University of Economics in Bratislava
Faculty of Commerce, Department of International Business
and
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The video-conference is jointly organized by the Faculty of International Relations of the University of Economics in Prague and the Faculty of Commerce of the University of Economics in Bratislava. It relates to fourteen successful years of the video-conference "*Czech Republic and Slovakia in International Business*" and is to be perceived as its successor. The main focus of the conference has been extended on the whole region of Central and Eastern Europe since this region plays increasingly important role within the economic development of the whole European continent. Given the economic crisis aftermath and political and economic turbulences in the Central and Eastern Europe, the main objectives of the conference are to identify and analyze the ways and strategies whereby globally operating businesses can maintain and foster their competitiveness in regard to their foreign competitors.

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Content

A Paradigm Shift in EU Competitiveness Strategy (Macroeconomic context)

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Abstract:
Escalation of globalisation processes in global economy which led to never-ending global financial crisis is affecting negatively long term international positions of EU members. They reacted to new situation by carrying out internal structural reforms and by support of adaptation program with the aim to review the growth rates and increase competitiveness in international markets. An important element of the whole process has been the effort to further converge the national energy policies, which remains one of the determining elements of their success, especially in the case of net fuel importers. It emphasizes the impact of changes in American economy and its energy policy on the EU's economic positions. This paper aims to point out the importance of strengthening the inner bonds between asserting the convergence of the EU's energy policy and its positive influence on competitiveness of domestic production in international markets.

Keywords: comparative advantage of nations and firms, competitiveness, energy security, European union, globalization

JEL Classification codes: B 30, E 620, E 640

1 INTRODUCTION

More and more turbulent world economy, which we have been facing since the start of the international financial crisis, causes increasing tensions, worries and uncertainties, and crucially influences overall positions of individual national economies and various integration communities. Naturally, competitiveness of businesses in the EU is going down. Weaker positions on international markets or new business owners coming from Asia or off-shore centres have adverse consequences for social and political situation across the whole Europe, which obviously leads to slower economic growth of the EU. This set of unfavourable phenomena is only a natural demonstration of deepening discrepancies resulting from partial unresolved economic, social, and political issues. Due to the globalisation, they could concentrate and increase their efficiency, thus leading to unfavourable geopolitical consequences. There was a time when it appeared that various growing economic and political risks or income- and related consumption-discrepancies are generally respected and accepted as a fact unable to be solved. However, expansion of financial crashes (from end 2007 onwards) only confirmed how deeply the globalisation penetrated the world economy and how resulting troubles deepen. As a result, these discrepancies deepened even more and have a far-reaching impact on positions of every single country. (Baláž et. al. 2011, pp. 25-26).

Stormy development in the world economy which produced significant and probably permanent changes to its economic future brought about great efforts to speed up economic reforms aimed at the successful adaptation to the new situation and creation of better opportunities for recovery of previous positions of individual national economies and growth. However, it has been confirmed that economic life liberalisation became so unprecedented that no country or bloc is able to satisfactorily initiate such changes and make them successful. In fact, changes reach all areas of economy and economic life as such, but due to differentiated comparative advantages immanent to each of them it happens in different ways. For this reason, the stronger and more successful economies are unwilling to give up their own comparative advantage and surrender the resulting effects to the general interest of international communities, or they do so only for the sake of solving the issue as such and only when they profit from the solution of the issue too. National "*selfishness*" is apparent also in promoting EU energy security system, which had for decades been the backbone of the international competiveness of the whole continent and which now becomes, due to insufficient system changes in its functioning, a hindrance in promoting strategy development plans of the whole community. Considering these views, it is crucial how the EU member states would respond to new challenges coming from the international environment directly influencing their competitiveness and whether they would able to implement strong interventions into their economic policy – without preferring individual priorities – in order to enforce the Union's economic interests. It is undeniable that energy, its availability, allocation or prices, are an indisputable element in the EU's overall competitiveness and its "*resilience*" in terms of unitary positions in global markets. The issue of energy costs and their impact on industrial competitiveness has become central for EU policy making in the context of the EU ambitious climate and environmental objectives and against the challenge of growing competitive pressures from emerging economies. This is all the more important given the slow recovery of the EU industrial output and employment after crisis.[1] Production costs per a unit of energy, along with the intensity of national regulators' activity and taxation have a significant influence over decision-making processes of national companies concerning the continental placement of external investments. These in turn generate new production and export sources, which again affects their market positions abroad. Higher energy costs have direct impact on export capabilities of EU, according to European Competitiveness Report, one

[1] European Competitiveness Report (EC). In http://ec.europa.eu/DocsRoom/documents/7084/attachments/1/translations/en/ renditions/native

percentage point increase in the cost share of electricity results in about 1.6 % decline in exports[2]. At the end of the day, it is a set of very closely interconnected factors with significant influence over the competitiveness of companies but also whole countries.

2 LITERATURE REVIEW

Research on competiveness in world economy played especially important role in the context of the fall or volatility of economic growth in Europe and US, in the period of oil shocks, and later in the 90s as newly industrialised countries emerged. In this period, the advanced market economies and big transnational corporations started losing their dominant positions on international markets. Already at the beginning of this millennium and later on, several studies were published on the growing competiveness of industrialised countries on international markets and its impact on the situation on international markets (N. Roubini, E. Klváčová, I. Bolotov, and others). These studies usually had one fact in common: the key element of such changes was the fast progress of direct foreign investments and economic reforms which put these investments into practice - mainly in Asian countries (namely China). Productivity growth which they produced helped not only these countries, but later on also the so-called transition countries in Europe, accelerate their own transformation. It was one of the fundamental conditions for the economic growth and competitiveness boost.[3] On the other hand, it was mainly Asian competitors who were the main entities highlighting the need for highly efficient long-term strategic plans of economy development as a condition for prosperous society.

The research on impacts of competitiveness on international positions of countries and businesses became more intensive in early 1990s. Internationally accepted theoreticians such as W. Porter, P. Krugman or S. Garelli, but also research results produced by different prestigious universities (Oxford) and important institutions (IEA, Eurostat) emphasised that competiveness became a key element of long-term prosperity of international entities.

Although experts' views varied in arguments, they agreed that competitiveness (whether on micro- or macro-level) means the ability of a business entity to successfully and (if possible) on a long-term basis operate in the international environments thus fulfilling the meaning of its economic existence. It was already J. Delors who declared the unfavourable development of the EU's international position and high unemployment rate to be the primary cause of the community's decreasing competitiveness against transatlantic and Asian competitors. The so called Lisbon doctrine became a means of adaptation. Its goal was to make the community the

[2] Ibid

[3] Productivity, however, cannot be a primary criterion in the sectors such as services, education support or science and research activities. Nevertheless, it does not mean that their results do not need to be quantified.

most competitive region of the world within a decade. Even though it was revised as soon as in 2005, and its content was subsequently reformed without compromise, it confirmed that Europe understands its own international significance, as well as the fact that competitiveness issues must be handled and supported on macro-level. The programme was gradually divided into individual national programmes and became a continuously evaluated part of the community's agenda. Despite the fact that its horizon was postponed and the EU was supposed to become one of the most competitive parts of the world economy only after 2015, the acceptance of this "*doctrine*" as crucial for the improvement of the union's international positions shows that its significance and idea were fully understood.

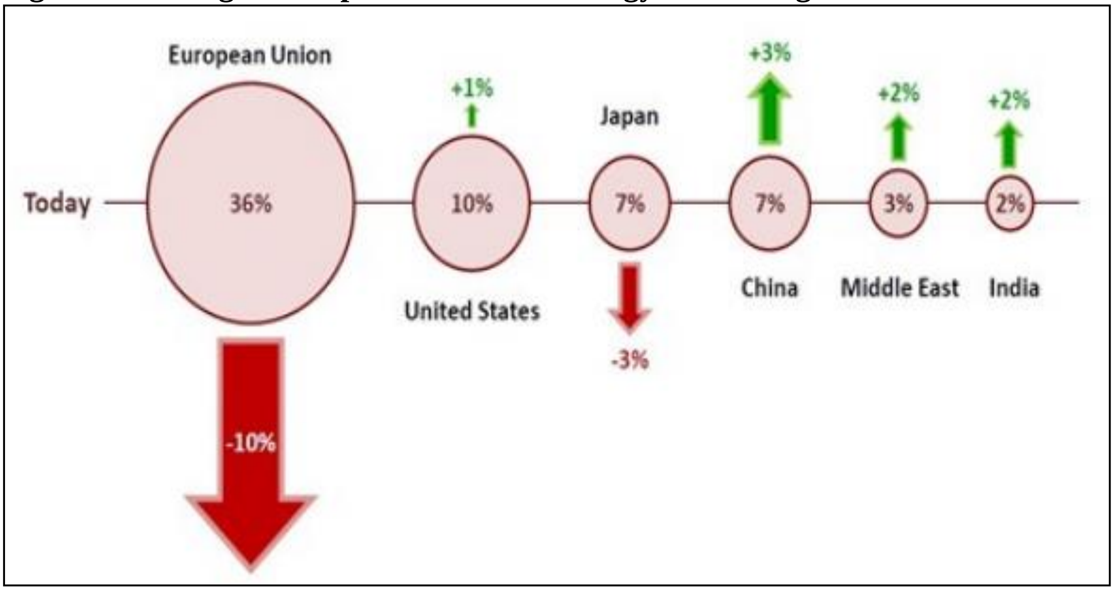
According to the Lisbon agenda, the biggest contribution to the support of competitiveness in the EU (and through it, in the second place, to the resolution of the union's high external dependence on imported sources and related payments to cover it) should be the common energy policy.[4] It therefore belongs to the set of priorities defined in the Green Book "*European strategy for the security of energy supply*". According to its data, in 2030 the EU will be 90% dependent on oil import and 80% dependent on natural gas import. (Green Book, EC 2005). Given the intense increase of demand for both commodities in developing countries, it is impossible to predict their price – but it will definitely be high. Therefore, energy efficiency and the ability to permanently decrease its own energy dependence will play a key role in supporting the EU's competitiveness. Accordingly directed energy policy of the union would be an important contribution to creating a coherent and balanced policy for ensuring the security of energy supply and its abundance for the entire European Community. (Green Book, EC 2005). It uses its own strong historical international positions in efforts to ensure its energy security, i.e. to create a secure and flexible supply system in all sorts of fuels, which is, to some extent, flexible by itself thanks to interconnections among member states, and therefore capable of absorbing various irregularities operatively.

The purpose of this article is to briefly analyse the selected correlations between the energy policy and competitiveness of the EU, especially in the area of changes to its energy mix, decrease of unit consumption of energy and increase of synergic effects expected from the liberalization of energy carriers market started in 2006. The secondary purpose is to point out, in broader context, the correlation of the energy sector and the competitiveness of the union, as well as consequences of changing conditions in international markets influenced by successful adaptation processes in American economy. Its role of the decisive element in heading of the

[4]EUR-Lex.2007.Treaty of Lisabon. In: http://eur-lex.europa.eu/legal content/EN/ALL/?uri=OJ:C:2007:306:TOC

energy economy is connected not only to the fact that it is the greatest consumer of energy carriers, their second largest importer, but also to the fact that during the last five years the structure of meeting its needs underwent, when it comes to the energy mix, historically greatest changes. They have a consequential impact on the EU's energy policy. The paper also emphasizes the responsibility of the European Commission (EC) for economic growth of the entire bloc and for shaping the common energy policy as a supporting factor in boosting its competitiveness. What is expected from its implementation is not only an overall decrease in the consumption of all types of energy but also a decrease in the share of energy-intensive production within European production and export. Several respected experts (P. Krugman, M. Porter, J. Stiglitz, J. Trusk, and others) have been highlighting these important elements for a long time.

Fig. 1: Share of global export market for energy-intensive goods



Source: Processed by the authors according to data in: Oxford Institute for Energy Studies. 2014. p. 6.

The energy issue itself became an important topic in European politics only after the Union's expansion eastwards in 2004. The reason for this was simple. The new member states had inherited almost absolute dependence on the import of raw materials (such as oil or natural gas) from the Russian Federation, and their common energy networks were also interconnected with Russia. Since its greatest expansion, the EU has faced several energy breakdowns, e.g. the so called gas crisis in 2006, 2009 or end of 2014. J. Buzek, President of the European Parliament (2009-2012), as one of the first European representatives, proposed the solution for common energy policy on the European level. In 2009 he proposed to implement the project of the European Energy Community (EEC), which was to bring about common energy market, through free trade and capacity-sufficient electricity and gas cross-border transmission infrastructure. Attention was to be paid also to better energy efficiency and renewable sources which were to become a basis for EU energy mix optimisation. An important element was common purchase of gas or electricity from countries outside EU. The similar opinion shared the former president of the EC J. Delors (1985-1994), who is considered one of the founding "*fathers*" of the European Union. On May 2010 they presented, before the European Parliament as a part of the 60th anniversary of Schumann Declaration, key components of such European energy community.[5]

Issues related to the EU's competitiveness and its energy dimension gained importance during the financial crisis, especially after 2009. American companies gained a significant source of competitive advantage thanks to the swift adaptation of the American economy in the energy sector – related mostly to increased shale gas extraction and subsequent rapid decrease of electricity and fuel prices. This change significantly lessened the long-term deficit in USA's balance of trade, thus positively influencing its international positions. On the other hand, the EU's continued energy policy, introduction of the so called climate and energy packages, or the resulting increase of the portion of non-conventional energy sources (photovoltaics and wind farms) set for the Union back in 2005, failed to consider the new reality in global economy. This had a very negative impact on the EU's competitiveness, especially in the long term (Zábojník, S. 2014, p. 5). This has been pointed out also by renowned experts such as O. Machek - O. Hnilica, S. M. Obadi or M. Vošta. They are dealing with various issues of the EU energy security beyond 2008, especially, in the context of the preparedness for accession to the EU and with the preparation of the project of a common energy policy.

One of the main activities of the European Commission, which is responsible for the economic growth of the union, is the convergence of European energy security. International Energy Agency (IEA) participates as well. Its background and monitoring of the international competitiveness is also addressed by P. Krugman, M. Porter, and J. Stiglitz. Other acknowledged experts are O. Machek, O. Hnilica, J. Mejstřík, M. Vošta, S. M. Obadi and others dealing with issues of the EU energy security beyond 2008 (especially in the context of a country's preparedness for accession to the EU) and with the preparation of the common energy policy project.

If we analyse the EU's energy security as such (as a requirement for competitiveness of the whole union) we cannot avoid studying the expected scenarios of its energy consumption

[5] See: EURACTIVE. 2014. Available online at: <http://www.euractiv.sk/energetika/zoznam_liniek/energeticka-politika-eu-000335#sthash.0l6SmIGb.dpuf>

development and related dependence on the import of key energy carriers. According to several experts, there will be enough coal, natural gas, and oil on international markets – the question is, under what supply terms and conditions, and especially for what prices. In the algorithm of competitiveness these two factors will have a critical impact in the overall ability to promote the union's production international markets.

In 2011, within the annual outlook IEA presented three possible alternatives of the long-term development of global energy markets: based on forecast (1), based on new energy implementation scenario (2) and based on the so called 450 scenario (3).[6] The outlook assumes that the overall demand for energy in the global economy will increase with the implementation of the new energy policy; cumulating from 12.150 billion tonnes of oil equivalent (toe) in 2009 to 16,950 Mtoe in 2035. It will therefore increase by approx. 2/5, which is approx. 1.3% per year. To compare, in the "classic" scenario the increase during the same period should be 18,300 Mtoe, meaning 51% (1.7% per year). (IEA 2011, p.70). The third scenario anticipates the increase in consumption amounting to only 14,850 Mtoe - only about 23% (0.8% per year). In such case the cumulated demand would be lower than the classic scenario by approx. 19%, and lower than the new scenario by approx. 12%. (IEA 2011, p. 71).

All three scenarios take into account the undeniable premise that the energy consumption will continue to increase and that fossil fuels will stay the dominant energy source but their energy mix will change. In the first scenario their share is 81%, in the second 75% and the third only 62%. The prognosis expects that there will be enough raw materials and they will cover the international demand; the question is the territorial dislocation of their production and consumption sites, as well as their prices. As a matter of fact, prices will definitely decide also the overall competitiveness of European producers and their perspective on the international market.

[6] Its essence is a long-term limitation of greenhouse gases in the atmosphere below the volume of 450 units per 1 million CO_2 equivalent units (ppm $CO_{2\text{-eq}}$), which would mean a 50% chance to keep the average increase of global warming under 2^0 C.

Tab. 1: Structure of fuel consumption per energy carrier type (1980-2035)

			New IEA methodology scenario		Current IEA methodology scenario		450 scenario	
	1980	2009	2020	2035	2020	2035	2020	2035
Coal	1792	3294	4083	4101	4416	5419	3716	2316
Oil	3097	3987	4384	4645	4482	4992	4182	3671
Natural gas	1234	2539	3214	3928	3247	4206	3030	3208
Nuclear energy	186	703	929	1212	908	1054	973	1664
Hydro energy	148	280	377	475	366	442	391	520
Biomass and waste	749	1230	1495	1911	1449	1707	1554	2329
Other renewables	12	99	287	690	256	481	339	1161
TOTAL	**7219**	**12132**	**14769**	**16961**	**15124**	**18302**	**14185**	**14870**

Source: Processed by authors according to data in: World Economic Outlook, IEA Paris 2011, p. 70.

Even after 2010, the secure and fluent energy supply for acceptable prices remains one of the main strategic goals of the EU. The union controls only a fraction of the world's oil, natural gas, and coal reserves, and its dependence on the import of primary energy carriers keeps increasing. Not even the growing portion of alternative sources across Europe has been able to reserve the trend. In 2012 the import comprised about a half of consumed raw materials, and by 2030 it will have risen further. We can consider various directions in connection with the supply security; for example the EU could save up to 20% on import through a radical decrease of consumption, extensive diversification of supply, increase of domestic generation from renewable sources, more intensive promotion of renewables, or by solving the storability of electric energy – but all alternatives are, in the long run, more expensive than the existing ones. Moreover, the consumption will grow in parallel with the expected growth of GDP, thus eliminating prospective savings.

At the end of the day, energy prices created by market situation will always put pressure on prices of the final production and, in case of slow response to their development and position in the production price calculation chain, lead to further loss of competitiveness. Therefore, the solution lies only in significant changes in consumption of all types of energy, as a sign of a successful transformation process of economy, which will lead it to the development path of high technology and services production. In this market segment, energy prices are usually of secondary importance.

3 RESULTS AND CONCLUSIONS

European countries and especially the EU members will have to go through the restructuring processes which should help them achieve their former economic positions in the world economy, and particularly in the international business environment. They have to consider actual conditions determining the future economic prosperity, and identify which comparative advantages are likely to help them achieve these positions on the international markets. It will not be possible without an adjustment of the current economic strategy and faster convergence of national economy policies in order to increase the competitiveness and efficiently use the internal comparative advantages of the whole union, as well as synergic effects brought by its expansion. Several examples and highlights of the importance of existing correlations confirm that the EU's reactions on developments in energy policies of the US and Asia are inconsistent, and its adaptation to the new reality is slow. "*Stubborn*" enforcement of own strategic projects without adequate consideration of the new global economic reality has and will have a significant impact on the EU's international competitiveness.

Access to the energy sector and especially the energy security plays and could play a key role in this long-term process. Undoubtedly, the overall strategic position and perspectives of the European economy as a whole are absolutely dependent on fuel/energy imports. Therefore, it needs to incorporate headroom in order to include them into its strategic plans; on the other hand, it has to make use of every opportunity to ensure energy saving and minimisation of excessive consumption effects. The EU has great expectations from the strategic *"Europe 20-20-20"* programme, which envisions a 20% decrease in the energy consumption and emissions released to the atmosphere, and equal increase in the portion of renewables in the overall production. [7] Despite high costs of the project implementation, the EU expects to reach this development path by 2020 – even though it is obvious it will directly influence the international competitiveness (Baláž 2009).

On February 2015 M. Šefčovič, Vice President of the European Commission in charge of Energy Union, presented the final picture of Energy Union which should concern other policies, except for energy and transport, such as research and innovation, regional and neighbourhood policy, trade or agriculture. Energy Union is, together with climate change policy, included

[7] Whether this strategy becomes a decisive element in increasing the EU's competitiveness depends on whether reactions of other important economies, in particular the US and China, to dealing with consequences affecting the entire planet are similar - also when comes to permanent degradation of environment and climate. If so, it will mean high non-productive investments for these countries, which will naturally be reflected in the increase of global market prices, thus catching up with the EU. The Union, on the other hand, would gain a certain head start in their implementation, which could be a significant factor in boosting its own competitiveness.

among priorities of J.C. Juncker. The Commission intends to announce the EU negotiating position for the Climate Summit in December 2015.[8] A notable advance in the EU's competitiveness by 2020 is expected from the adopted decisions. Other experts expect that there will be a single supervision implemented in the energy area. On the other hand, Jean-Arnold Vinois, former advisor to former Commissioner for energy, said: *"One day there will be an EU regulator for energy. We've seen it with Banking Union – no one would have thought that was possible five years ago."*[9]

The brief analysis confirms that energy will stay a geostrategic condition for deciding the future positions of all countries and economic blocs, including the EU. Apparently this process will play only a minor role in building of national economies of the EU and their industrial traditions. The ability to set developing criteria that will guarantee the construction of complex production systems to ensure the optimization of all forms of tangible and intangible outcomes while minimizing energy consumption will be crucial. The production mix, in addition to the factor efficiency and stability of its supply, not only has to reduce the dependence on import, but also to continuously decrease the consumption of energy carriers. Such development trend could significantly increase the EU's capacity to adapt to strategic plans of other territorial enclaves of the world economy, which under the pressure of globalization for the same economic reasons implemented and will implement their own structural manoeuvres in support of their position in world markets. In our opinion, significant changes to the energy policy as one of the decisive pre-requisites of the restoration of the EU's position in global markets, as well as sustaining its international competitiveness, are absolutely crucial – also from the perspective of successful implementation of the community's overall strategic doctrine. Failure would translate into expansion of various negative economic but also social and political consequences.[10]

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[8]The title "*summit*" means session of the European Council in Paris held 2 to 4 times a year. The aim is to reach a global agreement on legal binding targets limiting global warning. See: http://www.euractiv.sk/energetika/ clanok/energeticka-unia-nebude-len-o-energetike-023378#sthash.wwe CL8gt.dpuf

[9]Ibid.

[10] Increasing costs of energy would hinder European progress, for example in implementing low-carbon energy projects that are to play a decisive role in the enforcement of the EU's economic interests after 2020.

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Global Arms Trade and Its Regulation – Arms Trade Treaty

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Abstract: The paper investigates, in the form of case study, recent developments regarding the international regulation of arms trade, significantly affected by nature and specifics of arms. Following the basic insight into the specific attributes of arms as tradable goods, recent international debate about global norms for arms trade and its results embodied in the Arms Trade Treaty are examined. The paper then discusses the prospects of the Treaty, including its future implementation within the EU and the Czech Republic, and concludes that the Treaty provides a unique opportunity to establish the first international trade rules regulating arms trade; however, some obstacles still remain.

Keywords: arms trade, international regulation, Arms Trade Treaty

JEL Classification codes: F1, F5, K3

1 INTRODUCTION

This paper presents a case study of global arms trade regulation and its evolution, culminating in the Arms Trade Treaty ("ATT" or "Treaty") negotiation process and its impact upon the EU and the Czech Republic. Arms trade is an extremely interesting research field, as it is where many concerns and policies meet and interact, including security issues, foreign policy issues encompassing human rights agenda and last, but not least, economic concerns. None of these concerns should be omitted in any serious consideration of the whole arms trade package.

The purpose of this text is to introduce the ATT as a milestone in setting up global rules to prevent the illicit transfer of arms. It is not supposed to be yet another disarmament treaty, but a trade treaty, first and foremost. One of the aims is to demonstrate the complexity of trade regulation in this specific field, where the object of trade extensively defines the nature of the regulation.

The paper consists of three parts. First, a short review of the characteristics and specifics of arms trade is provided. Second, the ATT process, its outcomes and current state are studied. Finally, the impact upon the European Union and the Czech Republic, as one of the State Parties, are briefly touched upon.

Since the issue itself has been evolving for more than a decade, some papers are available; however, most of them focus on security and foreign policy issues, while trade or economic papers are not really numerous. At the same time, relevant papers tend to focus on narrow concerns associated with particular topics, which is probably caused by its novelty. While this paper does not attempt to provide deep economic analysis, it does aim to provide a wider perspective of an arms trade regulation, taking into account the role of legal, economic, security and foreign policy issues.

Every day up to 2000 people die globally as a result of armed violence (Geneva Declaration 2008). Even though this figure, used as an urgent call for trade regulation, has been challenged presuming that "life or death matters of global policy must be based on accurate data" (Kopel, Gallant, Eisen 2010, p. 674), arms can be held accountable for a large number of deaths. Furthermore, human costs are accompanied by serious and critical impacts upon social and economic progress in developing countries. Africa, the continent most affected by the negative consequences of armed conflict, allegedly lost almost 300 billion USD during the period between 1990 and 2006, about 18 billion USD annually, notwithstanding that the overwhelming majority of arms is produced outside the continent (IANSA, Oxfam, SaferWorld 2007, p. 3). For instance, the value of arms exports from EU Member States to Africa in 2006 was over 0.4 billion EUR (European Union 2007), confirming the significant economic role of the arms industry. Clearly, arms trade is best understood when economic factors as well as political and security elements are all considered. The combined impact is important, and estimates set the worth of conventional arms trade to be more than 30 billion USD each year.

Until now, "the strong link between conventional arms transfers, sovereign foreign policy decisions and economic necessity, combined with a sovereign nation's inherent right to self-defense, has largely insulated the arms transfer process, and the arms trade in general, from international regulation or multilateral restraint" (Anderson 1992, p. 751). This led to "an eclectic array of national, regional, international instruments (governing) the transfer of certain weapons." (Geneva Academy 2012, p. 5) However, a strong global framework is the first step to prevent illegal and illicit trade and regulate and curb legal trade.

Normally, efforts to control and regulate global arms trade have been linked to political and security turmoil or international crisis or conflict (Stohl, Grillot 2009, p. 43), in hopes of limiting the consequences of both legal and illicit arms trade. For example, the United Nations Register of Conventional Arms was created in the aftermath of the Gulf War, and the Wassenaar Arrangement was established in 1996 in order to promote stability, primarily in Europe. While many states employ strong and robust export control systems, the absence of global arms regulation allows others to find loopholes because of missing international standards.

2 SPECIFICS OF ARMS TRADE

Before dealing with the ATT itself, some of the specifics associated with arms and ammunition trade will be considered – specifically the nature of "goods", markets and the implication of trade. International trade involves the transfer of ownership of goods from one entity to another across the borders in exchange for money. Not surprisingly, the nature of the traded goods is what makes arms trade so unique and provides political, economic and social importance.

First, what is being traded? Arms are certainly tradable goods, characterized by durability (some have been used for decades), substitutability, convertibility, interchangeability and a very high retained value. The sensitivity of arms based on their "usage" leads to specific licensing schemes, usually involving the identification of the end-user of the goods, in order to prevent unintended consequences and the illicit transfer of weapons to a third party. At the same time, all arms need appropriate ammunition, the lack of which is a possible Achilles' heel in situations where large supplies are required.

Further, what is the market place? The first market is legal, which is, however, dependent upon the decisions of national or regional authorities. The second, the black market (illegal), is where arms are from the very beginning exported illegally without any proper surveillance of international law. The black market is, at least partially, supplied from the reserves that had questionable ownership following the collapse of the Soviet Union. The third market is the gray market (illicit), where arms are exported legally but, during the transfer or after the transfer, are diverted to a recipient other than the legal recipient identified, deceiving the seller and authorities issuing the end-user license. This gray market makes arms trade even more complicated, having vague and ambiguous boundaries with legal trade. Often, if not always, some kind of informal relationship between the producers and the licensing authorities exists, an association that often leads to some degree of corruption (Roeber 2005), and creates a very disorderly playing field. Corruption can clearly harm democracy in both the buying and purchasing countries. The South African deal with BAE Systems (Leigh, Evans 2010) or the Swedish cases with Gripen (Industry Week 2007, Mail&Guardian 2010) provide examples of such dubious transactions.

Not only are arms sensitive goods, they can be used as instruments of policy: transfers can have political and strategic implications. Governments can foster international relations through arms trade, for example arms exports to the Middle East are notorious. Some argue that a strong relationship between the gravity of the conflict and the availability of weapons exists. Conflicts can become extensive with an increased supply of weapons; therefore arms trade can be considered a key catalyst for conflict (Akerman, Larsson 2011, p. 1). A counter-argument can be made using the example of Rwanda. Nevertheless obvious links exist between the extent of a conflict and arms trade.

Finally, further problems are caused by the suppliers and recipients. Regarding the suppliers, five permanent members of the United Nations Security Council are, not surprisingly, among the top six exporters (SIPRI 2014)11, who compete with each other. The role of the recipients is based on their military capacities and their willingness to increase that capacity. The vast amount of global military expenditure, which totaled over 1.7 billion USD in 2013 (SIPRI), together with excessive arms budgets in many countries, provides a friendly environment for arms trade.

3 THE WAY TOWARDS GLOBAL TRADE REGULATION AND THE CURRENT STATE OF PLAY

Until the ATT, the efforts to set up a global framework for arms trade were insufficient, restricted only to a few unsuccessful attempts and more or less regional arrangements with limited scope, such as the Wassenaar Arrangement, which has been in use since the second half of the 1990s. However, it has not been a binding instrument under international law.

Calls for arms trade regulation have become more resilient since 2003, when the Control Arms campaign, urging governments to create global rules, was launched in about 70 countries around the world. Finally, it took just a little bit more than a decade before the results of these activities materialized[12].

What was quite unusual is the fact that the beginning of the process was ignited and led by NGOs demanding more transparent trade and the curbing of gray markets. In December 2006, the United Nations General Assembly adopted a resolution assigning the Secretary General with the task of seeking the views of the member states regarding the feasibility, scope and parameters of a legally binding instrument (General Assembly 2006), giving birth to the most successful research of this kind ever, gaining submissions from 101 states. In 2009, the General Assembly called for a diplomatic conference to elaborate the highest possible common international trade standards for the transfer of conventional arms. The conference, which was convened and met in July, 2012 (General Assembly 2009), received strong political support,

[11] Germany, not being a UN Security Council member, is third on the list.
[12] The background of the process, which led towards the ATT is quite extensively covered by literature, e.g. Holtom and Bromley (2013) might be sufficient guide.

e.g. from the Foreign Ministers of Germany, France, UK and Sweden (Hague, Fabius, Westerwelle, Bjőrling 2012). However, the conference failed to reach consensus after four weeks, and in addition, on the final day the United States called for "more time" to assess the provisions (Nystuen 2012). Nevertheless, the support and momentum for the trade regulation were strong, and the following year, in March 2013, another diplomatic conference was convened that finally succeeded in delivering the text, even though it was not endorsed by consensus. Shortly afterwards, on 2 April 2013, the General Assembly adopted the text of the Treaty as a resolution by a 154-to-3[13] vote with 23 abstentions (General Assembly 2013). Later on, the text was opened for signature and ratification. On 24 September 2014, the total amount of deposited ratifications exceeded 50, and, in accordance with Article 22 of the Treaty, it entered into force 90 days following the date of the deposit of the fiftieth instrument of ratification, thus on 24 December 2014. Therefore, within a year, the first Conference of the State Parties shall be convened to deal with the issues of implementation.

So, what actually is the ATT and what will it mean for global trade? First, it is the first multilateral treaty concluded to regulate trade in conventional arms through a global and binding set of rules. The purpose of the ATT is to implement a strong, robust and effective system of international rules. Its aim is to create a more transparent and responsible global framework for trade. As such, it may become one of the most influential mechanisms to regulate international trade in an extremely sensitive sector in the upcoming decades since, for the first time, the global community has agreed to some level of regulation.

The greatest benefit of the ATT for trade regulation is the obligation of State Parties to establish and maintain national control systems, which shall apply treaty-based requirements prior to the authorization of exports. The backbone of the ATT is the export control of conventional arms14, while State Parties are obliged not to authorize any export if the transfer would violate their international obligations (including embargoes), and would contribute to the commission of genocide, crimes against humanity, grave breaches of the Geneva Conventions of 1949 and other war crimes15. Analogically, each exporting State shall assess the potential that the conventional arms would contribute to undermine peace and security, commit or facilitate a serious violation of international humanitarian law or promote terrorism or transnational organized crime16. Only in the case of the absence of these risks can transfers be authorized.

13 North Korea, Syria and Iran voted against.

14 The ATT covers separately arms and components and parts in terms of covered items, as well as other types of transfer in terms of covered activities.

15 Article 6 of the ATT.

16 Article 7 of the ATT.

In line with that, efficient reporting of State Parties to the Secretariat of the ATT linked with information sharing is essential for the future implementation. This has clear potential to provide strong security and policy limits to international trade, which is even more than desirable.

4 THE ATT IMPLEMENTATION WITHIN THE EU AND THE CZECH REPUBLIC

This part of the paper focuses briefly on the prospective impact of the ATT implementation upon the EU, as some of the largest exporters are from Europe (SIPRI 2014), and the Czech Republic in particular. First, it is worth mentioning that the EU cannot be party to the ATT, as only states can become parties to the Treaty. However, all of the EU member states already signed and most of them ratified the ATT (UNODA 2014). The European defense industry and trade are logically distinct from other industries given the sensitivity of arms; however, they represent one of the sectors with the most qualified jobs, high investment in R&D and high added value in the EU.

The strong and robust control system of EU member states is based mainly on the Council Common Position 2008/944/CFSP defining common rules governing control of exports of military technology and equipment17, and the Council Common Position 2003/468/CFSP on the control of arms brokering. The first Common Position lays down criteria to be assessed during the process of export license authorization – international obligations; respect for human rights and humanitarian law; internal situation in the country of final destination; preservation of regional peace, security and stability; security of the EU member states; attitude of the buyer to terrorism; risk of diversion, and, finally, technical and economic capacity of the buyer. 18

The EU approach constitutes a very high standard of arms trade regulation, which has two effects. First, the expectation that other states within the global community would be willing to adopt similarly high standards and curb their own producers and traders would be unrealistic. Therefore, particularly industry representatives assumed that the ATT would reduce the comparative disadvantage of EU producers compared to other non-EU suppliers, whose trade environment is less regulated. Second, the Treaty could have been ratified by the EU member states with very small regulatory impact, as it is entirely in accordance with the current EU licensing mechanism.

17 Which is complemented by EU Directive 2009/43/EC of the European Parliament and of the Council of 6 May 2009 simplifying terms and conditions of transfers of defence-related products within the Community; and Regulation (EU) No 258/2012 of the European Parliament and of the Council implementing Article 10 of the United Nations' Protocol against the illicit manufacturing of and trafficking in firearms, their parts and components and ammunition, supplementing the United Nations Convention against Transnational Organised Crime (UN Firearms Protocol), and establishing export authorisation, and import and transit measures for firearms, their parts and components and ammunition.

18 Art. 2 of the Council Common Position 2008/944/CFSP.

As far the position of the Czech Republic is concerned, a critical point is its adherence to the EU system, which provides for a control mechanism for exports that assesses national foreign policy interests as well as the above mentioned EU criteria. In terms of domestic legislation, international arms trade is regulated particularly by the Trade Licensing Act. The Czech Republic, as well as other EU member states, has actually introduced stricter rules for arms trade than the ATT. Even though the threshold constituted by the ATT is lower, the Treaty allows State Parties to employ other more restrictive regulatory schemes, as long as those are consistent with the Treaty[19]. Obviously, provisions of the Treaty are in full compliance with the Czech legal framework and other international obligations. As one of the State Parties to the Treaty, the Czech Republic has not only demonstrated the values it shares in terms of peace and security, human rights, the fight against terrorism, among others, but also contributed to the creation of more equal and transparent global arena for private businesses involved in arms trade.

5 CONCLUSION

As the Arms Trade Treaty recently entered into force, momentum for international trade regulation remains strong, though many steps still need to be taken to make the treaty effective and reliable. Following are a few of the future concerns considered to be critical.

First, the State Parties must abide by the obligations stemming from the Treaty, without any special treatment or exceptions. This requires, among other things, a meaningful method of reporting and a functioning Secretariat. The role of the Secretariat is one of the critical issues for the upcoming implementation debate, as “secretariats are the organizational glue that holds the actors and parts of a treaty system together” (Sandford 1994, p. 17) and the success or failure of the treaty should depend upon the work of the Secretariat and the degree of its activism.

Second, strong determination and political will from the State Parties is required to guarantee rules-abidance. All transfers have to be cautiously assessed in terms of the criteria defined in the Treaty, and if they are not met, transfer must be prohibited. The role of key stakeholders, including industry representatives and NGOs, must be taken into account, and the process must be inclusive, as key industry players might tend to circumvent trade rules. This must be prevented in order to make the Treaty effective.

19 Art. 26 of the ATT.

The third factor, which has potential to influence the success of the ATT, is the absence of some of the major players – the United States, China and Russia. For this sake, other major exporters, specifically from the EU, must demonstrate strong leadership in arms trade.

These issues, and certainly some others, will affect the impact and effectiveness of the Treaty and its governance. Though the current dynamics and momentum are strong, the Treaty's success relies upon the State Parties to make the new arms trade regulation regime global and full-fledged.

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The deepening of the mutual cooperation between Slovakia and Ukraine in the period of the external global geopolitical change

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Abstract: Ukraine is his political guidelines not only opens up the world community, but also plays an active role in global integration processes in the international arena. Among the EU's eastern neighbours copulating on their most important partners. The aim of this paper is to examine the development of foreign trade relations between the Slovak Republic and Ukraine, and a detailed analysis of bilateral trade and investment activities to establish the possibility of deepening the development of mutual cooperation in the research area. Increased economic cooperation with Ukraine, Slovakia may have positive effects mutual growth economies, thus further deepen the integration processes within the EU.

Keywords: Slovakia, Ukraine, Foreign trade cooperation, Foreign trade, Investment activities

JEL Classification: F21, F14

1 INTRODUCTION

Foreign-trade cooperation Ukraine (next only ,,UA") and European union (next only ,,EU") and Slovak republic (next only ,,SR") and political aspect of relations in the EU-Ukraine-Slovakia triangle is primarily determined by geopolitical interests of the parties involved, their place and role in international politics as well as the level and nature of bilateral contacts. Cooperation started increasingly deepened as early as 2004, when the Slovak Republic joined the European Union. For instance, the present credibility gap in the EU-Ukraine relations has made Russia to increase pressure on Ukraine for the purpose of involving the country in Russia-led integration projects in the post-Soviet space. At the same time, since the sides have different „weight categories“, bilateral relations (EU-Ukraine, Ukraine-Russia, EU-Russia) within such a triangle are unequal in their nature. Hence, the central element of this trilateral format are the relations between its key players – the EU and Russia. One of the main problems of these relations is the absence of exact formula of cooperation in the post-Soviet territory that is based on a common model of political and socio-economic development of the former Soviet countries. But that does not mean that Ukraine should acquire a static position. The country has to independently define the model of its own ,,civilisation“ development.

2 LITERATURE RIEVIEW

When choosing a foreign market in the process of internationalization, for most companies the first step tends to be activity towards neighbouring countries when an enterprise initially expands its activities to neighbouring countries with similar cultural, ethnic and consumer conditions and background, states (Ubrežiová 2008). (Wach 2011) highlights the fact that the choice of internationalization methods depends on many objective endogenous as well as exogenous factors which define the given target market. Among internal (corporate) factors (Horská 2007) includes company behaviour and activities, the contribution of the company to the development of the national economy, use of local resources, and dependence on the parent company. On the other hand, external factors are the home country of the company, characteristics of the product or industry, size and location of facilities, degree of visibility on the market, and political situation in the country of operation (Horská,2008). We should not forget that, particularly in the past several years, according to Kotabe & Helsen (2010), many political and economic events have affected the nature of global competition. The demise of the Soviet Union, the establishment of the EU and the North American Free Trade Agreement, deregulation, and privatization of state owned industries have also changed the market environments around the world. (Kleinová&Ürgeová 2011) continue that marketing in these emerging markets is contextually different from marketing in developed countries. As (Doole & Lowe 2008) add, lesser developed countries and emerging markets pose particularly high political risks, even when they are following reforms to solve the political problems they have. This risk comes from the political environment of international marketing and includes any national or international political factor that can affect the organisation's operations or its decision making. Unstable political regimes expose foreign business a variety of risks that they would generally not face in the home market. This often means that the political arena is the most volatile area of international marketing.

(Horská, Nagyová&Felixová 2010) emphasize that due to the unstable political situation in many parts of the world it is essential to continuously monitor the environment, analyse the situation, and try to estimate the degree of possible political risk (i.e. the extent of possible political changes) in a particular situation. We can agree with (Wach 2012) that the enlargement of the European Union (EU)in 2004 with Central and Eastern European countries, but also in 2007 with East South European Countries, has become a strong impulse to intensify competition in all business areas and led to changes in relationships between the EU and Ukraine. The EU has enlarged to 28 member states all directly bordering Ukraine, states (Zhemoyda2008). We also share the opinion of (Szmagalska Follis 2008) that today the boundary line on the Eastern side of the enlarged European Union remains a key site in the geopolitics of Europe, when this area represents the sense of being closer to Europe for Ukraine but at the same time a real border by EU itself. Ukraine with its 604.000 square kilometres, 46 millions of people, some of the best soil in the world and a cheap but generally well educated labour force is simply too big to ignore. Ukraine has to choose its path alone, but it is just natural that Slovakia and other European countries are interested in Ukraine's successful European integration Ukraine to foreign trade cooperation and focusing on the European Union concluded in the past several trade agreements, which began to form political-business dialogue in 1994, which later culminated in the signing of the Partnership and Cooperation Agreement in 2004, which expired in 2008. Since 2003 he formed trade policy in particular the European Neighbourhood Policy and since 2009 the Eastern Partnership. Since 2008, Ukraine is a member of the WTO and, finally, in June 2014 signed an economic part of the Association Agreement on free trade zone. The political part of the Association Agreement was signed in March 2014. Ukraine is also a member of the United Nations, the Danube Commission, the World Health Organization, the Commonwealth of Independent States and the Black Sea Economic Cooperation (Tarasyuk 2014).Development of foreign cooperation significantly influenced the Orange Revolution in 2004, which continued "Euromejdan" in 2013, when Viktor Yanukovych refused to sign an Association Agreement, as well as a variety of problems that have persistent negative political and economic impact. (Szmagalska Follis 2008) carried out a research among people in Ukraine in 2007about their attitude towards the country's further orientation. (Wira 2012) confirms that at the outbreak of the Orange Revolution Ukrainians strived democratic change and willingness to integrate with Western organization. The country's accession to the WTO in 2008 meant the liberalization of the trade regime between Ukraine and the EU – at the same time it was a small step towards the associate membership. In 2011, negotiations between Ukraine and the EU about the Association Agreement (AA) were concluded. As a part of it the agreement about the Deep and Comprehensive Free Trade Area (DCFTA) has been prepared. DCFTA would offer Ukraine a framework for modernising its trade relations and for economic development by opening markets via progressive removal of customs tariffs and quotas, and by an extensive harmonisation of laws, norms and regulations in various trade related sectors, creating the conditions for aligning key sectors of the Ukrainian economy to EU standards (European Commission 2013).Ukraine has chosen European integration as its strategic priority and was aiming to create preconditions to meet requirements enabling joining the EU. Zhemoyda already in 2008 stated that Ukraine's orientation towards the EU.

The current situation, which takes place in Ukraine with Russia's fight against the political elite as a whole, economic, social and foreign trade orienting Ukraine, which currently leaves implications for foreign trade cooperation and positive development of foreign trade in Ukraine (Samokhvalov 2014).

2.1 Development of foreign trade of Ukraine with the Slovak Republic

In today's global economic order, significant changes occur, which must respond individual to the trade policies. In the present state of openness of the Slovak economy came to the fore the need to increase its external competitiveness. Of independence of Ukraine in 1991, Ukraine has started to focus on foreign policy priorities and the orientation of foreign trade in the global geopolitical changes. Economic development influence economic relations among Slovakia-Ukraine, who comprise three interrelated dimensions: First - the level of institutional development to ensure compatibility of economies among partner states, stability and efficiency of their mutual economic relations, as well as the state of infrastructure, which quality has an impact on improving competitiveness and reducing costs related to the execution of economic agreements, Secondly - the level of economic exchange, its dynamics and structure, together with existing imbalances, asymmetries and conflicts of interests as well as the spheres of common interests, Thirdly - the strategic vision of future interactions taking into account long - term development trends, changes of economic potential and a possible rise of political controversies (Razumkovcenter 2014).In last 4 years Ukraine and Slovakia have approved a number of cooperation programmes (budget support programmes on improving integrated border management, public administration reforms of the justice system). Ukraine continues to comply with the EU-Ukraine Association Agenda. This legislative process continues to comply with the EU-Ukraine Association Agenda. On the basic National Programme for Approximation of Ukrainian legislation to Legislation of the European Union is underway. This national plan to implement the action plan on EU liberalisation for Ukraine is also being executed (Rokovania 2014). This problem slowing liberalisation with relationship with EU exist two reasons, which are execution of the above-mentioned common documents is selective and slow state of execution of the action plan on liberalisation, who is common the form ´s the destiny of a new fundamental document between Ukraine and the EU - the Association Agreement together with a deep and comprehensive free trade area (FTA) – is hanging the balance. The second problem´s is internal political developments in Ukraine and certain external factors, who complicate the government ´s actions in the European direction and complete developing foreign trade develop. As it follows, the relations between Kiev, Brussels and Moscow are rather complex and controversial. A lot of problems, especially the geopolitical competition of the EU and Russia in the past and the present are responsible for the slow development of foreign trade Ukraine and cause obstruct economic development the trilateral format of relations Ukraine, Russia and European union (Euromaidanpress 2015).

