the domestic and the global market, and because of
- the request to adapt the new legislation in terms of organizational, technological, human and capital requirements.

In order to achieve strategic advantages in the new conditions the goals had to be clearly defined, both in the sphere of risk and profitability.

Strategic advantage, from the point when investment companies started to operate, was possible to achieve in two basic ways:

- low operating costs that enable to the investment companies to become competitive in defining prices of services,
- synergy with the group of stable partners, significant institutional investors with high-quality sales network on the territory of Croatia [13].
With the fall of the market, since 2008, number of investment companies in Croatia started to decrease, so that investment companies that have managed to survive have increased customers and increased market share at the Zagreb Stock Exchange.

Some investment companies have not been able to adapt to the requirements of complex regulation, nor could position themselves as investment companies and were forced to closure or mergers with larger companies to reduce costs. This will affect the further increase in the already high concentration on the level of industry brokerage services and all above mention is likely to contribute to the growth opportunities that the market will provide. The new environment in which the industry will operate in the future will certainly be very exciting and very challenging [14].

This investment company claimed a new, very demanding role in the capital market and successfully operated, should meet the appropriate organizational and capital requirements.

The new environment in which the industry will operate in the future will certainly be very exciting and very challenging.

For an investment company to take new, very demanding role in the capital market and to successfully operate in the market it should meet the appropriate organizational and capital requirements.

In accordance with the provisions of the CMA, an investment company should set up such internal organizational structure which ensures the lawful and proper performance of tasks for which it is licensed by Hanfa.

The largest novelties in the terms of organization occurred with the establishment of new organizational units as follows:
- Department for compliance with the law – (compliance function);
- internal audit (internal audit);
- Risk Management Board (risk management).

Responsibility of the investment company is to establish an adequate, efficient and effective system of financial management and control and that includes the responsibility for the establishment and development of the risk management process. [15] Investment companies are exposed to operational risk, credit risk, market risk and liquidity risk. In the new circumstances, investment companies cannot survive as discount brokers and inevitably have to continuously develop new products and services. The basic premise of this development and tracking trends in the capital market is to use the internet as much as possible. [16] Investment companies should encourage issuance of new series of securities and stimulate the cooperation with their institutional clients. Unfortunately issues of equity securities in Croatia are rare, but also when they occur, such jobs are normally carried out by credit institutions, i.e. commercial banks licensed to operate as investment companies. Investment companies have better chances in issuing the corporate debt securities. [17]

Obtaining sources of financing is particularly important. Unlike loans as a source of financing, the market can offer a lot more flexible and more acceptable forms of financing. From that point of view domestic investment companies have a lot free space for action and it is very likely that such jobs will eventually create a significant portion of the revenues of the investment companies in Croatia. Success in business and a good business plan can be achieved by promotion and other marketing activities, primarily by market segmentation and by determining target groups. [18] For investment companies on the Croatian capital market is illogical to omit any market segment from the entire spectrum of services.

Well-organized and dynamic capital market plays an extremely important role in global economic development. It enables efficient transfer of funds that could be invested by the entities
with financial surplus to those with financial deficiencies. Companies acquire cheaper funds for business and development in the mentioned way and depositors are given the possibility of long-term investments in accordance to their risk preferences. Despite fully functional market infrastructure and settled legislation, the impact of the Croatian capital market on economic growth is weak.

By adjusting the legislation to the *acquis communautaire*, investment companies as intermediaries in the capital markets receive some new opportunities and inevitably change their role, which creates a need for their market repositioning. The transition from being the passive discount broker to becoming an investment company that seeks and creates jobs in the capital market and accelerates market processes is only possible by strengthening the organizational and capital base and with a more active market approach. According to market movements, which are the most visible indicators of the Zagreb Stock Exchange, it is clear that there is no satisfactory dynamics, which means that we still do not have sufficiently strong and active investment company.

The Croatian financial system is extremely “bank oriented”. Banks are universal and thus the ratio of commercial and investment banking services directly affect the intensity of the development of the capital market. Banks used the opportunity and focused the companies towards financial products that are most profitable for them.

Croatia has not taken any effective actions so far, nor used instruments and measures at its disposal to increase the importance of the capital market. Firstly, it is necessary to speed up privatization, where strategic companies are not in questions, so that Zagreb Stock Exchange would become a channel for carrying out such processes. Also, we lack a healthy atmosphere and favorable investment climate to become more attractive destination for foreign investors. The organizational separation of investment from commercial banking would significantly help the rapid development of the Croatian capital market. For the stronger market development are lacking:

- independent institutional investors, grown without the impact of strong banks, and
- a strong, well-positioned investment companies with capital, that would encourage events, but also engagement in the capital market.

Venture capital funds are especially missing that would seek investment opportunities, and more active role of pension funds to invest in equity securities.

Investment company need to be aware of the enormous potential of the Croatian capital market, which is easily possible to run in a time of low interests and taxable yields, and they are expected to actively link financial resources on the one hand and development needs of the economy on the other.

Certainly, the Croatian capital market has a bright future due to market potentials that are now unused and because of the initiative of the European Commission for developing the mutual capital market of the EU (UTK).

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13. Agram brokeri d.d. Zagreb have decreased brokerage commission to 0.3% and achieved a synergy with Agram concern. The concern is extremely strong and has widely distributed sales network in Croatia and Bosnia and Herzegovina, as well as important investment potential.
Housing Construction and Mortgage Lending in the Slovak Republic

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Abstract

The subject of research of the presented article is the issue of housing, housing construction and it’s financing in the Slovak Republic. Housing is one of the key factors in combating social exclusion and unemployment. In the introduction we start with the theoretical background of housing. Based on the work of Slovak and foreign authors, we provide an overview of the state of the housing construction in the Slovak Republic and outline the reasons for its development in view of the changes in housing policy in the Slovak Republic after 1990. By analysing the development of selected indicators, we approximate the impacts of housing financing through mortgage loans.

The findings showed that lowering interest rates on mortgage loans, increased indebtedness of households, housing prices and the risk of financial crisis.

Keywords: Housing, housing policy, household indebtedness, loans, mortgage lending

Introduction

Socio-economic importance of housing after filling its basic function is to create conditions for the development of human potential, creative abilities and social activities of man. Housing is implemented in a residential environment that has a social component (social groups and relations between them), material (apartments and special equipment infrastructure) and the nature. From a sociological point of view live also means to live in a particular community, have a sense of belonging, confidence and safety. Housing can be seen as an evolving social process that has its own laws. It is a vast and varied set of basic and higher personal and social, spiritual and changing needs. The housing needs are constantly evolving and differentiated global development of the housing and interrelated, because the process of satisfying the needs of housing is conditioned by socio-economic development, on which feeds back and applies to all people and the whole area.

Each country has to address the problems related to the housing uses its own housing policy, extending from the social and historical conditions. Historical attitudes toward addressing a housing issues in the past many times have changed, had also an influence to the development of social theory, which was not easy because the development in each country was affected by social change, world wars and economic crises.
Literature review

Housing is a fundamental right, directly affecting the lives of citizens and restricting their opportunities for social inclusion as well as their choice in the field of study, education and professional development.

The issue of housing is the subject of the research of several authors and everyone perceives it in the context of their own realities. Stanek considers housing as one of the key factors in combating social exclusion and unemployment, thanks to him, our towns, cities, rural areas and regions more comfortable to live and work [18]. Housing promotes consistency between the communities and the work environment enables the achievement of sustainable development objectives. By Labaj is a residential set of human activities in the home and residential environments [14]. Right it cannot be construed as legal right to provide dwellings. The legal context is necessary to protect the dwelling as a private sector, protection against illegal eviction and protection against discrimination of any kind. The right to housing is ineligible and unenforceable, its implementation is an expression of accountability of governments for the welfare of the population. For Fahrenberg, Myrtek, Schumacher and Brähler housing is one of the areas, whereby it is possible to evaluate satisfaction with past and present conditions of life and the future life prospects [6]. Housing was one of the first nationwide research indicators of quality of life in the 70s in the USA [2]. Marans and Rodgers build a model that is given to the relationship between the factors that affect quality of life [16]. Just level to meet the needs of individuals to live according one of the most important and is one of the key indicators affecting the development of the region [15]. Housing and its right quality are becoming a major component, the living conditions for the development of human potential, human resources. Ira base on the quality and level of housing assess the quality of life [11].

According to Tremblay and Dillman housing affect people’s preferences [25]. People’s preferences for housing will vary depending on the population and the interest. It is therefore important that these preferences are considered if we are to meet the needs in providing housing [15], [8]. Preferences of people depend on their current locations they inhabit, type of housing, dwelling area and also by social class and living conditions. The result is that users of different types to meet different environments. The current housing needs can affect housing preferences [1], [4], [5], [14].

Listokin et al., defines housing as a permanent structure of human settlement [13]. It also refers to him as houses, buildings with flats or structures that consist of dwellings or places for human habitation. The term “house” includes many kinds of dwellings, from primitive huts of nomadic tribes to free standing places. It has a profound impact on the health, performance, social behaviour, satisfaction, productivity and general well-being of individuals and communities. It reflects the social, cultural and economic value of such it seems the best physical and historical evidence of civilization in the country and reliable measure or indicator of economic development [12].

Williams in turn refers to the tabernacle built as a home for one or more persons [25]. Omoniyi and Jiboye considered for housing a kind of permanent shelter for the man who gives identity Godwin defines it as “space”, which we can call our “self”, which gives us privacy and shelter protecting us from the weather and intrusion “undesirable persons” [8]. Housing is more than just shelter. It also includes all social services [20].
Housing policy in the Slovak Republic

Ensuring the long-term availability of housing for all social groups of the population is a key criterion for the success of housing policy, as at the present stage of the company’s development only some are able to pay the costs of the new construction from their own resources.

The construction of dwellings has significantly diminished with the change of the transfer of responsibility for housing from the state to the household in 1990. It was therefore a reason, as construction depends on many factors, particularly household savings, and since these were not enough to make the state conditional at least for the partial support of households in financing housing. By changing the housing policy, the structure of the housing stock has changed and at present 95% of the dwellings are owned by households and only 5% are owned by the state and other organizations. This has an impact on the development of the housing market, the banking market and efficiency. [11], [19]. Before we focus on financing housing, we focus on housing construction analysis.

Development of Housing Construction in the Slovak Republic

Changing the perception of housing policy was reflected in the initiating of housing construction as a number of apartments declined. In 1994, Slovakia began to build less, only 3,809 apartments.

In 1995 it completed only 6,157 bytes. Housing recovery crucially conditioned gradually adopted and legislated supporting economic instruments of the state, namely the introduction of support through building savings, loans granted to meet the needs live from the State Housing Development Fund. After 1998 and the start of reformist governments are due to efforts to stabilize the economy also reflected in the construction industry and even decline in the number of dwellings started and completed. Two years of stabilization measures, with quite good results, began to express the number of started flats in 2000. In 2001 it increased considerably the number of completed flats. Since then, despite a slight decrease, never drop below the 12,000 completed dwellings per year (this figure was only achieved once before in other cases was considerably lower). In 2003, the share of completed dwellings in municipal ownership reach 28.4%. In 2004, the share of completed dwellings in municipal ownership level to 12.1%, in 2005 to 13.7% and in 2006 to 14.8% of the total number of completed apartments. In 2006, in the Slovak Republic, began construction of 20,592 apartments (building permission issued), it has completed 14,444 dwellings (approval decisions issued) and under construction at year-end was 54,086 apartments (registration difference between commenced and completed dwellings). Of the total number of completed apartments was built in 7657 detached houses, representing 53.01%. Of the existing housing stock in 2006 shrunken 1,442 apartments, of which 1,187 dues to sanitation (82.32%). Compared to 2005, when it began the construction of 19,796 flats, the number of started dwellings increased by 796 flats, means by 4.02% and represents most of started flats in 16 years (since 1991). Compared to 2005, however, reduced the number of completed dwellings and the value of 14,863 bytes to 14,444 bytes, a decrease of 419 dwellings, e.g. about 2.82%. Despite this slight decrease in the number of completed apartments is the second highest value for the last 14 years (since 1993). Compared to 2005 the total number of completed dwellings decreased representation of dwellings in family houses by 5.57%, and this trend has continued since 2004, when the completed dwellings in family houses accounted for only 68.07% of the total number of completed apartments. In 2007 this figure rose to 19.1% in 2008 decreased to 15.3% and in 2009 to 12.2%. In 2010, the share was at the level of 14.8% and in 2011 at the level of 10.8%. In 2011, the share of completed public housing its
lowest level since 2003, and to 10.1%. In family houses accounted for the largest share of four-room flats (42.9%) and five- and more rooms (30.0%). Of the completed apartments in apartment buildings, the highest two-room (39.6%) and three-room (30.9%).

In 2013, the number of started flats was 14,758, which is compared to 2012 (13,090 flats) an increase of 1,668 apartments, representing 12.74%. Number of completed dwellings (15,100) in 2013 compared to 2012 (15,255 flats) lower 155 flats, which is a decrease by 1.02%. Likewise, in 2013 was a fall in the number of apartments under construction on 1,401 apartments compared to 2012 (62,783 flats). From 2012 to 2016 the number of dwellings started to increase significantly, the number of completed dwellings is rising very slowly.

During the first half of 2017, 9300 dwellings were started and 7,102 dwellings were completed. Compared to the first half of 2016, the number of dwellings started decreasing by 0.4%, the number of completed dwellings increased by 13.5%. In housing construction, the year-on-year growth of the number of dwellings started in the second quarter of 2017. The total number of dwellings started increased by 7.8% to 5113 dwellings compared to the second quarter of 2016 (by 7.4% in the private sector, by 32.9% in the public sector). The total number of completed dwellings decreased by 0.1% and reached 3155 dwellings (in the public sector it was lower by 65.2%, in the private sector it was higher by 1.4%) base on the information of the Statistical Office (SO) of the Slovak Republic. As of 30 June 2017, 74,188 flats were built. Compared to the same period of 2016, their number increased by 5293 dwellings (by 7.7%). Similarly, the construction of family houses increased, increasing by 2,321 dwellings (by 5.5%) to 44,708 dwellings. In the private sector, 72,659 dwellings were built (7.7% year-on-year) and 1529 dwellings in the public sector (7% growth). Most apartments were completed in Bratislava region (27.7%) and Trnava region (17.6%), at least in the Banská Bystrica region (4.1%). Compared to the second quarter of 2016, the number of completed dwellings in Žilina region (9.6%), Trnava region (by 8.2%) and the Bratislava region (5.7%) increased [28].

Financing Housing in the Slovak Republic Through Mortgage Loans

Mortgage lending is a worldwide tool used to finance housing. The need to improve the aging housing stock and the improving economic situation predict the positive development of the mortgage lending market in Slovakia as well [1].

At present, mortgage lending is the most widespread tool for housing development. The decisive moment of the beginning of mortgage banking in Slovakia was the adoption of the amendment to Act no. 21/1992 Coll. about banks in the form of Act No. 58/1990 Coll., Which entered into force in March 1996 [26].

An important year for the development of mortgage banking in Slovakia was 1999. This was mainly due to the introduction of direct and indirect state support [23]. Indirect state support from 1 April 1999, which exempts interest income from mortgage bonds from income tax. The first issued by mortgage bonds was only the Všeobecná úverová banka, a. s. In the course of 1999, the first two issues of mortgage bonds issued a total volume of 200 mil. Slovak koruna (6.67 mil. €).

Through emissions and subsequent sales of VUB, and. s., acquired resources to provide new mortgage loans. Gradually, mortgage loans were provided by other banks in Slovakia. A stronger competitive environment among credit institutions has improved on the one hand the offer of mortgage loans but also on the other hand the conditions for those interested in mortgage loans.