2.2 Mutual foreign trade between the Slovak Republic and the UA

The EU´s economic relations (Slovakia) with Ukraine are formed following the adoption of a Wider Europe - Neighbourhood known as the European Neighbourhood Policy (ENP), which aim to gradually extend the mechanisms and regulatory standards of the EU´s single market by introducing compatible and harmonised rules to Ukraine´s national legislation, who include these four freedoms - movement of goods, services, capital and people. In the short - term, it is about trade liberalisation after the creation of a deep and comprehensive free trade area (FTA), the national treatment for investment, the gradual liberalisation of legal labour migration. The next forming economic develop is through the new EU ´s policy - Eastern Partner countries, including Ukraine(eeas.europa.eu 2014).Penetrating Slovak companies on the market of Ukraine is now important given the size of the market UA, its relative instauration, geographic and linguistic proximity, with respect to the future consolidation of the market, the prospect of euro-integration UA and not least in view of the gradual filling of the Ukrainian market, domestic and foreign companies . Market UA represents the Slovak company has great potential for its full utilization depends on the implementation of economic reforms, the government of Ukraine, the pace of standardization of business and investment environment UA, the euro-integration process. UA is the SR important strategic partner and also in terms of the supplier of raw materials for further processing in the Slovak Republic. (SARIO,2015).Ukraine offers great possibilities for implementation investment projects, because in terms of the values of foreign direct investment (FDI) it lags far behind the market economy developing world. Currently, in case of interest in investing in Ukraine it is necessary to consider possible risks of the Ukrainian economy, which is monopolized by a few financial and industrial groups and the success of the investment process is influenced by the relationship with the local executive bodies (Kašťaková 2014).In particular, in the last two years, Ukraine and the EU have approved a number of cooperation programmes (budget support programmes on improving integrated border management, public administration reform, reform of the justice system. Ukraine is not interested in a new geopolitical divide in Europe. The relations with Brussels and Moscow are strategically important for Kyiv. It is necessary to find ways and mechanism to improve cooperation in these key directions, which are different spheres – politics, economy, security etc. Very important trilateral format of cooperation, instead of producing conflicts should create equal, mutually, beneficial and effective contracts that promote socio-economic development for the parties as well as build trust and strengthen peace and security in Europe and on a wide geopolitical arena(TARASYUK 2014).According to the Ministry of Foreign Affairs as seen in Table No. 1, foreign trade turnover of Slovakia and Ukraine, which reached in 2013 the value of 1107.9 million euro. The negative balance in the course of 2013 decreased by 1.8 million and reached 149.4 million euro. Whereby we see that export goods to Ukraine amounted to 479.3 million euro, representing 1.5% of the total export of the SR and import of goods from Ukraine amounted to 628.7 million euro, the share of total imports UA SR constitutes 0.74%. The bilateral trade turnover of goods between the Slovak Republic and Ukraine in 2012 amounted to 1 035,4 million euro with a deficit amounting to SR 151,2mil. euro, down from 2013 in the percentage of 4.1% and money by 72.5 million euro. From the table below, we see that export goods to Ukraine in 2012 amounted to 442.1 million euro compared with 2013, reaching a decrease in money terms by 37.2 million euro in percentage terms, reaching a decline of 4.1%, reflecting the negative trade balance of import and Ukrainian goods from Ukraine to Slovakia compared to 2012, in percentage terms, also decreased by 35.4%, to 593.3 million euro. In 2011, foreign trade developed also with a negative balance were amounted to 135.8 million euro, compared to 2012, develops at a faster pace and to the value of 15.4 million. EUR. It exports amounted to UA 472.0 million. euro, which we have seen above, the pace of development of 29.9 million euro compared to 2012, imports amounted to UA 607.83 million euro, where we also recorded higher development rate of 14.53 million euro compared to 2012. (Mzv2014)

Tab. 1: Commodity structure of import - export Slovak Republic and Ukraine

Year	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014***
Export	504,7	252,3	368,9	472,0	442,1	479,3	532,1
Import	665,9	291,8	446,7	607,83	593,3	628,7	325,6
Turnover	1170,6	544,0	815,6	1079,8	1 035,4	1107,9	857,7
Balance	161,2	39,5	-77,8	-135,8	-151,2	-149,4	206,5

* in 2014 for the first 9 months

Source: Statistical Office of the Slovak Republic,2014

One of the main priorities of Ukraine's efforts to improve mutual trade and long-term debit balance towards Ukraine.

2.3 Commodity structure of import - export Slovak Republic and Ukraine

On basic of data of ministries foreign affairs Slovak republic the export featured in 2013 of Slovakia to Ukraine (next only UA) in the amount of 479,3 mil. euro. The main items Slovak export in Ukraine for year 2013 were car in the amount 82,267 mil.€ , which represented (17,2 % of total export SR in Slovakia), nuclear reactors, boilers, engineered in amount 70, 204 mil. € (14,6 % of total export SR in UA) iron and steel and products there of in amount 49, 921 mil. € (10,4 %), electrical equipment in amount 47,375 mil. € (9,9 %), honeycombs and product´s of them in mount 38,89 mil. € (8,1%), salt, sulphur, ground and stones, plaster, lime and cement in total amount 32,813 mil. € (6,8 %), paper , board, of paper fibril 24,37 mil. € (5,1%), optical photography and test devices in amount 19,73 mil. € (4,1%), bresk and articles thereof in amount (2,6 %), different chemical product in amount 9,05 mil. € (1,9 %) and others. On the second side import of Ukraine to Slovak republic in year 2013 presented 628,7 mil. €. The main items import to Slovak republic of Ukraine of year 2013 were iron stone and metal waste in amount 296,75 mil. € (47,2 % average of total import), mineral fill, mineral oils to the value of 113,14 mil. € (18,0%), iron and steel to value of 67,58 mil. € (10,8 %), electrical equipment and conveniences, sound recording apparatus to value of 53,78 mil. € (8,6 %), wood and products of wood, charcoal in value 23,2 mil. € (3,7 %), nuclear reactors and boilers, machine's in amount 10,1 mil. € (1,6 %),dress products to value of 9,12 mil. € (1,5 %), plastics and products of them in value 8,9 mil. € (1,4 %), aluminium and products of them in total 7,9 mil. € (1,3 %) a others.(Mzv2014).

2.4 The development of trade and investment cooperation between Slovakia and UA in respect of the territorial structure

The prospects of business-investment cooperation Slovakia with Ukraine will strongly depend on a set of key conditions. Penetrating Slovak companies on the market of Ukraine is now important given the size of the market UA, its relative instauration, geographic and linguistic proximity, with respect to the future consolidation of the market, the prospect of European integrations UA and not least in view of the gradual filling of the Ukrainian market, domestic and foreign companies. UA is a market for Slovak companies considerable potential for its full utilization depends on the implementation of economic reforms, the government of Ukraine, the pace of further standardization of business and investment environment UA, the euro-integration process. Ukrainian infrastructure passed partial modernisation (in traffic improved image and capacity international airport ´s, high speed trail connection. Regarding the reform of business start-ups, Ukraine has reduced the cost of setting up a company and simplify the various administrative tasks associated with setting up companies. Reduce the number of taxes has been some judicial reform, strengthen the financial sector.UA is for the SR important strategic partner and also in terms of the supplier of raw materials for further processing in the SR. The highest concentration of companies with Slovak capitals is situated in the border area of Transcarpathia. Foreign direct investment most tend to Kiev (32%), hereinafter referred to Dnepetrovsk area (10%), Donetsk, Zaporozhe, Odessa and Lvov Transcarpathian region (Sario 2015). Ukraine is becoming increasingly important partner in trade and economic cooperation SR. Energy and transport corridors linking the SR with Ukraine and the steady growth of mutual turnover with geographical proximity gives the possibility of permanent strengthening of mutual business cooperation in the future, but until then when the inside Ukraine and foreign political orderly relations with Russia (CEER 2015).

3 METHODS

From a methodological point of view we use the analysis and synthesis in this paper, which allow us to examine the development foreign-trade, then we analysed the mutual foreign trade between the Slovak Republic and the UA. Then we use induction, which allows us to use the approach based on the study and the analysis of the facts to make individual statements and general information about commodities structure development export-import and territorial development business investment cooperation SR and UA. The methodology contains also deduction, which allows us to approach the research from the general to the specific, i.e. how the various prognoses development foreign trade and perspectives cooperation sectors interesting of views direct foreign investments. Using comparisons, we compared the reality of multiple subjects for example Ukraine and Slovakia i.e. comparison of the two aspects of reality. In this paper, we use also statistical methods that allow us to gain knowledge from individual statistics, analytical materials, predictions of strategies, and major economic indicators development for comparative purposes.

4 CONCLUSION AND DISCUSSION

Recently we have witnessed substantial accumulation of macroeconomic imbalances, which have direct consequences for foreign trade. This problem comes of political-economic crises among Russia and Ukraine. With a view to preventing similar developments and restoring growth the European Commission has come with a proposal sanctions should be part of a broader EU approach towards Russia and of the efforts of to prelaunch the dialogue with Russia, which recalls that the sole aim of these sanctions is to commit the Russian government to change its current policy and contribute meaningfully to a peaceful solution of the Ukrainian crisis, which stresses that the maintenance, reinforcement or reversibility of the EU's restrictive measures depends on Russia's own attitude and on the solve situation in Ukraine. European commission in try to solve this adverse economic situation in Ukraine stresses the importance of a commitment by the international community to support economic and political stabilization and reform in Ukraine; invites the Commission and the Member States to develop a major assistance plan for Ukraine based conditions 'more for more' and to step up their efforts in rendering assistance to Ukraine, organizing a donor investment conference and cooperating with international financial institutions in order to define further steps for addressing the economic and financial recovery of Ukraine; welcomes the EUR 11 billion support package for Ukraine to be disbursed over the next few years, as well as the proposal by the Commission to extend an additional EUR 1.8 billion in form medium-term loans. The paper tried to assess the position of Slovakia - Ukrainian a foreign trade within its framework by discussing individual indicators interpreting their value and evaluating possible risk of imbalances. We were expecting the signing the Association Agreement by Ukraine in November 2013 in Vilnius and consequently the EU to become the most important market for Ukrainian goods and the main trade partner for Ukraine. At least, the information from Ukrainian companies said so. However, not signing the mentioned agreement caused an unprecedented range of protests throughout Ukraine. The current political development makes it incredibly difficult to come up with exact predictions of mutual (trade) relations. The current developing in the Ukraine bring the daily changing situation in Ukraine, on the other hand, it enables future research about how is the current instability going to influence the growing trade indicators and the willingness of foreign companies to invest in this country. V4 countries and mainly Slovakia were always focusing on maintaining good relations with Ukraine and we cannot predict what kind of impact will have this uncertainty on trade balance. The relevance of the paper lies in giving the overall picture of the current situation of the economy. Looking at both internal and external indicators the author attempted to shed light on key issues of prospects of future economic development. While the character of the economy predicates high vulnerability to internal and external shocks the present impacts of crises has been fairly absorbed. Despite breaching certain thresholds the author tried to provide further economic reading to justify the argument of imbalances and unlikelihood. The argument generally stems either from the phase of development the economy or positive effects of seemingly adverse trends. Also, attention is given at times to areas with key importance for future stability and sustained growth labour productivity and export performance.

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Socially responsible banks' efficiency – comparative evidence from EU countries

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Abstract: The research objective is to evaluate the potential of socially responsible banks for creating financial value, by means of efficiency in fulfilling the financial intermediation function. The sample comprises the 27 banks resident in 13 European Union countries, which have voluntarily adhered at the United Nations Environment Program-Financial Initiative (UNEP FI) international framework. It is a balanced bank-level panel data with annual frequency, collected from banks' annual reports. It has been applied the Data Envelopment Analysis (DEA) nonparametric technique in order to estimate the individual efficiency scores and construct the efficiency frontier. It was implemented a DEA intermediation approach, which is based on the asset transformation function, in the assumption of variable returns of scale. It has been tested a three model's specification, in order to account for a bank's conservative or risk taking financial behavior: output-oriented, input-oriented and non-oriented. The efficiency scores have been estimated separately, for each year in the time span 2006 – 2013, as well as for the entire time span. The result consists of a dynamic picture of the evolution recorded by each socially responsible bank and their positioning relative the efficiency (best practices) frontier. In addition, we are able to assess whether there is increased heterogeneity in the range of efficiency scores or they are relatively stable over time and across banks, keeping in mind that these banks have committed to exert a positive impact on environment and society.

Keywords: socially responsible banks, bank-level panel data, data envelopment analysis, efficiency score, efficient frontier

JEL Classification codes: C14, G21

1 INTRODUCTION

An increasing debate in the literature devoted to banking systems is whether a socially responsible financial behavior is a precursor or catalyst of financial performance, perceived either as profitability, productivity or efficiency in attaining the desired objectives. Some studies have investigated the extent to which sustainable banks prove to be more efficient than their conventional peers, that follow solely a profit-maximizing goal.

The contribution of the present paper to the literature in the field consists in enriching the actual state of knowledge related to a particular segment of the financial system, represented by socially responsible or sustainable banks. The research goal is to assess which of these banks, that publicly committed to fulfill the same sustainability criteria, do perform their financial intermediation function in an efficiently manner. Thus, the originality of the paper relies on placing at the core of the empirical approach solely the sustainable banks.

It will be used a large sample of 28 individual banks operating in 13 EU countries, that voluntarily adhered at the United Nations Environment Program-Financial Initiative (UNEP FI) international framework. UNEP FI is a partnership launched in 1992, established between the United Nations and the global financial industry, represented by banking, insurance and investment segments. Currently, its membership counts over 200 members. The statement of committment, which has to be signed by each member, clearly states the link that has to be developed between financial activity, Environmental, Social and Governance (ESG) challenges and sustainable development. It's core mission is to trigger a change in the current mainstream financial industry's behavior, in terms of financial operations, policies and products, by means of sustainability. The ultimate goal is the active and positive contribution of financial industry to a sustainable economy, human welfare and a healthy environment.

The data has been available for the time frame 2006 – 2013 and will allow us to obtain a dynamic picture on the efficiency pattern in the periods before, during and after the financial crisis. The paper is organized as follows: the second section reviews the previous literature on bank efficiency and emphasizes the current state of art in respect of the research devoted to financial institutions that implement a social vision in their basic activity. Section 3 briefly explains the methodology, the specificity of banks included in the sample, the source of data and the choice of the explanatory variables. Section 4 depicts and discusses the results obtained and the last section concludes.

2 LITERATURE REVIEW

Most research papers aim at estimating mainstream banking activity efficiency and usually focus on a single banking system, in a given country (Řepková, 2014 for the Slovak banking system; San-Jose, Retolaza and Prunonosa, 2014 for the Spanish one, Varias and Sofianopoulou, 2012 for the Greek banks to name just few of the most recent ones).

Some recent studies have evaluated the efficiency of banking systems across several countries. It is the case of Halkos, Tzeremes and Kourtzidis (2014) which examined the efficiency of the banking system for seventeen OECD countries during a time span of eleven years (1999-2009). Svitalkova (2014) compared the efficiency of banking systems in six EU countries during 2004-2011. Ferreira (2011) employed a sample of 27 EU countries, during 1994 - 2008. Holló and Nagy (2006) have studied a sample of 2459 banks from 25 EU member states from 1999 to 2003.Weill (2004) measured the cost efficiency of banks from five European countries (France, Germany, Italy, Spain, Switzerland). Fethy and Pasiouras (2010) provided a comprehensive review of 179 papers that focused on estimating mainstream banking performance by means of different operational research or artificial intelligence techniques.

However, literature related to socially responsible financial institutions' business model is scarce, lacking a rigorous empirical substantiation. There is a small strand of literature devoted to analyzing efficiency of savings banks or cooperative banks, as financial institutions focused primarily on the social value creation (Carbó, Gardener and Williams, 2002; Pasiouras, Sifodaskalakis and Zopounidis 2007; Chen, Chen and Peng 2008; Ganesan 2009; Feroze 2012; Othman, Kari and Hamdan 2013; Koch-Rogge, Westermann and Wilbert 2013; Fiordelisi and Salvatore, 2013; San-Jose, Retolaza and Prunonosa, 2014).

Another strand of literature focuses on the banks that have adopted Corporate Social Responsibility (CSR) practices. Morrison-Paul and Siegel (2006) observed that explicit consideration of CSR issues in DEA efficiency studies, no matter they focus on companies or financial institutions, is still under-investigated.

Vitaliano and Stella (2006) have applied Data Envelopment Analysis (DEA) to examine whether there is a relationship between US community banks' CSR rating and productivity. It hadn't been found striking discrepancies in terms of technical efficiency between CSR and non-CSR banks, but it were observed cost efficiency differences. The authors explained these results by the fact that banks' top management is faced with a trade-off between expected benefits and costs when choosing to behave in a socially responsible manner. The paper of Keffas and Olulu-Briggs (2011) analyzed banking systems in UK, US and Japan with the goal of ascertaining whether sustainable, CSR banks outperform the ones that do not incorporate any CSR practices in terms of efficiency levels, but the results were mixed and lacked a highly statistical significance. A singular study of this kind is the one of Ohene-Asare (2011), which has tested the relevance of including CSR as an output variable in a DEA banking intermediation model. The author attempted to develop a DEA model that incorporates a dual objective: the traditional profit-maximization goal and the goal of CSR. Also, he investigated whether there is a positive relationship between banks' socially responsible behavior and banks' efficiency and profitability. The overall results show that the inclusion of CSR as an additional variable in the basic DEA model exerts a significantly positive influence on the technical efficiency rankings for the banks in the sample.

The novelty of this paper resides in performing the analysis for the entire sample of socially responsible banks that have signed the UNEP FI statement and have committed to implement its requirements and principles in their current activity. Consequently, the research is focused exclusively on these sustainable banks and their efficiency path in the pre and post crisis period; comparisons between conventional banks and UNEP FI signatory banks are not covered by this paper.

3 DATA AND METHODOLOGY

It will be applied the non-parametric frontier technique Data Envelopment Analysis (DEA). By means of a mathematical programming technique, the DEA algorithm allows the computation of efficiency scores, which act as a proxy measure for the distance between each unit considered and the efficient, best-practices frontier. DEA methodology is rooted on the microeconomic concept of efficiency and the microeconomic view of production functions (Ferreira 2011, p.7). The choice for DEA is justified by its flexibility in modeling the production frontier of a sample without relying on a functional form or an error structure of data. The frontier is composed by all the best-practice input and output combinations. Consequently, all the entities that lie on the frontier, reaching a score of 1, are called efficient meanwhile the others are deemed inefficient. The measure of the inefficiency for an individual entity might be computed by simply subtracting the score obtained from 1.

The peculiarity of DEA methodology is that the production frontier is different, according to the features of entities in the sample considered. Thus, the efficiency score or, otherwise stated, the distance to the efficient frontier is subject to changes, depending on the other entities that are included in the dataset. Consequently, the results obtained by means of DEA cannot be extrapolated to the entire population, as they represent only the features of the entities in the initial sample. In my opinion, this so-called DEA drawback is questionable and might be avoided if the available data allows the study of the entire population, and not only of a subset of it. It is the case of the research conducted in this paper that covers all the banks signatories of the UNEP FI statement of commitment.

The DEA model to be estimated has been developed with variable returns to scale, under three assumptions: 1) an output-orientation or profit maximization function, that measures whether a bank is able to produce more outputs, by keeping constant its inputs; 2) an input-orientation or cost minimization function, to assess whether a bank might use less resources to produce the same level of outputs; 3) a non-oriented model, meant to quantify the efficiency improvements when both inputs and outputs can be improved simultaneously. The choice of input and output variables was based on the intermediation function, the input variable being represented by total deposits received from customers, while the output variable is total loans provided to customers. According to the asset or intermediation approach, banks mediate the financial flows, by attracting temporarily available financial resources in the form of deposits, which will become banks' liabilities to own customers, in order to produce income earning assets, such as loans, a basic but core banking product.

The results to be obtained will show how well is performed banks' basic function, whether there have been recorded improvements or impairments one year from another. San-Jose, Retolaza, Prunonosa (2014, p. 248) argued that the analysis of economic efficiency should be complemented by an assessment of the social efficiency. However, they agree this is a difficult and challenging objective as there is no generally accepted, standardized set of indicators that quantify the social profitability or the social value provided to local community.

All the banks in the sample are large banks, the difference between them and mainstream banking being that they are signatories of a sustainability framework and, hence have to implement the framework's principles in their regular banking activity. Consequently, a low efficiency score won't indicate a failure in implementing these principles, but a greater reliance on trading book activities than on core banking book ones or a risk-taking attitude, in terms of allowing mismatches between the financial resources attracted and their use.

The efficiency scores will be estimated distinctly, for each year during 2006 – 2013 as well as for the entire time span. When running the DEA analysis on the whole time period, for a balanced panel data of banks, we gain a simoultaneous insigth on both an individual bank's performance across the eigth years, but also on the performance recorded by other banks in the sample, in a comparative fashion. The result will consist in creating a pooled efficiency frontier, in which each bank will be treated as a different entity for each of the eight years considered. Secondly, the DEA analysis will be restricted to only one year at a time, so as to compare and rank the 28 socially responsible banks by relying on their relative efficiency score achieved for a particular year. The result will be represented now by several year-specific best-practice frontiers.

As Titko and Jureviciene (2014) observed, when applying DEA, the results might be presented in the form of two clusters: banks that position themselves on the efficient frontier and inefficient banks lying below or above the frontier.

4

5 RESULTS AND INTERPRETATION

Input and output variables have been first normalized in order to comply with a DEA methodological requirement, called the homogeneity principle. According to the principle, banks in the sample have to be comparable in terms of business size. Keeping in the analysis a wide range of values for input and output variables would have impaired the accuracy of the estimates and would have denaturized the efficiency scores. Data for one bank (HBOR from Croatia) have been removed from the dataset because of the striking difference between its financial position and the ones of the remaining sustainable banks. Its business model doesn't rely on customers' deposits, as a core liability, but on long-term borrowings and bonds issued. Table 1 synthesizes the main conclusions obtained by running the DEA method. M1 represents the first research direction (an input oriented model), M2 is the output oriented model and M3 is the non-oriented model.

Tab 1: Summary of results obtained

Year	DEA model	Number of efficient banks	Number of inefficient banks	Average efficiency score	Standard deviation of efficiency scores
2006	M1	5	22	69.30%	0.23
	M2	1	26	290.39 %	4.56
	M3	5	22	18.81%	0.16
2007	M1	5	22	69.71%	0.23
	M2	1	26	267.45 %	2.62
	M3	5	22	18.66%	0.16
2008	M1	5	22	69.62%	0.22
	M2	1	26	226.09 %	1.61
	M3	5	22	18.88%	0.16
2009	M1	6	21	72.44%	0.23
	M2	1	26	219.71 %	1.17
	M3	6	21	16.82%	0.15
2010	M1	6	21	64.78%	0.26
	M2	1	26	396.21 %	1.74
	M3	6	21	21.83%	0.19
2011	M1	5	22	61.46%	0.28
	M2	5	22	171%	0.81
	M3	22	5	7.85%	0.29
2012	M1	5	22	59.04%	0.3
	M2	5	22	179.5%	1.008
	M3	22	5	5.93%	0.19
2013	M1	4	23	55.15%	0.31
	M2	4	23	184.21 %	1.16
	M3	4	23	29.53%	0.27

2006 - 2013	M1	5	211	45.57%	0.267
	M2	5	211	256.41 %	2.71
	M3	5	211	36.37%	0.25

Source: author's computation by means of EMS software

In the assumption of an input-oriented (model M1) and non-oriented (model M3) approach, the efficiency frontier is composed by 5 banks during 2006 – 2008, 6 banks during 2009-2010 and 4 banks in 2013. The average efficiency score of M1 recorded a small pace increase until 2009, and then entered on a decreasing path until 2013, suggesting that banks are no longer able to manage costs, by properly matching deposits with loans granted. The non-oriented model (M3) provides greater flexibility in quantifying efficiency, as it allows a simultaneous improvement of both inputs and outputs. In 2011 and 2012, 22 sustainable banks out of the 27 included in the sample lie on the efficiency frontier. The highest average inefficiency had been recorded in 2013, with a standard deviation around the mean of 0.27.

As shown by the standard deviation of efficiency scores, the highest efficiency variation had been recorded in the assumption of an output oriented model (model M2). The year 2006, followed by 2007 and 2010 witnessed most extreme values of efficiency scores and increased inefficiency. This finding is reinforced by the average efficiency scores computed, that widely exceed the optimal level of 100%. The best practice frontier comprises only one bank in the time span 2006 – 2010 (Swedbank from Sweden proved efficient in 2006, 2008 and 2009; KfW from Germany had been efficient in 2007 and 2010), during 2011 – 2012 their number increased to 5 (BNP Paribas from France, KfW from Germany and Triodos from Netherlands had been efficient in both years), while in 2013 only 4 sustainable banks reached the status of efficient banks (BNP Paribas, KfW, Nordea and Triodos).

A first conclusion is that, in five out of eight years considered, and for all the three models' hypotheses the bank KfW from Germany has constantly reached the optimal efficiency threshold and positioned itself on the efficiency frontier. It means that the bank pursued a profit maximization business strategy and succeeded to balance the given inputs (financial resources collected from customers through deposit accounts) so as to produce as much outputs as possible (in the form of loans granted to customers). At the same time, in the assumption of an input-oriented model, KfW had been able to minimize its costs, by using less financial resources to obtain the desired level of financing real economy. It has to be mentioned that in Germany operate five sustainable banks, but only KfW performs efficiently its intermediation function.

The banks that have been identified efficient in two out of the three model assumptions are Danske Bank from Denmark (in 2006, 2007, 2008, 2009 and 2010), Triodos from Netherlands in all the eight years, Unicredit from Italy (in 2006, 2007, 2008, 2009, 2010 and 2012), BNP Paribas from France (2010, 2011, 2012 and 2013), Royal Bank of Scotland from UK (in 2007, 2008 and 2009).

In respect of the most inefficient banks, the ranking is mixed across each year considered and each model assumption, with great volatility in the computed value of efficiency scores. For instance, since 2011, BCR from Romania is constantly the most inefficient bank in terms of profit maximizing approach, while in an input-oriented approach the highest inefficiency is disputed between Raiffeisen Bank from Austria and LBBW from Germany.

The DEA method has been applied too for the balanced panel dataset comprising all the 27 banks in the eight years. The specificity of DEA is that it allows an individual bank's performance across the eigth years to be considered as belonging to different entities. In this fashion, the data sample comprised 216 observations, which have been treated as belonging to 216 different banks. The results have shown that Intesa Sanpaolo (in 2011), KfW (in 2013), Royal Bank of Scotland (in 2008), Triodos (in 2006) and Unicredit (in 2008) recorded the optimal efficiency score of 100%. However, when comparing all banks during all years, the average efficiency obtained is low and the scores are widely asymmetric.

5 CONCLUSIONS

The aim of the paper has been to provide a dynamic picture of the efficiency path recorded by each UNEP FI socially responsible bank and their positioning relative the best practices frontier. Although the analysis covered the period before, during and after the financial crisis, the average efficiency scores do not follow a particular, consequent pattern, but are relatively heterogenous over time and across banks. However, the computed level of inefficiency is lower in the assumption of a cost minimization approach than in the assumption of a profit maximization function. On average, sustainable banks succedeed best at managing the financial resources attracted by means of customers' deposits, than at increasing the volume of loans granted. This finding might suggest a prudent business strategy, with a moderate risk preference. As loans are one of the main sources of incomes for a bank, the failure in optimising the financing directed to households and real economy might be interpreted as not following profitability at any costs. Despite their committment to exert a long-lasting, positive impact on environment and society, some banks hadn't forgotten their commercial nature (Banco Espirito Santo in Portugal, Danske Bank in Denmark, HBOR in Croatia, HSH and KfW in Germany, Nordea and Swedbank in Sweden). On the asset side, besides loans a significant place is hold by financial assets held for trading and financial investments, while on the liabilities side other sources of financing in completing deposits (sometimes even exceeding their book value) are the subordinated liabilities and the debt securities issued, so as to allow the extending of wholesale funding maturities and a prudent liquidity management. Our conclusion is that business models' peculiarities put their stamp on the level of relative efficiency achieved by each sustainable bank in the sample.

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ANNEX 1. List of sustainable banks, members of UNEP FI, included in the study

No.	Bank name	Country of residence
1	ABN AMRO	Netherlands
2	Alpha Bank	Greece
3	Banco Espirito Santo	Portugal
4	Barclays	UK
5	Bayern	Germany
6	BBVA	Spain
7	BCR	Romania
8	BNP Paribas	France
9	Danske Bank	Denmark
10	Deutsche Bank	Germany
11	EFG Eurobank	Greece
12	HSBC	UK
13	HSH	Germany
14	ING	Netherlands
15	Intesa Sanpaolo	Italy
16	KfW	Germany
17	LBBW	Germany
18	Nordea	Sweden
19	Piraeus	Greece
20	Rabobank	Netherlands
21	Raiffeisen	Austria
22	Royal Bank of Scotland	UK
23	Societe Generale	France
24	Standard Charter	UK
25	Swedbank	Sweden
26	Triodos	Netherlands
27	Unicredit	Italy

An Investigation of Social Media and Internet Usage Habits of College Students in Turkey

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Abstract: Social media is one of the most popular communication channels of last decade that entered to people life. That social online environment has been assimilated and spread out widely and quickly among young generations in a short time. The primary purpose of this study is to reveal social media and internet usage habits of college students in Turkey. The data has been collected among Mehmet Akif Ersoy University students by conducting face to face survey method. 335 students have participated in the survey. The data has been analyzed by using frequency and chi-square analyzing methods. The obtained findings show that social media and internet have a critical role in their life. They spend for a long time in this environment not only for social purposes but also other thing such as considering brand messages, online shopping, making research, etc. Also this medium makes them social as online as well by writing comments, messages or sharing opinions. Findings indicate that social media seen as main aim and priority purpose to enter internet daily. Facebook and Twitter have been considered as most popular and preferred social networks in Turkey as well

Key Words: Internet, Social Media, College Students.

JEL Classification codes: L86.

1 INTRODUCTION

Today, millions of young adult people get social by using social media. Although social media is a phenomenon which has improved recently, today, individuals from all ages know more or less regarding the structure and content of this concept. Being a technology far beyond traditional media, social media, increases the number of users each day and makes individuals dependent on himself (Kırık & Büyükaslan, 2013:7-8). According to the Global Digital Statistics January 2014 report, world's population is 7.095.476.818, 35% of the world's population (2.484.915.152) use internet, and 26% (1.856.680.860) of them are active social media user. According to the same report Turkey's population is 80.694.485, 45% of the population (35.990.932) use internet and 45% (36.000.000) of them are active social media user. Internet users in Turkey spend their daily average 4.9 hours on internet via personal computers and 1.9 hour through mobile devices. Moreover, internet users in Turkey spend average 2 hours 32 minutes daily on social media. As in the world, Facebook is the most used social media platform in Turkey with the rate of 93%. Twitter (72%), Google + (70%) and LinkedIn (33%) respectively follow Facebook (http://www.dijitalajanslar.com).

Social media is an umbrella-term used for web-based software and services which enable mutual discussions of web-based users gathering online, communicate and enabling them to have any form of social communication (Ryan & Jones, 2012:152). Built on the ideological and technological foundations of Web 2.0., social media can be defined as user-created, enables content production and sharing, applications group in the form of internet-based applications (Kaplan & Haenlein, 2010:61). The functional distribution of social media can be collected under 7 different categories. These are; social networking sites, photo and video sharing sites, blogs, micro-blogs, wikis, virtual life simulations, virtual game simulations (Kara, 2013:73). The basic features of social media are as follows (Blossom, 2009: 30-32):

- Social media is an accessible, scalable and convenient technology.
- Social media provides individual-mass communication.
- Social media has the power to mold public opinion and influence individuals.
- Social media has the ability to hold people together regardless of their differences and building community.
- Shared contents, texts, images in social media can be used over and over again by copying.
- It is fairly easy to perform research and search on the social media.
- Data collection and measure are easy through social media.

Above mentioned characteristics make social media indispensable in every field. Communication is provided by means of internet and social media is more democratic and open to everyone. In the context of democratization of knowledge, these new communication channels have provided accessibility and openness for a larger audience or public (Alioğlu, 2013:258).

Social media revolution gave out more sound than ever through all over the world. Also social media companies challenge to consider how they might be more transparent and responsive (Kerpen, 2011:4). Because today, services and product testimonials people perform through social media are the new king. In the UK, BBC management thinks that employees who do not use social media effectively cannot execute their professions effectively anymore (Çakır, 2013:23). In the election campaigns, social media is also extensively used in the marketing, publicity and public relations areas. For example, Obama's broad-based campaigns are important in terms of showing the role of YouTube and internet on participatory democracy (Kellner, 2011:51). Social media enables consumers to establish interaction with the businesses similarly as they do with their friends and family. Regardless of their size, brands and businesses must use social media properly and original way in order to establish one-to-one relationships with the customer and make impact on today and future markets (Vaynerchuk, 2011:18-19).

People decisions regarding the business and consumption based on the things they have seen or discussed in social media. Lots of companies who are aware of this situation increase their profit successfully by using social media relationships (Vaynerchuk, 2011:21-23). In summary, now more than ever, social media provides us the ability to be aware of small details of others' lifestyles, what is going on, what people are doing and thinking (Vaynerchuk, 2011:21-23). Also, social media' practical fast and brutal nature offers vast opportunities for those who want to share their privacy (Arık, 2013:127). All of these possibilities and deals make social media quite attractive to university students.

2 LITERATURE REVIEW

As related literature examined, there are various studies regarding the social media and social media usage habits of university students examining through several variables. Some of these studies are ; Vural & Bat (2010)' "Social Media As A New Communication Environment: A Research On Ege University Faculty of Communication" , Akçay (2011)' "Social Media Use With The Context of Uses And Gratification: A Research On Gümüşhane University", Onat (2010)' "Social Media Practices As A Public Relations Application Field: An Analysis About Nongovernmental Organizations", Balaban & Karataş (2012)' "The Usage Purpose of Social Network Sites of High School Students and Social Network Elements", Hacıefendioğlu (2011)' "Social Networking Sites As An Advertising Environments And A Research, Yağmurlu (2011) "Public Relations And Social Media Practices In Public Administration", Rowe (2014)' "Student use of social media: When should the university intervene", Hacıefendioğlu (2010)' "A Research on Member Loyalty in Social Networking", Öztürk & Akgün (2012)' "University Students' Purposes in Using Social Networking Sites, and Their Opinions on Using These Sites in Education", Filiz et al. (2014)' "Examination of the Correlation between Aim of the Social Network Sites Usage and Internet Addiction of Computer and Instructional Tecnology Department Students", Şener & Samur (2013)' "Social Media as a Factor Health Promoting : Health On Facebook", Kokoç & Çiçek (2011)' "Why College Students Don't Use Facebook?", Tektaş (2014)' "A Research On University Students' Social Networking Habits", Kent (2013)' "Using social media dialogicallg: Public reletions role in feviving democracy", Dissel (2014)' Social media and the employee's right to privacy in Australia", Badea (2014)' "Social Media and Organizational Communication", Otrar & Argın (2014)' "The Examination of The Students' Attıtudes Towards Social Media Within The Context of Habits", Usher et al. (2014)' "Australian health professions student use of social media", Alwagait et al. (2014)' "Impact of social media usage on students' academic performance in Saudi Arabia", Zerfass & Sham (2014)' "Social Media Newsrooms in public relations: A conceptual Framework and corporate practices in these countries", Köksal & Özdemir (2013)' "An Investigation on Place of Social Media in Promotion Mix".

3 RESEARCH METHODOLOGY

Vocational school students' internet and social media usage habits were examined in this study and answers of the following questions are examined.

- What is the frequency of students' internet use? What is the average time they spent on the internet? What are the purposes of using internet?
- Do students use social media? Which social media actors do they use? What is the frequency of student's using social media? What purpose do they use social media mostly?
- Is there a significant relationship between gender and purpose of internet use?
- Is there a significant relationship between gender and frequency use of the internet?
- Is there a relationship between gender and frequency use of social media?
- Is there a significant relationship between gender and time spent on social media?
- Is there a significant relationship between gender and used social media actors?

The study is based on a scanning model; face to face survey method was used for obtaining data required for research. In the survey, questionnaires were prepared by Akıncı Vural & Bat (2010). Demographic questions, age, gender, etc. are stated in the first part of the survey, internet use in the second part and in the third part questions in terms of social media use are stated. Main mass of the research is formed by the 418 students during the 2013-2014 spring semesters from the Mehmet Akif Ersoy University Gölhisar Vocational School of Health Services. Sampling of the survey is formed by 335 students, who agreed to join the survey. Frequency and Chi-Square analysis method were used in evaluating the data obtained as a result of this survey.

Limitations of the study: Research findings of the survey show only thoughts of college students studying at the high school in which the research has been carried out. As the majority of students are composed of girls (80%), this fact is reflected in the sampling of this case study. This constitutes a further limitation of the study.

4 FINDINGS

Demographic findings are given below regarding the survey applied to the students (Table 1).

Tab. 1: Demographic Findings

Variable	**Groups**	**N**	**%**
Gender	Female	264	78.8
	Male	71	21.2
	Total	335	100.0
Age	18-20	262	78.2
	21-23	59	17.6
	24+	14	4.2
	Total	335	100.0
Class	1. Class	193	57.6
	2. Class	142	42.4
	Total	**335**	**100.0**

335 students participated in the survey. %78.8 of the participants are female whereas %21.2 of them are male. 57.6% of them are first-year students, 42.4% of them are second-year students. Average age is 20 (Table 1). Students were asked whether they use internet or not. 100% of students use the internet. The students were asked for what purpose they use internet mostly. Obtained answers are shown at (Table 2).

Tab. 2: Students ' Internet Usage Purposes

Purpose Of Use	**N**	**%**
Social Media	126	37.6
Entertainment	108	32.2
Exchange Information (hobbies, news, assignments, etc.)	50	14.9
Official Services	31	9.3
Video Watching	7	2.1
Bank Operations	5	1.5
Other	8	2.4
Total	**335**	**100.0**

Students mostly uses internet for social media with the rate of %37.6. Other use purposes are as follows respectively: Entertainment 14.9% 32.2%, exchange of information, formal Services% 9.3, video surveillance 2.1%, other 1.5%, Bank operations 2.4% (Table 2).

Students mostly use the internet for social media, which shows how important the social media is for them. Students are asked how often they spend time on internet and how many hours they spend their time on internet on average (Table 3

Tab. 3: Students' Internet Access Frequency and Average Time Spent on the Internet

Internet Access Frequency	**N**	**%**
Everyday	271	80.9
3-4 days a week	50	14.9
1-2 days per month	9	2.7
3-4 months	5	1.5
Total	**335**	**100.0**
Average Time Spent on the internet		
1 hour or less	69	20.6
1-3 Hours	97	29.0
3-5 Hours	68	20.3
5-7 Hours	59	17.6
7+	42	12.5
Total	**335**	**100.0**

While 80.9% of the students get access internet every day; 14.9% of them for 3-4 days a week, %2.7% of them 1-2 days per month, 1.5% of them per 3-4 months. The average time students spent on the internet as follows: 20.6% of the students spend less than an hour, % 29.0 up to 1-3 hours, 20.3% of them 3-5 hours, 12.5% of them more than 7 hours (Table 3).

Students were asked whether they use social media or not. Answers given by the students are shown as below (Table 4).

Tab. 4: Students Social Media Use

Do you use social media?	Yes		No		Total	
	Number	%	Number	%	Number	%
	327	97.6	8	2.4	335	100.0

97.6% of the students use social media, whereas 2.4% of them do not. These results show us that social media into the lives of almost all students. Students were asked which of the social media actors they use mostly. Answers given by the students are shown as below (Table 5).

Tab. 5: Social Media Actors Students Use Most

Social Media Actors	**N**	**%**
Facebook	265	81.0
Twitter	33	10.1
Instagram	9	2.8
Other	20	6.1
Total	**327**	**100.0**

With the rate of 81.0%, Facebook is the most widely used actor by the students. Facebook respectively followed by Twitter %10.1 and Instagram %2.8. The main reason why students mostly use Facebook within social networks is that Facebook has more applications than other social webs and its structure to be able to hold individuals for a long time.

Students were asked how often they use social media and how many hours they spend on the social media. The answers received are given below (Table 6).

Tab. 6: Social Media Access Frequency of Students and Average Spent Time

Social Media Access frequency	**N**	**%**
Everyday	249	76.1
3-4 days a week	52	15.9
1-2 days per month	12	3.7
3-4 months	14	4.3
Total	**327**	**100.0**
Average Spent Time on Social Media		
1 hour or less	84	25.7
1-3 Hours	89	27.2
3-5 Hours	67	20.5
5-7 Hours	45	13.8
7+	42	12.8
Total	**327**	**100.0**

Student’s access rate to the social media is as follows: 76% of them every day, 15.9% of them 3-4 days a week, 4.3% of them per 3-4 months. Average time students spent on the social media is as follows: 25.7% of them less than 1 hour, 27.2% of them 1-3 hours, 13.8% of them 5-7 hours, 12.8% of them more than 7 hours (Table 6). This fact clearly shows the place of the internet and social media in the lives of college students. Students were asked for what purpose they use social media mostly. Received answers are given below (Table 7).

Tab. 7: Purpose of Students' Social Media Use

Purpose Of Use	**N**	**%**
Spend time	101	30.9
Play Interactive Games	75	22.9
Online Chat	60	18.3
Check What My Friends Are Doing	26	8.0
Update My Profile	26	8.0
Play Non-Interactive Games	17	5.2
Other	22	6.7
Total	**327**	**100.0**

Students social media use purposes are as follows ; % 30.9 of them for spending time, 22.9% of them to play interactive games, 8.0% of them to check what their friends are doing, 8.0% of them to update their profile, 5.2% of them to play non-interactive games , 6.7% of them for other purposes (Table 7) . According to these results we can say that students use social media mostly to spend time.

Students were asked if they use their own name in their social media accounts. They indicated that 74.0% of them use their own name, whereas, 12.8% of them do not use and 13.1% of them said that in particular accounts they use their own name.

Students were asked whether they follow and watch video on video sharing sites, or follow photo-sharing sites and share photos there. Students indicated that % 62.7 of them watch video, % 46.5 of them share video, 64.8% of them are following photo-sharing sites and 57.8% of them share photo.

Students were asked whether they prefer to comment contents in the social media and if the content commentaries about the brands in the social media change their point of view about those brands. Students indicated that 57.2% of them are commenting on social media contents and 31.8% of them stated that social media, brand-related contents change their point of view regarding those brands. Before doing shopping, people look for products and brands over the social media and the internet, and the comments affect them. Therefore, these results indicate that enterprises should care about and follow social media well today.

Chi-Square test was carried out in order to find out whether there is a meaningful relationship between students' gender and purpose of internet use, frequency of use the internet, social media, frequency of use and time spent on social media. Chi-Square analysis results are given below (Table 8).

Tab. 8: Chi-Square Analysis Results

	Chi-Square	p	Evaluation
Is there a meaningful relationship between gender and purpose of internet use?	13.574	0.059	(P=0.059>0.050).There isn’t a meaningful relationship between gender and purpose of internet use.
Is there a meaningful relationship between gender and frequency of internet use?	3.227	0.358	(P=0.358>0.050) There isn’t a meaningful relationship between gender and frequency of internet use.
Is there a relationship between the gender and frequency of social media use?	2.219	0.818	(P= 0.818 >0.050) There isn’t a meaningful relationship between gender and frequency of social media use.
Is there a meaningful relationship between gender and time spent on social media?	2.734	0.841	(P= 0.841 >0.050) There isn’t a relationship between gender and time spent on social media.
Is there a meaningful relationship between gender and social media actors?	8.696	0.122	(P= 0.841 >0.050) There isn’t a meaningful relationship between gender and social media actors.

5 CONCLUSION

According to research results, all of the students are using the internet and 80% of them get access to internet every day. Social media is the primary purpose of students’ internet use. 97.6% of students use social media and most popular social media platform is Facebook. Twitter and Instagram respectively follow Facebook. 76.1% of the students get access to social media sites daily. Primary purpose for using social media is spending leisure time. Findings related purpose in using social media and social media platform that students use most are similar to those obtained in the study conducted by Vural and Bat (2010). In the related work, Facebook is the social media platform that is preferred by students most. In addition, "spend time" ranks first with 31.0% in the purpose of using social media in the same study. 74.0% of the students currently use their own name in social media accounts, 57.2% of them comment on social media contents, 46.5% of them share videos whereas 64.8% of them share photos. 31.8% of the students are affected by the contents about social media brands.