Banks shifted the required margin to clients, making mortgages more affordable for clients who would not, under standard terms, meet the criteria for mortgage credit approval. Thanks to this,
Slovakia has experienced a dramatic increase in the volume of mortgage loans since 2005. The entry of Slovakia into the euro area as of 1 January 2009 was associated with a reduction in the basic interest rate. In Slovak commercial banks, the transition to the common currency was reflected in the gradual reduction of the interest rate on housing loans. Even in spite of the economic crisis that hit the Slovak economy, there was a slight increase in the volume of loans in 2009. In Figure 1 we can see the development of interest rates on mortgage loans according to the fixation period. The highest interest rate in the reference period in 2009, 10.61% for loans with a fixation for more than 10 years, this decreases gradually and in 2017 was at the level of 51.5% [27].

Fig. 1. Interest rates on mortgage loans and their development in the Slovak Republic (v %)

For example, in 2011, interest rates on mortgage loans with a fixed rate of more than 10 years for an annual interest rate of 5.2%. For a 30-year mortgage loan of € 100,000, a monthly installment of € 549 was granted, and in 2017 an identical mortgage loan was granted at an annual rate of 1.2 percent, which reduced the monthly installment to € 331. At low interest rates on mortgage loans, the investment activity of households increases, while real estate investment is increasing.

Considering the strength of the domestic economy, the Slovaks are the most indebted ones in Central and Eastern Europe. The indebtedness of Slovak households is currently twice as high as before 2008. The share of household credit in gross domestic product (GDP) in Slovakia reached 40% of the annual output of the whole economy during 2017. Only in the last year household debt grew by CZK 3.54 billion. €. An increase in this indicator is also the highest in the euro area and within Central and Eastern European countries. In October 2016, household debt was 28.73 billion € and by October 2017 the debt increased to 32.27 billion. € [27]. The most significant risk stemming from the rapid rise in household indebtedness is the increase in their sensitivity to the possible deterioration in economic development. Figure 2 provides a prediction of interest rate developments modelled on the basis of the monthly interest rate fixations of up to one year for a period of 24 months, which confirms the downward trend, while maintaining the policy of the European Central Bank and the process of raising the interest rate.
The indebtedness of Slovak households is currently twice as high as before the previous crisis. Several empirical studies confirm that excessive debt growth increases the likelihood of financial crises. In terms of wages, however, these Slovak wages grow most slowly in the V4 region. Only three times faster wage growth was in the Republic of Hungary, where wages increased by 12.5% in the first half of 2017, in the Czech Republic increased by 6.5% and in Poland by 4.6%. In Slovakia wages increased by 4.1% and the main reason for the slowest growth is still the highest unemployment in the region, which results in an increase in the number of non-performing loans.

**Interaction of Economic Development and Housing Construction in the Slovak Republic**

Housing construction depends on many factors, from the price of foreign sources, from the amount of savings of households or businesses, the money supply of banks, asset prices, and willingness of households or individuals to obtain housing. In the last years in Slovakia we are experiencing a period of interest rate cuts on mortgage loans, which results in a high rise in real estate prices. This fact has raised a number of questions about whether fluctuations in real estate prices have an impact on the real economy, or whether the impact of rising real estate prices on consumer real estate prices has affected. From a theoretical point of view, the links between real estate prices and multi-faceted macroeconomics are [17], [18]. Chart 3 shows the development of average real estate prices in m²/EUR, average wages as well as the development of the growth rate of real estate prices in m²/EUR and the growth rate of average wages in the Slovak Republic. It is evident that average wages also increase with average real estate prices, which confirms that with the rise in money supply, demand for loans is rising, which subsequently influences the rise in real estate prices.
The change in the price of real estate changes the value of the stock of the housing stock, which we see is the demand for money assets [9]. The relationship between lending and real estate prices is reflected in the level of housing wealth, loan demand and real estate supply. The existence of a multidimensional relationship between savings, loans, real estate prices and GDP in the Slovak Republic, we have made correlations between the selected indicators. The results of the analysis are presented in the following text.

Based on the analysis of the development trends of selected indicators (started dwellings, average price in €, average wage in €, volume of housing loans (mil. €), volume of housing loans and volume of GDP (mil. €) and we created a pair of variables. In the next part we present the results of the correlation analysis between the studied indicators. In the survey conducted according to the degree of dependence we find a strong indirect dependence - 0.99 between the indicator number of m² purchased per year and the length of saving in years. A strong dependence of 0.90 can also be found between the indicators of the unfolded flats total and the average flat price of 68m², the unfolded flats total and the gross domestic product of 0.86. Dependency of 0.75 is between the total of the dwelling and the saving period (in years), the completed dwellings total and the average price of the dwelling 68m2, the unfolded dwellings total and completed dwellings altogether. Dependence is also on the indicators of the volume of loans for housing and unfurnished dwellings totalling 0.64 and the volume of loans for housing and gross domestic product 0.60. The assumption that the number of dwellings started and the gross domestic product depended on each other was not confirmed, as between the pointer and the gross domestic product indicator is a weak indirect correlation - 0.23.

By analysing the development of individual indicators, we find that their values have an increasing tendency, but this is not, in any case, very positive, because since 2004 the average price per m² of dwelling is growing faster than the average wage. This means that the rate of growth of
annual income for the purchase of own housing is slowing down and the saving time to acquire housing is prolonged since 2008. We also note a decline in interest rates on loans that are the lowest in history and growth in the volume of loans, with claims by Di Pasquale and Fallis that, at low interest rates, the household is trying to acquire housing, which has an impact on rising housing prices [3].

Very strong mutual collinearity (values between 0.8 and 0.99) between the average wage in the national economy and the volume of housing loans, 0.95, as well as the average wage in the national economy and the GDP growth of 0.98. At the same time there is a strong inter-collinearity between the development of GDP and the average price of the flat as well as the volume of provided loans for housing. This is related to the provision of support for people under the age of 36 with a monthly income lower than 3.5 times the subsistence minimum, contributions to mortgage loans, a state premium for building savings.

By examining the dependence of the indicators of the started flats and the average wage in the national economy, we find that since the growth of the average wage in the national economy, the number of started flats is not dependent. The development is asymmetrical, and the curve of the number of homes started reflects economic developments over the last decade, where the crisis is clearly evident in the development of the construction sector. By 2008, the correlation between the indicators examined was evident and since 2008 the correlation has been distorted.

Conclusions

The relationship to living reflects the relationship to life itself. Ensuring adequate and affordable housing is a key priority for all governments. Housing construction as part of a market-based economic system is designed to meet the need to live and to participate in it, households, businesses, government, and financial institutions. The assessment of the housing situation is carried out by evaluating the housing stock by means of several indicators we have analysed in the scientific paper.

By analysing housing construction in the Slovak Republic, we find that its intensity increased with good conditions in the mortgage credit market. Low interest rates support an increase in ownership, which currently accounts for 95%. It has a significant impact on labour mobility, increasing household indebtedness, since rental housing is basically non-existent. In conclusion, the availability of mortgage loans subsequently increases the demand for dwellings, and construction companies respond to this by raising real estate prices. If the situation continues to persist and property prices continue to rise, there is a risk of a real estate bubble.

Acknowledgement

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Media Sponsorship as a New Promotional Tool for Tour Operators in Poland *

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Abstract

Promotion understood as a combination of forms and methods of social communication in the area of satisfying needs through material and intellectual products of human ingenuity, entrepreneurship, activity and economy is a field that has been dynamically evolving together with the changing society. In order for a product offered on the market to be selected by a potential customer out of all the other available ones, market entities (including tour operators) have to use more and more modern forms of market communication.

Surely, such a form of communication is media sponsorship that is based on promoting own image, name, trademark or offer through participation in the production and broadcast costs of television or radio programs, as well as newspaper articles. Information about an enterprise, which finances a given media material, may come in a form of so called sponsorship billboard or television program trailer.

The paper seeks to clarify the theoretical issues on media sponsorship as a tool and to attempt to estimate the usage of such a tool by tour operators functioning in the Polish tourism market.

The research method used in this study is primarily desk research in the form of an analysis of literature on the subject and industry reports, whereas the empirical part is based on the secondary research conducted by the Institute of Media Monitoring (IMM). Furthermore, logical operations (mainly deduction and induction) and an observation method (especially in terms of practical aspects) were also applied.