According to the results of the Chi Square analysis; there isn’t a meaningful relationship between gender and purpose of using internet, frequency of internet use & social media use, frequency of time spent on social media and used social media actors. That means, there isn’t a difference between girls and boys about internet and social media use.

Research results show that students use social media intensively. We can easily say that all segments, aiming to reach students representing young population, should take social media into consideration and aware of the fact that it is easier to get through them by media means. In this respect, the followings can be done: Using social media effectively in the educational process, educators can transform social media into an environment for education of students. Businesses can use social media to reach college students as a highly effective advertising and promotional environment. In addition, following post comments and content in social media related to their brands and providing timely feedback, businesses can prevent negative effects of social media on young people. University administrations can determine students' problems and complaints by following the social. They can take necessary measures. They can also prevent the deterioration of the university image.

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Environmental aspects of corporate strategy

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Abstract: Paper is concentrated on specifying the environmental dimension of the companies' strategies. Its aim is to highlight the importance of environmental thinking of companies operating in the markets of Central and Eastern Europe. Research will be held through historical analysis of corporate strategies implemented in the last period. Through primary research will be evaluated the demand side of the importance of environmental and ecological thinking of the companies. Sustainable strategies concept is also part of the European Union objectives defined in the strategy Europe 2020.

Keywords: strategy, ecology, sustainability, environment.

JEL Classification codes: L19, F18.

1 INTRODUCTION

Deepened concentration, integration and globalization processes, internationalization of the existing economic relations between countries force growth of international trade with goods and services. Focusing on a specific market or market segment retire. The typical is using global sourcing, global manufacturing with an emphasis on sustainable development. These facts have become an impulse for changes in corporate strategies.

The aim of paper is to highlight the importance of environmental thinking of companies operating in the markets of Central and Eastern Europe. The contribution is as concerned with highlighting the important corporate strategies for over the last period, and the current concept of sustainable development, in other words, the ecology, environment as an important part of business strategies based on objectives of European Union (strategy Europe 2020). Following the results of the primary survey specifies environmental thinking on the part of demand in the markets of Central and Eastern Europe.

2 LITERATURE REVIEW

The effort to achieve a reasonable profit and increasing competition not only in domestic market but also in foreign markets is increasingly forcing companies to draw the attention to the economies of scale and to the search for new competitive advantages. (Jamborová 2012)

These facts have become the impetus for changes in corporate strategy. The strategy, management methods applied in many contemporary societies were developed several years ago, when the company needed to find new directions for cost reduction and growth, and gradually began to apply even in companies operating in the markets of Central and Eastern Europe. The most important ideas in over the last period are summarized in the following table.

Tab. 1: Development of firm strategies

Year	Strategy	Characteristics
1910	The Assembly line	It was one of the major occasions in the development of mass industry. Henry Ford's aim was producing and selling cars available for everyone.
1920	Market segmentation	General Motor's car models have been tailored to market requirements. CEO managed divisions, which operated as separate companies.
1931	Brand management	Procter & Gamble began targeting brands intensively. Individual managers become responsible for each brand's success.
1943	Skunk works	Lockheed created an organization called "skunk works", which used small groups cooperating with the parent company.
1950	Pull production	Toyota developed ways to up efficiency, minimizing inventories, what led to pull production.
1967	Scenario planning	Royal Dutch / Shell first experimented with scenario planning. In 1967 it helped to navigate the oil shock of the 1970s.
1973	360-degree reviews	DuPont adopted 360-degree reviews. Getting feedback from managers and underlings was very important.
1987	Six Sigma	It was invented at Motorola to increase efficiency, cut time of production cycle. It seeks to improve the quality of process outputs by identifying and removing the causes of defects.
1989	Outsourcing	At this stage IBM began to focus on its core business. Outsourcing involves the transfer of the management and day-to-day execution of an entire business function to an external service provider.
1990	Reengineering	It represents a fundamental rethinking and radical reconstruction of business processes in order to reduce costs. Most of the work being done does not add any value for customers and this work should be removed, not accelerated through automation. Instead, companies should reconsider their processes in order to maximize customer value, while minimizing the consumption of resources required for delivering their product or service. Hammer and Champy are founders of the concept of reengineering.
2000	Open innovation	Many companies focus on cooperation with other firms and customers. Intangible assets are acquired by transferring rights. Procter & Gamble has gained half of its innovations from outsiders. The future is about teamwork and making decisions with a replicable process, which offers speed and flexibility.
Today	Sustainability	That means to be not only economical, social but also ecological. It is importance of social responsibility, environment, ecology and innovation in strategies.

Source: Elaboration according to: Burrows 2009

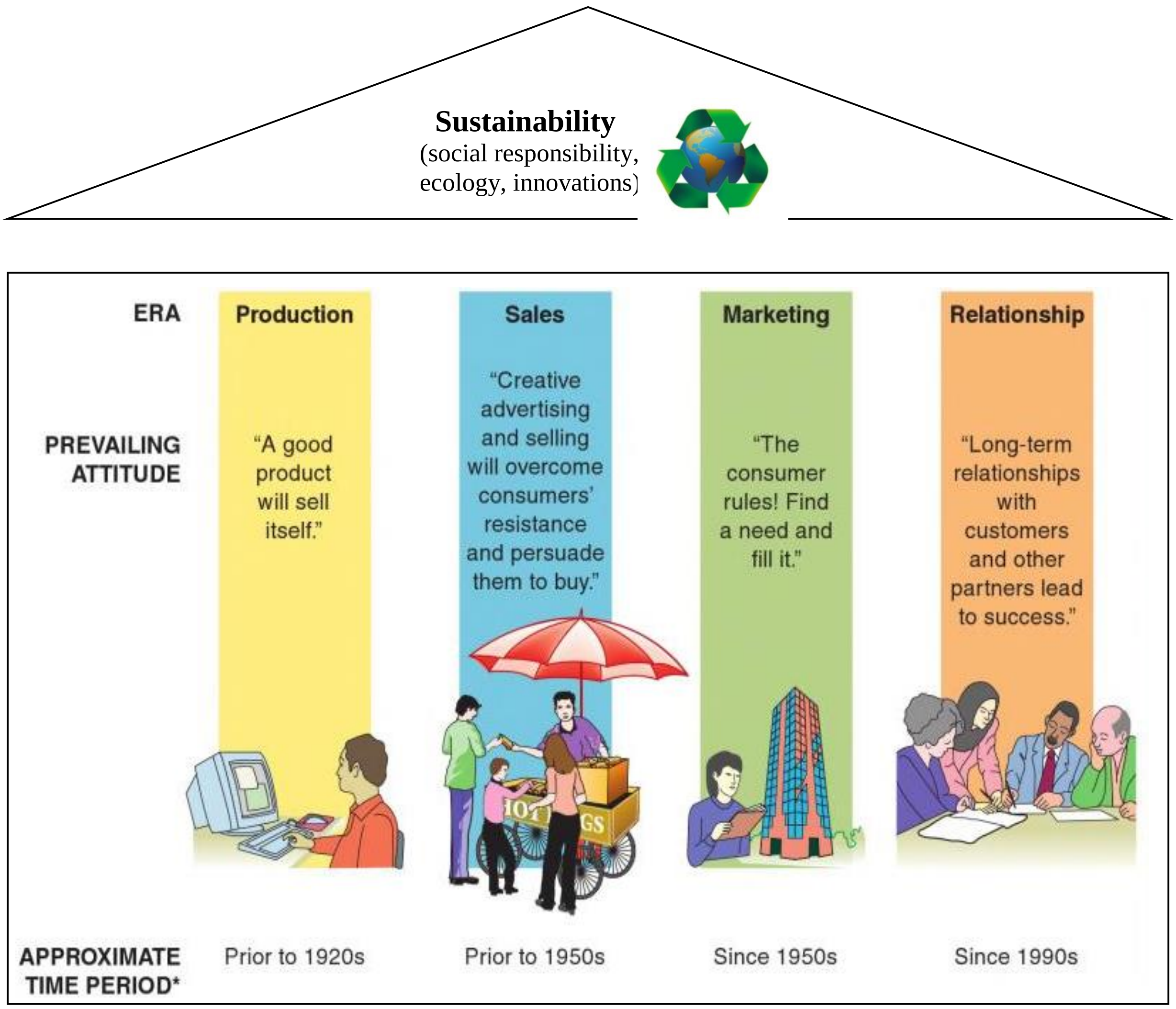
In terms of marketing, we could split the focus of company strategies from a historical perspective into the following eras: production, sales, marketing, relationship, and now we are talking about economical, ecological, social sustainability.

Companies must develop a ways to measure performance that includes sustainability. The most popular formulation is the "Triple Bottom Line", which involves planning, managing and reporting on business results in following areas: (Howard & Montgomery 2011)

a) economic (e.g. sales, profit, cash flow),
b) environmental (e.g. impacts on air, water, waste, energy use),
c) social (e.g. product responsibility, community impacts).

Figure 1 summarises the eras of marketing history and sustainability, what influenced also the corporate strategies. This is the reason, why it is important to mention it. Today many firms focus on long-term contracts that mean long-term relationships with customers, what leads to successes in long-term period.

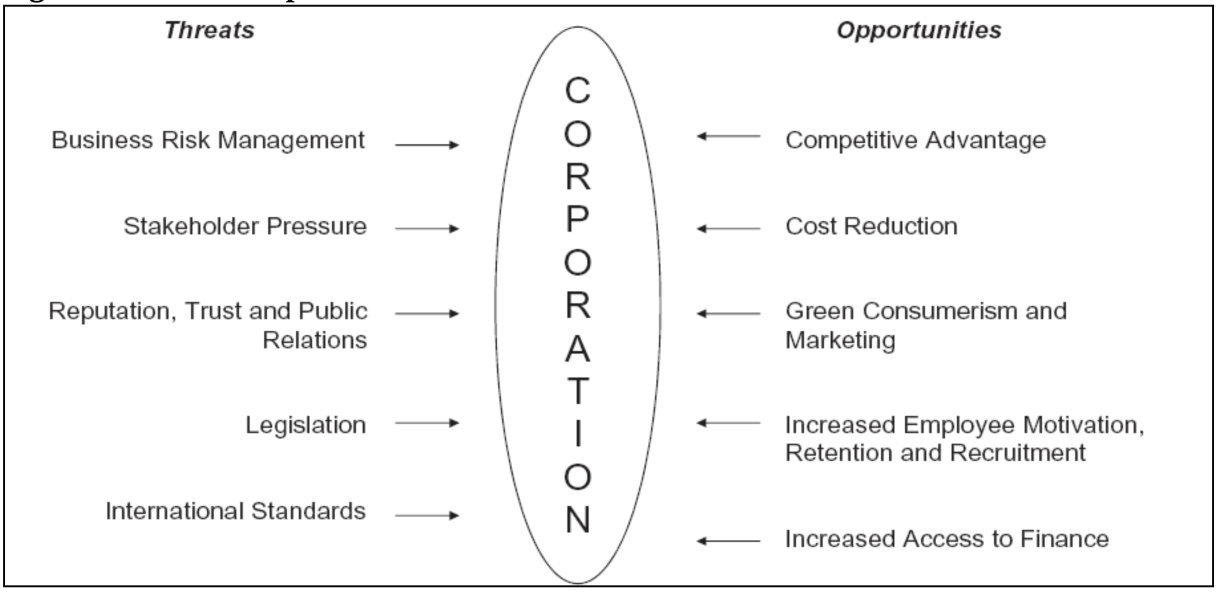
Fig. 1: Eras of attitudes as a part of corporate strategies with focusing on marketing history



Source: Elaboration according to: Boone & Kurtz 2009

So today we can speak about sustainability strategies, which mean environmental aspects of corporate strategies such as for example the aim to be not only economical but also ecological. It is often called corporate environmentalism focusing on threats (e.g. reputation, legislation) and opportunities (e.g. cost reduction, competitive advantage) how we can see on following figure.

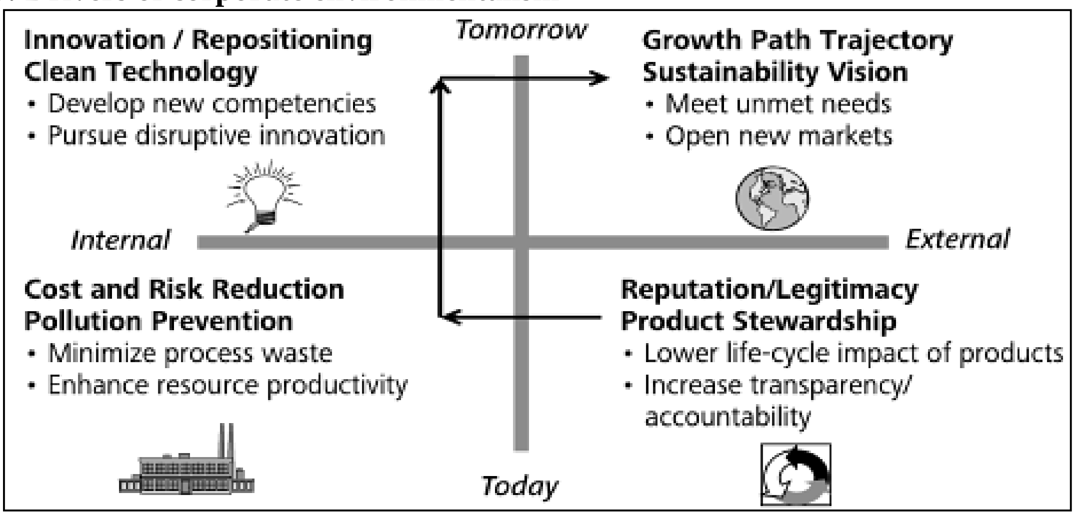
Fig. 2: Drivers of corporate environmentalism



Source: Valentine 2009

Sustainability as a part of corporate strategies gives companies a sustainable competitive advantage. It is a race to the top. Be environmental and sustainability issues provide new opportunities focusing on core business aims (e.g. improving productivity, reduction of costs). We distinguish four quadrant of enterprise sustainability: innovation, growth, cost, reputation.

Fig. 3: Drivers of corporate environmentalism



Source: Willard 2013

Sustainable strategies concept is also part of the European Union objectives defined in the strategy Europe 2020, in which the five headline targets have been agreed for the whole European Union. The main areas are: employment, research, innovation, education, poverty / social exclusion and climate change and energy sustainability - greenhouse gas emissions 20% - or even 30%, if the conditions are right - lower than 1990, 20% of energy from renewable, 20% increase in energy efficiency. (Europe 2020)

3 METHODS

A theoretical overview of research problems of environmental aspects of business strategies was obtained mainly by the literature research method. Through a historical analysis was specified the development of business strategies over the past year.

In article the authors used comparative method focusing on selected indicators of sustainable development in Eastern and Central Europe (ECE) in different time periods. Using this method it is possible to identify the impact of development of economic activity on the environment of selected countries.

The collection of primary data was carried out using the method of questionnaire. The authors used closed and open questions. Respondents were customers - consumers who evaluate the company as it appears externally especially in the field of environmental activity and impacts on the market. Respondents were contacted through an Internet questionnaire sent via Google Docs. The survey was conducted during the period from November 2014 to December 2014. Selected respondents comprised the sample randomly in 50 people. 19 respondents completed the questionnaire. Response rate was 38%.

Fig. 4: QR code

Source: Own proceedings according to: http://goqr.me/

In carrying out the questionnaires we used the most advanced form of sharing sites and applications so called QR code (figure 4). Statistical methods were used in the evaluation of respondents' answers using the Excel tools.

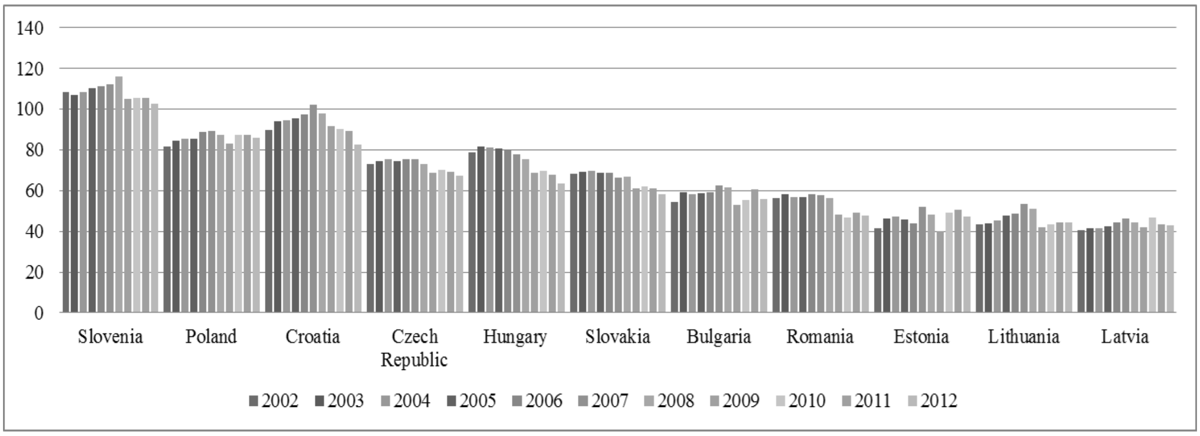
4 RESULTS AND DISCUSSION

At the level of corporate governance, particularly at the level of strategic management we see a shift from the traditional market-oriented approach to a much broader understanding of management. The attention from the beginning of the 21st century was shifted to concept of sustainable management and green management. Similarly, the EU promotes from 1985 through the Directive on Environmental impact assessment (85/337/EEC) philosophy of environmental impact assessment. This Directive establishes procedures and objective is to ensure that the environmental assessment was carried out before consent of the project: for example, a large scale in approving industrial or infrastructure projects, which could have a significant impact on the environment.

The environmental impact in ECE can be measured with the different indicators monitored by European Statistical Office: greenhouse gas emissions, share of renewables in gross final energy consumption and primary energy consumption.

Greenhouse gas emissions indicator shows trends in total man-made emissions of the 'Kyoto basket' of greenhouse gases and presents annual total emissions in relation to 1990 emissions. The aggregated greenhouse gas emissions are expressed in units of CO2 equivalents. In chart 1 is shown development of this indicator in ECE (excluding Albania, Bosnia-Herzegovina, Kosovo, Macedonia, Montenegro, Serbia, Belarus, Moldova, Ukraine).

Fig. 5: Greenhouse gas emissions in ECE countries

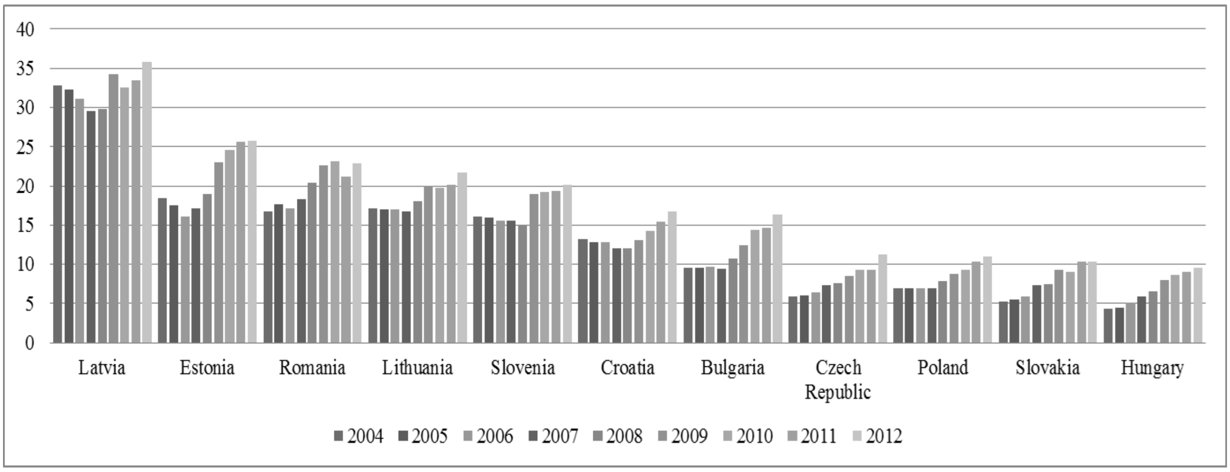


Source: own proceedings according to Eurostat

As we can see on the figure 5 Slovenia in the indicator of greenhouse gas emissions leads followed by Poland and Croatia. Czech Republic, Hungary and Slovakia stay in the middle of the comparison with Bulgaria and Romania. The most favourable results are seen in the examples of Estonia, Lithuania and Latvia. Finally the difference between countries with most greenhouse gas emissions and least is over 60 indexes points.

Indicator - share of renewables in gross final energy consumption – represents percentage of using renewables in comparison to final energy consumption of the country.

Fig. 6: Share of renewables in gross final energy consumption in % in ECE

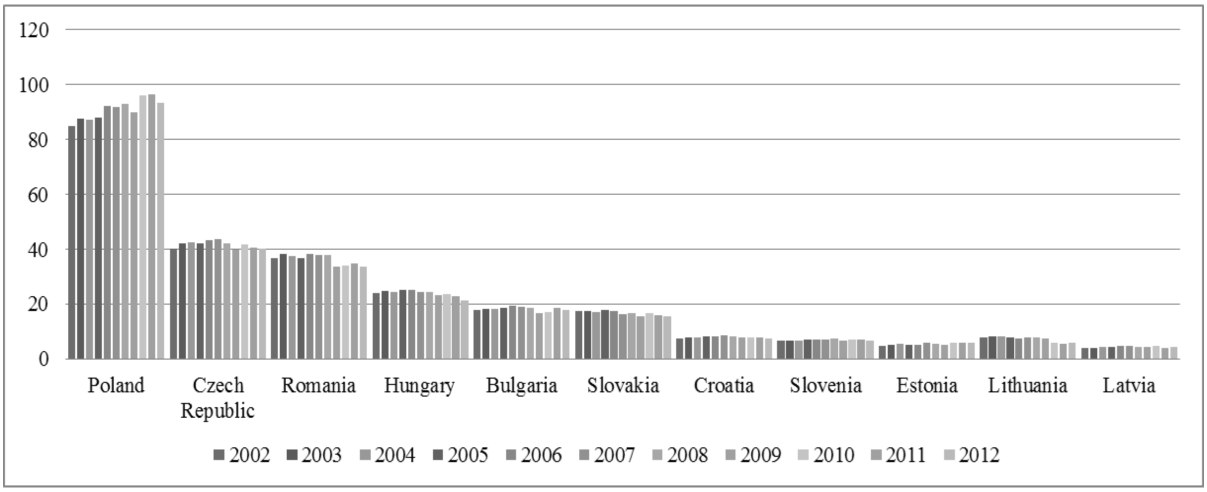


Source: own proceedings according to Eurostat

Figure 6 shows share of renewables in gross final energy consumption. Results of this chart in relation to the previous one are obvious and Latvia, Estonia Romania and Lithuania are leaders in share of renewables in gross final energy consumption. Slovenia presents interesting results because of the fact that in total greenhouse gas emissions is the leader but in the share of renewables in gross final energy consumption presents middle results. Group of Visegrad countries (Czech Republic, Poland, Slovakia and Hungary – V4) stay at the end of the comparison. The share is also targeted for each country and the best results regarding the target got Estonia in 2012 that even exceeded the target by 0,8 % and Bulgaria by 0,3 %. The biggest difference between the real and target value that should have been reached is in the case of Hungary 5,05, Slovenia 4,8, Latvia 4,2 and Poland 4. Difference between 4 and 1 got Slovakia, Croatia, Czech Republic, Lithuania and Romania in this order.

Indicator - primary energy consumption – means the amount of tonnes of oil equivalent excluding all non-energy use of energy carriers (e.g. natural gas used not for combustion but for producing chemicals). “This quantity is relevant for measuring the true energy consumption and for comparing it to the Europe 2020 targets. The "Percentage of savings" is calculated using these values of 2005 and its forecast for 2020 targets in Directive 2012/27/EU; the Europe 2020 target is reached when this value reaches the level of 20%."(Eurostat, nd).

Fig. 7: Primary energy consumption in tonnes of oil equivalent in ECE



Source: own proceedings according to Eurostat

Poland is the country that consumes most primary energy. Indicator results are as followed the other V4 countries and Romania and Bulgaria. Low primary energy consumption is presented by Croatia, Slovenia, Estonia, Lithuania and Latvia.

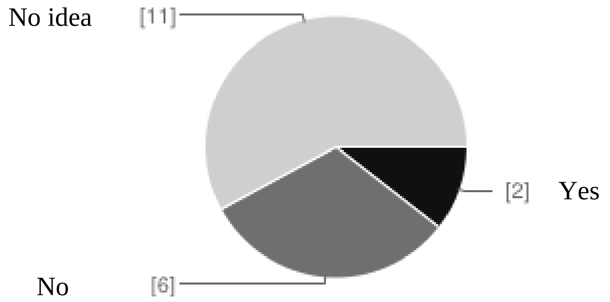
The environmental strategies of companies can be assessed through several methods. Authors of the paper chose the questionnaire method that was completed by 19 respondents, of which 10 were women (52%) and 9 males (48%) in the age composition: 18 to 30 years (100%). The survey compiled 4 unemployed respondents and 15 employed respondents. The return rate of the questionnaire is successful (38%). The purpose of the questionnaire was to identify perceptions of environmental activities of companies operating in Slovakia. At the same time questionnaire investigated environmental knowledge of customers and consumers. Environmentally operating corporation can be seen more attractive in the eyes of customers.

To the first question: "How can companies represent environmental thinking?" the consumers responded with similar answers. Based on the findings it can be concluded that consumers in greater numbers identified as the environmentally thinking companies use renewable energy and reduce consumption and pollution in the number of 5, further separating waste of 4 and of 3 environmental protection and utilization and support from companies in the use of alternative transportation (e.g. cyclo-transport). Other ideas that respondents reported in this issue are:

sustainable development, reuse of natural resources, resource efficiency, environmental policy and the nature of the business mentality and management company.

The respondents to the second question: "Do you think that environmental thinking and respect for the principles of environmental management, increase competitive advantage in the market?" answered in 52% positively so they think that environmental thinking and respect for the principles of environmental management, increase their competitive advantage in the market. The result is interesting even in negative reaction, because 37% of the respondents believe that environmental thinking does not add competitive advantage. 2 respondents had neutral opinion.

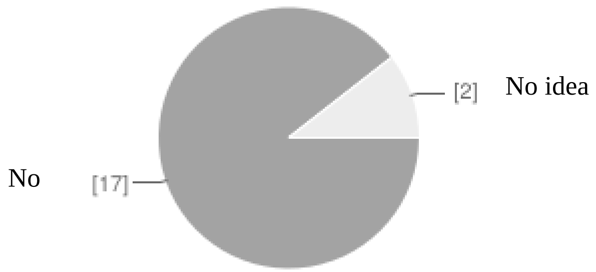
Fig. 8: Answers on the question: Are the corporations in Slovakia environmentally thinking?



Source: own proceedings

Positive answer that Slovak corporation are environmentally thinking marked only 11% of respondents while negative answer marked 32%. Finally most respondents marked indefinite answer, so there is no knowledge spread among Slovak consumers about the environmental activities of Slovak corporations and corporations operated in Slovakia.

Fig. 9: Answers on the question: Do you know any environmental label from the business environment?



Source: own proceedings

89% respondents marked that they do not know any environmental labels in the Slovak business environment. 11% of respondents did not answer the question.

To the question: "Do you know what it means the carbon footprint?" respondents answered mostly correct. Knowledge of respondents is in 80% correct and only 20% of respondents did not know the answer.

The last question: "It is for you as a customer by purchase important that the manufacturer, carrier is environmentally minded?" more than half (53%) of respondents signed positive answer but 47% are not interesting about the environmental thinking of corporation.

5 CONCLUSIONS

Environmental thinking of corporations (sustainability) is mainly nowadays in the centre of corporate strategy. In the concept of EU we can assess environmental activities of countries through selected indicators. In this assessment the average position in three selected indicators is as follows: Estonia (2,25), Latvia (3), Lithuania (3,25), Romania (5), Bulgaria (5,25), Croatia (6,5), Slovenia (7), Slovakia (7,25), Czech Republic (8,5), Hungary (8,75), Poland (9,25). Finally we can assume that the most environmental strategy is applied in Estonia and the least environmental strategy is in Poland. Primary research shows very low awareness among consumers in the terms of monitoring environmental activities acted by corporations in Slovakia nevertheless Slovak consumers have enough knowledge about environmental issues.

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Development of international trade on the river Danube and information and communications innovation: the case of the Slovak Republic

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Abstract
The paper deals with the competitiveness of transport on the Danube River in terms of its position in the international transport and logistics markets. The paper studies the status of information and communication technologies in a set of determinants that increase added value for customers as a matter of competitiveness. Adding value to the customer is based on the terms of delivery in international sale contract and on the possibilities of the Danube transport and logistics to improve the cost structure in export / import price as related to investment in costs of positive (investment) character, which creates long-term added value for the customer. The study applies theories of endogenous growth and theories of transaction costs; therefore, transaction costs of positive character include information and communication technologies. In order to measure the effect of value added for the customer in export and import operations conducted by transport on the Danube River, we propose using the database Doing Business in the section export costs on FOB parity for various countries and years, GCI competitiveness indicators, own databases, as well as correlation and regression analyses. The paper is a part of the doctoral thesis: International transaction costs and public infrastructure as determinants of sustainable growth in the Danube Region.

Keywords: Danube international transport and logistics, added value for the customer, information and communication technologies

JEL Classification codes: F18, L91

1 INTRODUCTION

Nowadays, the world economic life is characterized by a constant liberalization and harmonization. The impact of globalization and the growing interdependence of national international trade have got into its current form. Globalization represents everyday reality affecting all areas of economic, social, cultural life and the environment. Changes in the territorial structure of international trade, economic decisions of the most important transnational corporations are subject to the influence of globalization while causing a rapid growth of freight transport. This fact, on one hand has a positive impact on the growth of employment and competitiveness of involved countries. However, on the other hand it also brings negative aspects such as congestion, noise, pollution, accidents and negative externalities.

Traffic and transport system not only includes road, rail and air transport. Currently, comes to the fore the importance and potential of water transport, which is considered as one of the most preferred means of transport in terms of environmental, energy and social impacts.

Transportation and logistics belong to the category of international trade, which cannot be separated from the export and import of goods and not yet replaced by another technology of goods transportation. They significantly affect not only the possibility of exchange of goods between the country of export and the country of import (goods which cannot be transported for whatever reason cannot be traded), but also the costs of export and import, directly its price and reliability and indirectly the speed and capacity. This fact is reflected in international trade statistics that capture aggregate foreign export prices on FOB (free on board) and import at CIF (cost, insurance, freight), which means the cost of exported goods calculated after the exit point (usually port) of the country and the cost of imported goods calculated from the point of entry (usually port) to the country. (Radelet and Sachs 1998,). Now, in the third wave of IT transformation, products have become complex systems combining hardware, data storage, sensors and microprocessors, software and connectivity. These "smart, connected products" have unleashed a new era of competition. It will bring further developments in integration of IT and communication technology in supply chain. Logistic and transport companies should be prepared for the new way of communication which requires building a new technology infrastructure. This so called "Technology Stack" includes modified hardware and software applications, network communication layer and a product cloud. Besides that an identity and security structure, external information sources and tools that connect the data with business system has to be involved. (Porter, Heppelmann, 2014) The new generation of information and communication technologies (ICT) influences the character of transactions, and precisely this argument is the main idea of our research. It is based on the so-called golden triangle of transaction costs theory (Benham, Benham, 2001), which consists of contracts, transaction costs and ownership transfer. Our main contract is the sales contract in export, and the core of our research is export prices, namely their calculation structure of exchange costs related to the creation of value added. In this sense, we created a new, hypothetical calculation structure of exchange costs (export costs) in the export price, which reflects ICT source input more precisely. In addition, we focused on transport on the Danube River and its impact on development of the Danube region.

In Slovakia, it is mainly the continuous development of the Danube waterway and the navigability of the Danube in accordance with the principles of sustainable development. Based on the recommendations of the Danube Commission, the attention must be given to the development of freight and passenger transport and the completion of the Danube waterway. Mentioned should be also the emergence of Danube Knowledge Cluster in 2010. Generally, clusters are defined by the European Commission as a grouping of independent companies and associated institutions of which hallmark is their cooperation and competition, local concentration in one or more regions and that they are specialized in a particular industry linked by common technologies and skills. Danube Knowledge Cluster takes an active part in drawing up specific proposals, participates in developing projects for the Action Plan of the EU Strategy for the Danube Region. Furthermore, the Cluster proposed projects of which the preparatory stage in the years 2011-2013 was co-financed by EU structural funds and that are included also in the new financial framework of the EU in 2014-2020.

2 METHODOLOGY

To create our research methodology, we used outcomes of our previous studies: development of the TEAT model (Transaction, Export, Added value, Transportation)(Minárik 2014) and outcomes of the study VEGA 1/089312 (Hansenová et.al.): *Knowledge in terms of export prices with the application for transportation and logistics*. In developing the TEAT model, we used Doing Business statistics in the section dealing with country export costs as measured by the value of goods stored in 1 TEU of container (DB used the methodology of Djankov,Freund,Pharms) and Global Competitiveness Index (GCI) indices of competitiveness of 144 world countries. The output is presented by export costs as a function of 8 selected cost items (competitivevess indicators) analyzed in a hypothetical structure of export costs (Figure 1) and monitored by GCI.

$$EN = f(\text{ 8 costs items})$$

We created three databases in which we determine, using correlation and regression analyses:

Percentage shares of individual export costs items and their values in USD, for each of the surveyed countries (144) costs of positive character (investment) and costs of negative character (one use costs) substitution effect of these costs

The methodology is available online in the doctoral thesis of Marek Minárik on VŠM site: http://www.crzp.sk/crzpopacxe?fn=*recview&uid=1363633.

3 RESULTS AND DISCUSSION

3.1. Theoretical background

The presented contribution is based on the following theories: of international trade, mainly neoclassical synthesis of Ch. Kindlerberger(1978) in which he analyzed the impact of transport on export and import. At present, the impact of transport on export and import is dealt with in an extensive survey of D. Hummels (2001,2007), particularly his work on relativity of time speed and perceived usefulness of transport for the owner of the goods, entering into international trade transactions; further competitiveness theories regarding the creation of value chains of fragmented production (Porter, 1985), the theory of endogenous growth in the new economy based on the principle of macro-investment (Romer, 1990) to into unconventional partly depositable goods of a non-rival nature, such as technology and knowledge, or at the micro level, based on the marketing principle of added value for the customer, known as the theory of the Blue Ocean (Kim, Mauborgne, 2006), where one of the determinants of growth of export enterprises is the ability to recognize an expense as an added value for the customer. More to that, the theory of transaction costs (Coase, 1937, 1988) and the new institutional theory (Williamson, 1985), which emphasize the importance of ex ante transaction costs, such as information and communication, or given other reasons for the emergence of externalities as a market failure, and finally, the methodology for finding resources of effective development of export enterprises (Resource Based View, RBV) whether by the mobilization of internal resources and capacities (Kaleka, 2012). In practical terms, the study interprets ten-year-strategy of the European Union for growth and jobs in the new economy, which seeks to create the conditions for smart, sustainable and inclusive growth (Europe 2020).

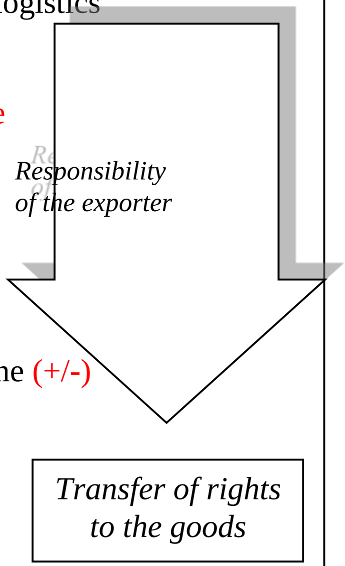
3.2 Transaction costs and export price

Current concept of transaction costs relates not only to costs in the form of financing expenses but also for example the time required to prepare for negotiations with trading partners which means a broader view of the purchase price (export price), which may include the costs associated with obtaining the necessary information (the use of advisory firms), and risk analysis. In the structure of the export price (at the appropriate parity Incoterms 2010), it is involved in manufacturing price / cost and the following transaction costs: the cost of delivery (packaging, transportation), direct financing costs (related to payments) and indirect (interest of time needed to overtake compulsory administrative processes such as. clearance, obtaining licenses), administrative costs (f.e.: duty), the cost to acquire knowledge and information (f.e.: use of consultants, surveys of sales) and the cost of risk (insurance risk, risk analysis).

Figure 1: Hypothetical structure of costs exchange in export price

MANUFACTURING PRICE / PURCHASE PRICE

LEGAL DIRECT COSTS OF THE EXCHANGE
Costs of marketing: costs of a positive nature
Delivery costs according to Incoterms: international transport and logistics
The cost of financing: international payments
Costs of risks: international insurance
Costs of information and communication: costs of a positive nature
Costs of knowledge: costs of a positive nature
Costs of ethics: costs of a positive nature
Costs of ecology: costs of a positive nature
COSTS OF EXTERNAL ADMINISTRATION
Customs duties, taxes
LEGAL INDIRECT COSTS OF THE EXCHANGE
Interest rate as costs /revenues of time: optimization of delivery time (+/-)
Earnings from capacity: optimization of the delivery volume (+)
ILLEGAL COSTS OF THE EXCHANGE
bribery, nepotism, piracy
EXTERNAL COSTS (+/-)
Institutional environments and the role of the state



TOTAL COSTS OF THE EXPORTER (according to Incoterms in contract)
Sustainable added value and thereof *PROFIT (MARGIN) of the exporter*

Total export price (Incoterms)

+ Total costs of the importer (according to DDP, Incoterms)

Sustainable added value *and thereof PROFIT (MARGIN) of the importer*

TOTAL PURCHASE PRICE OF THE IMPORTER (DDP, Incoterms)

SUSTAINABLE ADDED VALUE as a profit for the customer /income for the consumer = expected benefits/perceived benefits

Source: HANSENOVÁ, H. et all.: Transport and its impact on transaction costs in export prices – draft of model of export prices. In. Česko a Slovensko v medzinárodnom obchode a podnikaní 2012, Medzinárodná konkurencieschopnosť a nové výzvy vyvolané ekonomickou krízou: zborník príspevkov z 12. medzinárodnej vedeckej konferencie: Praha, 2012.

3.3 Connection between transaction costs and transport technology

In the case of simple sales contracts with fixed prices, the position of transportation and logistics depends directly on used delivery clauses of INCOTERMS, which sometimes directly determine the modality of transport to be used, but mainly divide responsibilities of exporters and importers towards transport and logistics market. In the case of incentive price of delivery, or in the case of delivery of logistics chains, the place of delivery, risk and transition costs are set by means of other way than the use of INCOTERMS: The most important function of transport and logistics in export and import transactions is still the speed, quantity and quality of delivery, the information and good communication. An important interface that combines technology in transport and logistics with the creation of sustainable value added in export price on the basis of international sales contracts is the principle of interoperability, multimodality and amodality of goods delivery. These technological principles allow not only to combine individual transport and logistics systems into a common chain of goods, but also to provide a comprehensive business solution with universal responsibility and liability. An important determinant of operation of these principles is integrated information and communications technology. Among the major innovations in this area belongs a new transit system New Computerised Transit System (NCTS) which from 2003, has been used in the EU and serves for communication between customs offices for common transit procedures and can be used also for other procedures. Electronic messages would bring faster and simplified customs procedures instead of still used practices based on paper documents.

The goal of tracking and routing of cargo with the principle of amodality is going to be real. The implementation of the system GALILEO will have very positive effect as well as remote identification and tracking (LRIT) and river information system (RIS) and automatic identification system (AIS). The software SafeSeaNet contributes to better logistics at sea and found European platform for sea data exchange. This system could be developed towards the information of relevant data about ships and its movements.

3.4 Innovations and programmes running in Slovakia

Slovak Republic, as a member state of the European Union is actively engaged in activities within the Union in order to fulfill the obligations of this membership. Member States pay considerable attention and effort to find common solutions and coordination, especially in the strategically important areas of economy such as transportation and freight services. One of the main objectives of Slovakia is the overall coordination of transport policy and the creation of strategic documents governing the development of transport and transport services. Among the important documents adopted by the Slovak Republic at the national level belong the Operational Program Transport and Traffic Policy of the Slovak Republic. Operational Program Transport was established for the purpose of drawing aid of the funds of the EU in the transport sector up to 2020. The main objective of this program is to support the government document ensuring sustainable mobility through development of transport infrastructure. Further it focuses on the construction and modernization, use of the latest technologies and their

implementation in practice in the means of achieving a successful integration into the European transport system.
However, since the lower speed of inland water transport is probably not a serious disadvantage in competition with trucks suffering from road congestion, the lack of penetration of inland navigation is an important policy problem which can be presently solved by improved inter-modal organisation. The introduction of a River Information System (RIS) gives the potential to increase the capacity of the waterways, increase safety, reduce noise and atmospheric pollution, avoid the use of Vessel Traffic Services (VTS) stations and drastically reduce their running costs.

Research and development in the field of river information services started by series of European projects such as INCARNATION[20], INDRIS[21] or COMPRIS[22].

INCARNATION is aimed to develop a River Information System (RIS) that would improve the on-board information available to skippers as well as the information available to parties involved in logistics. The project defines the functional and technical specifications for demonstrating and assessing a RIS consisting of traffic image on board, logistic information and calamity abatement and fairway information.

COMPRIS is one of the Fifth Framework research and demonstration projects in the Growth Programme of the European Commission. It is a follow-up of the successful INDRIS project. The main objective of COMPRIS is to enhance the existing concept of RIS which supports traffic management on inland waterways in Europe. By improving the transport and logistics information that supports transport and logistical management, the inland navigation transport mode is aimed to become a more competitive modality. Many national administrations started in parallel with the research and the first implementation activities.

Nowadays, in Slovakia, there are some successfully implemented projects running with the support of the EU.

- **Inland Automatic Identification System (AIS)**

AIS is a standardized method of automatic exchange of nautical information among ships and ship equipments on the coast.

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[20]INCARNATION: Identification of Administrative and Organisational Barriers and the Assessment of informational and Organisational Requirements and Functionalities of an Efficient Inland Navigation Information System with Special Regard to Transport Capacity and Goods Flow, Safety of Traffic and Transport of Dangerous goods
[21] INDRIS: Inland Navigation Demonstrator of River Information Services
[22] Consortium Operational Management Platform River Information Services

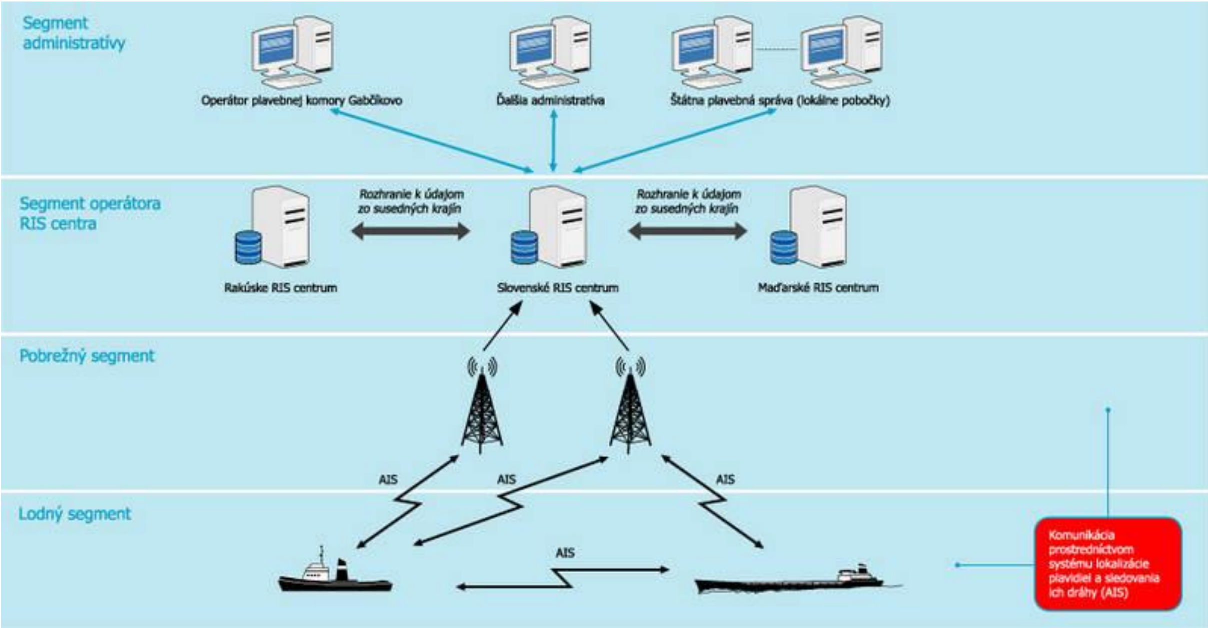
As a tool for tracking and tracing inland waterway tracks it is a part of River Information Services (RIS), and its mission is to improve the safety and efficiency of inland waterway transport. It supports on-board navigation, monitoring of maritime traffic from the bank as a part of the so-called Vessel Traffic Services (VTS) and other tasks. The informational content of Inland AIS is broadly consistent with maritime AIS, while providing additional information specific to inland navigation. In terms of the joint information content, the Inland AIS and maritime AIS are compatible. All transmitted data can be received by the maritime and inland AIS equipment and further visually displayed and analyzed. However, information specific for Inland AIS is possible to transmit and process only by the Inland AIS equipment. However, for its use it is necessary to have AIS equipment.