Keywords: promotion, media sponsorship, tour operators

1. Introduction

Promotion understood as a combination of forms and methods of social communication in the area of satisfying needs through material and intellectual products of human ingenuity, entrepreneurship, activity and economy is a field that has been dynamically evolving together with the changing society. In order for a product offered on the market to be selected by a potential customer out of all the other available ones, market entities (including tour operators) have to use more and more modern forms of market communication.

Surely, such a form of communication is media sponsorship that is based on promoting own image, name, trademark or offer through participation in the production and broadcast costs of

* The project was funded by the National Science Centre conferred on the basis of the decision number DEC-2013/09/B/HS4/01286.
television or radio programs, as well as newspaper articles. Information about an enterprise, which finances a given media material, may come in a form of so called sponsorship billboard or television program trailer.

The paper seeks to clarify the theoretical issues on media sponsorship as a tool and to attempt to estimate the usage of such a tool by tour operators functioning in the Polish tourism market.

The research method used in this study is primarily desk research in the form of an analysis of literature on the subject and industry reports, whereas the empirical part is based on the secondary research conducted by the Institute of Media Monitoring (IMM). Furthermore, logical operations (mainly deduction and induction) and an observation method (especially in terms of practical aspects) were also applied.

2. Media Sponsorship as a New Promotional Tool for Tour Operators

Observation of the modern tour operator market reveals that tour operators have started using various types of media, i.e. the television, press and radio, to promote their offer. This situation is a result of high efficiency of such promotional channels in comparison to the use of traditional promotional activities, for example advertisement in the form of paper brochures that has reached a certain level of saturation and which efficiency is now limited.

One of the promotional instruments on the tour operator market that merits special attention, because of its marketing innovation, is sponsorship. The position of sponsorship is on the rise as it is not perceived as an intrusive or too obtrusive form of promotion and there are fewer limitations of its use [1]. Taken the above into consideration, the literature on the subject emphasizes the fact that spending the same amount of funds on sponsorship rather than on advertising may be more effective [2].

A British organization, UK Sports Council is thought to have coined one of the first definitions of sponsorship. According to it, sponsorship is donating a gift or payment in return for providing publicity for the donor. In this definition, the term ‘gift’ is not appropriate as usually a donor does not expect to receive any consideration from the done [3]; however, in respect to a market entity that wants to ‘exist’ in the consciousness of potential customers, there is such an expectation.

Therefore, a more adequate definition of sponsorship, which encompasses the objectives of tour operators in terms of promotion of their offer, is one created by T. Meenaghan, who states that sponsorship means providing support in a monetary or material form by a commercial organization in order to achieve commercial effects [1, 4]. On the other hand, A. Waszyński says that sponsorship is a mechanism for promoting an enterprise or a product offered by it that exploits the association with the sponsored activity. Thus, sponsorship is a type of agreement between business partners in which the sponsoring party receives connections and rights arising from the arrangement in exchange for support, what can result in gaining a competitive advantage [5].

Furthermore, such an activity should be perceived as if at the interface of a few fields, among which there are public relations that have incorporated sponsorship in the brand image building strategy, as well as corporate social responsibility for which sponsorship is one of the methods of supporting its environment [6].

Scientific literature on sponsorship is primarily focused on sports sponsorship while the second most popular type is culture sponsorship. Nevertheless, the vast majority of tour operators which plan to include sponsorship among their marketing activities as a promotional tool [7] select such a kind of sponsorship which enables them to sponsor smaller undertakings – i.e. television programs, namely media sponsorship. Surely, the expenditures are lower than in the case of
sponsoring of games, the Olympics or film festivals. According to an international definition included in the European Directive on Trans-frontier Television, media sponsorship means a participation of a natural or legal person, who is neither engaged in broadcasting nor in production of audio-visual works, in direct or indirect financing of a programme in order to promote its name, trademark or image [1, 8]. The role of media sponsorship is for a sponsor to consciously provide financial means, services or goods, including know-how, to the sponsored entity in order to gain benefits or achieve goals and this requires from the sponsored entity to provide services [5].

While ordering the aspects concerning promotion, the groups of audience of sponsorship as form of promotion should be listed, and these include [1]:

- company customers, buyers of company products (current and potential customers),
- suppliers,
- enterprise employees,
- public opinion,
- local authorities,
- professional organizations and key decision-makers,
- representatives of mass media,
- shareholders and stockholders,
- financial institutions.

In order to effectively use sponsorship to achieve a defined goal, a type of sponsorship appropriate for it must be selected. The diversity of forms and types of sponsorship depends on the criteria used to make such divisions [9]. There might be many of them, but in respect to tour operators, the most significant are:

- goal criterion (it may be divided into such goals as gaining publicity or creating a suitable enterprise and/or its product brands image),
- sponsored field criterion (e.g. sport, culture, socioeconomic area, science, ecology etc.),
- number of sponsors criterion (it may be divided into exclusive sponsorship or co-sponsorship),
- character of sponsorship criterion (e.g. financial, material, service, license),
- public disclosure of a sponsor’s name or surname criterion.

In the characterization of media sponsorship used by tour operators it should be emphasized that its goal is to achieve publicity, inform public opinion about the available tourism offer, increase the level of brand awareness and create an appropriate image by transferring the image of the television program onto the sponsor. Therefore, the main task of a particular tour operator’s personnel in the sponsorship selection is to choose an appropriate television channel (and a television program) which image corresponds to the desired image of a tour operator. The idea is for the image of both entities to have some shared values and not to be too distant from each other.

Obviously, it is naturally linked to the segment of people that the sponsor reaches. An example of good use of media sponsorship is when a tour operator that offers family holidays finances a television program that is part of breakfast television which is dedicated mainly to women who bring up children.

Summing up the issue of media sponsorship in promotion of tour operator offer, according to the marketing concept of tourism organizer operation, such sponsorship should be treated as one of promotional elements and its objectives should fit into the overall promotion objectives. A comparison of sponsorship and advertising reveals that the sponsorship goals are usually long-term similarly as in public relations activities. This stems from the fact that it is not possible to improve the level of brand visibility or the image of a tour operator in a short time. Therefore, by selecting
sponsorship as a form of promotion, it is important to realize that its promotional effects will be achieved in a longer perspective [1].

3. Tour Operators in Poland

According to the Act of Tourist Services, a tour operator (tourism organizer) is an enterprise that organizes a tourism event. It is required of tour operators and travel agents (whose business activity is to execute, on behalf of a client, legal and factual acts associated with concluding agreements on providing tourism services) to be included in the register of tour operators and travel agents, in order to conduct business activity [10].

According to the Central Register of Tour Operators and Agents (abbreviation in Polish: CEOTiPŚ), there were 2968 entities registered in Poland in 2013, among which tour operators comprise 66.7% (1980 entities). There is a similar number of tour operators in such countries as France or the United Kingdom (Tab. 1). The largest number of tour operators (5731) exist in Italy.

Comparing the number of tour operators to the population, reveals that Bulgarians and Swedes have the largest number of tour operators per person what means that each operator provides services to 7.1 and 7.4 thousand people, respectively (that is there are more than 13 tour operators per 100,000 thousand people). Statistically, a tour operator provides services to around 10 to 13 thousand people in such countries as Italy, Norway or the Netherlands. There are around 5 tour operators per 100,000 citizens in Poland, which means that one tour operator services more than 19,000 people on average.

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of people per tour operator</th>
<th>Number of tour operators per 100,000 people</th>
<th>Number of tour operators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria</td>
<td>7 182</td>
<td>13.9</td>
<td>1012</td>
</tr>
<tr>
<td>Sweden</td>
<td>7 418</td>
<td>13.5</td>
<td>1293</td>
</tr>
<tr>
<td>Italy</td>
<td>10 445</td>
<td>9.6</td>
<td>5731</td>
</tr>
<tr>
<td>Hungary</td>
<td>11 075</td>
<td>9.0</td>
<td>886</td>
</tr>
<tr>
<td>Norway</td>
<td>11 198</td>
<td>8.9</td>
<td>454</td>
</tr>
<tr>
<td>Slovakia</td>
<td>12 295</td>
<td>8.1</td>
<td>441</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>12 482</td>
<td>8.0</td>
<td>1346</td>
</tr>
<tr>
<td><strong>Poland</strong></td>
<td><strong>19 208</strong></td>
<td><strong>5.2</strong></td>
<td><strong>1980</strong></td>
</tr>
<tr>
<td>Greece</td>
<td>18 652</td>
<td>4.8</td>
<td>522</td>
</tr>
<tr>
<td>Denmark</td>
<td>22 462</td>
<td>4.5</td>
<td>251</td>
</tr>
<tr>
<td>France</td>
<td>33 378</td>
<td>3.0</td>
<td>1913</td>
</tr>
<tr>
<td>Germany</td>
<td>33 979</td>
<td>2.9</td>
<td>2374</td>
</tr>
<tr>
<td>UK</td>
<td>35 599</td>
<td>2.8</td>
<td>1822</td>
</tr>
<tr>
<td>Belgium</td>
<td>60 740</td>
<td>1.6</td>
<td>185</td>
</tr>
<tr>
<td>Austria</td>
<td>72 000</td>
<td>1.4</td>
<td>118</td>
</tr>
</tbody>
</table>

*Source: own work on the basis of: [11, 12]*
In June 2016, the number of entities registered in CEOTiPŚ was 4058, which means an increase of around 25% in comparison to 2013. Simultaneously, the number of entities per 100,000 people rose from 7.7 to 10.5, and the number of people serviced by them decreased from 12,970 to 9,482 (Tab. 2). The largest number of tour operators and agents are located in the areas characterized by high population, what ensures demand for their services. Voivodeships with population higher than 3 million people (Mazowieckie, Śląskie, Małopolskie, Wielkopolskie) are also areas with the largest number of tour operators and travel agents (897, 525, 531, 309, respectively). Together with the Dolnośląskie Voivodeship, where population exceeds 2.9 million and the number of entities is 339, they constitute more than 63% of all registered entities. The biggest number of entities per 100,000 people can be found in the Mazowieckie Voivodeship (ca. 17), the Małopolskie Voivodeship (ca. 17), the Pomorskie Voivodeship (ca. 13) and the Śląskie and Dolnośląskie Voivodeships (ca. 11). The lowest number of tour operators and travel agents operate in the Lubuskie (61), the Opolskie (77), the Świętokrzyskie (74) and the Podlaskie (85) Voivodeships.

However, the Kujawsko-Pomorskie Voivodeship has the lowest number of entities per 100,000 people (5.5). Despite a relatively high increase in the number of registered entities between 2013 and 2016, there were no major changes in regional distribution, although the number of entities per 100,000 people almost tripled in the Lubuskie Voivodeship.

Tab. 2. Entities registered in CEOTiPŚ by voivodeships (2013, 2016)

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of entities</th>
<th>Percentage</th>
<th>Number of entities per 100 000 people</th>
<th>Number of people per tour operator</th>
</tr>
</thead>
<tbody>
<tr>
<td>POLAND</td>
<td></td>
<td></td>
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<td></td>
</tr>
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<td>2968</td>
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<td>7.7</td>
<td>12 970</td>
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<tr>
<td>2016</td>
<td>4058</td>
<td>100</td>
<td>10.7</td>
<td>9 482</td>
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<td></td>
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<td></td>
</tr>
<tr>
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<td>8.4</td>
<td>11 830</td>
</tr>
<tr>
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<td>339</td>
<td>8.3</td>
<td>11.7</td>
<td>8 580</td>
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<td>3.8</td>
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<td>115</td>
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<td></td>
</tr>
<tr>
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<tr>
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<td>134</td>
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<td>16 028</td>
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<tr>
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<td>531</td>
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<td>Number of people per tour operator</td>
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<td>12.8</td>
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<td>13,752</td>
</tr>
<tr>
<td></td>
<td>2016 167</td>
<td>4.1</td>
<td>9.7</td>
<td>10,272</td>
</tr>
</tbody>
</table>

Source: own work on the basis of: [13, 14, 15]

According to the newest tour operator ranking [16] from 2016, the largest tour operator in Poland is still Itaka, which number of customers (even though it decreased in comparison to the previous year) is more than double that of the second biggest company – Rainbow (Tab. 3).

However, out of the top 3 biggest tour operators Itaka was the only company that did not undergo any key changes (customer base fell by 1.8% and profits rose by 1.1%). At the same time, Rainbow increased its customer base by almost 18% (while profits went up by 18%) and TUI Poland by 30% (and profits by 25%).

Tab. 3. Tour operators with more than 100,000 customers in 2015

<table>
<thead>
<tr>
<th></th>
<th>Number of customers in 2015</th>
<th>2015/2014 Number of customers in %</th>
<th>Turnover (PLN) in 2015</th>
<th>2015/2014 Turnover in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Itaka</td>
<td>607,000</td>
<td>-1.80</td>
<td>1,656,265,060.60</td>
<td>1.10</td>
</tr>
<tr>
<td>Rainbow</td>
<td>300,200</td>
<td>17.90</td>
<td>902,774,000.00</td>
<td>18.00</td>
</tr>
<tr>
<td>TUI Poland</td>
<td>312,000</td>
<td>30.2</td>
<td>853,969,530.00</td>
<td>25.10</td>
</tr>
<tr>
<td>Wezyr Holidays</td>
<td>189,406</td>
<td>no data</td>
<td>416,234,269.40</td>
<td>1.80</td>
</tr>
<tr>
<td>Grecos Holiday</td>
<td>137,000</td>
<td>13.20</td>
<td>348,117,650.98</td>
<td>13.60</td>
</tr>
<tr>
<td>Neckerman</td>
<td>142,594</td>
<td>-3.0</td>
<td>289,534,644.93</td>
<td>-15.20</td>
</tr>
</tbody>
</table>

Source: own work on the basis of: [11]
The increasing number of tour operators and agents together with the current world political and economic situation (terrorist attacks, refugee issue in Europe) that strongly affects tourist behaviours have impacted the significance of marketing activities (mostly promotion) for the operation of tourist entities on the market. A media house, Codemedia reports that expenditure of the tourism sector (including: travel agencies, catering, transport, accommodation and region promotion) on promotion in 2015 totalled 227.5 million zlotych which constitutes an increase of 13% in relation to 2014. Catering, travel agencies and transport made up 80% of expenditure. The largest portion of that was spent on catering (69.5 million zlotych, around 30.7%), while the smallest on tourism region promotion (19.6 million zlotych, decrease of 17% in comparison to 2014).

Travel agencies spent almost 57.5 million zlotych (25.4%) on promotion in 2015 – which is a similar amount as in 2014. There has been a clearly visible increase of expenditure on the promotion of travel agencies as in 2008 they amounted to less than a half of current expenditure (around 25 million zlotych) and to even less than 20 million zlotych in 2012. More than 90% of promotional expenditure of travel agencies is allocated to tourism and recreational offer, around 8% to booking tickets and the remaining 2% to specialized offer [16]. The main promotion channels in 2015 were the television and the Internet. The tourism industry spent 67.8 million zlotych on television commercials in 2015 (around 29% of all expenditure, an increase of 19% in comparison to 2014). Promotion on the Internet cost around 65 million zlotych (around 28%, an increase of approx. 4%), whereas the press accounted for 17% of promotion expenditure, the radio was around 11%, outdoor advertising around 10% and the cinema 5%.

4. Media Sponsorship in the Process of Tour Operator Offer Promotion. A Case Study

In order to achieve the objectives of this paper, a case study will be presented in the form of an analysis of results of a report on the usage of media by tour operators for the promotion of their brand and offer. The data was collected by the Institute of Media Monitoring [17], which mission is providing high-quality services connected with gathering and analysing information published in the media. The timeframe of this analysis is the first half of 2014, more precisely between 1 January 2014 and 25 June 2014. A certain limitation of the presented data is that IMM holistically analyses promotional instruments used by tour operators in the media, without any distinction between advertising and sponsorship. On the other hand, as indicated in the introduction, thanks to the use of observation method for practical aspects, i.e. observing the media, it can be undoubtedly noticed that before many television and radio programmes there is information that they are sponsored by a particular tour operator.