Vessels equipped with AIS devices (stations) transmit and receive information automatically at regular intervals from the other ships that are equipped with AIS. The information concern the vessel and its current navigational data:

- Identification of the vessel,
- Its exact location,
- Its course and speed
- Other information on the vessel

Receiving of broadcast station AIS on board or ashore permits within the radio range to automatically locate, identify and track AIS equipped vessels on an appropriate display of a radar or via inland system by using electronic navigation chart. Figure 2 shows the AIS system and it cooperation with all the used equipments.

Fig. 2: Electronic collection and data exchange via AIS



Source: Slovak River Information Services, http://www.slovris.sk/en/tracking-and-tracing/vseobecne-informacie/

- **Data Warehouse for Danube Waterway (D4D)**

Data Warehouse for Danube Waterway (D4D) is a project within the scope of GIS Forum Danube (Geographic Information Systems). The GIS forum was founded in 1997 by the waterway administrations of Germany, Austria and Slovakia. Since 1999, the group is accepted by the Danube Commission and joined the working group, followed afterwards by Croatia, Romania and the Ukraine. Since 2004 also Serbia and Montenegro as well as Bulgaria have been officially participating in the meetings as full partners. Finally Russia joined the group and therefore all active member states of the Danube Commission are members of the “GIS Forum Danube” as well.

The GIS Forum aims at more intensive exchanges of geographical data and closer cooperation in terms of the waterway management for the Danube River.

The main objectives of D4D project are:

1. Providing a common and harmonised implementation of European and international standards on the Danube waterway and recommendations for inland navigation.
2. Networking national geographic information systems and to ensure an efficient exchange of electronic data between responsible waterway authorities.

3. Creating digital navigation charts for the river Danube in compliance with the European inland standards.
4. Establishing an infrastructure to improve the accuracy of satellite based positioning systems, according to current international standards.

D4D started with the creation of digital charts and set-up of the infrastructure of differential positioning systems to ensure implementation of River Information Services (RIS). Then, all waterway relative data is stored in a distributed database (data warehouse) and made available to the participating countries. The common database serves as a basis for a number of additional applications.

4 CONCLUSION

At present, the principle of sustainability is becoming one of the generally accepted principles for the development of the economies of individual countries all over the world. The ability to respond quickly and adaptation to the newly raised conditions of the current international environment is also becoming an essential factor. Transport and logistics, including water transport, as an important part of the economy, must be able to react flexibly to the current requirements of international trade. It is necessary to refocus on new information technologies and communication processes based on implementation of the latest technology.

The importance of the river Danube is clearly stated in many projects and documents by the EU executives. At the 3rd Pan-European Transport Conference of Helsinki in June 1997, the river Danube was defined as a Pan-European Transport Corridor VII and is expected to be one of the most important links between the Western European waterway network and the central and South Eastern area of Europe. Studies submitted by the Federal Ministry of Transport, Innovation and Technology in Austria point out that this inland waterway will surely become more important while the road and rail infrastructure soon will not have sufficient capacity to fulfil the demands of the forecasted increase of transport. This is particularly seen from the year 2000 and is expected to last until 2020.

Traffic on the Danube is expected to increase significantly during the next years. It is becoming more and more a clearly stated political task to move cargo transport from road and rail to inland navigation. At the same time there is a need to cope with future transportation needs in order to cut down CO2 emissions and their follow-up costs significantly. The expected significant increase of inland navigation traffic on the river Danube requires River Information Services (RIS). It is a high priority target to use the RIS tools for integration of inland navigation into inter-modal transport chains.

ACKNOWLEDGEMENT

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Analysis of official export support possibilities in the Slovak and Czech Republic

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Abstract: Global export market is characterized by increasing share of officially supported trade. Private players are reluctant to enter riskier business transactions due to uncertainty caused by the negative effects of global financial crisis. Regardless the level of economic development, countries around the world are introducing new measures to increase the competitiveness of its exports, sometimes by using tools which are not compatible with state support rules within OECD and EU. It is of the utmost importance for economies to include these development trajectories into its export strategies, especially for open economies as for the Slovak and Czech Republic. To what extent is this development reflected into Slovak and Czech export schemes would be together with the analysis of new areas of business opportunities for the SR and CR officially supported exports would be the main goal of this article.

Keywords: official export support, export credits, export support effectiveness

JEL Classification codes: F10, F13

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1 INTRODUCTION

Export orientation is inherent part of the global economy characterized by high degree of globalization and interdependence of its members. Participation on these processes is crucial part of successful realization of its production and the key element of maintaining countries competitiveness. Official export support plays its important role in these processes, as it allows to export to countries with higher risks which the private players reluctant to take on. Therefore, the role of export-credit agencies, especially after the global financial crisis, has increase dramatically. The cope with higher demand from exporters, the state export-credit agencies are introducing new products to help offset reluctance of private sector to enter riskier transactions. Analysis to what extent is this development reflected into Slovak and Czech export schemes would be together with the analysis of new areas of business opportunities for the SR and CR officially supported exports the main goal of this article.

2 LITERATURE REVIEW

The market for export credits has been developing within the framework provided by the Arrangement on guidelines for Officially Supported Export Credits (OECD “Consensus”). The history of negotiations concerning the area of export credits has started in 1950s. This took place in the Organization of European Economic Co-operation – the OECD predecessor, which was overtaken by GATT-OECD connection on the regulation of export credits. Eventough, the GATT had been regulating subsidies since 1947 within its Article VI and XVI. (Bossche, P. V., 2005). Article XVI.4 committed members to eliminate export subsidies by 1958. The first step on that direction was taken by a French proposal, in November 1960, to prohibit the Parties to grant export subsidies to non-primary products. (Sanchez, M.R., 2008). Since then the rules on export credits have developed considerably in the cooperation of the GATT/WTO and the OECD. The letter gains the role of main forum for setting a new rule.(Sanchez, M.R., 2008). Consequently, 1978, OECD Members signed the first version of the OECD Arrangement, set of rules with the aim to foster level playing field for official support, in order to encourage competition among exporters bsaed on quality and price of goods and services rather than on the most favorable officially supported financial terms and conditions. (OECD Arrangement, 2014).The last comprehensive change to the Consensus took place in August 1994, whenparticipants agreed to a package of measures, the "Schaerer Package"—designed to tighten and simplify the implementation of the earlier agreement. Another comprehensive revision of OECD Arrangement took place in 1997 with the aim to simplify the text and to implement all partial changes and provisions for premium rates. From this point, OECD Arrangement is revised many times during the year with final revision comes starting from the new calendar year.

In terms of international rules, there are thus tree pillars which underpin export credits regulation: WTO Agreement on Subsidies and Countervailing Measures (ASCM) which is part of the agreements establishing WTO. It defines the multilateral disciplines regulating the provision of subsidies, and the use of countervailing measures to offset injury caused by subsidized imports. In general, it prohibits export credit guarantees, the programs eliminating exchange rate risk, direct financing with official support with better than market conditions. (WTO, 2014). OECD Consensus represents the second pillar and third consists of the EU legal framework regarding any kind of state support anchored in the Treaty on the Functioning of the European Unionwithin Article 107 and 108.

2.1 Legislative framework - OECD Arrangement and a direct link with the WTO

OECD Arrangement builds on the principles of the WTO ASCM which entered into force in 1995 based on the pre-WTO framework on subsidies. The Subsidies Code defined already during the Tokyo GATT negotiation round (1973-1979) was the first provision concerning the export credits as it mentioned the list of prohibited subsidies in the multilateral system. This was the pillar for OECD Arrangement. The Uruguay Round also plays important role, assist review Articles VI and XVI of the GATT, as well as the Subsidies Code. These negotiations resulted in the ASCM in 1994, the first formal regulation of subsidies. Since the 1980s, but mostly throughout the 1990s, the regulation ofexport credits remarkably developed into details. In the OECD level, themembers of the OECD Arrangement tried to encompass different forms and Instruments.

The relation between the OECD 1978 Arrangement and the WTO 1995 ASCM is established by item (k) of Annex I to the ASCM, which addressed export credits and was inherited from 1979 GATT subsidy code. Annex I provides an "illustrative list of export subsidies "which are prohibited according to the ASCM. Item (k) prohibits:

- Export credits at rates below those which the governments granting them actually have to pay for the funds so employed;
- Government payments of all or part of the costs incurred by exporters or financial institutions in obtaining credits, in so far s they are used to secure a material advantage in the field of export credit terms. (ASCM, 1995)

Thus item (k) basically requires ECAs not to provide services below market-level.

Another link between WTO subsidy rules and export credits is defined by item (j) of Annex I of the ASCM. It prohibits governments from providing export credit guarantee or insurance programs at premium rates which are inadequate to cover the long term operating costs and losses of the program. (ASCM, Annex I (j)). According to part (j), ECAs have to achieve break-even in regards to their export program in the long run.

3 METHODOLOGY

The aim of this paper is to analyse the effects of the financial crisis on official export support in the Czech Republic and the Slovak Republic and define new areas business opportunities for the SR and CR officially supported exports. Concerning main methodology of this paper, the authors use mainly basic, partially advanced methods of scientific work based on the evaluation of secondary data through qualitative methods of scientific work. Authors use method of analysis and comparison as well.

The second chapter describes the definition of official export support in the context of WTO rules on state aid and tries to analyses the development of GATT/WTO rules on export credit from historical approach. In the fourth chapter authors demonstrate the main issues regarding official export support in the Czech and Slovak Republic with the emphasis on the effects of global financial crisis. Consequently, authors analyses the territorial approach in official export support of aforementioned countries, including countries risk differentiation based on types of risk. In conclusion, the authors outlines the business opportunities for the SR and CR officially supported exports within provisions of the OECD Consensus on export credits.

4 RESULTS

4.1 Slovak export promotion

As a result of Slovakia's transition, the country's trade pattern has changed fundamentally since 1989 when most trade was with the Soviet Union and other central and eastern European countries. Excluding trade with the Czech Republic, which is one of the Slovakia's largest trading partner, according to date retrieved from The Statistical office of the Slovak Republic, the share of Slovakia's merchandise exports sold to industrialized countries in western Europe increased from 19 per cent in 1989 to 71 per cent in 1994. As much as 91 per cent of all merchandise imports and exports are exchanged with European countries, including Russia. (WTO, 1995). EU export orientation of the Slovak economy continued up until 2013, when it represents 82.8 %. The OECD share on SR export represents 85.9 %. Other biggest trading partners are Russia (3.9 %), China (2.5 %), Switzerland (1.6 %) and Turkey (1.5).

Export-import bank of the Slovak Republic

The main objective of the institution is to support the maximum export volume of sophisticated production to the numerous countries, while ensuring the return on investment through the minimization of the risks arising from insurance, credit, guarantee, and financial activities. (Eximbanka SR). Eximbanka SR offers its clients a range of banking and insurance products and their combinations. EXIMBANKA SR offers a wide range of financial products related to export, mainly credit insurance, financing and guarantees. On the side of pre-export activities, it is pre-export financing of technologies which will, in the long run, support of higher-quality production export with a high rate of added value.

4.2 Czech export promotion

The year 1990 is crucial milestone in transition of Czech export orientation. After the collapse of Soviet Block, the focus has shifted from east to west. Czech exports to EU countries increased from USD 6.7 billion to 22.9 billion between years 1993 and 2001, what represent 16.2 % annual growth, while exports to countries outside the EU grew only by 2 % yearly. The year 1997 has to be mentioned as well. It is another important milestone, as this was year of key changes in the Czech economy. Among the main factors promoting export growth were the growth of foreign direct investments and major wave of privatization of state-owned firms. The annual exports of the CR has risen from USD 14.4 billion in 1993 to USD114.4 billion in 2013. (ČSU, 2014). After the few initial years of economic transition when the emphasis was on dismantling the old system of centrally planned trade and introducing free trading possibilities, Czechoslovakia and the Czech Republic started to introduce a new export promotion system established according to Western standards. In 1992 the Export Guarantee and Insurance Corporation (EGIC) was established. In 1995 it was followed by the Czech Export Bank (CEB) and the export support system was completed in 1997 by the creation of the agency Czech Trade.

Export Guarantee and Insurance Corporation (EGAP)

Offers credit insurance connected with exports of goods and services from the Czech Republic against political and commercial risks uninsurable by commercial insurance. (EGAP. 2014). EGAP is a joint-stock company. The offered export credit insurance with state support is in full compliance with the arrangement on officially supported export credits, EU law and with BU understanding. (Berne Union. 2013). Major facilities include: Insurance with state support against commercial and political risks, export credit insurance (buyers and supplier credits), insurance of supplier credits financed by a bank, insurance of export contract-related bonds (advance payment bonds, bid bonds and performance bonds), manufacturing risk insurance, pre-export financing insurance, investment insurance, etc.

Czech Export Bank (CEB)

Another pillar of the Czech pro-export policy system is Czech Export Bank. It is specialized directly banking institution. (CEB, 2014). The bank focuses on offering a comprehensive range of products for the financing of exports. In addition to the financing of exports of goods and services, recently Czech Export Bank has progressed to see its role in the financing of construction works, especially infrastructure projects abroad. Furthermore, the bank offers a range of structured and project financing models. Czech investors are provided with favorable financing for their plans to build new production capacities abroad or for their plans to invest capital into foreign companies. Since last year the bank’s range of services was significantly expanded by the financing of export activities of small- and medium-sized enterprises. CEB thus supplements the services offered by the domestic banking system by financing export operations that require long-term financing at interest rates and in volumes that are not available to exporters on the banking market under current domestic conditions. This allows Czech exporters to compete on international markets under conditions comparable to those enjoyed by their main foreign competitors. The government support of CEB exists in three different forms (government contribution to basic capital of CEB, state guarantees of provided export credit, subsidies from the state budget for coverage of differences between accepted and provided credits). (Janda, et.al, 2012).

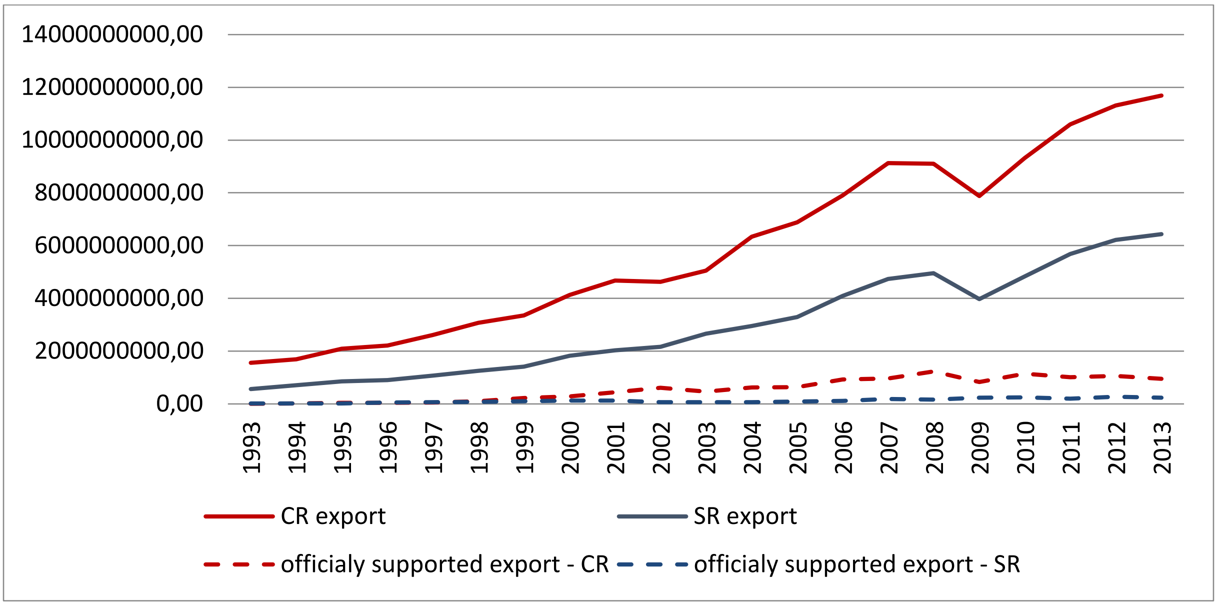
Czech Trade

The third pillar of the Czech export promotion is the Czech Trade, which was founded in 1997 by the Czech Ministry of Industry and Trade. It has offices in more than 40 countries around the world. The main goal is to assist Czech companies with their entry into foreign markets, to provide information about markets, conditions of entry, demand, competition and price information.

4.3 SR and CR export and state supported export development

Since the transition of the SR and CR economy, the exports of respective countries growth from USD 15 billion in 1993 to USD 116 billion 2013 in the CR and from USD 5,5 billion to USD 64 billion in the SR during the last 20 years. As Slovak and Czech economy is highly export orientated and the share of foreign trade on whole economy represents around two thirds, they highly correlate with the developments in global economy. Exports of both countries experienced slowdown in 2008 what was caused by global financial crisis, however it quickly recover from the long term perspective and return to growth trend line. When we look on the officially supported export, the trend is rather steady after the year 2000. The lower amount of officially supported export between 1993 and 2000 is caused by various reasons, from which the main is lack of experience in the export credit and insurance schemes in both countries. After the year 2000, the schemes in export financing have been developed by export-credit agencies in both countries following the model of western partners. Its share on total export support of SR and CR represent around 5 % since the beginning of the new millennium. Since the beginning of the financial crisis, the role of the export-credit agencies as a supplement to private export financing has been on increase, because the private players are reluctant to enter riskier transaction.

Fig. 1: CR and SR export and state supported export development by insurance portfolio



Source: Own calculation based on date retrieved from Czech Statistical Office, Ministry of Economy of the Slovak Republic. EGAP and EXIMBANKA SR Annual Reports

As a consequence of aforementioned, Eximbanka SR, for example, aims to increase its share on total export of the Slovak Republic from 4 % in 2014 to 8 % in 2020. (Eximbanka, 2014). The role of Czech EGAP is increasing as well, as can be seen from Figure 1. Its insurance portfolioincreased from USD 3,2 billion in 1993 to USD 64 billion in 2013. During the sixteen-years of EXIMBANKA SR´s existence, it has supported export to more than 80 countries worldwide in the total volume of more than EUR 36 billion.

4.4 Possibilities of SR and CR officially supported export– territorial approach

By analysis the Czech export destinations (Germany 31,3 % of all exports, Slovakia 8,8 %, Poland 6 %, France 4,9 %, UK 4,8 %, Austria 4,5 %, Russia 3,7 %, etc.), in the top 10, there are 9 EU countries. The similar picture can be seen in case of Slovakia (Germany 21 %, Czech Republic 13 %, Poland 8 %, Hungary 6 %, Austria 6.7 %,..Russia 4 %). For another research, we shall understand the differences between marketable and non-marketable risk. Export credit agencies as the only direct tool in the state export support scheme in the SR and CR divides its activities according to territorial risk as marketable and non-marketable operations. Marketable risks are defined as commercial and political risks with a maximum risk period of less than two years, on public and non-public buyers in the countries listed in the Annex to Communication from the Commission to the Member States on the application of Article 107 and 108 of the Treaty on the Functioning of the European Union to short-term export-credit insurance. Marketable risks can risks of those countries, which are covered by private credit insurance companies without the support of their government. (All EU Member States with the exception of Greece, Australia Canada, Iceland, Japan, New Zealand, Norway, Switzerland, United States of America). Consequently, non-marketable risks refer to those country risks for which no cover is available on the private market.

Tab. 1: Share of the marketable and non-marketable risks countries in the SR and the CR

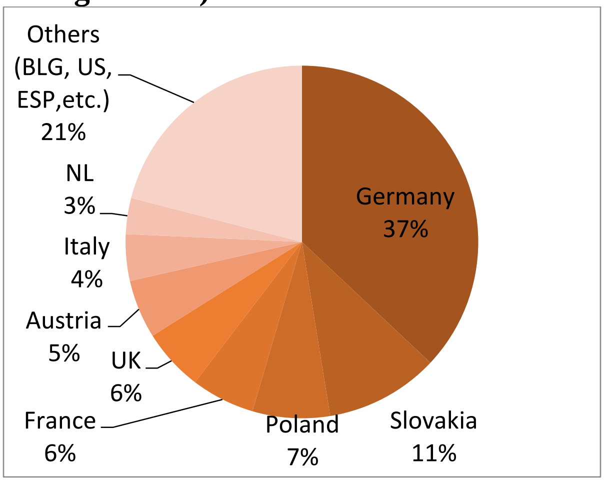
	SR		**CR**	
	Volume	Share	Volume	Share
Total	64,36	100,00 %	116,89	100,00 %
Marketable	55,79	86,68 %	98,87	84,58 %
Non-Marketable	8,57	13,32 %	18,02	15,42 %

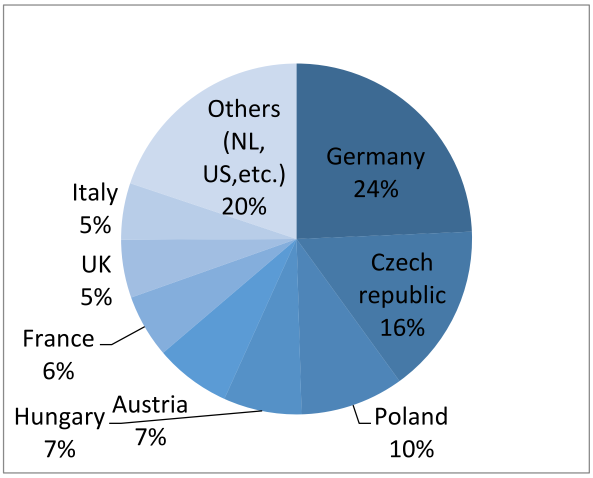
Source: Own calculation based on date retrieved from Czech Statistical Office and Ministry of Economy of the Slovak Republic

As can be seen from Tab.1, the destination of mostly exports of CR and SR exports (86,68 % and 86,68 % respectively) are countries belonging to marketable risks countries, therefore mostly non-insured by state export-credit agencies. For insurers with state guarantees therefore remains the narrow space (13.32 % in the SR and 15.42 % in the CR). There is one exception, when ECA can enter marketable risk countries, namely, where there is lack of private interest in those countries. In that case, the exported transaction has to by ex-ante notified to the OECD within provisions of OECD Arrangement.

As we can observe in the Figure 2, the marketable risk countries correspond with general export destinations of both SR and CR. The main trading partners were Germany, Czech Republic, Poland and Hungary for SR and Germany, Slovakia, Poland and France for CR in 2013.

Figure 2: Share of marketable risk countries within CR and SR exports (in 2013, CR-left, SR-right chart)



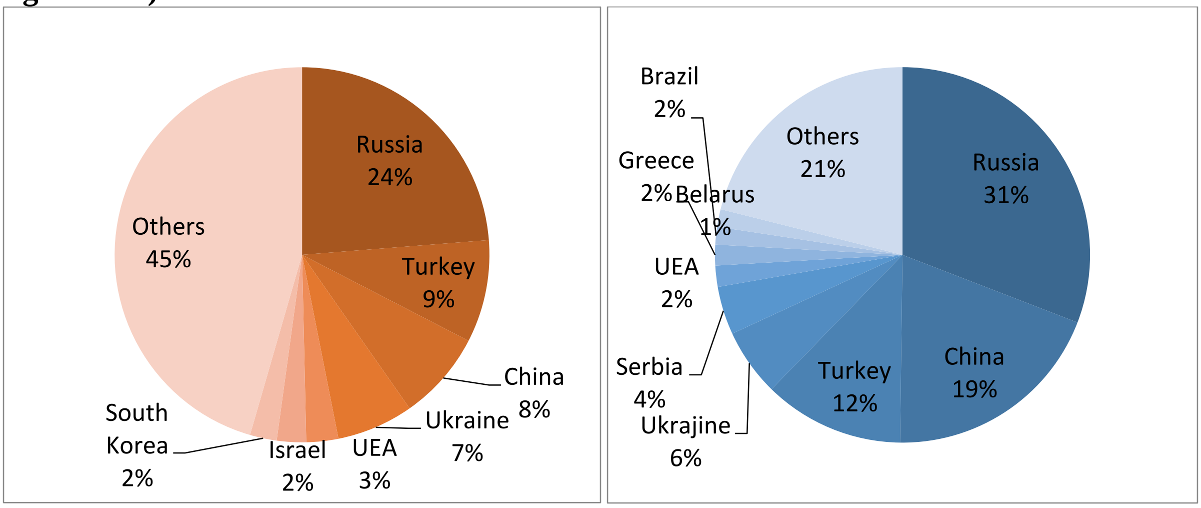


Source: Own calculation based on date retrieved from Czech Statistical Office and Ministry of Economy of the Slovak Republic

The business opportunities for the SR and CR ECA for growth within OECD Consensus provision and in case of private finance availability for marketable risk countries, are in non-marketable risk countries, which share on total SR and CR exports represents only 13.32 % and

15.42 % respectively. Those countries are mainly the fast growing and highly developed developing countries, which offers numerous business opportunities. As we can see from the Figure 3, the Russia represents the largest share in exports to non-marketable risk countries in SR 31 % and CR 24 %, although it share on total exports represents only nearly 4 % for both countries. Another growth possibilities offers, Turkey, China, United Arab Emirates and CIS countries.

Fig. 3: Share of non-marketable risk countries within CR and SR exports (CR-left, SR-right chart)



Source: Own calculation based on date retrieved from Czech Statistical Office and Ministry of Economy of the Slovak Republic.

5 CONCLUSION

Since the transition of the SR and CR economy, the exports of CR and SR grew rapidly and became an inherent part of economic performance. Along with this development, the role of the export-credit agencies (ECA) in the officially supported exports increased as well. Their importance growth accelerated in the aftermath of the financial crisis, as a consequence of private market players reluctance to enter riskier transactions in the liquidity constraints. Both CR and SR export credit agencies reflect to this development by introducing new inventiveness with focus especially on small and medium size companies (SMEs). As destination of majority exports of CR and SR are marketable risk countries, therefore mostly covered by private insurers. The opportunities state export credit agencies expansion remains in the non-marketable countries (13.32 % in the SR and 15.42 % in the CR), under the condition that there is no private market players interest. This can be thus the way forward for increase the officially supported exports in respective countries, as well as increase territorial diversity and expansion of its portfolios in non-marketable countries, which represents only minority share in export destinations of both countries. Those are mainly the fast growing and highly developed developing countries, which offers numerous business opportunities. Russia represents the largest share in exports to non-marketable risk countries in SR 31 % and CR 24 %, although it share on total exports represents only nearly 4 % for both countries. Another growth possibilities offers, Turkey, China, United Arab Emirates, CIS countries.

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Sustainable development and the financial system: a quantitative analysis on some ECE countries

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Abstract: This article aims at analyzing the relationship between sustainable development and the financial system, mainly focusing on the role that the financial system plays within the process of sustainable development. Theoretically, the financial system could be a very important factor to promote sustainable development, as it could foster economic growth and development, efficient resource allocation, the protection of the environment and also social responsibility. Using panel data econometrical analysis, we tested for correlations between indicators of the financial system and indicators of sustainable development in five developing CEE countries. We found weak or no correlation between financial indicators and sustainable development indicators. This might be explained by several facts. First, the financial systems of these five developing countries are not highly developed, so that they do not have a high capacity to foster economic growth and development. Second, even if this was the case, promoting sustainable development requires a lot more than fostering economic growth and is not a question of whether the financial companies can promote sustainability, but whether they are interested in promoting it. Even though financial companies have embraced the sustainability agenda, they haven`t done much to change their short-term orientation to profit and to shift to long-run strategies in favor of sustainable development.
Keywords: financial system, sustainable development, CEE, panel data analysis
JEL Classification codes: G10, I00

1 INTRODUCTION

Recent economic developments have shown that the financial system is probably the most important tool to promote sustainable economic development, as the recent financial turmoil has shown what happens when it does not work properly. Although financial companies and institutions have increasingly embraced the sustainability agenda over the past decade, the best part of the funds they allocate are still directed to resource-inefficient and polluting economic activities. At the same time, social and economic inequalities are widening, to the detriment of developing countries compared to developed ones. Allocating funds for sustainable economic development of developing countries remains a great challenge for the financial system.

When talking about sustainable development a wide range of aspects are embodied (Davidescu and Strat, 2014). Theoretically, the financial system could be a very important factor to promote sustainable development, as it could foster economic growth and development, efficient resource allocation, the protection of the environment and also social responsibility. First, the financial system can foster economic growth by the fact that it collects and mobilizes savings, allocates funds for investment and provides capital accumulation. Financial system`s capacity to ensure a continuous way of financing the real economy is a very important factor for economic development. Second, it could determine efficient resource allocation and it could contribute to the protection of the environment by screening and funding viable and environmentally friendly projects only. Moreover, financial companies are able to promote social responsable activities, by including such activities in their strategies and by selecting and dealing only to social responsable economic agents, or even by providing methods for managing uncertainty and controlling risk through portfolio diversification. (Moldovan, 2015).

This paper presents an econometrical analysis on the relationship between the financial system and the process of sustainable development in five CEE countries: Romania, Poland, Hungary, Bulgaria and Czech Republic.

We opt for the Anglo-Saxon approach of the financial system`s structure, according to which this is composed of the monetary market (whose main role is to provide liquidity through credit) and the capital market (whose main role is to finance investment projects by IPOs). Therefore, we use domestic credit provided by the financial sector as a share of GDP and stock market capitalization as a share of GDP in order to capture the effects of the financial system on sustainable development indicators.

2 LITERATURE REVIEW

As mentioned above, the financial system may be a great factor to promote sustainability and sustainable development, but the reality shows that this is not quite the case. Due to the fact that financial companies control and redirect great amounts of money, they could act in favor of sustainable development of the economy and society. However, several papers show that the nature of the financial system is not compatible with the activities and determinants of sustainable development (Schmidheiny and Zorraquin, 1996; Pisano, Martinuzzi and Bruckner, 2012). This is mainly because the main concern of the financial system is achieving immediate and consistent gains, while sustainable development requires long run investments. Short-termism has detrimental effects on financial markets, real economy and society (Lydenberg, 2007).

Also, one of the greatest issues when speaking of sustainable development regards the disparities between developed countries and developing or Third World countries. Worldwide policies of sustainable development should provide aid and financing for these countries, but there arises the reluctance of financial companies for investing or funding projects in such states, because they are considered to be very risky.

The importance of the financial system for promoting economic growth has been subject of a great number of papers. Numerous econometric analysis captured a positive relationship between financial development and economic growth (King and Levine, 1993a; Becivenga and Smith, 1991; Peetz and Genreith, 2011).

However, sustainable development requires more than the quantitative expansion of economic activities. Thus, a number of works have put into light the relationship between financial development and environmental quality, showing that financial development is an important determinant of environmental quality. This is because developed financial systems have the capacity to finance environmental projects at low costs (Claessens and Feijen, 2007; Tamazian, Chousaa and Vadlamannatia, 2009; Halicioglu, 2009; Tamazian and Rao, 2010).

Moreover, financial intermediaries ensure allocation of resources to the most advanced technologies (Jalil and Feridun, 2010), and may even contribute to fostering technological innovation (King and Levine, 1993b; Tadesse, 2005).

On the other hand, there are studies that refute the existence of a positive impact of financial development on the environment. For example, Mohamed Amine Boutabba explores the relationship between financial development and carbon emissions in India, concluding that financial development emphasizes environmental pollution (Boutabba, 2014).

At the same time, capital markets can play an important role in promoting environmental protection, as the market value of companies that do not meet national environmental standards tends to decrease because of this neglect (Tamazian, Chousaa and Vadlamannatia, 2009).

Other studies refer to the link between economic growth and the level of pollution, most of them revealing that this is a "U-shaped relationship" (also known as the Kuznets curve), as initial growth contributes to environmental degradation, but after reaching a certain level of growth, it leads to reduction of pollution (Grossman and Krueger, 1995; Selden and Song, 1994).

3 ECONOMETRIC ANALYSIS

We have tested the influence of the financial system on sustainable development in five ECE countries (Romania, Poland, Hungary, Bulgaria and Czech Republic) by using multiple regressions based on panel data over the period 2000 - 2013.

3.1 The Data

We have used two financial indicators and several sustainable development indicators. As mentioned before, the financial indicators used are domestic credit provided by the financial sector as a share of GDP (CREDIT) and market capitalization of listed companies as a share of GDP (MCAP). We have collected the data for the financial indicators from the World Bank.

We also use the headline sustainable development indicators provided by the European Comission in order to monitor the EU Sustainable Development Strategy. The European Comission has developed a set of indicators for sustainable development classified into themes, each theme having one or several headline indicators. These headline indicators have been identified of more than 100 indicators and are expected to assess the progress of EU member states towards sustainable development, according to the objectives defined by the EU Sustainable Development Strategy. They are presented in the Tab. 1.

Tab. 1 – SD Headline indicators

Theme	**Headline indicator**
Socio-economic development	Growth rate of real GDP per capita
Sustainable consumption and production	Resource productivity
Social inclusion	Persons at-risk-of-poverty or social exclusion
Demographic changes	Employment rate of older workers
Public health	Healthy life years and life expectancy at birth, by sex
Climate change and energy	Greenhouse gas emissions Share of renewable energy in gross final energy consumption Primary energy consumption
Sustainable transport	Energy consumption of transport relative to GDP
Natural resources	Common bird index
Global partnership	Official development assistance as share of gross national income
Good governance	No headline indicator

Source: Eurostat, http://ec.europa.eu/eurostat/web/sdi/indicators

We use almost all of these headline indicators in our analysis, respectively: growth rate of real GDP per capita (RGDP), resource productivity (RESOURCE PRODUCTIVITY), people at risk of poverty as a share of total population (POVERTY), employment rate of older workers as a share of total employment (OLD_EMPLOYMENT), healthy life years expectancy at birth (HEALTH), greenhouse gas emissions (GAS), share of renewable energy in gross final energy consumption (RENEW_EN) , primary energy consumption (ENERGY), energy consumption of transport relative to GDP (TRANSPORT) and official development assistance as share of gross national income (ODA).

3.2 Methodology and results

We use panel data and multiple regression models in order to estimate the influence of the financial system upon SD indicators.

Each of the SD indicators has been considered as an endogenous variable in multiple regressions within which the financial indicators have been exogenous variables. Thus, each regression had the following form:

$$\mathbf{SD_{indicator} = c + a*credit + b*mcap + \varepsilon,}$$

where c is the constant term of the equation;

a and b are the coefficients associated with each exogenous variable;

ε is the error term.

The main results of the regression models are presented in Tab. 2:

Tab. 2 – Results of regression equations

Dependent variable	Independent variables	Coefficient	T-statistic	Prob. (T-statistic)	R^2	F-statistic	Prob. (F-statistic)
RGDP	CREDIT	2.380674	2.521152	0.0141	0.233177	9.426560	0.000266

	MCAP	3.770072	3.649862	0.0005			
RESOURCE PRODUCTIVITY	CREDIT	-0.93003	-1.351261	0.1796	0.109173	3.79923	0.027253
	MCAP	1.627823	2.148743	0.0361			
POVERTY	CREDIT	1.204533	2.007609	0.0527	0.107712	2.05245	0.044651
	MCAP	-1.309225	-1.999206	0.0536			
OLD_EMPLOYMENT	CREDIT	-0.435243	-1.931538	0.0580	0.056950	1.872071	0.062395
	MCAP	0.434031	1.754582	0.0843			
HEALTH	CREDIT	-0.034624	-0.175221	0.8619	0.033578	0.590652	0.059550
	MCAP	0.103849	0.481504	0.6332			
ENERGY	CREDIT	0.272749	1.529842	0.1336	0.291770	8.651374	0.000714
	MCAP	-0.538779	-2.755983	0.0086			
RENEW_EN	CREDIT	0.332168	2.375054	0.0207	0.189157	7.231796	0.001503
	MCAP	-0.506517	-3.299071	0.0016			
GAS	CREDIT	-0.380273	-1.245626	0.2176	0.333870	15.53747	0.000003
	MCAP	1.056344	3.151952	0.0025			
TRANSPORT	CREDIT	-0.206591	-1.018999	0.3122	0.163835	6.074004	0.003900
	MCAP	0.483105	2.170634	0.0338			
ODA	CREDIT	0.000487	3.113991	0.0028	0.210012	8.241083	0.000670
	MCAP	0.000404	1.505156	0.1374			

Source: author`s calculations based on World Bank and Eurostat data

For each equation, the correlation coefficient R^2 is quite low, which means that the change of the dependent variable may be explained by the movements of the independent variables at a low or very low rate.

Considering the significance threshold of 10%, we asume that each equation is correctly specified.

As may be noticed in Tab. 2, the real GDP per capita (RGDP) is influenced both by credit and by market capitalization, but, as stated above, the correlation coefficient R^2 is quite low, 0,23. At the same time, resource productivity is only influenced by market capitalization, while poverty is positively influenced by credit and negatively influenced by market capitalization, considering the significance threshold of 10%. However, the correlation coefficient R^2 is very low, only 0,1.

The resultus show that there is a negative correlation between employment rate of older workers as a share of total employment and credit, but the correlation coefficient R^2 is very low, 0,05. At the same time, none of the exogenous variables influences healthy life years expected at birth.

Greenhouse gas emissions and primary energy consumption are only influenced by market capitalization, while credit does not influence these two variables. This suggests that the size of the capital market influences industrial activity. For these two regression equations, the correlation coefficients are higher, around 0,3. The share of renewable energy in gross final energy consumption is positively influenced by credit and negatively influenced by market capitalization, but the correlation coefficient is also low, of 0,18. This means that sources of renewable energy are financed through credit, though the influence is very weak.

Energy consumption of transport relative to GDP is not influenced by credit, as the coefficient is not significant, but it is influenced by market capitalization, at a low rate (the correlation coefficient R^2 is only 0,16).

Official development assistance as share of gross national income seems to be positively influenced by credit only, but the coefficient is very low, only 0,000487, and moreover, the correlation coefficient R^2 is also low, of 0,21.

On the whole, we can state that sustainable development indicators are weakly influenced by the financial indicators in the five CEE countries included in the analysis.

4 CONCLUSIONS

Several authors express a tension between the financial system and sustainable development, as the main concern of the financial system is achieving short-term consistent gains, while sustainable development focuses on long termism. Theoretically speaking, financial companies could be a great factor to promote sustainability and sustainable development, but the reality shows that this is not quite the case.

We test the influence of financial indicators upon some sustainable development indicators in five developing CEE countries (Romania, Poland, Hungary, Bulgaria and Czech Republic) by using multiple regressions based on panel data over the period 2000 - 2013. We find very weak or even no influence from the financial indicators over the sustainable development indicators, as the correlation coefficient varies between 0,05 and 0,33 for the regression equations.

These findings might be explained by several facts. First, the financial systems of these five developing countries are not very well developed, so that they do not have a high capacity to foster economic growth and development. Second, even if this was the case, promoting sustainable development requires a lot more than fostering economic growth. It also involves efficient resource allocation, the protection of the environment and social responsability. It is not a question of whether the financial companies can promote all these, but whether they are interested in promoting them. Unfortunately, the main goal of every financial compay is obtaining consitent short-term gains, which is in disagreement with the principles and activities that may contribute to sustainable development. As stated before, even though financial companies have embraced the sustainability agenda, they haven`t done much to change their short-term orientation to profit and to shift to long-run strategies in favor of sustainable development.

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Insights into the Development of the Global Financial Crisis – A Tale of Contagion and Market Interdependence

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Abstract: This paper investigates the presence of market interdependence and contagion during the 2007-2009 crisis. For this purpose, five aggregate indices were employed, covering all the major financial markets from each geographical region. The data series were analyzed by means of the values and value changes of the correlation coefficients (both unconditional and conditional) and also with the aid of a spillover index. The results indicate that there is evidence for both interdependence and contagion during the recent financial crisis. Moreover, it seems that the crisis led to a further increase of the global financial integration.

Keywords: contagion, interdependence, crisis, correlation, spillover

JEL Classification codes: G01, G15

1 INTRODUCTION

Disruptions, shocks and, ultimately, crises appear to be regular occurrences in the global financial environment. Moreover, a long history of financial distress episodes points out that market crashes have a clear tendency to spread from one market to another, sometimes reaching even remote financial centers. The recent global crisis originated in the US but spread swiftly to every corner of the world exhibiting a clear example of the threats posed by the transmission of financial instability between markets. Consequently, due to the high degree of financial integration nowadays, even what may seem a local crisis has the potential to become a force to be reckoned with.

The mechanics of crises' transmission have captured the attention of many researchers which, beginning with the 1990s, led to a fast development of the literature on this topic. Most works have revolved around two main factors that allow for and enhance the transmission of crises: interdependence and contagion. Forbes and Rigobon (2002) defined contagion as a significant increase in market comovement after the occurrence of a shock in one country. On the other hand, interdependence describes a high level of market comovement irrespective of the considered period.

Interdependence and contagion have been studied extensively in the context of the October 1987 crash, the Mexican peso devaluation (1994), the Asian crisis (1997), the following Russian

(1998) and Brazilian (1999) crises and culminated with efforts to understand the sequence of events which started as a subprime crisis in the US and turned into a serious global recession. Following in the footsteps of previous research, this paper sets out to study the relationships between the main financial markets in the world throughout the last 15 years in order to find evidence underlying the rapid propagation of financial turmoil during the 2007-2009 markets fall. Both interdependence and contagion are taken into account and investigated as plausible factors for the spread of the crisis.

Taking into account the aforementioned objective, the paper is structured as follows: Section 2 gives an overview of the previous research concerning the roles played by market interdependence and contagion in the development of past crises, as well as the main methods for investigating them; Section 3 describes the data series and the methodology employed by this study in order to check for evidence of contagion and market interdependence during the recent financial crisis; Section 4 presents and discusses the results of the empirical analysis while Section 5 gives the conclusions of the paper.

2 LITERATURE REVIEW

Numerous researchers have previously investigated the presence of contagion and market interdependence in the context of crises' transmission. Dungey et al. (2005) assembled a comprehensive review of the methodologies employed for this purpose and concluded that, despite their diversity, they are still part of a unified framework.

One of the most popular approaches refers to analyzing the correlations between market indices from various countries. Forbes and Rigobon (2002) investigated the crises ranging from the 1987 market crash to the 1997 Asian crisis by means of adjusted correlation coefficients, found no evidence of contagion and concluded that the shocks were transmitted only through market interdependence. Collins and Biekpe (2003) replicated their analysis on the African stock markets and confirmed the occurrence of contagion in the largest ones (Egypt and South Africa). With respect to market interdependence, they identified only regional links and concluded that most African markets are still isolated. Chiang, Jeon and Li (2007) analyzed the Asian crisis with the aid of a dynamic conditional correlation model. Their results divided the crisis into two phases: first, the contagion phase (when the correlations increased significantly), then, the strengthening of market interdependence (correlations continued to remain high).

In response to the correlation approach, which seemed to favor interdependence, finding limited or no evidence of contagion, factor models for stock returns were employed. On the basis of a two-factor model with time-varying betas, Bekaert, Harvey and Ng (2005) found evidence of contagion during the Asian crisis but not in the case of the Mexican crisis. Corsetti, Pericoli and Sbracia (2005) also investigated the Asian crisis by means of a factor model and confirmed the presence of both contagion and interdependence.

Another major method from previous literature refers to the use of probability models. For example, Fazio (2007) used probit techniques to separate pure contagion from macroeconomic interdependence in the process of crises' propagation. His results indicated a limited occurrence of contagion, especially at regional levels. Also, based on a logit model, Markwat, Kole and Van Dijk (2009) observed that the probability of a global crash increases in the presence of local and regional ones.

In his study of the 2007-2009 financial crisis, Samarakoon (2011) modeled the shocks directly and observed that US shocks have a significant impact on the interdependence with foreign markets. However, contagion seemed to be driven mainly by shocks originated from emerging markets. On the other hand, Diebold and Yilmaz (2012) proposed a framework for measuring return and volatility spillovers based on the variance decomposition of VAR models. Their results showed an increase in volatility spillovers, especially from the stock market to other markets, during the recent financial crisis.