For the sake of accuracy, it must be stated that the data analysed by IMM about expenditure on the ‘presence’ in the media made by tour operators has been collected as a result of researching 30 television channels, 65 radio stations and 470 newspaper outlets. The expenditure was calculated on the basis of the official net price lists of channels, stations and newspapers, without considering discounts.

According to the data presented in the Institute of Media Monitoring, tour operators spent more than 37 million zlotych on promotion in the television, radio and press between 1 January 2014 and 25 June 2014. There was a two-fold increase to an analogical period in 2013 during which the expenditure on advertising in the media was 17 million zlotych for the whole industry. Such a scale of expenditure on promotion of the offer in the media can lead to a conclusion that tour operators had assessed this promotional channel to be effective enough to warrant a broader presence in the
media in the following year. It could be also presumed that some tour operators decided to use, among other things, media sponsorship because of benchmarking, i.e. due to the fact that their biggest competitors have already conducted promotional activities in the media.

Most promotional content on the tour operator offer could be seen in the television media as there were 13,000 TV spots shown (expenditure on this medium was estimated at 21 million zlotych). Marketing budgets spent on the press and the radio were almost the same, i.e. 8 million zlotych and about 500 pieces of press coverage and 7.7 million zlotych and 7.7 thousand radio spots. The percentage structures of expenditure on presence in the media made by tour operators and the amount of media coverage on tour operators and their offer are presented in Fig. 1 and Fig. 2.

![Figure 1](image1.png)

**Fig. 1.** Percentage structure of expenditure on presence in the media made by tour operators

*Source: own work on the basis of: [17]*

![Figure 2](image2.png)

**Fig. 2.** Percentage structure of the amount of media coverage about tour operators and their offer

*Source: own work on the basis of: [17]*

The data presented in Fig. 1 and Fig. 2 shows that over a half (57%) of all tour operators’ expenditure on promotion in the media was allocated to the television. It was also the television that broadcast most promotional content about tour operators and their offer (62%). Moreover, it can be concluded that promotion in the press is the least effective method in terms of quantity as, while it generated 22% of promotional costs, in terms of the quantity of promotional content, it resulted in only 2% of media coverage. Promotion in the radio seems to be the most cost-effective in terms of the quantity of promotional content, as generating 21% of promotional costs resulted in radio spots broadcast in this medium at the level of 36%, so the quantity effect is almost double.

The most common promotional content that was broadcast on the television was attributed to the following tour operator brands and their offer:

1. Rainbow Tours,
2. Grecos Holiday
3. TUI (TUI dominates the radio advertisement)

The television channels most often selected by tour operators were:
1. TVN,
2. Polsat,
3. TVP1.

In respect to the radio, tour operators most often chose to promote themselves in the Radio Zet station.

According to the IMM report, the press media were placed outside top 10 places were tour operators’ offer was promoted. The most common newspaper chosen for promotion was Gazeta Wyborcza.

The report of the Institute of Media Monitoring also included an analysis of the tourism and travel media which showed that package holidays providers promoted themselves most often in the National Geographic television channel and in such magazines as National Geographic Traveler, Podróże and Voyage.

Summarizing the data on the use of media sponsorship in the promotion process of tour operators’ offer, the increasing role of the Internet should be mentioned as it is perceived as a medium. The TUI travel agency dedicated the largest part of their promotional funds to this medium-mostly to social media in the form of Facebook and the www.gazeta.pl online forum.

These are also characteristic places for a discussion for all researched travel agencies. According to the 2015 IMM report on the presence of tour operators in the media, it is the Internet, and more precisely the social media, that in the future can pose a serious threat to other media as it may become a competitive promotional channel for a tour operator brand and offer.

5. Conclusions

The presented theoretical and empirical data can lead to a conclusion that media sponsorship as a tool has been slowly becoming important in modern marketing communication of tour operators with potential tourists and it may become a basic element of a communication strategy in the future.

This instrument is not used as often by tour operators as online advertising or paper brochures, but this may change with time.

Only the most recognizable tour operator brands can afford such a form of promotion because of their higher budgets for marketing activities in comparison to what smaller tour operators can spend.

The advantage of media sponsorship as a marketing tool over other forms of market communication is surely its unconventional approach to building relations with customers together with a subtle influence of promotional message. Among the benefits of using such an instrument, the following should be mentioned: awareness increases of tour operator brand or name, possibility of creating a planned image of a tour operator and making it credible in the eyes of potential customers.

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Designing a Balanced Scorecard Framework for Public Transport Organizations: The Case of IETT

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Abstract

Performance management concept, which aims to improve an organization’s performance as a whole, is of fundamental importance for the enterprises, operating in both private and public sectors, even if there can be some differences in implementation. Performance management applications in public transport sector enhance the management quality of public transport organizations, which, in turn, also provides a higher service quality for passengers. In this study, Balanced Scorecard as an approach that can be applied to urban transport enterprises belonging to the public sector is adopted as a performance management method, with an implementation case for IETT, Istanbul’s municipal public bus operator. Analytic Hierarchy Process (AHP) technique is employed to adapt this Balanced Scorecard method to urban transport enterprises belonging to public sector, putting forward a performance management framework that can be used by other public transport organizations as well.

Keywords: Performance management, public transport, urban mobility, balanced scorecard, analytical hierarchy process, IETT.

Introduction

Management of ever-increasing journey and mobility demands in parallel with the growing population and income of the developed and developing cities has become one of the most important agenda items of the local authorities. Development level of public transport, the backbone of the urban transportation, is one of the most significant parameters determining the quality of life in a city. Meeting the large-scale transportation demands caused by the escalating journey needs in the most efficient and effective way is fundamentally a performance management issue. Creating an effective performance management framework in public transport and ensuring efficient management of it, has become a sine qua non for all transport authorities and organizations, especially for local governments.

A well-managed public transport system contributes to the protection of environment and improvement of the cities’ quality of life by decreasing the use of private vehicles in the long run.

According to Rienstra and Vleugel [1], in order for transportation sector to ensure environmental sustainability, the share of journeys by private cars needs to be decreased in all modes. Moreover, improving the quality of life with developments in sustainable transport systems is one of the common goals adopted by many countries [2]. Using performance management tools to improve the public transport services has become a crucial element for public transport providers.
In this study, the Analytic Hierarchy Process (AHP) technique is used to identify the relative weights of the dimensions and KPIs. AHP, is a multi-criteria tool for decision-making, developed by Thomas L. Saaty and used for solving complex problems [3, 4]. AHP is a mathematical method, which takes priorities into consideration and combines qualitative and quantitative variables [5]. One of the most important features of AHP is that it can incorporate both subjective and objective evaluation criteria of the decision makers. The AHP method combines information, experience, thoughts and intuitions in a logical way [6]. AHP builds a hierarchy of decision items by using a predetermined comparison scale. Paired comparisons produce weighting scores that measure how much importance decision items and criteria have with each other.

In this study, a performance measurement model has been developed for public transport operators by using the Balanced Scorecard approach, a performance measurement model, within IETT which is the public bus operator in Istanbul. In this context, first of all, the performance dimensions have been laid down and then key performance indicators (KPI) linked to them have been identified. Afterwards, a monitoring and tracking methodology has been proposed in order to ensure the effectiveness of this performance management framework. Additionally, the Analytic Hierarchy Process (AHP) technique has been adopted to identify the relative weight of the dimensions and KPIs. In the conclusion part, potential problems and risks have been discussed and solutions have been put forward to overcome them.

**Literature Review**

**Performance management**

Performance management is the act of evaluating the methodology adopted by an organization and the outcomes attained in the course of reaching the predetermined goals and objectives [7].

Within the public sector, performance can be described as the provision of goods and services presented to the society in the desired way. Thus, it is possible to define the performance management for public institutions, as a set of operations regarding the ways, methods and tools employed by public institutions while providing the necessary goods and services in an accurate and desired manner [8]. It can be said that performance management is useful for an organization as long as it provides information to what extent the organization concerned has approached the goal [9].

Performance management in organizations “is a regime which aims to unite all employees around the common goal of continuously improving the performance and carry out necessary planning, measurement, guidance and control procedures in coordination with other management functions in order to achieve this goal” [10]. From another point of view, performance management is “a selection and evaluation of the organization's resources according to their performances with a view to attaining the objectives and duties of the organization in a best and most successful way” [11]. So, performance management is an organization management approach focusing on efficiency, effectiveness and affordability and requires measuring the outcomes and results constantly in order to achieve them [12]. In other words, performance management is a process during which information about the current and future situation of the organization is collected so as to direct the organization towards the desired goals, the collected information is compared, new and necessary activities that will improve the performance are initiated [13].
Measurement of Performance

The most important part of an effective performance management is the measurement of performance. In order to benefit optimally from the results of the performance measurement, such results need to be used during the performance management process. Performance management can also be described as a management system which checks whether the identified objectives have been achieved through the activities conducted and which uses the information concerning the performance in an attempt to create positive impacts on the corporate system and processes by allocating the sources to the prioritized areas. Performance measurement aims to create knowledge-based decision-making processes in management. Objectives and optimum performance indicators that allow for comparison need to be identified in order to present an objective performance measurement, and then the organization should continue with data collection and measurement. It is possible to define the performance measurement as the “methods used to measure the results and outcomes within an institution in line with the performance indicators identified previously to attain the performance improvement objectives” [11].

Key Performance Indicators

Performance management is based on a number of principles and criteria. One of the most important concepts in performance measurement in the literature is parameters or metrics, known as the key performance indicators (KPIs). It is possible to carry out an efficient performance measurement by means of such KPIs. While selecting the KPIs to be used in the performance measurement, some criteria are taken into consideration [14].

- KPIs must be simple, easy to understand and fit for purpose.
- They must be based on objective measurements.
- They must be easy to measure and must not bring high costs.
- KPIs must indicate the level of success accurately and the statistical characteristics of the measured event must be indicated clearly.
- A single indicator must be used to measure the same criteria in the measurement system.
- They must be flexible and adapt themselves to changing objectives.
- The indicators should be adjusted in a way to allow control over the person or group responsible for conducting the activity.

Another frequently used concept along with the KPIs is the concept of criteria. Criteria are statements which reveal the level of success and affect the selection of indicators and objectives. KPIs and criteria to be measured are closely related to one another [13].

An effective performance management program consists of a limited number of KPIs that are designed for specific goals, defined clearly, able to properly measure what it is supposed to and allow feedback and improvement. Furthermore, the data used for calculating the KPIs must be reliable, accountable, measured for a specific period and can be obtained for a low cost.

Performance table must be embraced by the person or groups responsible for KPIs and the management that will ensure the continuity of the performance management. In this study, an inclusive performance table comprising various KPIs identified to measure the corporate performance of public transport operators will be developed.

Balanced Scorecard Method

The fact that the environmental conditions around organizations change brings about the need for new management techniques. With the increasing competition and the technological
advancements, organizations realized the futility of monitoring methods that are based solely on financial data and are now on the lookout for new methods that consider environmental factors that are not financial. The “Balanced Scorecard” entered the management literature by Kaplan and Norton [15]. Kaplan and Norton’s Balanced Scorecard can also be identified as a tool that transforms organizational strategies into action. Balanced scorecard aims to reveal the performance with all its aspects by focusing on financial and non-financial criteria in a balanced manner.

To provide a more comprehensive definition; balanced scorecard is a performance measurement and management system that is based on non-physical values such as customer focus, development and improvement of internal activities, and learning and growth aimed at the employees. It measures these dimensions using certain indicators, provides strategic feedback to ensure balance and integration among the dimensions, and makes the strategies dynamically applicable by considering future customer satisfaction along with the organization’s past financial values [16].

Thanks to the balanced scorecard, objectives and strategies are turned into performance indicators and performance becomes manageable multi-dimensionally.

At this point, one of the reasons why we have decided on the balanced scorecard approach for this study is that it offers a dynamic management dimension. Traditional performance measurement approaches that are based on financial data and static statistics prove ineffective when it comes to measure and manage the performance of so dynamic a sector as public transport. The multi-dimensional structure of the balanced scorecard offers an approach that keeps in mind the development of those working with a sustainable dimension, the effects on social and environmental dimensions, passenger satisfaction and financial balance.

Performance management

One of the most original aspects of the Balanced Scorecard methodology is that it brings a “balanced” approach to the performance measurement and evaluation. To this end, a performance evaluation is conducted based on a framework of differing dimensions. The dimensions of the balanced scorecard are not limited to a financial measurement; it is also made up of the learning and growth potential of the organization based on its fund of knowledge, the depth of the relationship established with the customers and the quality of internal processes that support all of these. Below will be explained how these dimensions should be put together to form a balanced scorecard and what the scope of these dimensions should be.

Public Transportation in Istanbul

Public transportation systems cover a wide range of transport modes, including road, rail, and maritime networks. Road transport mode includes buses, minibuses, service vehicles and shuttles; rail transport covers light rail vehicles and funiculars; maritime transportation vehicles incorporate ships, sea buses and motorboats. The data for March 2015 indicates that there were 9,674,385 road passenger journeys on average per day; 1,605,384 rail passenger journeys and 264,252 sea passenger journeys in Istanbul. The total number of journeys for all transport modes equals to 11,544,029 on average per day. Considering the sheer volume of passengers, it is clear that performance management systems will affect a quite large population.

Considering the fact that the annual population growth rate of Istanbul is around 2.7% and the population will be increasing at the same speed in the next few years, it is estimated that the total growth rate will reach 14.25% in five years [18]. In line with the goal of extending the length of
rail network from 142.15 km (as of March 2015) to 420 km by the end of 2019, it is expected that road transportation networks feeding the rail network will also play a more active role [19].

As the share of public transport grows, the need for efficient, integrated and inclusive performance management model also grows so that the performance of the entire system can be measured. In the long term, it can be predicted that the above-mentioned integrated performance management system will become a must, if a single authority starts to manage the public transportation in Istanbul. This study develops a performance management model, based on the framework of a balanced scorecard, especially for IETT. The model embodies the expectations of all stakeholders, especially the passengers. Hence, it can be said that performance management model, which will be developed at the end of Section 5, will have a framework that can fulfill such needs.

Balanced Scorecard Application in a Public Transport Organization (Iett)

Balanced scorecard dimensions and key performance indicators (KPIs)

After identifying objectives, goals and processes, the most important step is to set balanced scorecard dimensions and key performance indicators to measure and manage the performance of IETT. First of all, it can be said that four dimensions (customer, financial, internal processes, learning and development) of the balanced scorecard are not sufficient for the public transport organizations. As sustainable public transport approaches have become more widespread, environmental dimension must also be incorporated into the balanced scorecard together with the health and safety dimension.

After identifying the dimensions in this way, the most important step is to set out the KPIs, as comprehensive measurement tools, by using as few performance indicators as possible. Upon the selection of KPIs, a methodology will be used to categorize the KPIs and balanced scorecard dimensions according to their importance levels. In this study, Analytical Hierarchy Process (AHP) method will be applied in order to determine the importance levels. All dimensions of the balanced scorecard shall be formed together with the KPIs and their importance levels in Section 5.2.

Passenger/ Customer dimension and KPIs

While this dimension is called customer dimension in the standard balanced scorecards, it can be renamed as passenger dimension for the public transport organizations. The following performance areas should be assessed for this dimension: passengers' opinions on the performance of IETT services and IETT's performance evaluation to be made at the passenger contact points. Furthermore, the performance of the mobile passenger information systems should also be measured, as the mobile applications have gained more significance in recent years. 3 key performance indicators given below will be used to measure all aspects of the customer/passenger dimension.

1. Ratio of Passenger/ Customer Satisfaction (%)
2. Service Quality Measurement Score (SQMS) (%)
3. Ratio of Mobile Passenger Information (%)

Financial dimension and KPIs

Public transport organizations should also monitor their financial sustainability to ensure the efficient and effective use of resources. Since this study explores the performance measurement approaches for the public transportation organizations that are public institutions, operating cost
coverage ratio will be used instead of the profitability ratio. In addition to this, budget realization ratios should also be measured and costs per journey and kilometer should be monitored in order to manage the costs more efficiently.