3 DATA AND METHODOLOGY

In order to investigate the presence of interdependence and contagion during the 2007-2009 global financial crisis, indices covering all the major markets were required. Among other providers, STOXX Limited offers a wide range of benchmark indices that describe the movement of financial markets. Five such indices, which represent all the important financial centers around the world, were selected for this study, as follows:

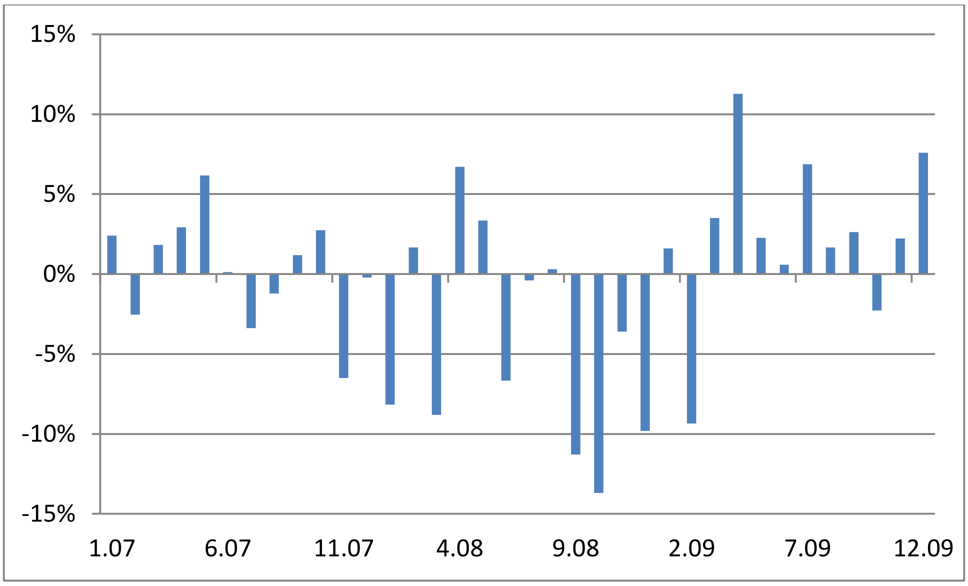
- STOXX Africa 90, covering the largest companies in Egypt, Morocco, Nigeria, South Africa and Tunisia;
- STOXX Asia/Pacific 600, covering the largest companies in Australia, Honk Kong Japan, New Zealand and Singapore;
- STOXX Europe 600, covering companies from 18 developed European countries;
- STOXX Latin America 200, covering the largest companies in Argentina, Brazil, Chile, Columbia, Mexico and Peru;
- STOXX North America 600, covering the largest companies traded on the Canadian and US markets.

Together, the five indices constitute a comprehensive (2090 companies from 36 countries), yet liquid (only the largest and most important companies were selected from each country) representation of the global financial market. For simplicity, from this point on the indices are referred to only by mentioning their corresponding geographical region.

The data series of the five indices comprise 3318 daily observations covering the interval between 2 January 2002 and 31 December 2014. The period was selected taking into account the availability of the data series, as well as the need to ensure large enough ante and post crisis samples that will allow the investigation of contagion and interdependence. All the series were obtained from www.stoxx.com.

First of all, in order to clearly demarcate the global financial market crisis, the monthly log returns of the STOXX Global Total Market index[23] were computed for the 2007-2009 interval. The results are plotted in Fig. 1.

Fig. 1: The monthly returns of the STOXX Global Total Market index between 2007 and 2009



Source: Author's computations

As shown above, the global market crisis appears to hit between November 2007 and February 2009 when the Global Total Market index recorded 11 months of decline out of the total interval of 16 months. During the same period, the five indices retained in this analysis suffered 8 months of simultaneous decline losing more than 50% of their initial values. Consequently, the initial data series were divided into the following intervals: the ante crisis (January 2002 – October 2007, 70 months, 1489 observations), the crisis (November 2007 – February 2009, 16 months, 334 observations) and the post crisis (March 2009 – December 2014, 70 months, 1495

[23] According to www.stoxx.com, the Global Total Market Index covers 95% of the free float market capitalization worldwide

observations). Also, the daily log returns of the five indices were computed for the above mentioned intervals.

Taking into account the methods provided by previous research, the analysis began by computing the unconditional correlations between the returns of the indices for all three intervals in order to investigate their values and their evolution from one interval to another. Both the individual correlations and their value changes across intervals were tested for statistical significance.

Then, following Chiang, Jeon and Li (2007), the correlation analysis was further expanded by employing dynamic conditional correlations. For this purpose, an exponential smoothing correlation model was calibrated for the data series in accordance with Engle (2002) and Christoffersen (2003). The average values of the conditional correlations and their changes from one interval to another were computed and tested for statistical significance while the results were compared to those obtained for the unconditional correlations.

Finally, in order to cross-check the results provided by the correlation analysis, a different methodology was employed. Thus, the spillover index proposed by Diebold and Yilmaz (2012) allowed for studying potential return spillovers between the five indices. In this view, a second order VAR was estimated between the daily returns of the indices for each interval and the spillover index was computed on the basis of the variance decomposition for a 5-step-ahead[24] forecast. Moreover, since variance decomposition results are sensible to the ordering of the variables, the spillover index was reported for 10 random orderings of the indices.

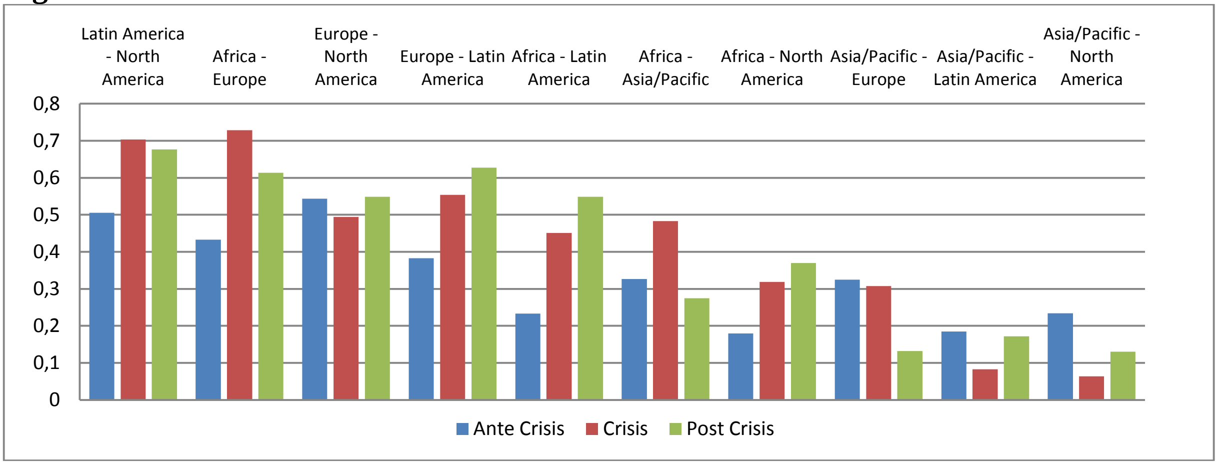
4 RESULTS

Fig. 2 presents the unconditional correlation coefficients between the five indices (in decreasing order by the average correlation for the whole length of the data series) and their evolution across the considered intervals. All the coefficients are statistically significant at 1% with the exception of the crisis values for the last two pairs: Asia/Pacific - Latin America and Asia/Pacific – North America. As it can be seen, the correlations are quite high for the majority of the indices (except maybe for the correlations between Asia/Pacific and the rest of the world) irrespective of the considered interval. The average value of the unconditional correlation coefficients is 0.335 for the ante crisis period, 0.419 during the crisis and 0.409 after the crisis, amounting to a general average of 0.376. Therefore, due to the high correlations even outside

[24] The forecast of one week in terms of daily returns

the crisis period, market interdependence seems to be a plausible factor for the spread of the crisis in the majority of cases.

Fig. 2: The evolution of the unconditional correlation coefficients



Source: Author's computations

The unconditional correlation coefficients also emphasize the strong connections between the financial markets from the Americas, between European markets and the rest of the world (average correlation of 0.463) and bring into attention the integration of African markets (average correlation of 0.395) which are no longer isolated (Collins & Biekpe 2003). The main exception seems to be the Asia/Pacific region which displays a lower correlation with the other indices (average value of 0.227) leaving some room for international portfolio diversification.

Since contagion refers to a significant increase in market comovement, the changes in the values of the unconditional correlations from one interval to another were computed and tested for statistical significance. The results are given in Table 1.

Tab. 1: The changes in the values of unconditional correlation coefficients with p-values in brackets

	Latin America - North America	Africa - Europe	Europe - North America	Europe - Latin America	Africa - Latin America	Africa - Asia/Pacific	Africa - North America	Asia/Pacific - Europe	Asia/Pacific - Latin America	Asia/Pacific - North America
Crisis – Ante Crisis	0.198 (0%)	0.295 (0%)	-0.05 (36.4%)	0.172 (0.2%)	0.218 (0%)	0.157 (0.4%)	0.14 (1.1%)	-0.017 (75.5%)	-0.102 (6.2%)	-0.17 (0.2%)

Post Crisis - Crisis	-0.027 (61.8%)	-0.115 (3.5%)	0.054 (32.1%)	0.073 (18.4%)	0.098 (7.3%)	-0.209 (0%)	0.051 (35.8%)	-0.175 (0.1%)	0.089 (10.5%)	0.066 (22.8%)

Source: Author's computations

As shown above, in 6 out of 10 cases the unconditional correlation coefficients recorded a significant[25] increase from the ante crisis to the crisis period. The greatest increase of 0.295 was recorded between Africa and Europe, while the lowest increase of 0.14 (but still statistically significant) was recorded between Africa and North America. Therefore, the results show evidence of contagion in more than half of the cases especially towards African markets (all 4 correlation coefficients recorded a significant increase) and Latin American markets (3 out of 4 correlation coefficients recorded a significant increase). Looking at the remaining cases some interesting things can be noticed. Firstly, most correlations between Asia/Pacific and the rest of the world do not change significantly due to the crisis and in one case they even decrease by 0.17, a result which is statistically significant. This confirms the previous conclusion that markets from the Asia/Pacific region allowed for international diversification even during the recent crisis. Secondly, the correlations between Europe and North America, while already being at a high level, do not change significantly during all the considered intervals. Therefore, these markets appear to be highly interdependent but with no obvious signs of contagion.

On the other hand, the lower half of Table 1 brings into attention a concerning fact: only in 3 out of 10 cases the correlation coefficients recorded a significant decrease after the crisis. In all the other cases, the changes of the correlation coefficients are not significant meaning that, most likely, the crisis accentuated the interdependence of financial markets. These results are in line with the findings of Chiang, Jeon and Li (2007) who also divided the Asian crisis into a contagion phase, followed by an interdependence phase with continuous high correlations.

The correlation analysis was further expanded by taking into account dynamic conditional correlations obtained via an exponential smoothing model. The model could not be calibrated for the Africa – Asia/Pacific and Europe – North America pairs leaving the other 8 cases for analysis. To begin with, conditional correlations do not provide new insights regarding the most interconnected markets and the general level of interdependence. The ordering according to the average correlation level stays the same except for the last two (Asia/Pacific - Latin America

[25] Considering a significance level of 5%, 5 cases if a 1% significance level was considered

and Asia/Pacific – North America) which switch places. Also, the presence of market interdependence cannot be ignored, the average values of the conditional correlations being 0.326 before the crisis, 0.37 during the crisis and reaching to 0.397 after the crisis.

Tab. 2: The changes in the values of average conditional correlations with p-values in brackets

	Latin America - North America	Africa - Europe	Europe - Latin America	Africa - Latin America	Africa - North America	Asia/Pacific - Europe	Asia/Pacific - Latin America	Asia/Pacific - North America
Crisis – Ante Crisis	0.142 (6.46%)	0.29 (0%)	0.127 (1.64%)	0.148 (0%)	0.069 (0.7%)	-0.1 (2.4%)	-0.148 (0%)	-0.181 (0%)
Post Crisis - Crisis	-0.012 (87.8%)	-0.119 (1.44%)	0.06 (25.9%)	0.144 (0%)	0.089 (0%)	-0.133 (0.3%)	0.117 (0%)	0.073 (0.2%)

Source: Author's computations

On the other hand, the changes in the average values of the conditional correlations (reported in Table 2) confirm the presence of contagion in 4 out of 8 cases, namely Africa – Europe, Europe – Latin America, Africa – Latin America and Africa – North America. All these cases also recorded significant increases of the unconditional correlation coefficients during the crisis period. Therefore, both unconditional and conditional correlations indicate the presence of contagion between certain markets during the recent crisis. The markets most affected by contagion seem to be Africa and Latin America while the major financial centers from North America and Europe appear to be closely interconnected with no significant changes. Again, the Asia/Pacific index displays an uncommon behavior with significant decreasing correlations against all the other indices, confirming the previous conclusion that diversification on these financial markets could have mitigated the losses during the crisis.

The evolution of the conditional correlations after the crisis emphasizes the same concerning fact: only in 2 out of 8 cases there is a significant decrease of the correlations, while in 4 of the other cases the correlations experience a significant increase during the post crisis interval. These results give good cause to believe that the global financial crisis strengthened the interdependence between financial markets making them more vulnerable to the transmission of future shocks.

Finally, in order to validate the results of the correlation analysis, the spillover index between the returns of the five indices was computed for each interval according to the methodology developed by Diebold and Yilmaz (2012). The robustness of the spillover index was checked by using 10 random orderings of the market indices and the results are reported in Table 3.

Tab. 3: The spillover index

Spillover Index	Random Orderings										Average index
	1	2	3	4	5	6	7	8	9	10	
Ante Crisis	24.9 %	25.4 %	23.7 %	24.9 %	23.8 %	24.4 %	23.1 %	23.8 %	24.5 %	24.2 %	**24.3%**
Crisis	47.3 %	47.4 %	45.2 %	47.1 %	44.7 %	45.7 %	45.2 %	46.3 %	47.1 %	45.7 %	**46.2%**
Post Crisis	35.8 %	35.5 %	35.3 %	36.2 %	35.2 %	35.2 %	34.6 %	36.0 %	36.0 %	34.9 %	**35.5%**

Source: Author's computations

As shown above, the values of the spillover index are quite homogenous and the random orderings do not have a significant impact on the results. Moreover, the average values for each interval confirm at least two conclusions of the correlation analysis. Firstly, there appears to be a significant increase of the spillover between returns during the crisis interval which supports the existence of contagion episodes as evidenced by the correlation analysis. Secondly, while the average spillover index decreases after the crisis it still remains higher than its initial value, confirming the intensification of global market interdependence.

5 CONCLUSIONS

The paper investigated the presence of contagion and interdependence during the 2007-2009 financial crisis with the aid of five aggregate indices covering 2090 companies traded on 36 markets from 6 continents. The empirical study focused on analyzing the evolution of both unconditional and conditional correlations and was further developed by taking into account the existence of spillover effects. The results of the study emphasize three major conclusions:

- The global financial markets exhibited a high degree of integration even before the occurrence of the crisis. This is most visible in the case of Europe and North America which seem to be strongly interconnected irrespective of time interval;
- There appears to be evidence of contagion during the crisis for about half of the considered cases, especially from the developed financial markets of Europe and North America to the emerging centers in Africa and Latin America. However, the markets from the Asia/Pacific region displayed a distinct behavior characterized by lower

correlations, that further decreased during the crisis, which may have given opportunities for international portfolio diversification and mitigation of losses;

- After the contagion episodes some of the correlation coefficients decreased but did not return to their initial levels. As a consequence, the crisis seems to have intensified the interdependence between financial markets.

To conclude with, there is empirical evidence for both interdependence and contagion during the recent financial crisis and, besides, it appears that one of the crisis' effects was to further increase the degree of financial integration making the markets even more vulnerable to the transmission of future shocks.

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Political, Cultural and Economic Relations between China and Czech Republic

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Abstract: The purpose of this paper is to present the role of cultural differences in negotiation with Chinese, with the special place of Czech Republic. By comparing political, cultural and economic data, the broad context of culture and its influence on business style is presented. Cultural awareness, appropriate understanding of the country's culture and market players' limitations as its representatives, may lead to the success of the investment. Although there is vast number of publications on Chinese negotiation style, there is a gap in literature comparing the findings with the holistic view of the presented case. In this paper the brief summary of cross-culture theories is preceded by an analysis of Czech Republic – China business relationship. Finally the effect of values and culture on companies strategies are shown. The practical aspect of the article is to outline the major threats to the business relationship between the representatives of different cultures when they do not have knowledge on social, historical and economical background of their partners.

Keywords: business culture, negotiation, China, Czech Republic

JEL Classification codes: Z10

1 INTRODUCTION

After opening its economy, the People's Republic of China became worlds most wanted market for many companies. A number of experts wrote numerous articles about Chinese economy, politics, beliefs, culture, or history. This article will try to merge those fields, and analyse the relation between Czech Republic and China from interdisciplinary point of view. Starting from short history of formal, and business relations, each country political involvement, trade trends, is followed by short countries culture comparison.

2 ECONOMIC ANALYSIS OF CZECH AND CHINESE BUSINESS RELATIONSHIP

The formal relations between one of today's economic superpowers China and Czech Republic are not very long – with Czechoslovakia they have been established on October 4th 1949 while with Czech Republic on January 1st 1991 (ECRB, 2015). Between these two dates, the economic cooperation between China and CR was at its peak. This changed in 1990s when according to Furst and Pleschova (2010), China considered CR as a minor, less important partner, even though Czech effort to increase such cooperation was high and it wanted to keep the ties and recognition it had from China during the communist era. Furthermore, CR allowing Taiwanese government officials such as Prime Minister Lien Chen to visit the country did have an even more negative influence on their cooperation. Additionally, Czech Republic back then was balloting for allowing Taiwan to participate in United Nations while the Czech government supported the Two-Chinas politics. For China this was treated as an act of aggression and a total change in politics when just a few years earlier in 1989 the Czechoslovak coverage of the Tiananmen massacre in June 1989 was very limited. The Czechs were hoping that the existing trade would continue in 1990s as previously and that companies such as Tatra trucks or Skoda cars would continue stabile business and already existing energy projects in Shanxi and Shentou provinces would be extended. The reality was different - the lobbing of Czech investments in China was very poor and many investments were a disappointment especially due to high competition.

The relationship between the two countries improved in 1996, when CR has recognised the One China Policy, which meant that from then on they supported only one Chinese government in Beijing, not the one in Taiwan, with which it has never introduced diplomatic relations. It was only then, in 1999, when the contract for the Shentou project enlargement was finally signed with Chinese officials.

A milestone in Chinese-Czech relations was the accession of CR into the European Union, when China recognised its potential as a trade partner. Czech-Chinese agreements were then replaced by EU-Chinese ones, which were more focused on intellectual property and anti-dumpling law. This was the time when the most official visits of Chinese high-level governmental workers in Prague and vice versa took place. In this way the trade between CR and China in 1990s was equal to 340 million USD, while in 2011 it grew to to 20 588 million USD (exports from Czech Republic to China were worth 1 669 million USD while imports 18 919 million USD) (Czech Statistical Office, 2013). At the same time the trade deficit with China has been increasing constantly from 1993 to reach 3 billion USD in 2007 and tripling to 9.6 billion USD in 2009 (Furst & Pleschova, 2010). Czech exports to China grew annually by 70% from 2007 but still equalled only to 0.6% of Czech export in 2007-2009, so still there is a lot of potential for growth (Furst & Pleschova, 2010, p. 14). The accession to the EU clearly helped Czech-Chinese relations in education and culture. For example in 2008, the Confucius Institute, which promotes Chinese culture and language abroad, opened an office in Olomouc, while a lot of new scholarship programmes have been started for students of both countries for studies in the partner state. The Czech imports have changed greatly from 2000 to 2010, which can be seen on Table 1.

Tab. 1: A comparison of imports to Czech Republic in 2000 and 2010

Imports to Czech Republic, 2000 (in billions of USD)	**Imports to Czech Republic, 2010 (in billions of USD)**
1. Germany 11.4	1. Germany 37.1
2. Russia 2.3	2. China 9.1
3. Slovakia 2.1	3. Poland 8.7
4. Italy 1.8	4. Slovakia 8.0
5. France 1.8	5. Netherlands 7.6
6. Austria 1.7	6. Russia 6.5
7. United States 1.5	7. Austria 6.1
8. United Kingdom 1.5	8. Italy 4.6
9. Poland 1.3	9. France 4.1
10. Netherlands 0.8	10. United Kingdom 3.5

Source: based on IMF, Direction of Trade

From Table 1 it is clearly visible how Chinese imports to CR have increased over the period of 10 years: in 2000 China they were not in the top 10 of the importing countries while a decade later its trade to CR was equal to 9.1 billion USD, which made it the second biggest importer.

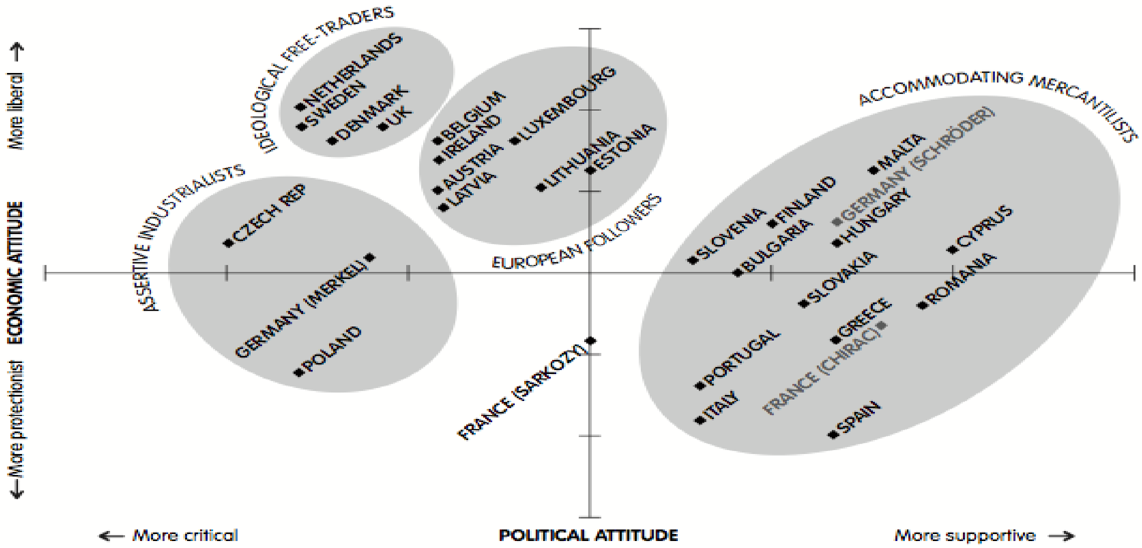
Another downturn in Czech-Chinese relations took place in 2009 and 2010 and according to the Ministry of Foreign Affairs of China it still has not been overcome. In 2009 Czech Prime Minister Jan Fischer met with Dalai Lama, while in 2010 Liu Xiaobo, a Chinese writer and human rights activist won the Nobel Peace Prize, the Czech Foreign Ministry "twice issued statements interfering in China's internal affairs" as the Chinese Ministry believes (MOFA PRC, 2015). Still, topics such as human rights, ethical issues and democratisation of China differ the two nations greatly.

For Czech Republic, China is a very important partner that is why it is engaged in as much interaction with this country as possible such as participating in different forums such as UN, EU-ASEAN+3 or Asia-Europe Meeting. Officials from each of the two countries often visit the other in order to build new bridges. An example of such can be the EU–China Summit held in Prague in May 2009, when Prime Minister Wen Jiabao met with the Czech President Vaclav Klaus and Prime Minister Jan Fischer. Quite recently, in October 2014, the Czech President Milos Zeman met with Chinese PM Xi Jinping, where discussions about increased tourism between the two countries was discussed (by for example introduction of a direct flight from Prague to Shanghai) and a proposition was made to set up a new Czech Consulate in Chengdu, Sichuan.

The business cooperation between these two nations began during the existence of Czechoslovakia. In 1956 a Friendship Farm was started in Cangzhou China, after Czechoslovakia has given a gift of more than 670 agricultural machinery and tools so that the Chinese were able to cultivate 6,667 hectares of land (ECRB, 2012). The farm, which today is called Sino-Czech-Slovak Friendship Farm still exists and maintains close ties with both countries. This is not the only type of such cooperation, in May 2014, for example, the Czech Cultural Festival had taken place in Beijing and Yantai, while in October the members of the Chinese Academy of Engineering visited CR.

The EU member states can be divided by their attitude towards China. These attitudes can be seen on table 2 where on one axis the way to manage China's impact can be seen while on the other the political engagement.

Tab. 2: Economic and Political Outlook Towards China of EU States



Source: Fox & Godement (2009), "A Power Audit of EU-China Relations", p. 4.

As can be seen on the graph above, out of all EU member states Czech Republic is the most critical in its political attitude towards China, while its' economic attitude is more liberal. This makes Czech political and economic outlook towards China similar to Germany under Angela Merkel and Poland.

China has become one of the main suppliers of machinery to the Czech market as well as electronics and consumer goods (shoes, toys, glasses, etc.) (OEC, 2015). Quite recently, in December 2014 the Home Credit Group, which is a partner of Czech PPF Group was the first FDI in consumer finance in China by starting the provision of micro-loans (MOFA PRC, 2015). The data from the Embassy of Czech Republic in Beijing shows that apart from the already developed industries in which the two countries cooperate there are a lot of opportunities for companies from both nations to grow in environmental, energy, health, financial services and social insurance (ECRB, 2015). Quite recently, for example, in summer of 2014, a Chinese state-owned company China Railway Signal & Communication Corporation bought majority stake in Czech Inekon Group, a tram producer.

Even though there has been much cooperation taking place between the two countries in political and economics spheres, the Czech companies still feel a lot of obstacles in operation in this market. Such include: bureaucracy, technical specificities of this country, poor patent protections as well as other intellectual property rights violations.

3 SOCIO-CULTURAL ANALYSIS

Taking into consideration the global movements in economy in the past two decades the subject of intercultural business negotiation process became more popular. More and more articles appear in business management literature. Ghauri and Fang (2001) indicate two approaches to international business negotiation: Western and non-Western cultures, developing and developed countries. Each culture has a tendency to focus on a different stage of negotiation process. In literature we can find many approaches to the issue of negotiation process division. Ch. B. Craver (2003) suggests the division into six formal stages of the negotiation process: preparation stage, preliminary stage, information stage, distributive stage, closing stage, and finally cooperative stage. But for our purpose it seems most reasonable to use the concept proposed by Ghauri and Fang (2001): pre-negotiation, negotiation, and post negotiation stage. According to the authors in first pre-negotiation stage the Chinese counterpart is interested in gathering key information. Whether a further stage will be initiated or not, will depend on the information gathered. The party in question must indicate possession of desired good, technology or science, willingness to share knowledge, transfer patents, demonstrate the ability to deliver on time and financial ability to conduct the project for a sufficient time. If all the above-mentioned assumptions are met, the formal negotiation stage might follow - usually after signing a letter of intent. The most important issues are being raised for discussion, such as: price, terms of payment, technology transfer, equity shares. The post-negotiation final stage also occurs in most of the contacts. In this phase some issues need to be specified in detail, adjusted or even changed, due to the specific Chinese belief that some events are unforeseen, and circumstances may change.

In order to conduct an effective business negotiation, we should take into consideration many aspects of political, historical, and social background of each country, its market environment, and culture. R.J. Volkema (1998) emphasizes the recognition of acceptable and expected behavior or customs as one of the most important factors. All the cultural differences between counterparts could lead to potential conflicts, confusion, misunderstandings, generate stress, and as a result termination of the potential business.

To conduct business negotiations with representatives of any country, each party must be aware not only of the essence of the negotiation process itself but also its stages. Extent knowledge in the field of intercultural relations theory and cultural studies is necessary. A proper understanding of the cultural dimensions and posture of each participant is the starting point to learn about the mechanisms associated with the presented style of negotiation, business behavior and code of ethics. There are many theories of intercultural complexity, which may explain the differences between China and Czech Republic. E.T. Hall's (1987) key cultural factors include approach to time, the context of expression and perception of space. The way partners communicate and the information presented, is strictly correlated to low- or high-context cultures affiliation. Low context cultures are strongly oriented on clear direct verbal message, expect clear instructions, do not pay attention to the elements of non-verbal communication. High-context cultures on the other hand tend to focus on situational context. Moral values and expressions are important, written contracts are less respected. In societies defined as monochronic attention to time is decisive, once agreed schedules will be respected, the agenda of meetings rarely changes. In contrast to polychromic cultures, in which people put less emphasis on punctuality and do not have a strong need to respect time limits. Territoriality as one of the cultural factors defines mostly concern for proprietorship, and personal space. Low-territoriality as the name suggests means less commitment to the defence of personal space. High-territoriality means the opposite. Importantly, monochronic cultures are also considered in conjunction with the low-context dimension. The Czech Republic belongs to this group of monochronic, low-context cultures, whereas China is placed in the group of high-context countries.

The theories presented by A. Trompenaars and Ch. Hampden – Turner (2000), and R. R. Gesteland (2001), must not be omitted. Gesteland describes the different approaches of representatives of specific cultures, which may lead to conflicts between business partners. This division, however, differs from the one proposed by other researchers of this subject. It is based on characterization of national culture basing on international economic relations. He points out the factors that can be sources of conflict and misunderstanding between business partners. R. R. Gesteland distinguishes four types of cultures. Deal-focused cultures focused on the task versus relationship-focused looking at relationships with people. Formal cultures respecting customs, traditions, rituals versus informal cultures. Rigid-time cultures very close to

E.T.Hall's definition of monochronic cultures, perceiving time and punctuality as values versus fluid-time, treating time freely. Finally, expressive versus reserved cultures, where the way of verbal, para-verbal and nonverbal communication matters. According to R. R. Gesteland the Czech Republic can be defined as deal-focused, formal, rigid-time and variably expressive, whereas China as a relationship-focused, formal, fluid time and reserved country.

Although the above-presented theory proposed are very important in the academic discussion of cultural dimensions, due to space limitations in this paper analytical emphasis is presented based on Hofstede's culture definition. G. Hofstede conducted a study on the representatives of various countries with a focus on social processes occurring within a given circle. Most of the differences between people from different countries can be broken down into differences in the collective cultural programming. Factor analysis led to the six least correlated with each other, discussed below.

Power Distance Index is the dimension determining the ratio of the members of the group to social inequality and the range of expectations and acceptance for the unequal distribution of power. In cultures with low PDI the members of the society will be equal and each of them will be more willing to make independent decisions and learn from own mistakes. High PDI obliges to obedience, show respect to elder, higher in ranks members of the group. In company hierarchies high PDI will lead to inequity between employees, salary diversity and differences in social status.

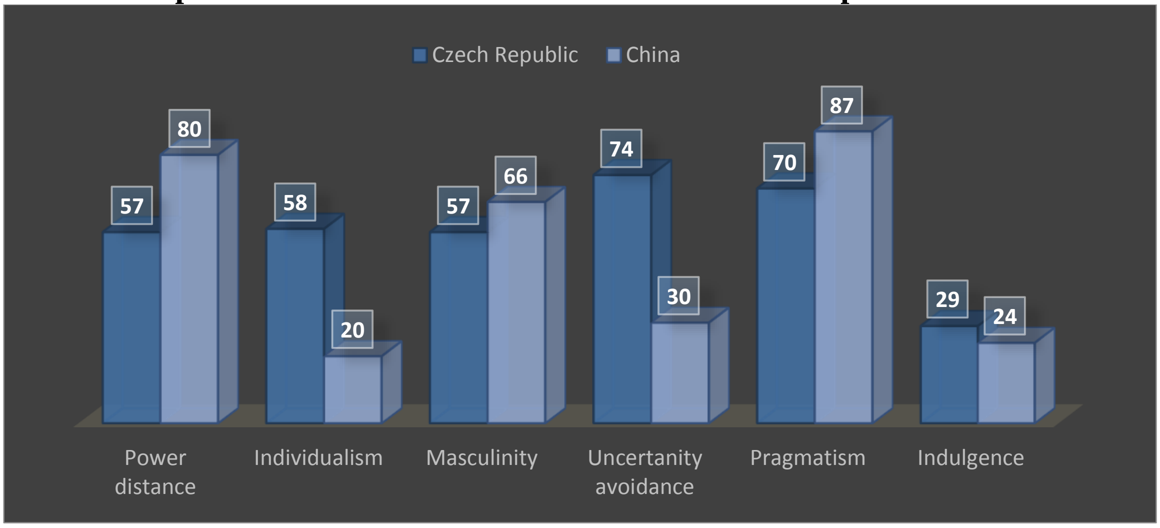
Individualism Index which explains the level of political, social and economic empowerment of the individual, his deliverance from the power of broad family and informal ties. This dimension of culture is divided into these societies that are based on respect for the rights of individuals to shape their own lives and those in which the rights and responsibility for the fate of the people rest on the groups and societies.

Masculinity Index reflects the social roles of gender in a given culture. Male cultures equate men with imperiousness, the willingness to compete, show strength and courage and women with subjection, subordination and lack of confidence. Female cultures will perceive the roles of men and women as interchangeable and complementary partners.

Uncertainty Avoidance Index as indispensable part of human life. The existence of uncertainty causes anxiety and its measures are technology, law and religion. According to Geert Hofstede the scope and method for uncertainty avoidance largely determines cultures material well-being. It should not be considered separately from other dimensions. Pragmatism defines how people understand the complexity of life, their trust in personal ability or respect for social conventions and traditions.

Indulgence Index measures the extent to which people control their desires and impulses, with the correlation to the way they were shaped by society. The ability to enjoy life or gratifications.

Tab. 3: Comparison of socio-cultural dimensions of Czech Republic and China.



Source: Based on data from: http://geert-hofstede.com/

Understanding basic cultural theories and being able to define own positions on the culture map of the World, comparing and understanding the partner's point of view may be crucial for an effective and long-term cooperation. PDI is above average for both the Czech Republic (57), as well as China (80). This shows a tendency to hierarchical behavior, the phenomenon of hierarchical organization of work, bipolar relationship at work, as well as authoritative governance. Masculinity, indulgence, and pragmatism indexes for both countries show close results. This fact may lead to the conclusion that there is no potential source of conflict here. Business partners will understand their opponent's needs, present a similar position to the truth, and the social roles of men and women. Changing environment, the emergence of new standards, the propensity to save, cynicism, pessimism are some of the common characteristics of Chinese and Czech culture. It gets more complicated when it comes to the terms of individualism. The Czech Republic with its score of 58, is considered as a individualistic country in which citizens are rather goal oriented, self-confident, responsible for their own actions, brave and sometimes bold in their decisions. Whereas China (20) places as a highly collective country, where relations between colleagues are based on mutual trust and familiarity. So before starting business, it's essential to extend social connections. At the level of 30 uncertainty avoidance Chinese are adaptable and entrepreneurial, Czechs (74) with a high preference to avoid uncertainty, tend to be emotional. In business situations, such a high discrepancy (44 points) may be a source of misunderstanding and lack of common ground for basic definition of communication.

4 CONCLUSION

Even though the two countries have a totally different geographical localisation, size and political systems, their business relations seem to develop without any large-scale struggles. There still needs to be more effort put on decreasing bureaucracy and increasing protection of Czech companies in order for more investment to take place from CR to China. The negative influence of Czech cooperation with Taiwan in the beginning of 1990s and meeting with Dalai Lama and commenting on Liu Xiaobo Nobel Peace Prize shows that for Chinese government politics can influence trade relations greatly. The Slovak example of a policy, where they tend not to irritate and adhere into the Chinese politics and recognising the "One China Policy" seems to reward economic relations. The future will bring whether CR will continue a road of maximisation of trade but in the context of putting efforts on democratisation of PRC or will it choose another path. The paper shows that with relations to China it is not possible to have politics independent of trade issues. Knowing the above, we have to be aware of cross-cultural differences, negotiations styles and techniques in order to conduct successful business. Due to the size limitation this paper does not analyse other important factors, such as business ethics, EU regulations, and its impact on trade, currency and monetary influence, among others.

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Out of the Path

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Abstract: The fundamental changes in the economic development which started with The Great Recession led to the fact that the path of the growth of real output as of aggregate demand is since then systematically out of the trend with no perspective of recovering. The paper analysis the reasons of this situation, compares differences in the trends of the various economies and discusses what actions should be taken to bring back world economy to its long-term pre-crisis path.

Keywords: trend, GDP, monetary policy, great recession, business cycle

JEL Classification codes: E60

1 INTRODUCTION

The shock of the crisis of 2008 was so great that the economists and politicians changed their opinions about economic development. Since then any growth is considered a success.

German economy has grown last year by apx. 1.5%. It is its highest growth for last three years. The growth of the US economy spread optimism over the markets all around the world. Its growth in third quarter of 2014 soared 5%. (TASR 2015) It was the strongest year of job growth since 1999 and greatest quarter of growth since 2003. (Egan 2014) In the past years, Slovakia has been one of the few economies keeping growing.

Despite the fact that the growth of GDP is now mostly back in positive numbers, the economy did not return to its pre-crisis path. And some economists and politicians consider current path being a new paradigm.

The aim of this paper is to analyze the reasons of this situation, compare differences in the trends of the various economies and discuss what actions should be taken to bring back world economy to its long-term pre-crisis path.

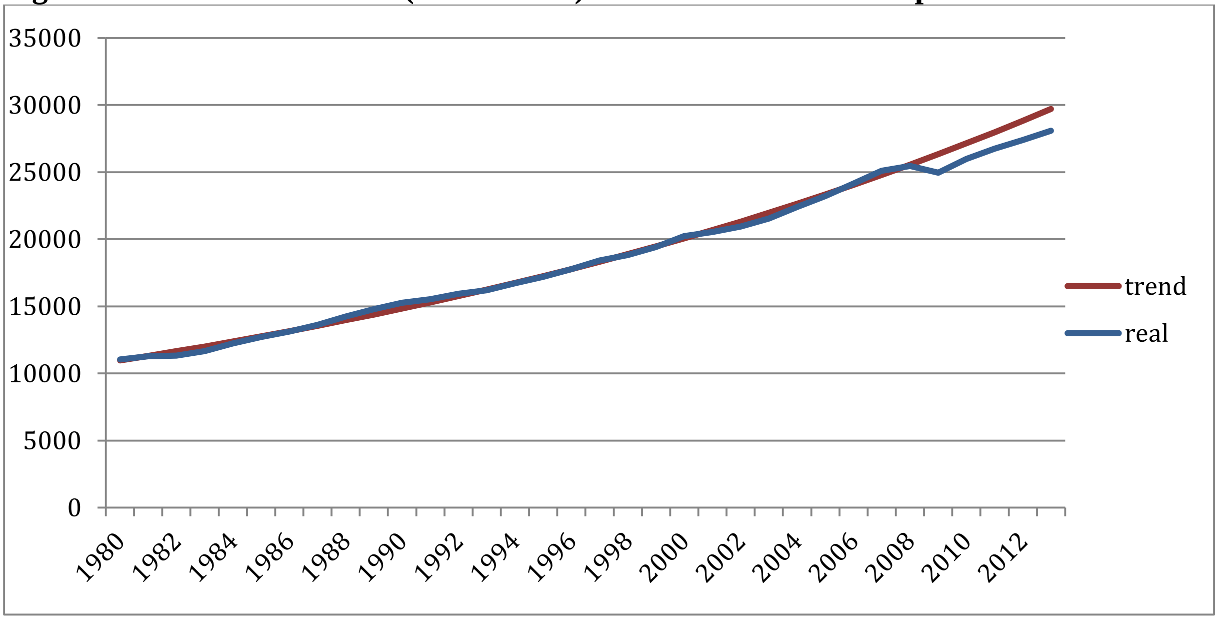
2 LITERATURE REVIEW

According to the Solow long-term growth model the level of production is determined by the capital stock of the economy what is determined by the rate of saving. Growth of the output is also determined by the depreciation of capital, growth of population and technological progress. The basic model of business cycle assumes that the prices are sticky in short-term and supply cannot adjust to the demand shock what leads to the decrease of the output. In standard macroeconomic theory is it considered that central banks can shift aggregate demand curve and though offset the shock and keep output at the original level. (Mankiw 2012)

3 RESULTS

In past 30 years, the world economy developed cyclically though kept in its path until 2009. In Figure 1 there is a comparison of the trend of world economy since 1980 and the real output. It is evident that real development of GDP fluctuates around the path as can be seen for example at the beginning of 1980's, 1990's and 2000's.

Fig. 1 GDP vs Trend of GDP (1980 – 2013) in billions USD in 1980 prices

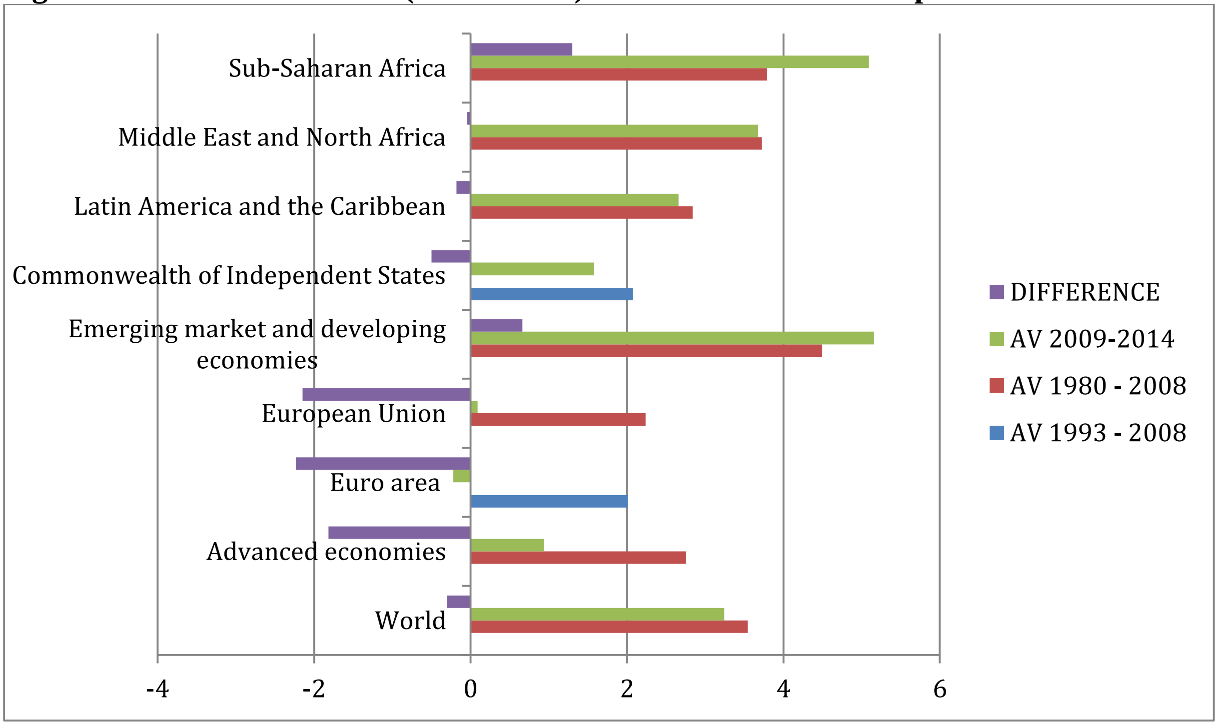


Source: own processing of data by IMF

The crisis of 2009 has brought fatal change of development. Since then the path has shifted downwards with bare perspective of returning back to the original trend. The question is whether it is a global and inevitable change.

The diversion down from the trend is global and differs only in the depth of the fall, though with one exception and it is Sub-Saharan Africa.

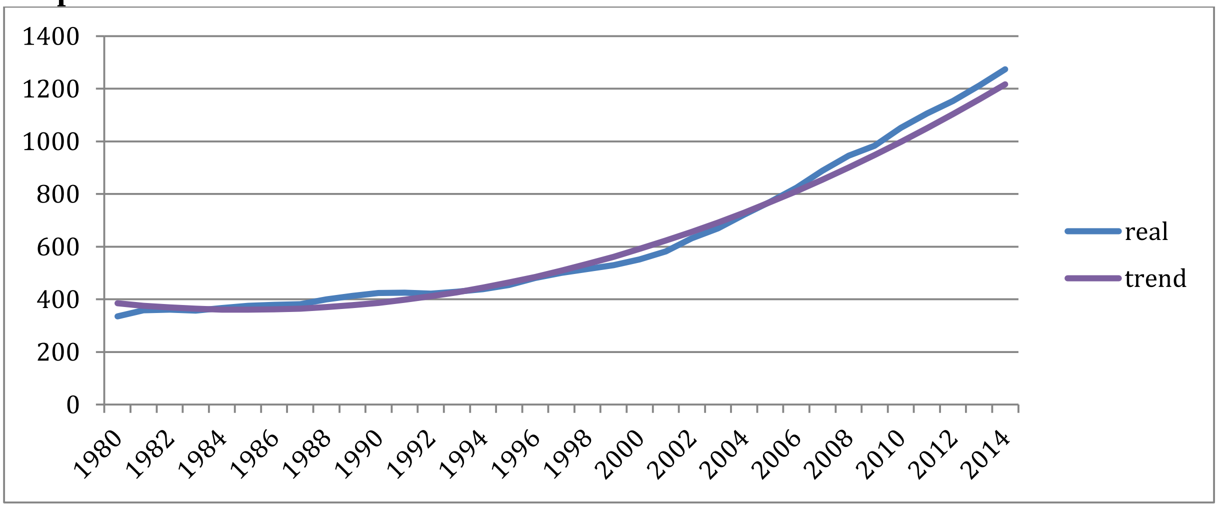
Fig. 2 GDP vs Trend of GDP (1980 – 2013) in billions USD in 1980 prices



Source: own processing of data by IMF

The growth of Sub-Saharan Africa is tremendous. As seen below, the crisis of 2009 had almost no effect on the path of region's GDP and by now real development has already outran the trend from the period (1980-2008).