1. Operating Cost Coverage Ratio (%)
2. Ratio of Expense Budget Realized (%)
3. Operating Cost Per Journey
4. Operating Cost Per Kilometer

Environmental dimensions and KPIs

Although environmental dimension is not included in the dimensions of a standard balanced scorecard, it is a very important performance indicator for public transport organizations. Public transport organizations must develop a vision, mission and strategies in order to minimize the environmental damage they cause. Environmental damage must be minimized by tracking the amounts of emissions, the measurements of carbon footprints, and the fuel consumption rates.

Furthermore, besides the diesel engines, environmentally sensitive and alternative fuel vehicles (CNG, electric, hybrid and biodiesel) have become more popular in the past few years.

1. Amount of Emission per Journey
2. Amount of Fuel Consumption per Kilometer
3. Ratio of Alternative Fuel Vehicles
4. Total Amount of Carbon Footprint per Kilometer

Health and safety dimensions and KPIs

Although health and security dimension is not included in the dimensions of standard balanced scorecards, it is a very important performance indicator for the public transport organizations.

Public transport organizations have a duty to ensure the safety of transportation services and take necessary measures to prevent accidents. Furthermore, the occupational accident rate can also be considered an important indicator showing the performance of an organization of this size.

Vehicle and passenger accidents and security incidents during the service should also be monitored and minimized.

1. Number of Occupational Accidents per 1.000.000 Working Hours
2. Number of Vehicle Accidents per 1.000.000 Kilometers
3. Number of Passenger Accidents per 1.000.000 Kilometers
4. Number of Security Incidents during Service per 1.000.000 Journeys

Internal processes dimensions and KPIs

Public transport organizations are also responsible for delivering transportation services in a timely manner. In addition to this, existent sources should be used efficiently in order to ensure the effectiveness of internal processes. Public transport operators, which stick to a dependable timetable and deliver services with minimum number of accidents, are more efficient. Efficiency and effectiveness of internal processes can be measured by using the performance indicators like regularity and punctuality ratios, ratio of dead kilometers with regards to the efficient use of resources, ratio of vehicle use during peak times and the average distance between two failures.

1. Ratio of Regularity (%)
2. Ratio of Punctuality (%)
3. Ratio of Dead Kilometers (%)
4. Average Kilometers between Two Failures
Learning and growth dimensions and KPIs

Learning and growth dimension is the most important factor triggering the improvements with respect to other dimensions in the balanced scorecard. Internal capacities like human resources, intellectual capital and organizational culture provide helps create corporate values. These elements, which can be regarded as the invisible assets of an organization, contribute to the sustainability of corporate development. Public transport organizations, as public institutions, should give due importance to this dimension and support the developments in other dimensions, as well. IETT improves the areas concerning the learning and growth dimension by using the KPIs like the ratio of IETT employee satisfaction, self-evaluation score based on EFQM excellence model, average duration of training per employee and ratio of suggestions put into practice.

1. Ratio of Employee Satisfaction (%)
2. EFQM Self-Evaluation Score
3. Average Duration of Training per Employee
4. Ratio of Suggestions Put into Practice (%)

Using the Analytic Hierarchy Process (AHP) to identify the dimensions and indicator weights of the Balanced Scorecard

The framework for balanced scorecard can be used as a performance management tool, together with its dimensions and key performance indicators. However, it is hard to say that all dimensions and all performance indicators have the same importance level in terms of measuring the corporate performance. Furthermore, two different performance indicators of the same dimension can also have different weights with respect to their contribution to the corporate performance. In this study, Analytic Hierarchy Process (AHP) method will be used to determine the weights of balanced scorecard dimensions and performance indicators.

AHP method and paired comparisons are used to produce weighting scores of key performance indicators and balanced scorecard dimensions developed for public transportation organizations.

In order to obtain the most accurate results, AHP application requires a sufficient number of qualified experts. 13 experts and managers from various departments are interviewed to get their evaluations.

Firstly, the dimensions and indicators are placed into the both axes of a square matrix in order to weight the balanced scorecard dimensions and performance indicators. For each dimension, pairwise comparisons with other dimensions are made. Table 1 shows the normalized AHP table and dimensional weights. Fig. 1 shows the overall performance table with all dimensions, KPIs and relative weights of dimensions and KPIs.
Table 1. Normalized AHP table and dimensional weights

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Normalized</th>
<th>Internal Processes</th>
<th>Environment</th>
<th>Health and Safety</th>
<th>Financial</th>
<th>Learning and Growth</th>
<th>Weights</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer/Passenger</td>
<td>0.35</td>
<td>0.50</td>
<td>0.32</td>
<td>0.34</td>
<td>0.28</td>
<td>0.35</td>
<td>36%</td>
</tr>
<tr>
<td>Internal Processes</td>
<td>0.08</td>
<td>0.12</td>
<td>0.16</td>
<td>0.17</td>
<td>0.14</td>
<td>0.16</td>
<td>14%</td>
</tr>
<tr>
<td>Environment</td>
<td>0.11</td>
<td>0.07</td>
<td>0.10</td>
<td>0.09</td>
<td>0.11</td>
<td>0.11</td>
<td>10%</td>
</tr>
<tr>
<td>Health and Safety</td>
<td>0.21</td>
<td>0.14</td>
<td>0.23</td>
<td>0.20</td>
<td>0.25</td>
<td>0.18</td>
<td>20%</td>
</tr>
<tr>
<td>Financial</td>
<td>0.15</td>
<td>0.10</td>
<td>0.11</td>
<td>0.09</td>
<td>0.12</td>
<td>0.11</td>
<td>11%</td>
</tr>
<tr>
<td>Learning and Dev</td>
<td>0.09</td>
<td>0.07</td>
<td>0.08</td>
<td>0.10</td>
<td>0.09</td>
<td>0.09</td>
<td>9%</td>
</tr>
</tbody>
</table>

Fig. 1. Overall balanced scorecard framework including all dimensions and KPI weights

- Customer / Passenger Perspective (36%)
  - Ratio of Customer Satisfaction (62%)
  - SQMS (25%)
  - Ratio of Mobile Passenger Information (13%)
- Financial Perspective (11%)
  - Operating Cost Coverage Ratio (42%)
  - Ratio of Expense Budget Realized (16.5%)
  - Operating Cost Per Journey (21%)
  - Operating Cost Per Kilometer (%20.5)
- Environmental Perspective (10%)
  - Amount of Emission Per Journey (27%)
  - Amount of Fuel Consumption Per Kilometer (19%)  
  - Ratio of Alternative Energy Vehicles (25%)
  - Total Amount of Carbon Footprint Per Kilometer (29%)
- Health and Safety Perspective (20%)
  - Number of Occupational Accidents Per 1,000,000 Working Hours (33%)
  - Number of Vehicle Accidents Per 1,000,000 Kilometers (19%)
  - Number of Passenger Accidents Per 1,000,000 Kilometers (55%)
  - Number of Security Incidents During Service per 1,000,000 Journeys (13%)
- Internal Processes Perspective (14%)
  - Regularity (20%)
  - Punctuality (25%)
  - Ratio of Dead Kilometers (%)
  - Average Kilometers Between Two Failures (9%)
  - Rate of Lost Km (13%)
  - Ratio of Vehicle Use During Peak Hours (23%)
- Learning and Development Perspective (9%)
  - Employee Satisfaction Rate (39%)
  - EFQM Self-Evaluation Score (25%)
  - Average Duration of Training Per Employee (22%)
  - Ratio of Suggestions Put into Practice (14%)
Conclusions

The balanced scorecard approach elaborated above provides many benefits to the public transport sector as a performance management tool. Public transport organizations need management models that would meet the expectations of all stakeholders in a balanced way. With its different dimensions, the balanced scorecard approach offers a management model which considers the expectations of passengers, organizations, local governments, employees and the society as a whole. The balanced scorecard model created for IETT can also be utilized by all public transport organizations. Through this model which would be used efficiently also in rail and maritime transportation, a more dynamic framework for corporate performance management has been provided. Thus, sustainable success in all transportation modes would be achieved. If all transport modes were managed by a single public transport authority in Istanbul, the balanced scorecard application laid down in this study would be able to provide the required corporate performance management model.

REFERENCES