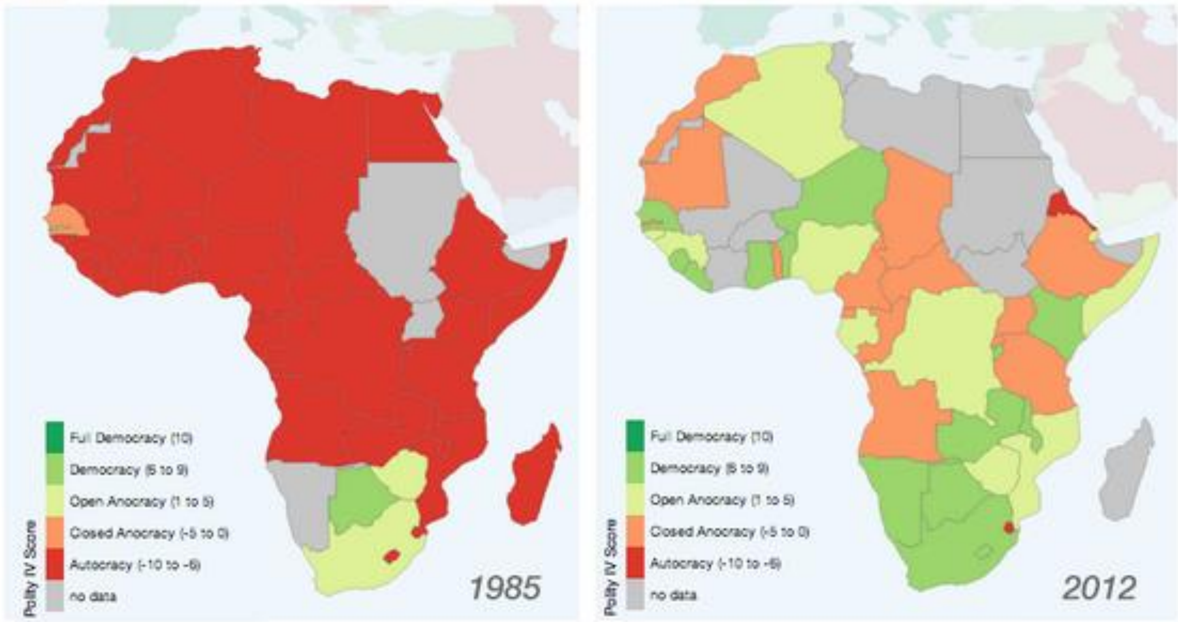
Fig. 3 GDP vs Trend of GDP (1980 – 2013) of Sub-Saharan Africa in billions USD in 1980 prices



Source: own processing of data by IMF

It might be connected with huge shift in political systems in past 30 years in Africa. While in 1985 the most of the continent was ruled by fully autocratic regimes, until 2012 in Africa happened something what we could call a democratic revolution. The speed economic growth in Sub-Saharan Africa started in late 1990's and its acceleration still didn't stop. Anyway the example of Sub-Saharan Africa could be misleading, as far as there is a huge output gap to be caught.

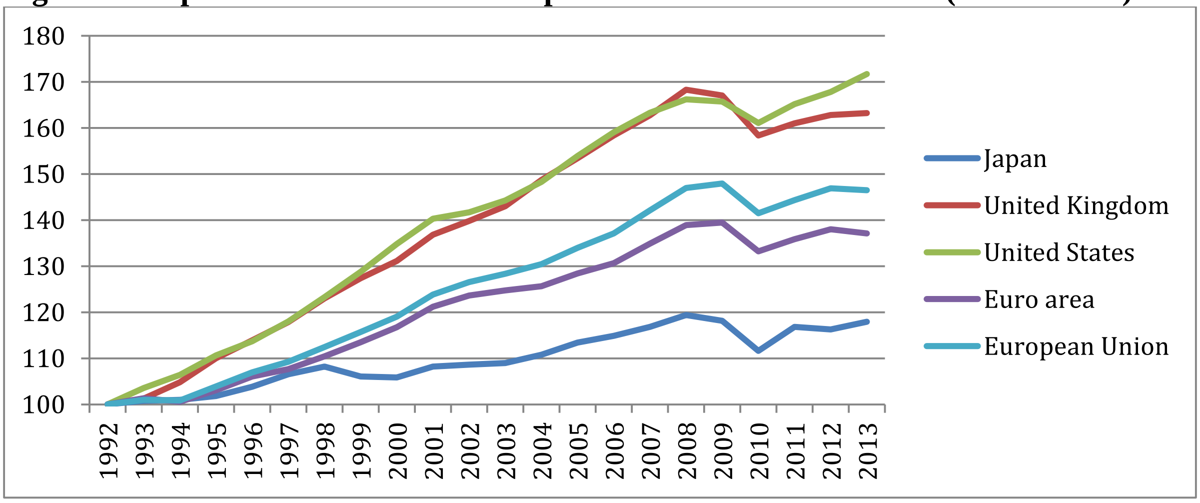
Fig. 4 Political Regimes in Africa in 1985 and 2012



Source: ROSER, M. : *Political Regimes in Africa in 1985 and 2012*

On the other side there are advanced economies. Comparing their development since 1992, it is evident that countries of European Union have fallen into Japan-like stagnation

Fig. 5 Development of GDP in constant prices for selected economies (1992 indices)

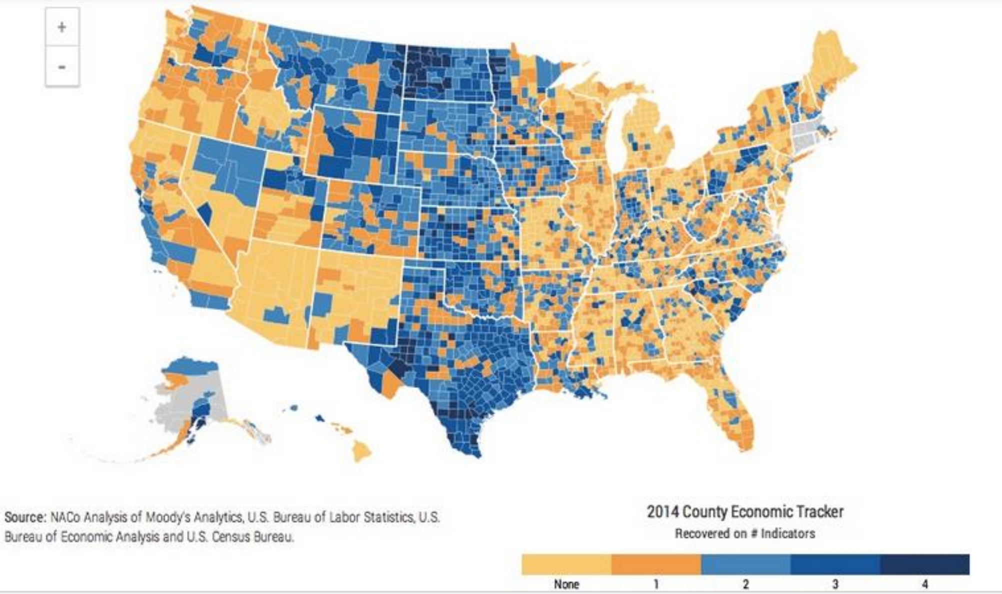


Source: own processing of data by IMF

This year's suprising tempo of the recovery of American economy led to the optimism over the US future development to push the USD/EUR exchange rate to the long-term maximus. Deeper analysis uncovers that the regional recovery is far behind the federal recovery. There are only

65 counties in USA that have already fully recovered from the crisis. And it is only 2% of the all counties.

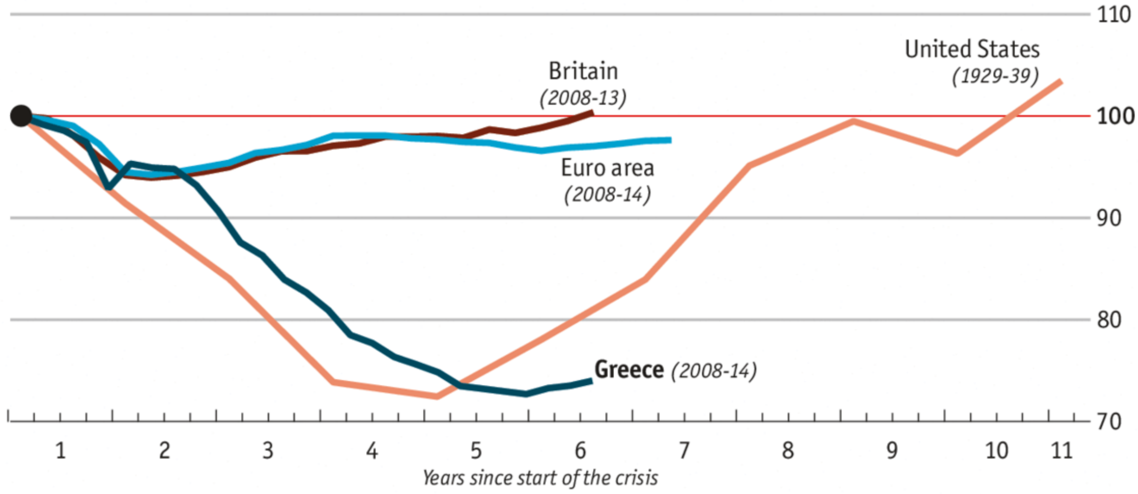
Fig. 6 Recovery in USA by counties



Source: NOBLE, Z. : *How Many of the Nation's Counties Have Fully Recovered From the Great Recession?*

The asymmetric recession of European Union and especially Euro area is well-known fact. On one side there is economic engine of Germany and on the other side there is Greece with almost 25% increase in unemployment and almost 30% downfall of GDP.

Fig. 7 Greek recession vs. others (100 = start of economic crisis)

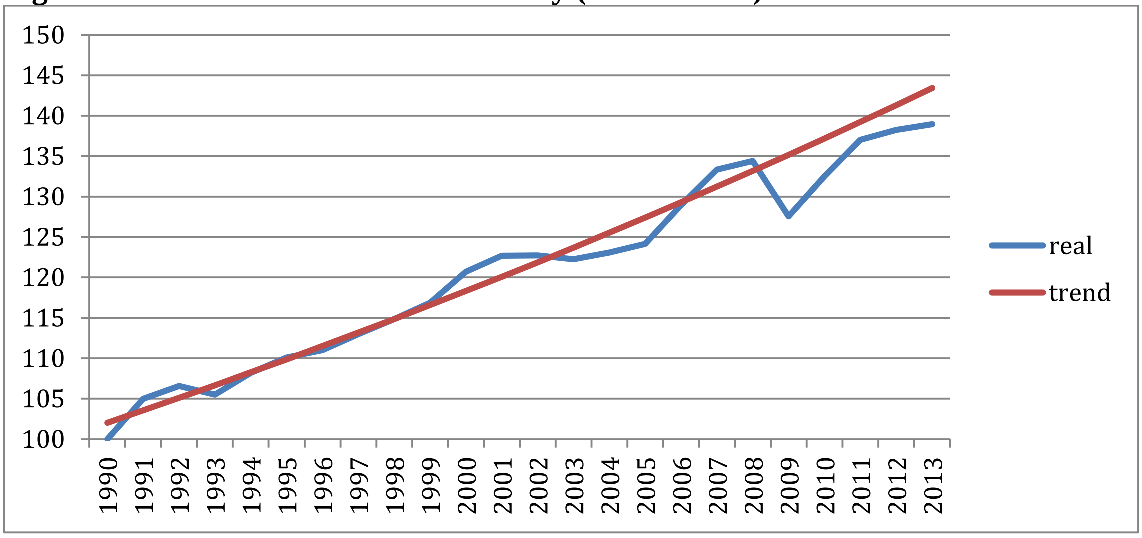


Source: THE ECONOMIST: *GDP, Greek recession v others*

And it is questionable whether Greece hit the bottom. On the contrary many economists argue that Euro area is successfully recovering because of German booming economy. S. Sumner disagrees and compares development in Germany and USA: *"In any case, German real GDP* *has risen by a grand total of 3% since the first quarter of 2008, vs. 7.5% in the US. If Germany is booming, how would you describe the US?"* (Sumner 2014).

The current development of German economy, its late 2014's stagnation and prediction of only 1.4% growth in 2015 (decreased from original prediction of 1.7%), supports Sumner's position. (TASR 2014). Though close, German economy is still out of the trend line.

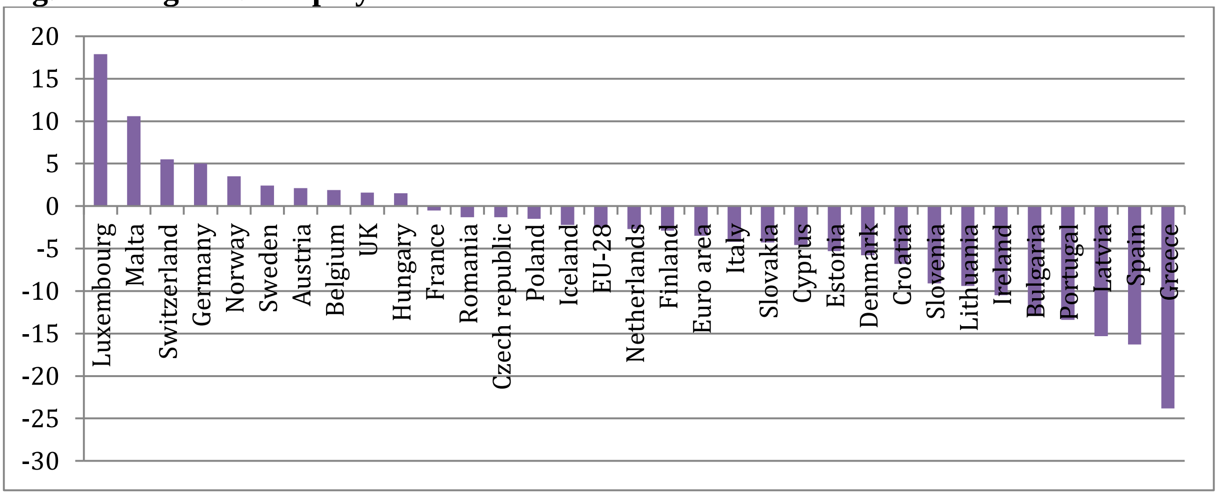
Fig. 7 GDP vs Trend of GDP of Germany (1990 indices)



Source: own processing of data by IMF

And it is so despite the positive change in unemployment in Germany. Only few of European countries (and even fewer from Euro area) are back to its pre-crisis level of unemployment. These huge differences are peeking danger. High unemployment in Euro area, especially in so-called PIIGS states, together with lowflation or even deflation provide very negative perspective for the most affected countries.

Fig. 8 Change in unemployment in 2008-2013

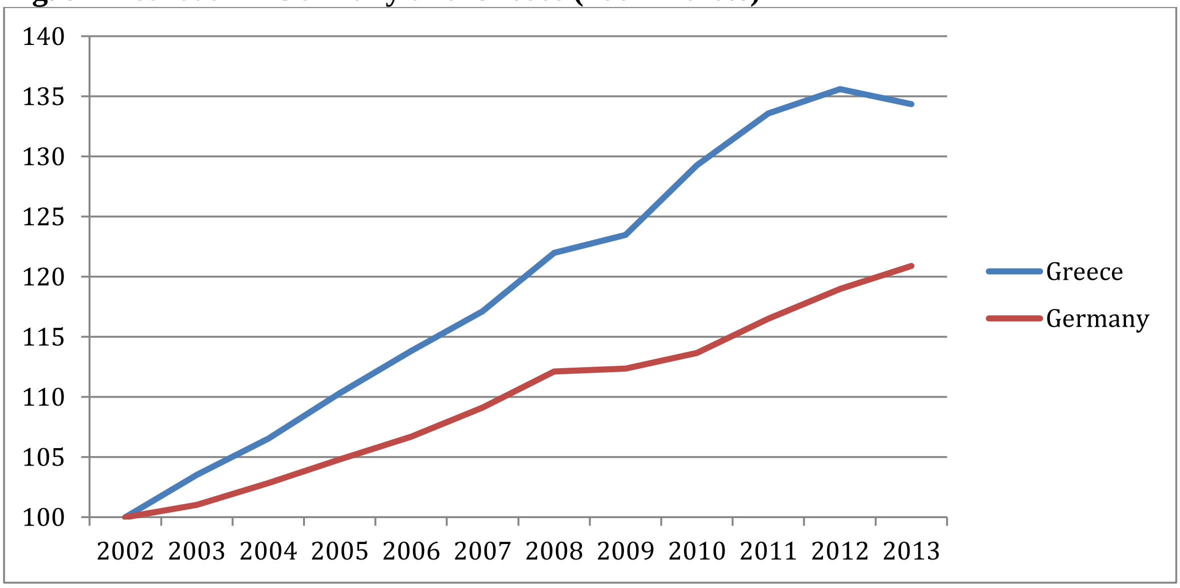


Source: TVARDZIK, J.: *Dopad krízy po roku 2009 na pokles/rast zamestnanosti v percentách za obdobie od roku 2008 do roku 2013.*

The optimum currency area theory describes three main conditions of successful monetary area: fiscal integration, factor mobility and similar business cycle. (Krugman 2012). While fiscal integration could be optimistically told to be in progress and labor mobility somehow be operational (though limited because of language and partly cultural barrier), the greatest problem is the similarity of business cycle leading to the asymmetric shocks.

While countries like Germany take profits from low inflation, PIIGS countries are disadvantaged because they cannot devaluate currency and they are destined for long deflation until the price of labor and products reach competitive level. P. Krugman recalls that whole southern Europe needs "*needs substantial amounts of 'internal devaluatio*n'" what means necessity to "*costs and prices relative to Germany — so that a low overall euro area inflation rate means destructive deflation in much of the continent*." (Krugman 2015).

Fig. 9 Price level in Germany and Greece (2002 indices)



Source: own processing of data by IMF

And there is the question whether economic policies of governments and central banks are suitable; whether they do not rely on short-term or regional growth without complex perspective. It sounds like easy and vague solution, like some "free lunch lying on the street" though the example of ECB shows that there are probably policies that could help economy come back to its path. And that there are policies that keep on keeping EU economy in recession. S. Sumner deconstructs common opinion that EU crisis is the result of two external (US mortgage crisis and current Ukraine/Russia conflict) and one internal shock (debt crisis) and maintains that the transition of external shocks is limited and the secondary effects are milder. He emphasizes that the NGDP plunge started in Europe earlier than in USA and was even more severe. *„The eurozone was already in recession in July 2008, and eurozone interest rates were* *relative high, and then the ECB raised them further,"* says Sumner and continues, *„and then three years later they do it again. Rates were already above the zero bound in early 2011, and then the ECB raised them again."* (Sumner 2014)

Despite more austerities in USA and being the origin of the financial crisis in 2008, US economy did far better. And it is indisputable that one of the greatest differences are monetary policies of ECB and FED. While FED started its quantitative easing in 2008, it took ECB 7 years to do the same.

S. Sumner proposes ECB to stop unsuccesful inflation targeting (IT) and target price level (PLT) and so fix past backlogs. „*This is what moderate Ben Bernanke recommended for Japan under similar circumstances, this is what New Keynesians like Michael Woodford recommends, and market monetarists also like level targeting*," says and adds that, *"now in 2015 the advantages of PLT over IT in Europe are so massive that it's hard to see how anyone could oppose the shift*." (Sumner 2015).

4 CONCLUSION

There is no doubt that the out-of-the-path development of world economy is not (only) the result of real shocks but also the consequence of wrong policies of governments and central banks. The greatest decline from the GDP trend is in the advanced economies and especially in EU and Euro area.

The actual example of Euro area shows the effect of slow and inefficient policies. ECB is still not able to hit its own target and the backlogs from previous periods are piling up. The result of this irresponsible policy is slow "internal devaluation" in southern member states of Euro area. Only the change of the policy can bring its economy back to the original long-term path that was interrupted by the crisis of 2008.

The introduction of the quantitative easing in ultra-conservative Euro area could be the first light at the end of the tunnel for the monetary union. But the outcome will depend on the robustness of the policy and willingness of ECB to continue in the new monetary path. If ECB will not be able to persuade the markets about the persistence of its policy, the quantitative easing will be a failure.

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EU State Aid Policy - Latest Development

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Abstract: The financial crisis of 2007-2008, which has evolved into the eurozone debt crisis, has fundamentally changed the state aid landscape. The use of public finance to promote economic recovery has been increasingly demanded by various actors among competing entities across the EU. In order to promote a sound use of public resources for growth-oriented policies and to limit competition distortions detrimental to the internal market, the European Commission set out the State Aid Reform Programme known as the State Aid Modernisation in 2012. The main objectives of this programme were defined in terms of fostering sustainable, smart and inclusive growth in a competitive internal market; focusing Commission's ex ante scrutiny on cases with the largest impact on internal market whilst strengthening member states cooperation in the state aid enforcement; streamlining the rules and providing for faster decisions. The paper analyses the state of play of the state aid modernisation process. The objectives, core elements, key changes and possible implications are outlined and discussed.

Keywords: State aid, international trade, financial crisis, European Union

JEL Classification codes: F12, F15, G01, H25, H81

1 INTRODUCTION

State aid policy gives the opportunity to states to deliver competitive advantage to domestic firms. The EU state aid policy triggered important changes in the Central and Eastern European countries that joined the EU. After accession, the new member states quickly brought their policies in line with the EU requirements. State aid policies of these countries do not exhibit any particular compliance deficit (Blauberger 2009). The EU state aid policy has been subject to revision over time. The previous state aid reform dated back to 2005 – 2009. Currently, the Commission implements the State Aid Modernisation (SAM) programme. The article proceeds in several steps. The next section provides the review of literature on the state aid economics focusing on its impact on the international trade. The following section deals with the methods. After that, in the empirical section, the EU state aid rules and practice are examined. The reform under the SAM initiative, its main objectives, core elements and key changes are analysed with the aim to identify and evaluate possible positive and negative implications on various stakeholders. The concluding section summarises the main findings.

2 LITERATURE REVIEW

State aid is used in pursuit of a wide range of objectives. Even where it is not aimed at the trade, it can affect trade flows by imparting an advantage to some domestic producers. According to the Treaty on the functioning of the EU (TFEU), an aid granted by a member state or by state resources which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects trade between member states, be incompatible with the internal market. The purpose of this section is to explain how the state aid may impact the international trade.

If a market is perfect we firstly assume a case of a small country that is not able to affect world prices by granting a state aid. If a state aid is granted to an import competing industry, the result will be in expansion of domestic output and reduction of imports. In a case of a state aid to an export competing industry, both domestic output and export expand. In both import competing and export competing industries a welfare loss arises from applying a state aid since it creates a wedge between the optimal price (world price) and the actual price paid to domestic producers (WTO 2006). If we relax the assumption of a subsidising country to be a price-taker in the world economy, the state aid influences price in international markets. If more output is exported as a result of an export subsidy, then world prices will fall. Producers of competing products will have to compete against the subsidised exporters at the lower price whereas consumers of the cheaper imports will benefit. Countries that are net importers of the subsidised product, therefore, could gain overall from subsidies. In a world of perfect markets, subsidies can never be justified in terms of economic welfare. However, in reality a range of market imperfections – so called "market failures" – exist (Mogyorosiová 2005). Increasing returns to scale, externalities or information asymmetries in markets are several examples of market failures. Market failures may support state aid interventions. For example, the pharmaceutical industry belongs to industries with large fixed costs of entry whereas average production costs decline the more units each company produces. A government may subsidise such production during the early loss-making stage in order for consumers to enjoy the benefits later on (Grossman 1990). It depends on the relative size of consumer gains and company losses whether such an intervention would be desirable or not. Where two or more producers with large fixed costs are supplying the world market, other considerations should be taken into account. Competition will never be perfect and each producer has some market power. Intervention which alters the strategic relationship between firms can give one firm an advantage over another. It may then be worthwhile for a government to subsidise such a producer. These arguments have been developed in the so-called strategic trade policy literature

(Brader 1995; Busch 1999). A government may decide to protect a particular domestic industry because of learning-by-doing effects associated with the activity from which the wider economy would benefit. These benefits are not properly reflected by the market. In such a case, a government might choose between either imposing a tariff on competing imports or directly subsidising the industry concerned. If a subsidy were used, the domestic price would still be the duty-free import price, and the subsidy received by the domestic industry would allow it to compete with imports at world prices. Consumers would not be taxed, and the subsidy option would be regarded as the more efficient one. This is an application of the theory of optimal intervention (Bhagwati 1971; Johnson 1965). Some other authors recently dealing with the state aid effects are Davies 2013; Baláž 2010; Ferenčíková 2013; Martin & Valbonesi 2006. Review of literature on the state aid effects shows that welfare-enhancing intervention is possible. Such arguments are used to legitimise state aid granting. This is also true for the EU regulatory framework on the state aid that is being analysed in this paper.

3 METHODS

The article draws on qualitative methods including secondary data analysis, especially the analysis of legal texts setting up a framework for state aid granting within the EU. Furthermore, the analysis includes a comparison of the currently adopted and previous EU rules on state aid. Economic implications of legal changes are estimated and discussed. Data on state aid amounts and levels within the EU are drawn from the State Aid Scoreboard (European Commission 2014). It comprises state aid expenditures falling under the scope of Article 107(1) TFEU.

4 EU State Aid Modernisation Program: RESULTS

Article 107 of the TFEU strikes balance between the prohibition of distortive state aid and possible exceptions to this rule. The most important in practice are the categories of state aid which under Article 107 (3) "may be considered compatible with the internal market" by the Commission. Stepwise, the Commission has developed balancing criteria which it has codified into soft and hard state aid law (Cini 2001). Based on Article 108 of the TFEU, all new state aid measures or changes in an existing state aid have to be notified to the Commission and must not be put into effect until they have been examined and approved by the Commission. If a state aid is granted despite a negative assessment, it is considered to be illegal and the Commission can oblige the benefited enterprise to repay the state aid it received.

The economic and financial crisis has increased a demand for a greater role of governments to promote economic recovery. The state aid level (i.e. the amount of state aid in relation to the GDP) within the EU has risen sharply, from less than 1% of the GDP in 2007 to around 13%

in 2011. However, the difference between a non-crisis and a crisis-related state aid has to be drawn. Figure 1 shows that the total amount of non-crises state aid for the EU declines since 2009 whereas the non-crises state aid level remains stable since 2011.

Fig. 1: Total non-crises state aid in the EU

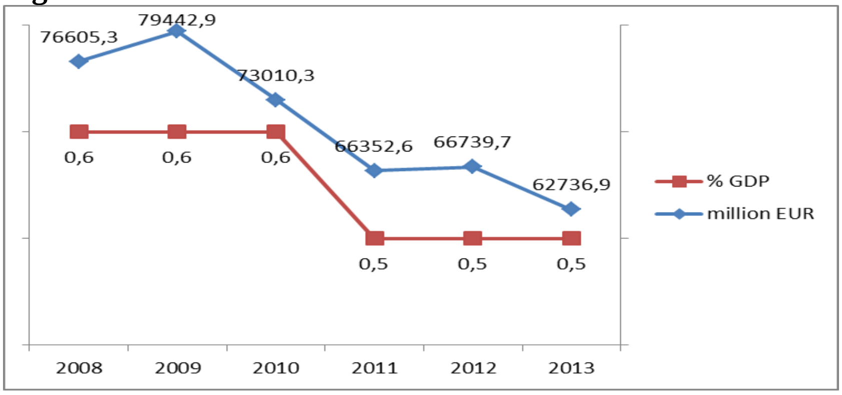
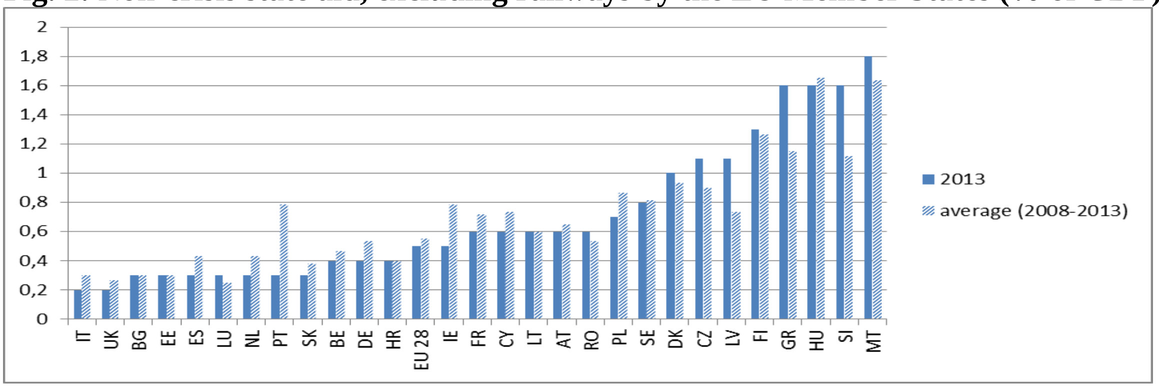


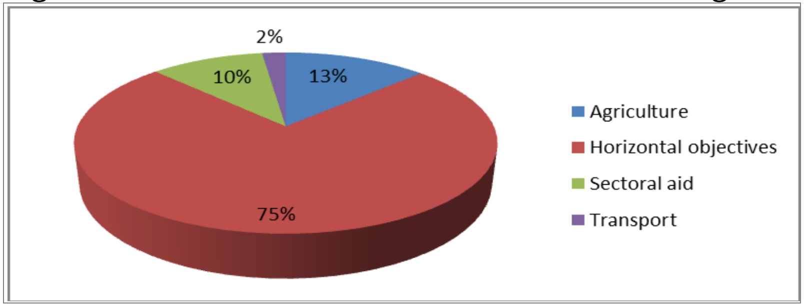
Figure 2 demonstrates differences in providing the non-crises state aid among the EU member states. In 2013, Malta, Slovenia, Hungary, Greece and Finland granted the most aid in terms of its share on GDP. On the opposite side, Italy and Great Britain granted the least aid. When comparing the 2013 state aid level to the 2008 – 2013 average, the picture is not very different. The largest disparities in values occur in Portugal, Slovenia and Greece.

Fig. 2: Non-crisis state aid, excluding railways by the EU Member States (% of GDP)



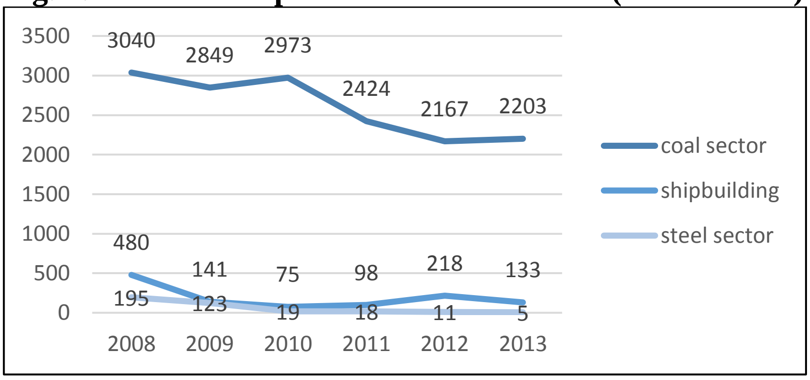
Aid allocations depend on government's desire to provide an aid and its ability to reach approval by the Commission. Such a desire is conditioned by a domestic political pressure. Also, the Commission is generally more reluctant to disapprove aid allocations proposed by member states with more bargaining power (Zahariadis 2012). Figure 3 provides an overview of total non-crises state aid expenditure by category of aid in 2013. It is evident that the largest amount of the state aid in the EU is directed towards horizontal objectives of common interest which apply across all industries such as employment, environmental protection including energy saving, promotion of export and internationalisation, regional development, research and development, SME etc. Sectoral aid given for a specific purpose comprises sectoral development, rescue & restructuring and closure aid. The share of sectoral aid on the total aid declines continuously since 2006.

Fig. 3: Structure of the non-crisis state aid, excluding railways in 2013



Data on state aid granted to specific sectors are available for shipbuilding, steel and coal sectors. Figure 4 illustrates the downward trend in state aid granting in all included sectors.

Fig. 4: State aid to specific sectors in the EU (million EUR)



The crisis-related aid to the EU financial sector was aimed at restoring confidence in the financial sector. The bulk of this aid was represented by guarantees on liabilities. Between 1 October 2008 and 1 October 2014, the Commission authorized a total aid of 3 892.6 billion EUR (29.8 % of EU GDP in 2013) for guarantees on liabilities (European Commission 2014). Financial institutions have effectively used less than a quarter of the amount approved. In 2013, outstanding guarantees amounted to 352.3 billion EUR (2.7 % of EU GDP). A recapitalisation is the second most used instrument to support the financial sector. In 2008-2013, member states have granted an overall amount of 448 billion EUR (3.4 % of EU 2013 GDP) in recapitalisation measures. The four countries that supported their banks the most in 2008-2013 years are the U.K., Germany, Ireland and Spain. Slovakia belongs to nine EU member states without the need for a financial aid to its financial sector during the crisis (Jamborová 2012). We are aware that presented trends would deserve deeper analyses. However, due to the limited length of this paper this should be left to further contributions.

The crisis has put strains on member states' budgets and increased the disparity in member states' ability to finance their policies. Promoting public spending on growth oriented policies is a priority for the EU in this economic context and the rationale for the SAM. The principal aims of the SAM are to: a) foster growth in a strengthened, dynamic and competitive internal market, b) focus enforcement on cases with the biggest impact on the internal market and c) streamline rules and faster decisions. The process of translating the SAM into reality began through revisions of key state aid guidelines and frameworks. To this end, the Commission adopted new EU Guidelines for the application of State aid rules in relation to the rapid deployment of broadband networks (applicable from 1 January 2013), Guidelines on regional State aid for 2014-2020 (applicable to regional aid awarded after 30 June 2014), Guidelines on Risk Finance Aid (applicable from 1 July 2014 until 31 December 2020), Guidelines on State aid to airports and airlines (applicable from 4 April 2014), Guidelines on State aid for environmental protection and energy 2014-2020 (applicable from 1 July 2014), Framework for state aid for research and development and innovation (applicable from 1 July 2014), Guidelines for State aid in the agricultural and forestry sectors and in rural areas 2014 to 2020 (applicable from 1 July 2014), Guidelines on State aid for rescuing and restructuring non-financial undertakings in difficulty (applicable from 1 August 2014 until 31 December 2020), Communication from the Commission: Criteria for the analysis of the compatibility with the internal market of State aid to promote the execution of important projects of common European interest (applicable from 1 July 2014 until 31 December 2020). Moreover, the SAM has led to the revision of the *De minimis* Regulation (applicable from 1 January 2014 until 31 December 2020), Procedural Regulation (adopted on 22 July 2013), Enabling Regulation (adopted on 22 July 2013) and General Block Exemption Regulation (adopted on 17 June 2014). The preparation of Commission Notice on the notion of State aid is on-going. Due to the complexity and large scope of all newly adopted measures, in the next text we concentrate on four above mentioned legally binding regulations.

4.1 General Block Exemption Regulation and Enabling Regulation

The review of the General Block Exemption Regulation (GBER) constitutes a central element of the SAM. A state aid meeting the criteria in Article 107(1) of the TFEU requires notification to the Commission. However, according to Article 109 of the TFEU, the Council may determine categories of aid that are exempted from the notification requirement. In accordance with

Article 108(4) of the TFEU, the Commission may adopt regulations relating to those categories of state aid. The Council made use of its power by adopting the so called Enabling Regulation. This regulation was amended in July 2013 (Council Regulation No 733/2013). The new Enabling Regulation empowers the Commission to extend the block exemption on a new aid. On that basis, the Commission adopted Regulation No 651/2014 – the so called GBER – that repealed former Commission Regulation No 800/2008. The new GBER shall apply until 31 December 2020. It incorporates new categories of aid such as social aid for transport of residents of remote regions, aid for broadband infrastructure and investment aid for local infrastructure, aid to innovation clusters and aid to process and organisational innovation etc. Moreover, categories which were already covered by the previous GBER are broadened. For instance, GBER provides for a wider scope for risk finance aid, investment aid for research infrastructure, a simplified start-up aid, a wider definition of the notion of disadvantaged workers for employment aid to the youngest, regional operating aid for outermost regions and sparsely populated areas etc. The GBER determines eligible beneficiaries, notification thresholds, maximum aid intensities (i.e. the maximum proportion of the eligible costs of a project that can benefit from state aid) and eligible expenses. The new GBER sets higher notification thresholds and aid intensities. For example the thresholds for research and development projects have been doubled to 40 million EUR for fundamental research or 20 million EUR for industrial research. Significant increase in exempted aid measures is balanced by transparency, monitoring and evaluation requirements. Firstly, member states should establish public registers – websites setting out summary information about each aid measure exempted under the GBER. Secondly, strengthened ex post-controls of compliance with the formal conditions for exemption should be carried out. Finally, state aid granted should be evaluated. State aid evaluation can explain whether and to what extent the original objectives of an aid scheme have been fulfilled (i.e. positive effects) and determine the impact of the scheme on competition and trade between member states (i.e. negative effects). More specifically, evaluation aims at providing evidence useful in answering questions such as whether the aid really changed behaviour of beneficiaries, whether effects differed significantly across beneficiaries, whether a scheme led to spill-over effects on activities of other firms, whether the scheme contributed to a desired policy objective or whether a chosen aid instrument was the most appropriate one. Before the new GBER came into force, only the state aid measures co-financed by the EU structural funds were subject to the evaluation requirements. Impact evaluations of programmes to support companies and innovation have shown that while support to SMEs can be effective in leveraging investments and creating jobs, support to large firms might be less effective. Also, there are indications that aid instruments like loans can be as effective as grants (Mouqué 2012). Under the new GBER, the evaluation requirement does not apply to all state aid schemes. It is foreseen only for several categories of large aid schemes (with an average annual budget of at least 150 million EUR) in order to ensure that evaluation remains limited to a manageable number of aid schemes per year. A plan for evaluating a state aid scheme has to be drafted at an early stage, in parallel with the design of the scheme. The member states have to submit the evaluation plan to the Commission. The plan has to be approved in order to prolong the exemption of large state aid schemes for more than six months. The Commission has for the first time approved state aid evaluation plans for two aid schemes in December 2014: the "Investment Incentives" aid scheme of the Czech Republic and the "Regional Growth Fund" aid scheme of the United Kingdom. It will enable both countries to provide aid of more than 6 billion EUR.

4.2 *De minimis* Regulation and Procedural Regulation

As a part of the SAM, the Commission has adopted a revised regulation on small aid amounts that fall outside the scope of EU state aid control because they are deemed to have no impact on competition and trade in the internal market (Commission Regulation No 1407/2013). The main criteria of the previous regulation, which exempted aid amounts of up to 200 000 EUR per undertaking over a three year period, remain unchanged. Road transport was previously excluded from the scope of the regulation. Under the new regulation, the total amount of state aid to undertakings performing road freight transport for hire or reward shall not exceed 100 000 EUR. With regard to the road passenger transport sector, the general ceiling applies. Companies undergoing financial difficulties are no longer excluded from the scope of the regulation and are therefore allowed to receive *de minimis* aid. In addition, subsidised loans of up to 1 million EUR may also benefit from new regulation if certain conditions are met. The new regulation clarifies both the definition of what constitutes an "undertaking" as well as the cumulation rules.

The reform under the Council Regulation (EU) No 734/2013 should improve the handling of complaints. The Commission should be provided with all the information necessary to investigate complaints. New tools for gathering information directly from market participants have been introduced. It is expected to reduce the duration of the investigation in complex cases. The regulation also clarifies the requirements to lodge complaints.

5 CONCLUSIONS

The implications of the SAM initiative can be derived from the foregoing analyses. On the basis of the GBER, Enabling Regulation and *De minimis* Regulation revisions, the Commission deals with the cases that matter most for competition in the internal market. In other cases, the member states play an increased role in ensuring that an aid is in line with the EU legislation. The SAM simplifies and clarifies complex EU rules on the state aid. The procedural reform enables the Commission to deliver decisions within business-relevant timelines. The review of the GBER extends the possibilities for the member states to grant a state aid to companies without a prior Commission scrutiny. Data show that a growing percentage (over 80%) of compatible aid measures is going through the GBER (European Commission 2014). As far as ex-ante assessment of large state aid schemes by the Commission is concerned, the risk of lengthy investigations and uncertainty about final decision reduces the attractiveness of state aid for benefiting enterprises. By cutting such state aid demand, enterprises may qualify for categories of state aid that are block exempted. Most enterprises do this to avoid Commission investigations. The process with no notification and no prior compatibility assessment requirements reduces the duration of processes for aid beneficiaries and lowers administrative burden. This can also contribute to easier absorption of structural funds when projects are funded in such a way. To compensate for the extended possibilities for the member states to award a state aid, the new GBER introduces transparency and publicity requirements. Similarly, evaluation of large aid schemes is required. The benefits of conducting evaluations will materialise within next few years, when the first reports will be ready and their findings and recommendations will be made available to design subsequent aid schemes and rules. To ensure that the SAM leads to expected benefits, it should be accompanied by improved compliance with the existing rules. A remedy against an unlawful state aid, that has already been paid, is merely that the aid be refunded to the subsidising member state. Courts can order the award of damages to claimants that have been disadvantaged by a competitor receiving an illegal state aid. However, in practice, this is rare, as it is often difficult to the claimant to prove that a measure qualifies as state aid (Oxera, 2013).

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A Comparative Investigation of Franchisee and Non-Franchisee Entrepreneurs' Views on Franchising System in Turkey

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Abstract: Franchising system has brought an important and intellectual property guide by leveraging several stages of development for products and service companies as an international business strategy. The main purpose of our study is to compare franchisee and non-franchisee firms' views on franchising system in Turkey. In order to do this, six main factors have been determined for comparison, which follows as motivation for choosing a franchise, evaluation of franchisor support, perceptions of franchisor's brand name, the quality of relationship between the franchisor and the franchisee, franchisee's job satisfaction and franchisee's commitment. 153 franchisee and 186 non-franchisee entrepreneurs have participated to the research and face to face survey method has been conducted and results were analyzed by using Independent Sample T-Test analysis via SPSS. The obtained findings indicate significant differences and similarities for different questions between franchisee and non- franchisee entrepreneurs.

Key Words: Franchise System, Commitment, Motivation, Brand Name, Job Satisfaction.

JEL Classification Codes: M31, M16

1 INTRODUCTION

Over the last fifty years, franchising has proved to be as a rational business asset for the purpose of achieving a goal for diversity products and service companies at different stages. International Franchise Association (IFA) statistics exhibit that 50 percent of all retail sales in the United States, approximatively over 1 trillion dollars and employing over 10 million people, were estimated at retail sales from franchised outlets in 2002 (Sherman, 2003, p. 11).

Franchising is a particular commerce structure where franchisee takes and conducts the system on behalf of the brand with all its rights, in return for a fee. There was 8600 franchisee, which includes 400 organizations throughout the world in 1998 (Xiao et al, 2008, p. 326). A great number of successful companies in their home market take the advantage of franchising and are using chances in other countries. Some of these companies are McDonald's, KFC, Burger King, and other U.S. fast food chains with operations in Latin America, Asia, Europe and the

Middle East. Also, service firms such as Holiday Inn, Hertz and Manpower have used franchising to go into foreign markets in a prosperous manner (Gillespie & Hennessey, 2010, p. 258). However, in order to establish a strong franchising system, especially in foreign countries, requires franchisor should be selective as much as possible to choose franchisee. Finding the right candidate is crucial to obtain the success of the system (Gillespie & Hennessey, 2010, 259).

The main goal of this study is to compare franchisee and non-franchisee firms' views of franchising system in Turkey. In the study, these views will be compared, according to six main factors which are motivation for choosing a franchise, evaluation of franchisor support, perceptions of franchisor's brand name, the quality of relationship between the franchisor and the franchisee, franchisee's job satisfaction and franchisee's commitment to compare their views. In this regard, theoretical background will be examined, our research method will be explained and then findings and results will be discussed.

2 THEORETICAL BACKGROUND

A franchise is a "contractual agreement between two legally independent companies whereby the franchisor grants the right to the franchisee to sell the franchisor's product or do business under its trademarks in a given location for a specified period of time" (Hoskisson et. al, 2012, p. 212). According to another definition; a franchise is a contract legally independent from each other relationships held between two sides, which are called franchisee and franchiser. The owner of the business system, Franchisor has been successful in the field at a certain quality standards, well-known brand products and/or services. Franchisee is an independent company, which takes responsibility of Franchisor's trademarks and/or service brand, knowledge (know-how), the operating system, rights to use the other industrial and intellectual property rights at certain time and for a certain fee (Nart, 2005, p. 124).

According to The International Franchise Association (IFA), which is the major business-format franchising trade association, clarifies franchising is clarified as "a continuing relationship in which the franchisor provides a licensed privilege to do business, plus assistance in organizing, training, merchandising and management, in return for a consideration from the franchisee". Correspondingly, the US Department of Commerce explains franchising as "an ongoing business relationship between franchisor and franchisee that includes not only product, service and trade-mark, but the entire business concept itself-a marketing strategy and plan, operating manuals and standards, quality control, and continuing process of assistance and guidance" (Alon, 2006, p.12-13).

Franchising splits into two parts as product/trade-name franchising and business-format franchising (Alon, 2006, p. 12). Product franchising which the first to improve, goes on the most significant in term of the worth of total sales. In the process of this system, a manufacturer markets its products almost completely through specialized retailers. Product franchising first came into view in the mid-nineteenth century with farm equipment and sewing machines. Currently, the most common example of this type of franchise is the automobile dealerships (Dicke, 1992, p. 3).

Business format franchising, which is the Entire Business Format (EBF) or turnkey package, where the franchiser agrees the franchisee with a license to utilize the logos, trademarks, business know-how, copyrights, trade secrets, standard operating procedures, purchasing power etc. of the franchiser. The franchiser supplies site selection assistance, job training, an operating manual, volume purchasing, and advice on marketing, management, personnel and finance issues whereas a franchisee pays franchisee fee, plus start-up costs, ongoing royalty fees, and operating expenses. Also, franchiser uses reasonable control over the trade operations of the franchisees (Awe, 2006, p. 71-72). Business format franchising suggests a way of operation or commerce system, which contains a strategic plan for development and continuous guidance, is the difference between product/trade name franchising and business format franchising (Alon, 2006, p. 12-13).

Having a franchise includes many advantages and disadvantages. This should be cautiously appraised before making a decision. Some of advantages are listed below; having a franchise permits you to enter into trade for yourself, but not by yourself. A franchise makes some arrangements for franchisees such as managing their commerce, recognizing products or services. The advantages of customer awareness would generally take years to found which is provided to the franchisee in a certain time. A franchise raises your chance of commerce success due to the fact that you are connecting to verified product and ways. Franchise may suggest consumers the attraction of a certain level of quality and consistency. Franchises submit significant pre-opening and ongoing support too (Beshel, 2010, p. 10).

The system has several disadvantages as well. For example, the franchisee is not totally free. Franchisees are needed to manage their businesses under the procedures and restrictions according to franchise contract. These restrictions commonly comprise the goods or services that can be suggested and also pricing and geographic territory. This is the most critical disadvantage to owe a franchise for someone. Extra to the initial franchise fee, franchisees have to pay ongoing royalties and advertising fees. Franchisees with their abilities to manage their own businesses must be careful when adjusting the equilibrium between the restrictions and support provided by the franchisor. A damaged system-wide image can result in other franchisees' managing poorly or franchisor colliding with unexpected problems. The duration of a franchise contract is generally limited and the franchisee may have no or little say about the term of a termination (Beshel, 2010, 20).

3 RESEARCH METHODOLOGY

In this research face-to-face survey method was conducted for data collection. The survey consists of demographic and research questions. The questions were adapted from the dissertation of Lee (1999), who designed it from Peterson and Dant (1999), Morrison (1996), Huddlesston and Cassill (1990), Scandure and Graen (1984), Hing (1995), Chirchill, Ford and Walker (1974), Nowday, Steers and Porter's (1979) studies. These questions were measured by using a five-point Likert scale ranging from 1 "strongly disagree" to 5 "strongly agree". 339 participants involved in the research. For the research, we intended to compare the differences of six main factors, namely, "Motivation for Choosing a Franchise", " Franchisor's Support", "Brand Name", "Quality of the Relationship", "Job Satisfaction", and "Measurement of Commitment". Independent Sample T-Test method via SPSS was performed to analyze the six main factors.

4 FINDINGS

Analyzed sample characteristics of the participants are shown on Table 1.

Tab.1: Demographic Samples

	Franchise Companies		Non-Franchise Companies	
	N	Percent	N	Percent
Investment Range				
40.000$ or under	23	15,0	59	31,7
40.001-100.000$	42	27,5	72	38,7
100.001-210.000$	32	20,9	23	1,4
210.001-425.000$	36	23,5	16	8,6
425.001 or over	17	11,1	15	8,1
Missing	3	2,0	1	0,5
Total	153	100	186	100
How Long Have You Been Working with the Brand?				
Less than 1	5	9,8	18	9,7
1-3	43	28,1	40	21,5
3-6	44	28,8	36	19,4
Over 6	50	32,7	92	49,5
Missing	1	0,7	-	-
Total	153	100	186	100
What Do You Think About the Future of Franchising System?				
Will be the same	35	22,9	43	23,1
Will grow and become more important	106	69,3	95	51,1
Will be smaller and independent businesses will increase	4	2,6	14	7,5
I have no idea	8	5,2	31	16,7
Missing	-	-	3	1,6
Total	153	100	186	100

The sample consisted of 45 % (153) franchise companies and 55 % (186) non franchise companies. A total of 153 Franchise companies, 15 % (23) of which ranged in investment from 40.000$ or under, 27,5 % (42) ranged in investment from 40.001$ to 100.000$, 20,9 % (32) ranged in investment from 100.001$ to 210.000$, 23,5 % (36) ranged in investment from 210.001$ to 425.000$, 11,1% (17) ranged in investment from 425.001$ or over. A total of 186 Non-Franchise companies, 31,7 % (59) of which ranged in investment from 40.000$ or under, 38,7 % (72) ranged in investment from 40.001$ to 100.000$, 1,4 % (23) ranged in investment from 100.001$ to 210.000$, 8,6 % (16) ranged in investment from 210.001$ to 425.000$, 8,1% (15) ranged in investment from 425.001$ or over.

Answers given to the item “How long have you been working with the brand?” are shown in an order beginning from the highest rate to the lowest rate: for franchise companies, 9,8 % (5) indicated they worked for less than 1 year, 28,1 % (43) of them worked for 1-3 years, 28,8 % (44) worked for 3-6 years, 32,7 % (50) worked for over 6 years. For non-franchise companies, 9,7 % (18) answered that they worked for less than 1 year, 21,5 % (40) worked for 1-3 years, 19,4 % worked for (36) 3-6 years, 49,5 % (92) worked for the company over 6 years.

Responses given to the question "What do you think about the future of franchising system?, are as follows: according to franchise companies, 22,9 % (35) thought they would be the same, 69,3 % (106) indicated they would grow and become more important, 2,6 % (4) suggested they would be smaller and independent businesses increase and 5,2 % (8) I have no idea. For non-franchise companies 23,1% (43) thought they would be the same, 51,1 % (95) said they would grow and become more important, 7,5 % (14) thought they would get smaller and become independent businesses, none of them thought they would increase and 16,7 % (31) said they had I have no idea.

Among the 153 franchise companies' respondents, 35,9 % (55) indicated they would work with another franchise company. In addition, among these respondents, 91,5 % (140) indicated they enjoyed working in franchising system. Among the 186 non-franchise companies' respondents, while 72,6 % (135) did not consider working with franchising system, 34,4 % (64) indicated they would.

Tab.2: Measurement of the Motivation for Choosing a Franchise

		Franchise Mean	Non-Franchise Mean	t	df	Sig. (2-tailed)
1	Franchising is in an industry that I believed had a good growth potential.	4,11	3,72	3,454	331,708	**0,001**
2	The franchisor provides tools for success.	4,06	3,64	4,125	334	**0,000**
3	Franchising offers a high yield on my investment at a low risk.	3,37	3,11	2,071	330	0,390
4	I do not feel highly constrained by the agreement.	3,27	3,04	1,891	336	0,590
5	The franchisor offers a superior training program to their franchisees.	3,54	3,36	1,621	302,352	0,106
6	The franchisor offers complete systems, services, and technical expertise to its franchisees.	3,75	3,68	0,555	335	0,579

According to measurement of the motivation for choosing a franchise (Table 2), there is a significant difference between the means of two groups for two questions, which are "Franchising is in an industry that I believed had a good growth potential" and "The franchisor provides tools for success."

The results indicate that there is a statistically significant difference between the means of two groups for the first question (t=3,454, p= .001) and the second question (t= 4,125, p= .000). In other words, Franchise companies have a significantly higher mean score (4.11) than non-franchise companies (3.72) for the first question and also for second question. Franchise companies has a mean of 4.06 compared to non-franchise companies with a mean of 3.64 which implies that Franchise companies had a significantly higher mean score than the non-franchise companies for both questions 1 and 2. There is no significant difference between the means of two groups for rest of the questions.

		Franchise Mean	**Non-Franchise Mean**	**t**	**df**	**Sig. (2-tailed)**
1	The initial training was very useful.	3,62	3,55	0,632	335	0,528
2	The amount of franchise fees/royalties was not high.	2,84	2,65	1,459	309,530	0,146
3	The promotional and advertising assistance was very good.	3,68	3,54	1,132	333	0,259
4	The on-going service provided by the franchisor is very good.	3,62	3,23	3,519	334	**0,000**
5	There are few franchisor restrictions.	3,23	2,94	2,496	282,045	**0,013**
6	Franchisor provides products superior to those available from other sources.	3,82	3,12	3,454	253,558	**0,001**

Tab. 3: Measurement of Evaluation of the Franchisor's Support

According to measurement of evaluation of the franchisor's support (Table 3), there is a significant difference between the means of two groups for three questions, which are "The on-going service provided by the franchisor is very good", "There are few franchisor restrictions" and "Franchisor provides products superior to those available from other sources."

A significant difference in the scores for item numbers 4, 5 and 6 on table 3 was observed between franchise and non-franchise companies. Obtained values for item numbers 4, 5, 6 are respectively; Franchise (M=3.62) and Non-franchise (M=3.23) conditions t (334) = 3,519, p= .000; Franchise (M=3.23) and Non-franchise (M=2.94) conditions t (282.045)=2.496, p= .013; Franchise (M=3.82) and Non-franchise (M=3.12) conditions t (253.558) = 3.454, p= .001. The mean value of the first item on the table above; Franchise (M=3.62) and Non-franchise (M=3.55) conditions t (335) = .632, p= .528 which indicates an insignificant result. For second item, Franchise (M=2.84) and Non-franchise (M=2.65) conditions t (309,530) = 1.459, p= .146

which indicates an insignificant result. For the third item, Franchise (M=3.68) and Non-franchise (M=3.54) conditions t (333) = 1.132, p= .259 which indicates an insignificant result. In conclusion, first, second and third items gave insignificant results whereas, fourth, fifth and sixth items showed significant results.

		Franchise Mean	**Non-Franchise Mean**	**t**	**df**	**Sig. (2-tailed)**
1	Most people feel that brand name goods are usually worth the money.	3,99	4,04	-0,167	337	0,867
2	Most people feel that well-known national brands are best.	4,00	3,80	1,868	336,248	0,063
3	Most people don't pay much attention to brand names.	2,35	2,24	0,825	298,995	0,410
4	Most people try to stick to certain brands.	3,87	3,77	0,921	334	0,357
5	It is important to have well-known brands for business.	4,09	3,60	3,932	333,311	**0,000**
6	Considering the competition in my territory, my brand name is stronger than those of competitors.	3,63	3,57	0,217	334	0,829

Tab. 4: Measurement of Brand Name

According to measurement of brand name (Table 4), there is a significant difference between the means of two groups for a question, which is "It is important to have well-known brands for business."

A significant difference in the scores for item number 5 on table 4 was observed between franchise and non-franchise companies. Obtained values for item number 5 is respectively; Franchise (M=4.09) and Non-franchise (M=3.60) conditions t (333,311) = 3,932, p= .000.

The mean value of the first item on the table above; Franchise (M=3.99) and Non-franchise (M=4.04) conditions t (337) = -.167, p= .867 which indicates an insignificant result. For second item, Franchise (M=4.00) and Non-franchise (M=3.80) conditions t (336,248) = 1.868, p= .063 which indicates an insignificant result. For the third item, Franchise (M=2.35) and Non-franchise (M=2.24) conditions t (298,995) = .825, p= .410 which indicates an insignificant result. For the fourth item, Franchise (M=3.87) and Non-franchise (M=3.77) conditions t (334) = .921, p= .357 which indicates an insignificant result. For the sixth item, Franchise (M=3.63) and Non-franchise (M=3.57) conditions t (334) = .217, p= .829 which indicates an insignificant result.

In conclusion, fifth item gave significant results whereas, first, second, third, fourth and sixth items showed insignificant results.

Tab. 5: Measurement of the Quality of the Relationship

		Franchise Mean	Non-Franchise Mean	t	df	Sig. (2-tailed)
1	Franchisor understands my job problems and needs very well.	3,45	3,26	1,625	296,889	0,105
2	Franchisor recognizes franchisee potential.	3,77	3,67	0,901	334	0,368
3	Franchises have a very good working relationship with their franchisor.	3,66	3,41	2,304	290,146	**0,022**
4	I do not understand the policies and procedures which I am expected to follow.	2,84	2,95	-0,930	287,586	0,353
5	Franchisor considers franchisee's opinion before making decisions that affect its area.	3,51	3,40	0,993	295,612	0,321
6	Franchisor helps franchisee to be more effective in its job.	3,83	3,68	1,523	337	0,129

According to measurement of the quality of the relationship (Table 5), there is a significant difference between the means of two groups for a question, which is "Franchises have a very good working relationship with their franchisor".

A significant difference in the scores for item number 3 on table 5 was observed between franchise and non-franchise companies. Obtained values for item number 3 is respectively; Franchise (M=3.66) and Non-franchise (M=3.41) conditions t (290,146) = 2,304, p= .000.

The mean value of the first item on the table above; Franchise (M=3.45) and Non-franchise (M=3.26) conditions t (296,889) = 1.625, p= .105 which indicates an insignificant result. For second item, Franchise (M=3.77) and Non-franchise (M=3.67) conditions t (334) = .901, p= .368 which indicates an insignificant result. For the fourth item, Franchise (M=2.84) and Non-franchise (M=2.95) conditions t (287,586) = -.930, p= .353 which indicates an insignificant result. For the fifth item, Franchise (M=3.51) and Non-franchise (M=3.40) conditions t (295,612) = .993, p= .321 which indicates an insignificant result. For the sixth item, Franchise (M=3.83) and Non-franchise (M=3.68) conditions t (337) = 1.523, p= .129 which indicates an insignificant result.

In conclusion, third item gave significant results whereas, first, second, fourth, fifth and sixth items showed insignificant results.

Tab. 6: Measurement of Job Satisfaction

		Franchise Mean	Non-Franchise Mean	t	df	Sig. (2-tailed)
1	I think the territorial restrictions set in the contract agreement are reasonable.	3,97	3,35	6,082	337	**0,000**
2	The termination/renewal terms of the franchise contract are fair.	3,86	3,12	7,613	296,306	**0,000**
3	Franchisor often ignores franchisee's suggestions and complaints.	2,60	2,67	-0,623	300,966	0,534
4	Franchisee is satisfied with its franchisor's training program.	2,60	3,43	-7,429	247,759	**0,000**
5	Franchisor's operational commitment compares favorably to franchisee's competitors.	3,58	3,42	1,472	288,884	0,142
6	Franchisee is satisfied with the relevance of its franchisor's brand name.	3,94	3,40	4,512	331,130	**0,000**
7	The overall relationship between franchisor and franchisee is very satisfying.	3,48	3,38	0,925	273,259	0,356

According to measurement of job satisfaction (Table 6), there is no significant difference between the means of two groups for three questions which are "Franchisor often ignores franchisee's suggestions and complaints", "Franchisor's operational commitment compares favorably to franchisee's competitors" and "The overall relationship between franchisor and franchisee is very satisfying".

A significant difference in the scores for item numbers 1, 2, 4 and 6 on table 6 was observed between franchise and non-franchise companies. Obtained values for item numbers 1, 2, 4, 6 are respectively; Franchise (M=3.97) and Non-franchise (M=3.35) conditions t (337) = 6,082, p= .000; Franchise (M=3.86) and Non-franchise (M=3.12) conditions t (296,306) = 7.613, p= .000; Franchise (M=2.60) and Non-franchise (M=3.43) conditions t (247,759) = -7.429, p= .000; Franchise (M=3.94) and Non-franchise (M=3.40) conditions t (331,130) = 4.512, p= .000. The mean value of the third item on the table above; Franchise (M=2.60) and Non-franchise (M=2.67) conditions t (300,966) = -.623, p= .534 which indicates an insignificant result. For fifth item, Franchise (M=3.58) and Non-franchise (M=3.42) conditions t (288,884) = 1.472, p= .142 which indicates an insignificant result. For the seventh item, Franchise (M=3.48) and Non-franchise (M=3.38) conditions t (273,259) = .925, p= .356 which indicates an insignificant result. In conclusion, first, second, fourth and six items gave significant results whereas, third, fifth and seventh items showed insignificant results.

Tab. 7: Measurement of Commitment

		Franchise Mean	Non-Franchise Mean	t	df	Sig. (2-tailed)
1	Franchisee feels very little loyalty to its franchisor.	3,43	2,63	6,831	277,579	**0,000**
2	Franchisee would comply with almost any type of request from its franchisor in order to keep his contact.	2,56	3,43	-7,205	259,511	**0,000**
3	Franchisee is proud to tell others that it is a part of this franchise system.	3,55	3,30	2,153	336	**0,032**
4	Often, Franchisee finds it difficult to agree with its franchisor's policies on important matters relating to his franchisees.	3,82	2,96	8,658	336	**0,000**
5	Franchisee really cares about the fate of his franchisor.	3,72	3,69	0,300	277,659	0,765
6	Franchisee is willing to put it a great deal of effort beyond that normally expected in order to help this organization be successful.	3,59	3,99	-3,777	282,550	**0,000**

According to measurement of commitment (Table 7), there is no significant difference between the means of two groups for a question, which is "Franchisee really cares about the fate of his franchisor".

A significant difference in the scores for item numbers 1, 2, 3, 4 and 6 on table 7 was observed between franchise and non-franchise companies. Obtained values for item numbers 1, 2, 3, 4, 6 are respectively; Franchise (M=3.43) and Non-franchise (M=2.63) conditions t (277,579) = 6,831, p= .000; Franchise (M=2.56) and Non-franchise (M=3.43) conditions t (259,511) = -7.205, p= .000; Franchise (M=3.55) and Non-franchise (M=3.30) conditions t (336) = 2.153, p= .032; Franchise (M=3.82) and Non-franchise (M=2.96) conditions t (336) = 8.658, p= .000; Franchise (M=3.59) and Non-franchise (M=3.99) conditions t (282,550) = -3.777, p= .000.

The mean value of the fifth item on the table above; Franchise (M=3.72) and Non-franchise (M=3.69) conditions t (277,659) = .300, p= .765 which indicates an insignificant result.

In conclusion, first, second, third, fourth and six items gave significant results whereas, fifth item showed insignificant results.

5 CONCLUSION

It is attractive to buy a franchise for several reasons. The most important of them is the probability of success it brings. Edward Kushell, the president of the Franchise Consulting Group, suggests, “You have to be discriminating”. Franchise opportunity is attracting companies for several logical reasons. For instance, it offers a proven marketing concept and customer base, it also offers training, financial assistance and operating assistance. These kinds of advantages motivate companies to choose a franchise system (Longenecker et al, 2009, p. 82-83). Given the result of the analyses mentioned above (Tab.2), there were significant differences between franchising and non-franchising companies in terms of believing franchise companies having a good growth potential and, the franchisor providing tools for success on measurement of the motivation for choosing a franchise. It is clear that if a company chooses franchising system, they believe its advantages. A part of an operations manual interferes with the operation assistance or guidance the franchisor gives to the franchisee throughout their relationship (Barkoff & Selden, 2008, p. 75). Most of the franchisors underestimate the importance of the ongoing support and assistance. A field support staff is supposedly gathered for this specific purpose. The quality and the success of the new duplicate franchisee depend on the efficiency of field support staff (Sherman, 2003, p. 41). According to the results obtained above (Tab.3), three other significant differences were observed between franchise and non-franchise companies on the opinion about on-going service provided by the franchisor being very good, experiencing a few franchisor restrictions and, franchisor providing superior products to those available from other sources on the factor of measurement of evaluation of the franchisor’s support factor. The thoughts of franchisees are more positive than non-franchisees on the support of the system.

Franchising may lead to brand name equity. Another way of phrasing brand name is franchise reputation. As brand name equity is built, customers see all franchisees as one unit and expect them all to offer same quality. The franchiser is enabled to build a service that has nearly equal level of service that is desired by customers by building the brand name (Kotabe, & Helsen, 2009, p. 187).

Opening new franchisees provides more insight on the evaluation of direction where the business goes and it gives an opportunity to franchisor to have more channels for growth. Some of the most successful companies in the U.S. have begun to offer new products which capitalize on the firm’s most valuable assets: well-known trademarks on brand names. Some examples of brand names that are pre-known and the extentions to the brands help entering a new category can be General Foods’ Jello Pudding Pops, Chesebrough Ponds’ Vaseline Intensive Care Bath

Beads, Bic Disposable Lighters, Woolite Rug Cleaner, Sunkist Orange Soda, and Clairol Hair Blow Dryer (Tauber, 1981, 36).

In addition, marketing also has great importance in a phase when the brand name is known by the customers but it is not rated as the best or close on quality to a better competitor brand as in examples; "Almost as good as Xerox." "Not exactly like Hertz". Customers usually have their own schemas on a brand that it is the ideal of what a product should be and any other brands get judged by being less effective or less desirable (Treynor, 1999, p. 28).

Examining the results of measurement of brand name on franchise and non-franchise companies (Tab.4) suggested that only item number 5 differed significantly among the others. Item number 5 measured the attitude towards having a well-known brand name being important for business. In general, both groups believed the importance of the brand name, however, in one variable, franchise companies appeared to rely on its importance much more than the other.

Overall strength of a relationship is defined as relationship quality, a second order construct. Three compounds of relationship quality have been defined such as, commitment to an ongoing relationship, trust with exchange partners, and satisfaction with exchange partners. Considering relational contracting theory, Kauffman (1987) asserted that one may expect the dimensions of relational behavior to influence the three dimensions of relationship quality (Harmon & Griffiths, 2008, p. 259). It is important to emphasize the quality of relationship otherwise the effectiveness of a successful franchising organizational might be undermined. Mutual trust, consideration and cooperation are the essential factors that the ideal franchisor and franchisee relationship is built upon. It carries crucial importance that both parties success (Chin, 2014, p. 94). In accord with the results obtained above (Tab.5), there were no significant differences among measurement of the quality of the relationship factor questions except for franchisee having a very good working relationship with their franchisor.

Franchisee satisfaction and job satisfaction are close concepts. Increment on performance of the franchise and relationship quality is influenced by relationship satisfaction along with job satisfaction (Harmon & Griffiths, 2008, p. 259). Even though job satisfaction is an important factor on employee performance, it negatively correlates with turnover. Other job satisfaction improving methods might include letting employees learn new skills on their jobs, offering talented employees training to acquaint them with current developments on their expertise. Study on job satisfaction shows a positive effect when training happens rather than employers developing formal, structured approaches to training that link skill formation to job tenure, career progression, recognition and reward (Choo & Bowley, 2007, p. 342). Considering the result of the analyses mentioned above (Tab.6), Looking at the questions in measurement of job satisfaction factor, significant results were obtained for the difference between franchise and non-franchise companies' attitudes on the territorial restrictions set in the contract agreement being reasonable, the termination/renewal terms of their franchise contract being fair, franchisee being satisfied with their franchisor's training program and, franchisee being satisfied with the relevance of their franchisor's brand name.

Commitment has been noted as a crucial compound for relationships with success. If commitment results in cooperation, reduces the potential of attractive short-term alternatives and enhances the profitability, it is important. Even though there is no complete agreement on the motives of relationship commitment, researchers still try to distinguish them (Monroy & Alzola, 2005, p. 594).

Trust should influence the attitudes and behaviors of both partners so that a lasting effect arises on relationships. Colquitt et al. (2002) indicated that commitment bounds partners together in long tern although, it is trust that makes development of social exchange relationships possible. In 1994, Morgan and Hunt asserted that commitment is "an exchange partner believing that an ongoing relationship with another is so important as to warrant maximum efforts at maintaining it". This type of commitment is operationalized as the franchisor's commitment to the franchisee (Harmon & Griffiths, 2008, p. 260). In regards to the result obtained above (Tab.7), all the results for questions on measurement of commitment were significant except for franchisee caring about the fate of their franchisor.

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Innovation as a Part of the Competitiveness of the National Economy

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Abstract: Innovation activities play very important role in the long-term economic development of a particular firm as well as the national economy as a whole. This paper is based on the international comparison in this field with emphasis on member states of the Visegrad Group. Positions of the Czech economy and the Slovak economy are stressed. The main source of empirical data is The Global Competitiveness Report issued by the World Economic Forum. The innovation is analysed by means of qualitative as well as quantitative criteria like quality of the scientific research institutions and number of patent applications.

Keywords: innovation, competitiveness, economic development, international comparison.

JEL Classification codes: O15, O31, O32, O34.

1 INTRODUCTION

Growth of an economy and increase in its standard of living can be attained in two ways. First possibility is connected with the amount of factors of production involved in production process. This is called extensive economic growth. Second way – intensive economic growth – is based on increase in efficiency of production process through educating workforce, implementation of more efficient capital goods enabling economize on amount of input as the level of output is held constant. Shortage in quantity of land, capital and labour can be overcome by improvement of their quality as well as way in which are used in production process. Earlier or later a country's economic growth has to switch itself from extensive to intensive because of limited amount of resources.

Goal of this paper is international comparison of the Visegrad Group member states in the field of innovation.

We focus on positions of the member states of the Visegrad Group. The Visegrad Group is alliance of four cooperating states consisting of the Czech Republic, Hungary, Poland and the Slovak Republic. As M. Srholec points out (Srholec, 2004, pp. 137), an investor usually decide among these countries in process of decision making about allocation of his direct investment. This competitive aspect of mutual relations among these former centrally planned economies from the Central Europe region is accompanied by the opportunity to collaborate with each other. Projects of research and development (especially in the field of basic research) are very demanding and need international cooperation.

The main source of data is the newest edition The Global Competitiveness Report annually published by the World Economic Forum (WEF, 2014), the second source of current data is Factbook issued by OECD (OECD, 2014). Majority of analysed criteria are qualitative.

We calculated averages, standard deviations and coefficients of variation in order to describe data. Measures of variability tell us how the mean value is appropriate criterion. Coefficient of variation exceeding 50% indicates inappropriateness of the average in describing a set (Swoboda, 1977, pp. 51).

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3 INNOVATION MATTERS

Problem of innovation is directly related to intensive growth. Innovation means some change in human activity and thought (Heřman et al., 2008, pp. 14). Innovations can be studied from macroeconomic as well as microeconomic point of view.

From macroeconomic point of view innovation may be appreciated as a tool for increase in gross domestic product per capita. Producing innovation is a part of production chain which is typical for qualified employees with high earnings. Additionally, high qualification of researchers is important factor influencing competitiveness of a national economy as a whole. Michael Porter defined four dimensions of country's competitiveness, factor endowment is one of them (Porter, 1990, pp. 71). Porter emphasizes on the condition that factors of production ought to be specialized, because this kind of factors are able to be hardly substituted due to their relative scarcity (Porter, 1990, pp. 78). Specialized labor force is attainable by educational process. In other words, specialized workforce, i.e. skilled labor force, creates important competitive advantage of a country.

Companies supplying innovated products probably reach relatively higher prices. This microeconomic fact has macroeconomic consequence. The higher terms of trade are achieved by a country, the higher its benefits from the international trade compared to other economies.

From microeconomic point of view innovation activities are very risky. It is estimated that only 2-3% of new products are very successful and 20% are absolutely unsuccessful (Heřman, 2001, pp. 32). As M. Lindstrom stresses (Lindstrom, 2009, pp. 20), 80% of new products go unacknowledged generally and 97% of products launched onto the Japanese market are completely unsuccessful. He proposes marketing innovation called neuromarketing methods in order to overcome imperfections of contemporary marketing forecasting tools (Lindstrom, 2009, pp. 169). In spite of these facts, a firm has to innovate in order to save itself. As M. Weber explains in his famous The Protestant Ethic and the Spirit of Capitalism (Weber, 1983, pp. 297), conservative businessman is naturally forced out by hard-working and innovative entrepreneur.

Specifically, innovations are classified into following five types (Heřman et al., 2008, pp. 16): product innovation, innovation of materials, innovation of technology, organizational innovation and marketing innovation. Product innovation means development and introduction of new good or service, purpose of product innovation is satisfaction of new user's needs. Innovation of materials pursues improvement of material component of a product, it is able to result in lower production costs. Another consequence of this kind of innovation is lowered negative impact of produced good on environment which is caused by using innovated material. Innovation of technology results in improved production process, for instance increased efficiency of manufacturing, improved quality of output as a result of altered technological procedure. Organizational innovation usually brings a reduction of administrative burden and transaction costs within some system. Marketing innovation is introduction of new methods on the basis of the marketing mix.

It is necessary to distinguish between basic (fundamental) and applied research. Basic research focuses on acquiring knowledge concerning a phenomena without emphasis on solving practical problems, applied research is primarily oriented toward accomplishing specific and practical goals (Dvořáček, 2003, pp. 58). Applied research naturally uses results of fundamental research. Public good, unlike private good, is characterized by both non-rivalry and non-excludability (Soukup, 2003, pp. 169). The former condition is based on the fact that consumption of one consumer does not reduce amount of public good available to another one.

The latter feature is connected with economically and/or technically based impossibility to exclude a person from consumption of public good. As R. Valenčík points out (Valenčík, 2006, pp. 118), results of basic research should be regarded as public good. Participation of public budget is needed in the field of basic research. On the other hand, applied research is reasonably realized with the great financial help of business sector. Development of applied research ought to be supported by the public sector only indirectly through systems of education, tax systems, etc.

4 QUALITATIVE CRITERIA

Tab. 1: Capacity for innovation (1 = not at all; 7 = to a great extent)

Rank	Country	Value	All 144 countries	
1	**Switzerland**	5,9	AVERAGE	3,87
2	USA	5,9	STANDARD DEVIATION	0,77
3	Israel	5,8	COEFFICIENT of VARIATION	0,20
28	Czech Republic	4,6	**Visegrad Group**	
67	Poland	3,8	AVERAGE	3,73
89	Slovak Republic	3,5	STANDARD DEVIATION	0,58
127	Hungary	3,0	COEFFICIENT of VARIATION	0,16

Source: WEF (2014), own processing.

Respondents answered this questions (WEF, 2014, pp. 530): "In your country, to what extent do companies have the capacity to innovate?" Capacity for innovations is defined as ability of some entity to create new knowledge and implement it in practice (Belitz & Werwatz, 2006, pp. 1). Capacity for innovations can be regarded as very important indicator because of its synthesizing nature. Switzerland is at the top of the scale. Position of relatively small Israel is also interesting. The Czech Republic belongs to the first fifth of 144 studied countries and the Czech economy is the best among member states of the Visegrad Group. The Czech Republic relatively considerably exceeds the mean value of all 144 countries as well as other members of the Visegrad Group. Position of the Slovak Republic is situated in the second half of the *scale.*

Tab. 2: Quality of scientific research institutions (1 = extremely poor; 7 = extremely good)

Rank	Country	Value	All 144 countries	
1	**Switzerland**	6,4	AVERAGE	3,83
2	United Kingdom	6,3	STANDARD DEVIATION	1,07
3	Israel	6,3	COEFFICIENT of VARIATION	0,28
23	Hungary	5,1	**Visegrad Group**	
36	Czech Republic	4,5	AVERAGE	4,35
63	Poland	3,9	STANDARD DEVIATION	0,50
65	Slovak Republic	3,9	COEFFICIENT of VARIATION	0,11

Source: WEF (2014), own processing.

People chosen by WEF answered following question (WEF, 2014, pp. 531): "In your country, how would you assess the quality of scientific research institutions?" Mean for the Visegrad Group exceeds average for 144 countries. Hungary stands out among the Visegrad Group countries, it is situated in the 20% of the best countries (23rd place) and achieves impressive value (5,1). All members of the Visegrad Group show higher mean value than the average for 144 economies. Average for the all Visegrad Group member states are pulled up by Hungary and the Czech Republic. It should be added that both averages ,mentioned in Tab. 2, are good measures because of low coefficients of variation (less than 50%).

Tab. 3: Company spending on R&D (1 = do not spend on R&D; 7 = spend heavily on R&D)

Rank	Country	Value	All 144 countries	
1	**Switzerland**	5,9	AVERAGE	3,29
2	Japan	5,8	STANDARD DEVIATION	0,87
3	Finland	5,7	COEFFICIENT of VARIATION	0,26
31	Czech Republic	3,7	**Visegrad Group**	
78	Slovak Republic	3,1	AVERAGE	3,13
96	Hungary	2,9	STANDARD DEVIATION	0,35
98	Poland	2,8	COEFFICIENT of VARIATION	0,11

Source: WEF (2014), own processing.

Respondents were faced with this questions (WEF, 2014, pp. 532): "In your country, to what extent do companies spend on research and development (R&D)?" Term "spending" is in its nature quantitative, that's why qualitative insight into this problem can be arguable. Quantified information about company spending on research and development is hardly available. This kind of information is obviously very sensitive. If some institution conducted a survey among companies related to the amount of money spent on R&D, firms probably would not tell the true data. That's why we find approach of WEF understandable. Results for the Czech Republic are satisfactory because of achieved value and position. Its value exceeds mean value of 144 countries as well as average for the Visegrad Group. The Czech economy outran other Visegrad Group members.

Tab. 4: University-industry collaboration in R&D (1 = do not collaborate at all; 7 = collaborate extensively)

Rank	Country	Value	All 144 countries	
1	**Finland**	6,0	AVERAGE	3,68
2	USA	5,8	STANDARD DEVIATION	0,92
3	Switzerland	5,8	COEFFICIENT of VARIATION	0,25
35	Hungary	4,3	**Visegrad Group**	
42	Czech Republic	4,0	AVERAGE	3,80
73	Poland	3,5	STANDARD DEVIATION	0,37
84	Slovak Republic	3,4	COEFFICIENT of VARIATION	0,10

Source: WEF (2014), own processing.

People answered following question (WEF, 2014, pp. 533): "In your country, to what extent do business and universities collaborate on research and development (R&D)?" This question concerns the relationship between basic and applied research. Research activities of many universities are oriented toward doing basic research. Mean for the Visegrad Group are slightly higher than the average for all 144 countries. Hungary and the Czech Republic are among the best 30% of 144 economies, these countries pull up both averages mentioned in Tab. 4.

Tab. 5: Government procurement of advanced technology products (1 = not at all; 7 = to a great extent)

Rank	Country	Value	All 144 countries	
1	**Qatar**	5,7	AVERAGE	3,46
2	United Arab Emirates	5,4	STANDARD DEVIATION	0,65
3	Malaysia	5,2	COEFFICIENT of VARIATION	0,19
89	Poland	3,2	**Visegrad Group**	
95	Hungary	3,2	AVERAGE	3,08
107	Czech Republic	3,0	STANDARD DEVIATION	0,13
117	Slovak Republic	2,9	COEFFICIENT of VARIATION	0,04

Source: WEF (2014), own processing.

Tab. 5 shows answers to the following question (WEF, 2014, pp. 534): "In your country, to what extent do government purchasing decisions foster innovation?" Government is able to support innovation activities of local firms by purchasing of products demanding on research and development. Of course, government of a country purchases not only domestic production, because policy called "buy local" is potentially dangerous for itself due to the strong economic interdependence through high level of international trade. Positions of United Arab Emirates, Malaysia and Germany are surprising. Value achieved by each member of the Visegrad Group is not very different from each other, i.e. standard deviation and coefficient of variation are very low. Variability of all 144 countries is comparatively low too, that's why rate differences among member states of the Visegrad Group are huge (e.g. distinction between Poland and the Slovak Republic is 28 places).

Tab. 6: Availability of scientists and engineers (1 = not at all; 7 = widely available)

Rank	Country	Value	All 144 countries	
1	**Finland**	6,2	AVERAGE	4,01
2	Qatar	5,6	STANDARD DEVIATION	0,73
3	Japan	5,4	COEFFICIENT of VARIATION	0,18
55	Czech Republic	4,2	**Visegrad Group**	
56	Hungary	4,2	AVERAGE	4,15
62	Poland	4,2	STANDARD DEVIATION	0,09
76	Slovak Republic	4,0	COEFFICIENT of VARIATION	0,02

Source: WEF (2014), own processing.

Information in Tab. 6 is based on this question (WEF, 2014, pp. 535): "In your country, to what extent are scientists and engineers available?" Average of the Visegrad Group is higher than the mean value for 144 societies, these averages are acceptable measure because of low coefficients of variation (less than 50%). The Visegrad Group is homogeneous, because both measures of variability are not high. Only the Slovak Republic achieves slightly lower value. Excellent position in the scale of Finland is inspirational. In recent history Finland faced in some respects similar problems as the Czech Republic, Hungary, Poland and the Slovak Republic. At the beginning of the 90s Finland had to solve strong dependence of its foreign trade on the markets of the Council for Mutual Economic Assistance (Sojka et al., 2009, pp. 71). As result of collapse of the Eastern Bloc, Finland suffered from the unemployment rate exceeding 20% in January 1994 (Hřích, 1995, pp. 14). Large structural reforms helped Finland to create modern economy with strong basis of qualified workforce. E*xample of the Finnish economy is challenge for each member state of the Visegrad group.*

5 QUANTITATIVE CRITERIA

Tab. 7: PCT patent applications (number of applications per million population)

Rank	**Country**	**Value**	**All 142 countries**	
1	**Switzerland**	315,0	AVERAGE	29,71
2	Japan	308,2	STANDARD DEVIATION	67,76
3	Sweden	300,8	COEFFICIENT of VARIATION	2,28
29	Hungary	25,0	**Visegrad Group**	
30	Czech Republic	15,8	AVERAGE	14,28
38	Slovak Republic	9,2	STANDARD DEVIATION	6,97
40	Poland	7,1	COEFFICIENT of VARIATION	0,49

Source: WEF (2014), own processing.

Number of patent applications is used as the result of innovation activities, but this indicator contains some problems. Many patents are not exploited in practice and many inventions are not protected by patents (Spěváček et al., 2002, pp. 291). Hungary is outstanding among its partners of the Visegrad Group. Positions of all Visegrad Group members are located in the top 30% of the scale. Results in Tab. 7 are characterized by high variability (especially for 144 countries) in comparison with qualitative measures analysed above. Hungary and the Czech Republic are in the first 20%, of all 142 economies. Rate differences among the Visegrad Group members are small, but number of patent applications differs very much due to the high variability. For instance, Hungarian value equals more than 3,5 times Polish value, rate difference between Hungary and Poland is only 11 places.

Tab. 8: Gross domestic expenditure on R&D (data for 2012, million US dollars, 2005 constant prices and PPPs)

Rank	Country	Value	All 26 countries	
1	**USA**	397341	AVERAGE	34743,17
2	Japan	133979	STANDARD DEVIATION	78485,72
3	Germany	83233	COEFFICIENT of VARIATION	2,26
4	Korea	60993		
15	Poland	6349	**Visegrad Group**	
18	Czech Republic	4711	AVERAGE	3549,41
22	Hungary	2192	STANDARD DEVIATION	2110,19
25	Slovak Republic	945	COEFFICIENT of VARIATION	0,59
	SUM of 26 c.	903322,48		

Source: OECD (2014), own processing.

Indicator of expenditure dedicated to the research and development expresses input into innovation process, it differs from patent applications criterion mentioned above. On the other hand, gross expenditure on research and development eliminates negative aspects connected with number of patent applications indicator. Data provided by OECD contain only information related to 26 members of OECD[26]. Both averages in Tab. 8 are losing their ability to characterize both ranges. The Visegrad group members attain positions in the second half *of* the scale. Position of Poland can be explained by its size. On the other hand Slovakia is disadvantaged by the fact that it is the smallest (measured by number of inhabitants) country of the Visegrad Group.

Tab. 9: Gross domestic expenditure on R&D per capita (data for 2012, US dollars per one inhabitant, 2005 constant prices and PPPs)

Rank	Country	Value	All 26 countries	
1	**USA**	1275,16	AVERAGE	698,49
2	Korea	1224,75	STANDARD DEVIATION	359,98
3	Sweden	1204,77	COEFFICIENT of VARIATION	0,52
18	Czech Republic	448,71	**Visegrad Group**	
23	Hungary	219,24	AVERAGE	251,96
24	Slovak Republic	175,00	STANDARD DEVIATION	115,41
25	Poland	164,91	COEFFICIENT of VARIATION	0,46

Source: OECD (2014) + WEF (2013), own processing.

Indicator, mentioned in Tab. 8, is influenced by level of development of a country as well as its size, that's why the indicator ought to be corrected by taking into account a number of citizens. We calculated per capita value for each country. It is useful to compare Tab. 9 with Tab. 8. Lower variability (especially of group "all 26 countries") compared to the previous table is clearly seen from Tab. 9. Position of the USA is kept in comparison with Tab. 8. Position of

26 Australia, Chile, Iceland, Luxembourg, Mexico, New Zealand, Switzerland, Turkey are excluded.

Sweden is improved by 8 positions compared to absolute value of gross domestic expenditure on research and development (in that ranking Sweden was at the 11th place). Polish position is dramatically worsened by 10 places, now it occupies 25th place (one before the last). The Visegrad Group members occupy the second half of the scale as well as in the previous ranking. Average value for the Visegrad Group is pulled up only by the Czech Republic.

6 CONCLUSIONS

Innovations is inevitable way of sustainable economic development. Innovation activities are basic assumption to realize intensive way of economic growth. Research and development departments are segments of production chain offering high-paid jobs. Researchers are qualified employees, who create competitive advantage of a firm as well as of a nation. From microeconomic point of view, a company has to innovate its output, technology, material used in production, organization and marketing methods. Otherwise the firm has to expect its degradation because of strong competitive fight. Innovated product will probably will be sold at higher price. It has microeconomic as well as macroeconomic consequences. Important task of the government is creation of favourable environment for innovation activities, e.g. support for education. Financial interventions of state is needed mainly in fundamental research. On the other hand, applied research is financed mainly by private sector.

Nine criteria were analysed above. Six of them were qualitative, three criteria were quantitative. Data were available for more than 140 countries with exception to the last two criteria. All qualitative measures of innovation show relatively low variability (for all economies as well for the Visegrad Group), so the averages are appropriate measure (coefficients of variation are less than 50%).

Averages for all countries are higher than means for the Visegrad Group with exception to the Quality of scientific research institutions, University-industry collaboration and Availability of scientists and engineers. These three criteria are strengths of the Visegrad Group region thanks to comparatively high averages value as well as acceptably low coefficients of variations. Results for quantitative criteria show high variability compared to the data for qualitative criteria.

The Czech Republic achieves the best results related to Hungary, Poland and Slovakia in the capacity for innovation, subjective evaluation of company spending on research and development, quantification of expenditure on research and development per capita.

Strengths of Hungary are mainly number of patent applications as well as university-industry collaboration and quality of scientific research institutions.

Poland and the Slovak republic are in relatively poorer position in innovation. Way toward strengthening innovation is necessary for Slovakia because of its size and lack of raw material. Finland should serve as example of developing human capital.

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Regulation of the food advertising targeted to children. Top-lines results of the study of the Czech households´ awareness of food advertising self-regulation and the Czech Code of Advertising.

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Abstract: This paper is primarily focused on analyses of the research undertaken to understand the awareness of the food advertising self-regulation authority (Council for Advertising) and the Czech Code of Conduct in the context of growing children obesity issue. The objective is to find out perception of the food advertising to children and awareness of regulation and industry self-regulation amongst Czech mothers. Our theoretical framework presumes dependence between the awareness levels and selected demographic variables. We conclude several actions to overcome low awareness of the Council of Advertising) and it´s Code of Conduct and to transfer the industry self-regulation into efficient and recognized tool of shaping the culture of responsible advertising in the Czech Republic.

Keywords: advertising targeted to children, regulation of advertising, industry self-regulation

JEL Classification codes: M31, M37, M38

1 INTRODUCTION

This article is discussing parental perception of food advertising to children and awareness of the regulation and self-regulation of food advertising to children and of their standpoint regarding stricter regulation of the advertising in terms of constraints on unhealthy products (high fat, high sugar). Our previous research has shown that regulation and self- regulation of food advertising to children in the Czech Republic is relatively mild compare to some other developed countries and more importantly self-regulation and regulation is interconnected and strongly influenced by food industry (Olšanová & Lhotáková, 2014). The causal link between food advertising and childhood obesity is still the subject of discussion, but the opinion prevails, that advertising is one of the factors, which co-creates primary values, attitudes and opinions for young people (Grundey, 2007). Advertising is also being considered one of the co-factors leading to increased level of childhood obesity in the Czech Republic and other developed countries.

The objective of this research article is to find out, how Czech mothers perceive the food advertising to children and its information content and to evaluate their awareness of regulation and industry self-regulation of food advertising to children as well as of the tools they can use against a food producer breaking the self-regulation rules. Our research has not aimed to contribute to the discussion about the link between food advertising to children and childhood obesity. We follow on the discussion about regulatory models in food advertising to children and aim to conclude specific suggestion on improving the role of self-regulation and legislation authorities in the Czech Republic.

2 LITERATURE REVIEW

Obesity has been discussed as a major concern since the World Health Organization published its Report of the Director General in 1998: "Life in the 21st century. A vision for all" emphasizing that "Obesity is increasing, especially in the younger age group. Nutritional problems, especially overconsumption of fats or sugars, are taking their toll." (World Health Organization, Geneva, 1998). Nowadays, according to WHO, being overweight and obese is ranked as the fifth leading risk for deaths globally (World Health Organization, 2013).

WHO specifies why obesity during childhood creates risk for future adults. An increased BMI[27] increases the risk of diseases such as cardiovascular diseases (mainly heart disease and stroke), diabetes, musculoskeletal disorders (osteoarthritis) and some cancers (endometrial, breast, and colon). The obesity of children is, according to WHO, associated with a higher chance of obesity, premature death and disability in adulthood. Additionally, the obese children experience breathing difficulties, increased risk of fractures, hypertension, early markers of cardiovascular disease, insulin resistance and psychological effects (World Health Organization, 2013).

Different studies indicate, that food advertising to children has direct link to development of eating habits which may lead to obesity. For children the advertising creates positive attitudes towards advertised food products and they are unlikely able to understand the persuasion without parent´s explanation. Their ability to separate the advertising content from the TV entertainment is not clear. The research exists on proving the effectiveness of self-regulation on children´s advertising exposure and in changing household purchasing behaviors (Huang & Yang, 2013). The effect of ban on fast-food television advertising was also estimated with result of reducing the number of overweight children aged 3-11 by 18% and adolescents 12-18 years

[27] BMI =Body Mass Index, a measurement of obesity, defined as the weight of an adult human in kg divided by the square of height in meters squared (kg/m^2). According to the WHO definition means BMI≥25 overweight, BMI ≥30 obesity.

by 14% (Chou, Rashad, & Grossman, 2008). Television food advertising has been linked to children´s food preferences, at both brand and category levels, and to both purchasing and consumption habits (Lobstein T., 2005) Based on the increasing evidence of the link between the advertising and obesity, the pressure for regulation of food advertising to children is growing. Increasingly it is recognized, that voluntarily regulations may not be sufficient and that more transparent enforceable regulations may be required to reduce the pervasiveness of "non-core" food advertising (Kelly, Smith, King, Flood, & Bauman, 2007). There is a concern that the industry could use self-regulation to avoid more stringent regulation (Hawkes, Regulating Food Marketing to Young People Worldwide, 2007).

This was confirmed by WHO at the Sixty-third World Health Assembly, where the WHO Member States endorsed a set of recommendations on the marketing of foods and non-alcoholic beverages to children, specifying a set of measures leading to reduction of marketing communication of food targeted to children (Olbrichtová, Šlesingerová, & et al, 2014), (World Health Organization, 2010).

3 REGULATION AND SELF-REGULATION OF FOOD ADVERTISING TARGETED TO CHILDREN IN CZECH REPUBLIC – CURRENT STATUS

Food industry position towards advertising to children is that young people have a right to obtain information from advertising, and therefore, food producers support the self-regulation rather than statutory regulation resulting from stricter legislation. Self-regulation is defined as a system whereby industry actively participates in, and is responsible for, its own regulation (Hawkes, Self-regulation of food advertising, 2005). C. Hawkes defines two aspects of self-regulatory systems that are needed to ensure well-functioning system: (i) the code itself (recognizing that children must be treated differently to adults given their different interpretation of the world) and (ii) effective monitoring and enforcement to ensure industry compliance (Hawkes, Self-regulation of food advertising, 2005).

Self-regulation in food industry is roofed by the European Advertising Standards Alliance (EASA), which is a non-profit organization based in Brussels. It´s main goals are to consolidate the advertising self-regulation in Europe, help the European countries to create a self-regulatory bodies and legislation framework, promote self-regulation in advertising as a more flexible alternative to detailed legislation and coordinate cross-border complaints with the aim of fast resolution (EASA ALLIANCE, 2013). Self-regulation exists to protect advertisers (from external regulation) as well as consumers, thereby facilitating the proliferation of advertising – a classic case of ´enlightened self-interest´ (Hawkes, Self-regulation of food advertising, 2005).

In EASA the Czech Republic is represented by the Advertising Council in the Czech Republic (Rada pro reklamu, RPR). The food companies are members of the RPR directly (Danone, Ferrero, Nestlé and a subsidy of McDonalds) or indirectly through the Food Chamber (Potravinářská komora, PK) and the Czech Association of the Branded Goods Producers (Český svaz značkových výrobců, ČSZV) (Rada pro reklamu, 2014). RPR´s main role is the assessment of complaints regarding the advertising in press, outdoor, direct mail, radio, TV, cinema and the internet. The complaints with prevailing legal issues are out of its scope as RPR´s competency is limited to ethics and voluntary commitments of the industry as stated in the Code of Advertising. RPR can also act based on its own initiative once they realize that particular ad may violate certain provisions of the Code of Advertising.

The office of RPR is financed by membership fees, contributions of the food companies or industry associations. It means direct dependence on the member companies and, at the same time, budget limitations resulting in minimum executional staff to deal with own monitoring of potentially defective ads.

As stated above, self-regulation is based on voluntary industry initiative. The formal legislation gives more formal borders for both advertisers and the media. In the Czech Republic Law No. 40/1995 Coll., as amended ("Advertising Regulation Act") (Sbírka zákonů ČR, 2013)) comprehensively regulates the issue of advertising. It prohibits the advertising of goods or services that are contrary to the law of the Republic; advertising based on subliminal perception, deceptive advertising, hidden advertising, distribution of unsolicited advertising (harassing the recipient or leading to his expenditures) and the advertising that is contrary to good morals. The act also prohibits advertising directed at the audience under eighteen years old, which encourages behavior prejudicial to their health, mental or moral development, advertising of tobacco and alcohol products, as well as sponsorship of sporting events by tobacco manufacturers and reduces the spread of advertising on fire arms and ammunition.

The rules for protection of children and juveniles are set in § 2c. With respect to persons under 18 years old, advertising shall not: (i) encourage behavior prejudicial to their health, mental or moral development, recommend to purchase products or services by exploiting their inexperience or credulity, (ii) encourage them to persuade their parents or legal guardians or others to purchase the goods or services, (iii) utilize the special confidence they have to their parents or legal guardians or other persons in an inappropriate manner showing them in dangerous situations.

With the adoption of Act no. 40/95, the RPR (in addition to its core business, which is evaluating the acceptability of ads from the ethical point of view) has become the institution from which the supervisory authorities in charge of compliance with the mentioned law (regional trade licensing offices, the Council of the Czech Republic for Radio and Television Broadcasting, Ministry of Health, etc.) require expert advice on the application of the above law in practice. In this context, the Council issued more than 250 expert pieces of advice on compliance with the advertising law to regulate advertising for regional trade offices of the Czech Republic (Rada pro reklamu, 2014).

In our previous research, in which we analyzed relations between institutions involved in regulatory and self-regulatory system in Czech Republic we have drawn a conclusion, that RPR has power to influence both self-regulatory as well as regulatory system through its role as an advisory body to institutions dealing in regulatory system. Therefore the whole system is deviated towards industry that represents majority of voices in RPR. We also concluded that low involvement of institutions representing consumers and other stakeholders causes low effectiveness of the regulatory and self-regulatory system in Czech Republic (Olšanová & Lhotáková, 2014).

4 RESEARCH RESULTS

4.1 Methodology

The research was conducted in January 2015 in cooperation with the research company Stem/Mark, a.s. Stem/Mark was responsible for sample structure and data collection The questionnaire consisting of 24 questions was distributed via internet to statistically representative sample of Czech mothers (n=707) selected from the Czech National Panel (on-line panel of 65 thousands respondents). Data collection took place in week commencing 12th January 2015.

The sample of 707 mothers of children aged 3 – 18 years respected quotas set for the age of the oldest children, education of mother, regionality and size of the city (sample structure table 1). The sample is representative in terms of the demographic structure of the Czech population. 51

% of the respondents have one child, 41 % two children. Majority of the respondents were 26 – 45 years old (52 % 36-45 years, 41 % 26-35). Regionality of the respondents follows population distribution. 16 % of the mothers have university degree, 84 % secondary education (44 % high school with diploma, 40 % high school without diploma).

Tab. 1: Sample structure

Sample Structure	*Total sample*		*Age of the respondent*												
			18-25			*26-35*			*36-45*			*46+*			
	Total	*%*	*Total*	*% r.*	*% col.*	*Total*	*% r.*	*% col.*	*Total*	*% r.*	*% col.*	*Total*	*% r.*	*% col.*	
Education															
secondary	284	40,2	13	4,6	54,2	101	35,6	34,7	162	57,0	43,9	8	2,8	34,8	
secondary w diploma	313	44,3	10	3,2	41,7	127	40,6	43,6	168	53,7	45,5	8	2,6	34,8	
university	110	15,6	1	0,9	4,2	63	57,3	21,6	39	35,5	10,6	7	6,4	30,4	
No. of children in the household															
1 child	362	51,2	19	5,2	79,2	149	41,2	51,2	176	48,6	47,7	18	5,0	78,3	
2 children	295	41,7	5	1,7	20,8	129	43,7	44,3	156	52,9	42,3	5	1,7	21,7	
3 +	50	7,1	0	0,0	0,0	13	26,0	4,5	37	74,0	10,0	0	0,0	0,0	
Age of the oldest children															
3-6 years	204	28,9	21	10,3	87,5	137	67,2	47,1	44	21,6	11,9	2	1,0	8,7	
7-11 years	230	32,5	2	0,9	8,3	117	50,9	40,2	107	46,5	29,0	4	1,7	17,4	
12-15 years	160	22,6	0	0,0	0,0	35	21,9	12,0	118	73,8	32,0	7	4,4	30,4	
16-18 years	113	16,0	1	0,9	4,2	2	1,8	0,7	100	88,5	27,1	10	8,8	43,5	
Size of the municipality															
up to 1999 inhabitants	168	23,8	7	4,2	29,2	88	52,4	30,2	70	41,7	19,0	3	1,8	13,0	
2000 - 19,999 inhabitants	214	30,3	8	3,7	33,3	90	42,1	30,9	111	51,9	30,1	5	2,3	21,7	
20,000 - 99,999 inhabitants	156	22,1	2	1,3	8,3	49	31,4	16,8	96	61,5	26,0	9	5,8	39,1	
100,000 +	169	23,9	7	4,1	29,2	64	37,9	22,0	92	54,4	24,9	6	3,6	26,1	
Regionality															
Prague	85	12,0	2	2,4	8,3	29	34,1	10,0	51	60,0	13,8	3	3,5	13,0	
Bohemia	380	53,7	13	3,4	54,2	163	42,9	56,0	193	50,8	52,3	11	2,9	47,8	
Moravia	242	34,2	9	3,7	37,5	99	40,9	34,0	125	51,7	33,9	9	3,7	39,1	
Total	707	100	24		100,0	291		100,0	369		100,0	23		100,0	

Source: Authors based on STEM/MARK, January 2015, on-line research, mothers of children aged 3-18 years, N =707.

4.2 Theoretical Framework

We defined the variables for our theoretical model as follows: dependent variable is consumer awareness of advertising self-regulation and of the Czech Code of Advertising. Independent variables are defined as age, education, size of municipality and regionality of mothers´ household housing. We presume that the there is a positive relation between the age of the mothers, education level, size of municipality and regionality of the housing of the mothers and the awareness of the Council for Advertising and of the Code itself. We expected the awareness of both to be rather low. Despite this, respondents´ structure and size of the sample enabled us to analyze needed variables and draw conclusions.

4.3 Research Findings

4.3.1. Top Lines Results

Respondents were prompted by list of institutions which could be in charge of the regulation of food advertising targeted to children (Ministry of Health, Council for Radio and TV broadcasting, health insurances, Council for Advertising, Ministry of Agriculture and trade licensing offices). Most of the respondents thought it was Council for Advertising (RPR) (56 %), followed by Ministry of Health (47 %) and Council for Radio and TV Broadcasting (39 %).

The level of awareness of the existence of RPR was low: only 37.5 % of the respondents claim they are aware of it. They are predominantly 35-45 years old, from Prague or cities above 100 thousand inhabitants with higher education (university of secondary with diploma) and with higher income. 62 % of those who are aware of the RPR´s existence are also informed about the existence of the Code of Advertising.

The Code of Conduct awareness is even lower (22.2 %). Not surprisingly those, who are aware of it, are also women 36+ with higher education, living in bigger cities, predominantly in Prague (table 2). 19 % of the sample was aware of the fact that they can complain about the advertising content at the Council of Advertising and 4 % of them already used the option to raise a complaint.

This finding is in line with our previous research which analysed the complaints received by RPR. In 2002 – 2013 RPR evaluated 738 issues, 21 % of those were founded defective in terms of not meeting the rules of the self-regulation. On average it was 62 complaints per year, most of them raised by private persons (Olšanová & Lhotáková, 2014). None of the complaints were due to potential breaking the Code in parts related to food advertising to children (Chapter III or specifically Chapter III/3 – Food advertising targeted to children). The self-regulation authority in the United States (CARU) reviews about 1 thousand commercials each month. They are almost exclusively from the internal monitoring. In the U.K. the relevant authority (ASA) deals with around 13 thousands complaints each year, Canadian ASC with more than 1,5 thousands complaints each year. Similarly to the Czech Republic, complaints referring to food advertising to children dealt with by mentioned institutions play smaller portion compared to those facing decency, truthfulness and misleading ads (Hawkes, Self-regulation of food advertising, 2005).

Tab. 2: Top lines results

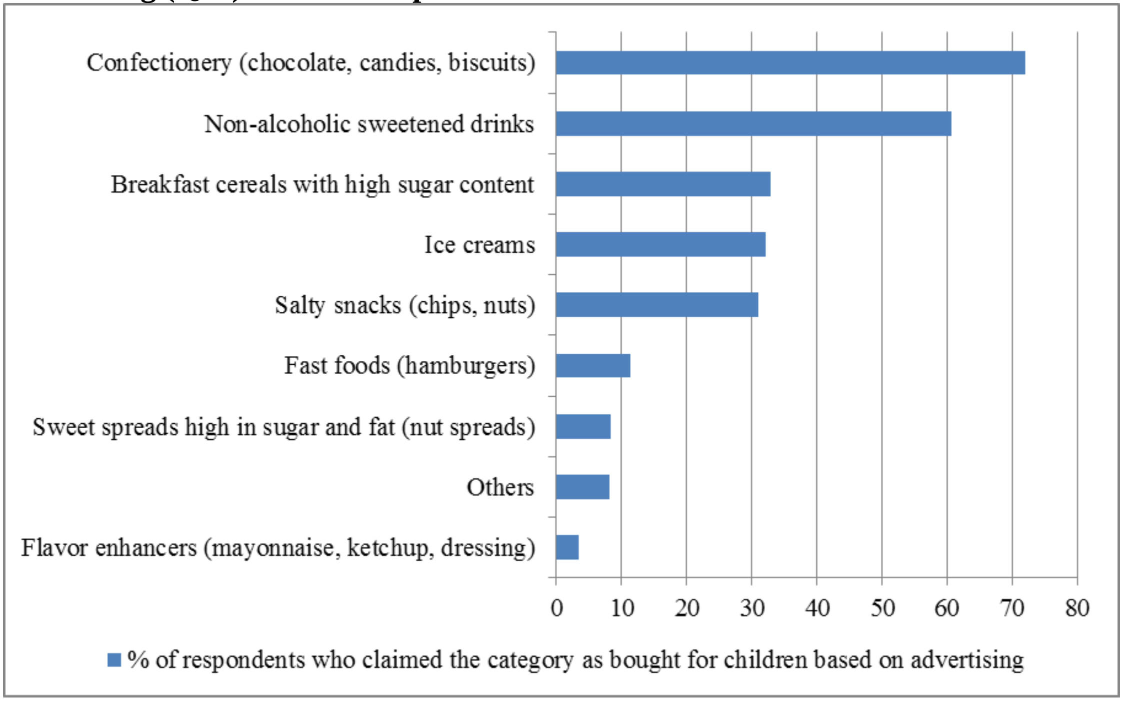
Mother´s awareness of RPR and Code of Conduct				
	RPR´s awareness		*Code of Conduct aw.*	
	%	*index*	*%*	*index*
Mother´s age				
18-25	20,8	55,6	16,7	75,1
26-35	30,9	82,5	22,0	99,0
36-45	42,5	**113,5**	22,8	**102,5**
46+	56,5	**150,8**	21,7	97,9
Mother´s education				
Secondary	27,5	73,3	14,8	66,6
secondary w diploma	41,9	**111,7**	25,9	**116,5**
University	50,9	**135,8**	30,9	**139,2**
Size of the municipality				
up to 1999 inhabitants	33,3	88,9	20,2	91,1
2000 - 19,999 inhabitants	30,4	81,0	19,2	86,3
20,000 - 99,999 inhabitants	41,0	**109,5**	24,4	**109,7**
100,000 +	47,3	**126,3**	26,0	**117,2**
Regionality				
Prague	65,9	**175,8**	27,1	**121,9**
Bohemia	34,2	91,3	23,2	**104,3**
Moravia	32,6	87,1	19,0	96,7
Total	37,5	100,0	22,2	100,0

Source: Source: Authors based on STEM/MARK, January 2015, on-line research, mothers of children aged 3-18 years, N =707.

According to the results the most frequent categories bought by the respondents for their kids, based on advertising (N = 536, those who agreed that at least occasionally they do their purchases based on advertising targeted to children) is confectionery (72 %), non-alcoholic sweetened drinks (61 %), followed by breakfast cereals with high sugar content (33 %), ice creams (32 %) and fast food, hamburgers (11 %) (Figure 1).

The team of G. Hastings in their review for the World Health Organization identified 115 studies on the extent and nature of food promotion to children and 90 on its effects. The studies consistently conclude that food promotion is the most prevalent marketing category targeting children and young people. Their content analyses research found that the majority of foods and food products advertised are high in energy, fat, sugar and/or high salt. The most frequently advertised categories are sugar-sweetened breakfast cereals, soft-drinks, confectionary and savoury snacks (Cairns, Angus, & Hastings, 2009). These findings are in line with what Czech mothers buy under the influence of children who were targeted by food advertising.

Figure 1: Categories bought by respondents most frequently for their children based on advertising (Q13). N = 538 respondents



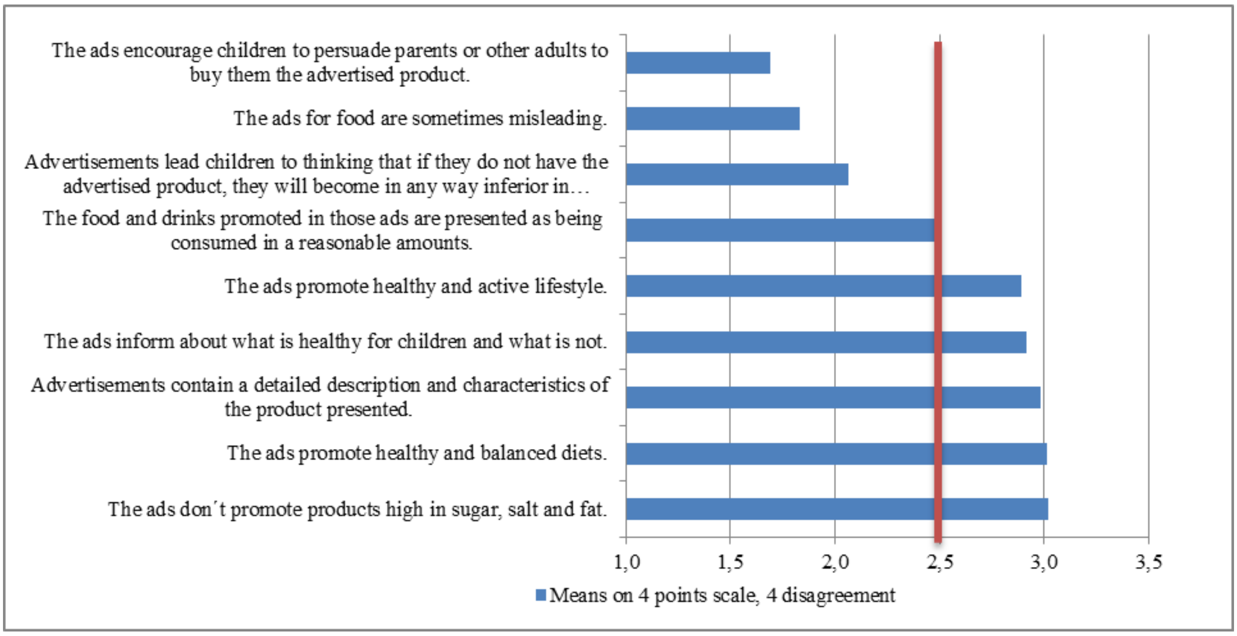
Source: Source: Authors based on STEM/MARK, January 2015, on-line research, mothers of children aged 3-18 years.

We were exploring the level of agreement with the statements corresponding to the wording of the Code of Advertising. As demonstrated on Figure 2 the respondents tend to disagree (on 4 points scale) that the food ads targeted to children don´t promote products high in sugar, salt and fat (mean 3,0); the advertisements promote healthy and balanced diets (3,0); contain detailed description and characteristics of the product presented (3,0); inform about what is healthy for children and what is not (2,9) and promote healthy and active lifestyle (2,9). This demonstrate that Czech mothers are rather rational in terms of their expectancy of positive/negative impacts of food advertising.

The level of agreement with the statement that the food and drinks promoted in those ads are presented as being consumed in a reasonable amounts was rated in the middle (mean 2,5). They tend to agree with the negative statements (The ads encourage children to persuade parents or other adults buy them the advertised products – mean 1,7; the advertising is sometimes misleading – mean 1,8; and that the advertisements lead children to thinking that if they do not have the advertised products they will become in any way inferior to other children (mean 2,1).

Majority of the respondents claim that the food advertising targeted to children should be more regulated in terms of limiting ads for food high in fat, sugar or other unhealthy food (83 %). Only 6 % of them disagree with stronger regulation. More than half of the sample claimed agreement with the statement that the advertising serves as good guide when new product appears on the market (53 % agreed or rather agreed). They would like to be backed-up by stronger regulation of the advertising from the authorities while they appreciate the informational role of the advertising, especially at the new product launch phase.

Figure 2: Level of agreements with the statements (means), N = 707 respondents

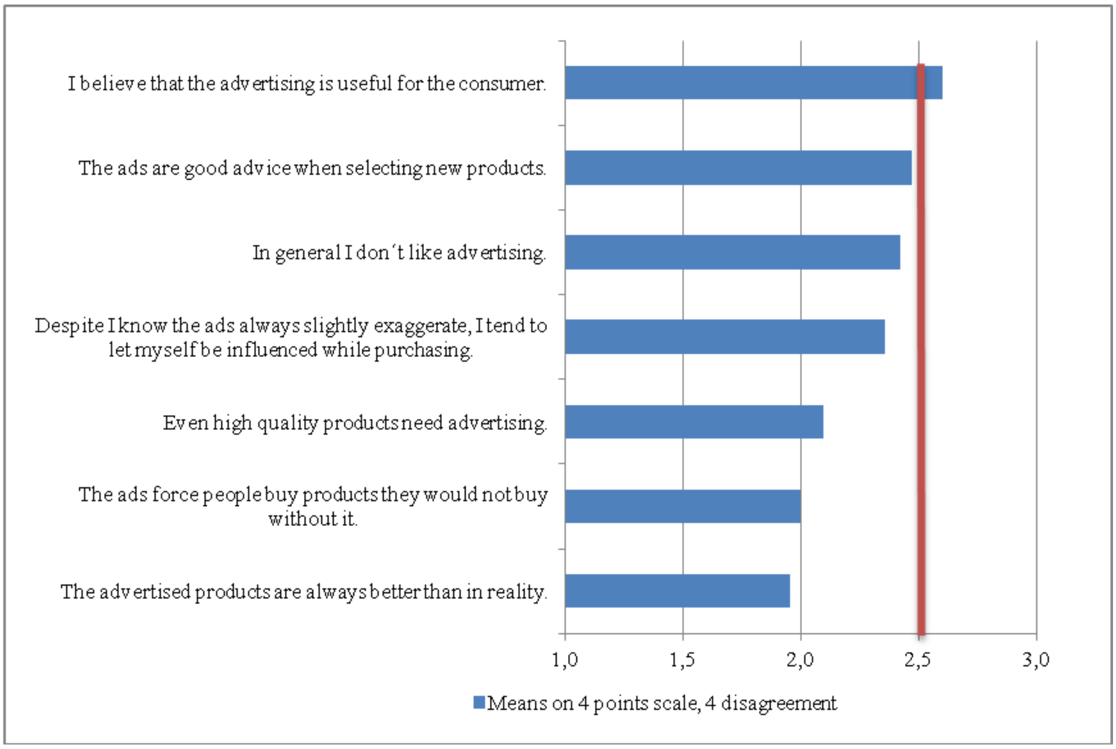


Source: Source: Authors based on STEM/MARK, January 2015, on-line research, mothers of children aged 3-18 years, N =707.

On Figure 3 we summarize the general approach of the respondents to the advertising. They tend to disagree that sometimes the advertising is useful for the consumers (mean 2,6). Disturbing role of advertising for majority of the respondents is expressed by level of agreement with the statements that the ads force people buy products they would not buy without it (2,0); and that despite they know the ads always slightly exaggerate, they tend to be influenced when purchasing advertised product (2,4). They agree that even high quality products need advertising (2,1). On the contrary they do not believe that the advertising is useful for the consumers.

Advertising is source of information when launching new products is accepted by majority of the respondents (53% agree or rather agree, mean 2,5). The agreement level is higher at group of respondents who admit often purchasing food for children based on advertising (95%, mean 1,5; resp. 2,4 (often; sometimes purchasing based on advertising).

Figure 3: Level of agreements with the statements (means), N = 707 respondents



Source: Source: Authors based on STEM/MARK, January 2015, on-line research, mothers of children aged 3-18 years, N =707.

5 MANAGERIAL IMPLICATIONS

Our previous research has indicated that current system of regulation and self-regulation of food advertising to children in the Czech Republic is not entirely effective. Low amount of complaints related to food advertising targeted to children related to specific parts of the Code of Advertising (Chapter III, III/3) is not result of strict implementation of the rules and best practices of the advertising or food industry but more likely result of low involvement of the parents and other stakeholders in the system (self-monitoring of RPR, Ministry of Health). Consumers tend to include Ministry of Health to the responsible organizations frame of reference.

Our research indicates low awareness of both basic building blocks of the industry self-regulation in the Czech Republic, e.g. of the Council of Advertising (37,5 %) and of the Code of Conduct (22,2 %). As expected the awarness of self-regulation process grows with higher education, higher sizing of the municipality and age of mothers. The results of our rersearch show, that stronger regulation of food advertisig targeted to children is supported by strong majority of the respondents. Balancing the system would need building awareness of the self-regulation authority in the Czech Republic by raising visibility of its role and by building monitoring of food advertising. This would require changes in financing of the RPR and also changes in structure of the arbitration commission or more significant changes in decision making proces at RPR. In Canada, as an example, complaints are dealt with by the consumer committee with representatives from the industry and public sector (though still also criticed for being too industry friendly) (Hawkes C. , Self-regulation of food advertising, 2005).

Our research has indicated that mothers consider advertising in general as helpful source of information about new products (53,2%) but are much more critical towards food advertising to children. 83 % of them think, that food advertising is sometimes misleading. Most importantly 81% of mother claim that food advertising targeted to children does not support healthy and balanced eating habits and 70 % respondents claimed that the advertising leads children to thinking that if they do not have the advertised product they will become in any way inferior in relationship to other children. This indirectly confirms, that according to our research majority of food advertising targeted to children does not comply with the statements that should be valid for advertising targeted to children according to the Code of Advertising.

There are three specific implications based on presented data. The regulation of the food advertising targeted to children should be stricter. If this is to be without strong regulatory framework than the role of the RPR needs to be clarified in terms of its financing, visibility and own monitoring activities. Parents should be informed about key parts of the Code of Advertising, of their rights and role in helping the industry regulator to fulfill its role.

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The Competitiveness Landscape in Central and Eastern Europe

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Abstract: The aim of the paper is to present the competitiveness landscape of 10 Central and Eastern European countries: Bulgaria, The Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia (CEE).The analysis covers various interrelated competitiveness factors, including enterprise environment, education, labour market and employment, innovation, technological progress thus allowing one to identify various aspects of competitiveness and provide insights into what drives the productivity and prosperity in these countries. The performance level of each of the CEE country is compared with others from that group; additionally a comparison is made with other European regions, some advanced economies and large emerging economies.

The paper analyses and measures the competitiveness of the CEE, the extent to which a progress is made in terms of in achieving the competitiveness goals, and points out the key reforms and investments that CEE countries should consider implementing in order to tackle the existing challenges and close the competitiveness gap between other EU countries as well as other more advanced. This could serve as a starting point for defining a widely supported competitiveness agenda aiming at a long-term and stable economic and social progress throughout the CEE region.

Keywords: Central and Eastern Europe, competitiveness, productivity.

JEL Classification codes: R11: Regional Economic Activity: Growth, Development, and Changes.

1 INTRODUCTION

The move towards globalization and regionalization - that has increased pace over the past decades – has had a strong influence on the driving forces and business landscape, which creates and shapes the strategic opportunities and requirements for economic development, growth, employment levels, and social and environmental sustainability. The Central and Eastern European countries (CEEs) play an important role in the European region as emerging markets, competitive players in manufacturing and services, and political-economic actors. Compared to Western European states and business entities, those in the CEE receive limited and sporadic coverage in business literature, although the changing dynamics in the European region makes these a captivating academic subject, a high priority policy-making arena, and an important field for international business strategic decision makers. The paper aims to contribute to the knowledge of the CEE states by means of a comparative regional study of various factors influencing their competitiveness levels.

The economic productivity is one of the most important aspects shaping the competitiveness of a state. Therefore, the most competitive economies are able to provide high (and increasing) standards of living, allowing all members of the society to contribute to and benefit from the prosperity. In addition, competitive economies also have to be sustainable – meeting the needs of the present generation while not compromising the ability of future generations to do the same.

2 METHODS

The goal of the paper is to assess the competitiveness landscape of 10 CEE economies: Bulgaria, The Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia. The paper identifies various aspects of competitiveness, providing insights into what dries the productivity and prosperity of these countries. The paper has two aims. First, it provides the framework for identifying the general strengths and weaknesses that need to be taken into account when aiming to build a highly competitive CEE region, and additionally a sense of the challenges CEEs currently face. Second, the paper benchmarks the CEEs' average competitiveness performance against some highly advanced countries[28], large emerging BRIC economies[29] and other European regions (Northern/North-Western/Southern Europe).

The *Global Competitiveness Report* by the World Economic Forum (WEF) is the most comprehensive annual publication in international competitiveness. Defining competitiveness as 'the set of institutions, policies and factors that determine the level of productivity of a country', Global Competitiveness Index (GCI) scores are calculated by drawing together country-level data covering 12 interconnected categories – the pillars of competitiveness – that collectively make up a comprehensive picture of a country's competitiveness. The 12 pillars are as follows: institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labour market efficiency,

[28] Such as the United States, Japan and Switzerland, which rank at the top of most comprehensive competitiveness reports.

[29] In recent years, the BRIC countries have rapidly become global players and, in spite of their slowing growth, are still regarded as a global benchmark.

financial market development, technological readiness, market size, business sophistication, and innovation.

The Europe 2020 Competitiveness Report is another complementary measure of competitiveness introduced by WEF in order to assess Europe's progress in enhancing competitiveness based on the Europe 2020 strategy[30] (European Commission 2010). The 2014 Report, the second in a biennial series, provides a timely update and review of Europe's performance in becoming smart, inclusive and environmentally sustainable[31], closely following the Europe 2020 seven flagship initiatives: enterprise environment, digital agenda, innovative Europe, education and training, labour market and employment, social inclusion and environmental sustainability.

Both of these tools are used in the described research.

3 THE COMPETITIVE STRENGTHS AND WEAKNESSES OF CEEs

The CEE economies are characterised by the physical, demographic and socioeconomic diversity and thus vary substantially in terms of their overall international competitiveness rankings, nevertheless a number of strengths and weaknesses that are shared between these can still be identified.

According to the WEF's recent *Global Competitiveness Report* (World Economic Forum 2014b), Estonia and the Czech Republic remained the best performers in the region, ranking 29th and 37th globally, respectively; while Slovak Republic was ranked as the least competitive CEE state (75th). It is worth noting that although the competitiveness levels of CEE have improved since the last edition of the report in 2013, over the nine-year period (since 2006 to 2014) only three countries (i.e. Bulgaria, Poland, and Romania) have improved their world competitiveness standing.

Table 1. describing the score achieve by the CEEs in the overall GCI and its 12 pillars, allows for a more fine-grained analysis of the results. The different shadings used in presentation of the data aid in a ready identification of strengths and weaknesses and of emerging regional patterns.

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[30] The EU's 10-year growth strategy launched by the European Commission (EC) in March 2010.

[31] The three instruments of the Europe 2020 strategy are: 1) smart growth – developing an economy based on knowledge and innovation; 2) sustainable growth – promoting a more resource-efficient, greener and more competitive economy/decoupling economic growth from resource use; 3) inclusive growth – fostering a high-employment economy delivering social and territorial cohesion.

The analysis of the data presented in the table reveals that the competitive strengths of the CEEs are based on a number of common features. These countries continue to receive a relatively high-rate assessment for their health and primary education. A healthy and well-educated workforce is crucial for economies that want to move up the value chain beyond simple production processes and products by producing more sophisticated or value-intensive products.

Tab. 1: Performance of CCEs in the 2014–15 GCI and the 12 composing pillars, rank out of 144 economies (Score 1-7)

			BASIC REQUIREMENTS				EFFICIENCY ENHANCERS						INNOVATION AND SOPHISTICATION FACTORS	
ECONOMY	**Rank**	**Score**	**Institutions**	**Infrastructure**	**Macroeconomic environment**	**Health and primary**	**Higher education and training**	**Goods market efficiency**	**Labour market efficiency**	**Financial market development**	**Technological readiness**	**Market size**	**Business sophistication**	**Innovation**
Estonia	29	4.71	5.0	4.8	6.0	6.3	5.5	4.9	5.0	4.7	5.3	3.1	4.3	4.0
Czech Rep.	37	4.53	3.8	4.7	5.4	6.2	5.0	4.5	4.3	4.5	5.0	4.5	4.5	3.7
Lithuania	41	4.51	4.0	4.7	5.3	6.2	5.3	4.6	4.3	4.1	5.4	3.6	4.3	3.6
Latvia	42	4.50	4.1	4.6	5.5	6.3	5.1	4.7	4.8	4.6	5.1	3.2	4.1	3.3
Poland	43	4.48	4.0	4.2	4.8	6,2	5.0	4.5	4.1	4.6	4.5	5.1	4.1	3.3
Bulgaria	54	4.37	3.3	4.1	5.4	6.0	4.5	4.4	4.2	4.2	4.7	3.9	3.6	2.9
Romania	59	4.30	3.6	3.7	5.2	5.5	4.6	4.2	4.0	4.1	4.5	4.4	3.8	3.3
Hungary	60	4.28	3.7	4.6	4.8	5.8	4.7	4.4	4.2	3.9	4.4	4.3	3.8	3.5
Slovenia	70	4.22	3.8	4.9	4.3	6.5	5.3	4.4	3.9	2.9	5.0	3.5	4.1	3.6
Slovak Rep.	75	4.15	3.3	4.2	5.2	5.5	4.6	4.4	3.9	4.5	4.4	4.0	4.0	3.2

Source: own compilation based on World Economic Forum 2014b
Note: *Colour coding according to maximum and minimum scores of the sample.*

The notable strengths include a good-quality higher education and training systems, providing the workforce with the skills allowing for an quick adaptation to the rapidly changing environment and laying the groundwork for high levels of technological adoption and innovation[32]. A continued strong focus on education would help to maintain the skill levels needed to provide the basis for the sustained innovation-led growth. The region can draw on a well-educated workforce, although the high levels of emigration observed recently suggests that the available workforce will continue to shrink in the future – which is especially true of the younger demographic.

In addition, the region continues to benefit from a number of competitive strengths in moving to a more sustainable macroeconomic situation, reflecting its relatively well-managed public finances, at a time when many (especially Southern European) countries are struggling. Sound macroeconomic conditions also contribute to a well-functioning economy that can allow, for example, for financial resources to flow to the most productive activities and investments.

Furthermore, the CEE countries rely on their strong commitment to adopting new technologies for productivity enhancements, particularly in the case of Lithuania and Estonia, although continuous technological development is necessary, given their still mediocre rank in terms of this indicator.

Notwithstanding these strengths, the rise in overall competitiveness levels continues to be hampered by some critical structural weaknesses of the CEEs economies. The labour markets remain extremely rigid, hindering employment growth; financial markets are not sufficiently developed and are unable to provide the required levels of financial support for business development be it through the equity market, loans or venture capital. Other institutional weaknesses are related to the inefficiencies of the goods markets. The CEE countries have already started to address some of the most pressing challenges by implementing a series of structural reforms to improve the functioning of their goods, labour, and financial markets. The liberalization of certain services, the implementation of a labour market reform to mitigate its rigidities, and the restructuring of the financial system are all measures aimed at improving the efficiency in the allocation of resources, the full effects of which are likely to become more visible in the medium term.

Going forward, the CEE economies should also look into more effective ways of supporting the growth of highly competitive and effective markets, which would lead to the emergence of the right set of incentives aiding in quicker transformation of the knowledge assets into new products and services with higher added value. Additionally, it is also highly advisable for the

[32] Although it must be said that the quality of this education is not always in line with the productive needs of the countries.

CEEs[33] to increase the trade openness and foster the scale opportunities provided by the large (domestic and foreign) markets, as these two elements continue to receive a poor rating.

Continuing development of competitiveness levels requires a significant upgrade of transport infrastructure, which is considerably underdeveloped in terms of international standards. Although some progress has been made over the past few years in this area, it is not sufficient to create the step change necessary to reduce the effect of distance between regions, integrate the national markets and create economically-viable connections to the markets in other countries and regions.

On the other hand, the competitiveness of the CEEs would be boosted by reinforcing the efficiency and transparency of their public institutions, which influences the investment decisions and the organization of production and plays a key role in the ways in which societies distribute the benefits and bear the costs of development strategies and policies.

As CEE economies transition to the innovation-driven stage of development, they have to focus more strongly on fostering innovation possibilities and business environment in order to ensure that product and process innovations continue to drive their productivity. Stronger R&D orientation of companies, increased government procurement of advanced research products, and intensified collaboration between universities and the private sector would help the countries to move toward a more future-oriented development path. In order to strengthen their competitiveness, CEEs must also improve on the state of cluster development as close geographical proximity of companies and suppliers from a particular sector heightens the efficiency, creates greater opportunities for innovation in processes and products, and reduces barriers to entry for new firms.

All in all, the assessment of the competiveness landscape of the CEEs is very mixed. Much remains to be done, if these countries want to become a more competitive, prosperous, and harmonious group. Although CEE economies have enjoyed brisk economic growth over the past decade, the foundations remain relatively shaky for a number of countries. Thus, addressing their weaknesses is crucial for bridging the competitiveness gap between CEEs and other European regions as well as some well-developed economies elsewhere.

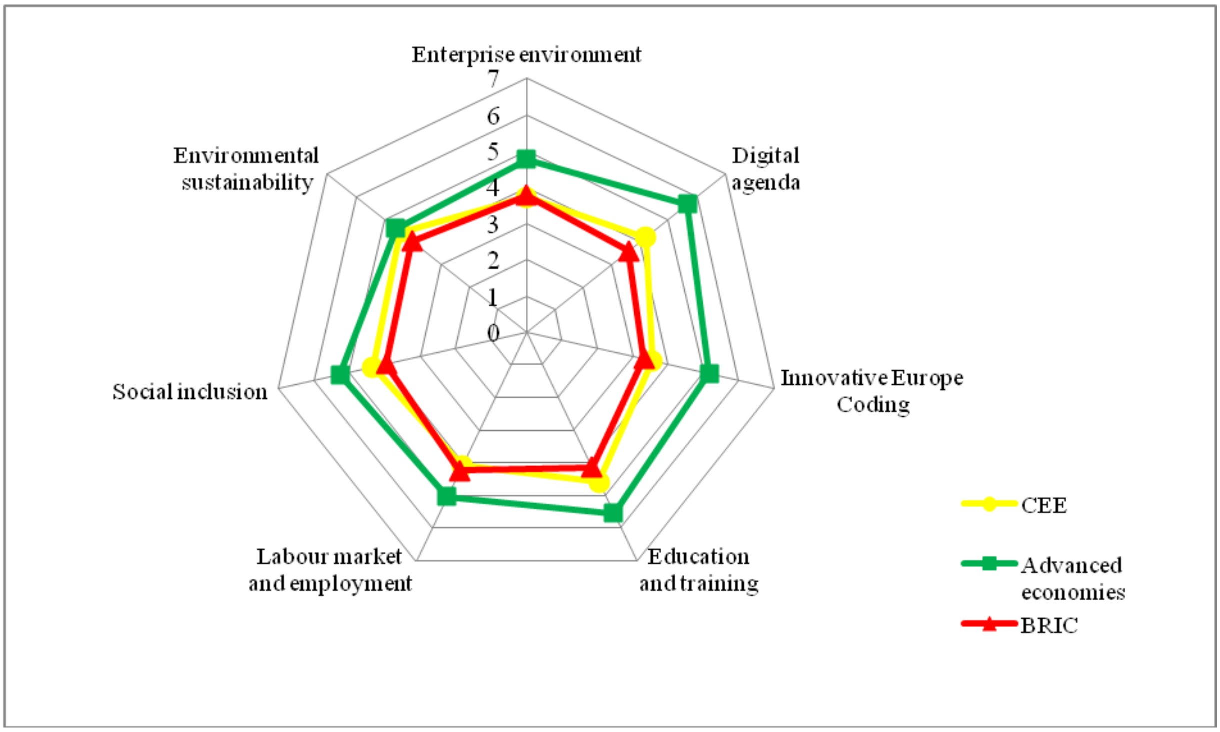
[33] Except Poland, which has by far the largest market in the region.

4 THE EFFORTS OF THE CEE COUNTRIES AIMED AT ENSURING SMART, INCLUSIVE AND SUSTAINABLE COMPETITIVENESS

Overall, according to the WEF's recent *The Europe 2020 Competitiveness Report* (World Economic Forum 2014a), the CEEs continue to underperform in comparison to Northern and North-Western European countries and other advanced economies in terms of laying the foundations for smart, inclusive and sustainable growth.

Figure 1 provides a more detailed analysis using the seven pillars of the Europe 2020 Competitiveness Index. It shows the comparative competitiveness profiles of the CEEs, eight advanced, and four BRIC economies.

Fig. 1: Performance of CEEs in Europe 2020 Competitiveness Report 2014 against comparator economies by pillar, (score 1–7)



Source: own compilation based on World Economic Forum 2014a

Note: Advanced economies: Canada, Hong Kong SAR, Japan, Korea Rep, Norway, United States, Singapore, Switzerland; BRIC economies: Brazil, China, India, Russian Federation.

As expected, with an average value of 4.01 on the smart growth sub-index[34], the CEEs are significantly outdistanced by the advanced countries in developing an economy based on knowledge and innovation that can help facilitate the transition to higher value added and more

[34] Smart growth sub-index covers four pillars: enterprise environment, digital agenda, innovative Europe Coding, education and training.

productive activities. The gap in terms of creating a knowledge-based economy is particularly wide in comparison to Singapore (5.58) and Switzerland (5.47) and is evident in all four pillars. CEEs, offering less favourable conditions for business development than other countries and driven by less competitive markets, have more regulatory obstacles and fewer funding opportunities aiding in establishing a company and support its growth. In addition, the CEEs fall behind other economies in promoting a digital agenda with integrated digital markets and higher levels of ICT. Similarly, the data indicates that the innovative capacity of CEEs is lower than that of the advanced economies. In addition, comparatively low patent application numbers not only indicate a low level of innovation, but also may be a reflection of the lack of knowledge and capacity of small and medium enterprises to efficiently deal with the process of filing patents. Given the critical role of intellectual property in attracting investment, protecting against competitors and distinguishing businesses from one another, policies and information-sharing to facilitate patent filing - particularly for young companies - could help close the gap. Moreover, the CEEs also show weaker links between academia and business, which hinders the translation of fundamental research into high-value-added products. More also needs to be done to improve the overall quality of the educational system, through leveraging education and training activities, to provide the skills needed to build and strengthen the knowledge-based economy.

The declining performance of CEEs on the overall inclusive growth sub-index as measured in 2014 can also be thought of as the consequences of the economic crisis[35]. The region registers an average value of 4.21 compared with 5.74 for Switzerland and 5.64 for Norway. Figure 1 points to the region’s labour market as the cause of its setback in laying the foundations for inclusive growth. The CEEs’ comparatively low score of 4.08 reflects difficulty to provide gainful employment and their labour markets are characterised by strong rigidity. Most worryingly, the CEEs are significantly outdistanced in terms of ensuring social cohesion, meaning the situation where the benefits of growth and jobs are widely shared, and people experiencing poverty and social exclusion are enabled to live in dignity and take an active part in society.

In terms of sustainable growth, the CEEs perform relatively well. They continue to fare better in promoting a more resource-efficient, greener and more competitive economy compared with the Republic of Korea, Hong Kong and USA. However, the region is trailing far behind

[35] Inclusive growth sub-index covers two pillars: labour market and employment, social inclusion.

Norway, Switzerland, Canada and Japan, suggesting that more can be done towards achieving a high-quality and well-managed natural environment.

Overall, the CEEs and the BRIC economies perform in a similar fashion, most notably in terms of enterprise environment, framework conditions and access to finance for research and innovation and labour markets' efficiency and flexibility. The biggest difference among the two groups appears in terms of the development of ICT and environmental sustainability, where the emerging BRIC economies still face a considerable gap.

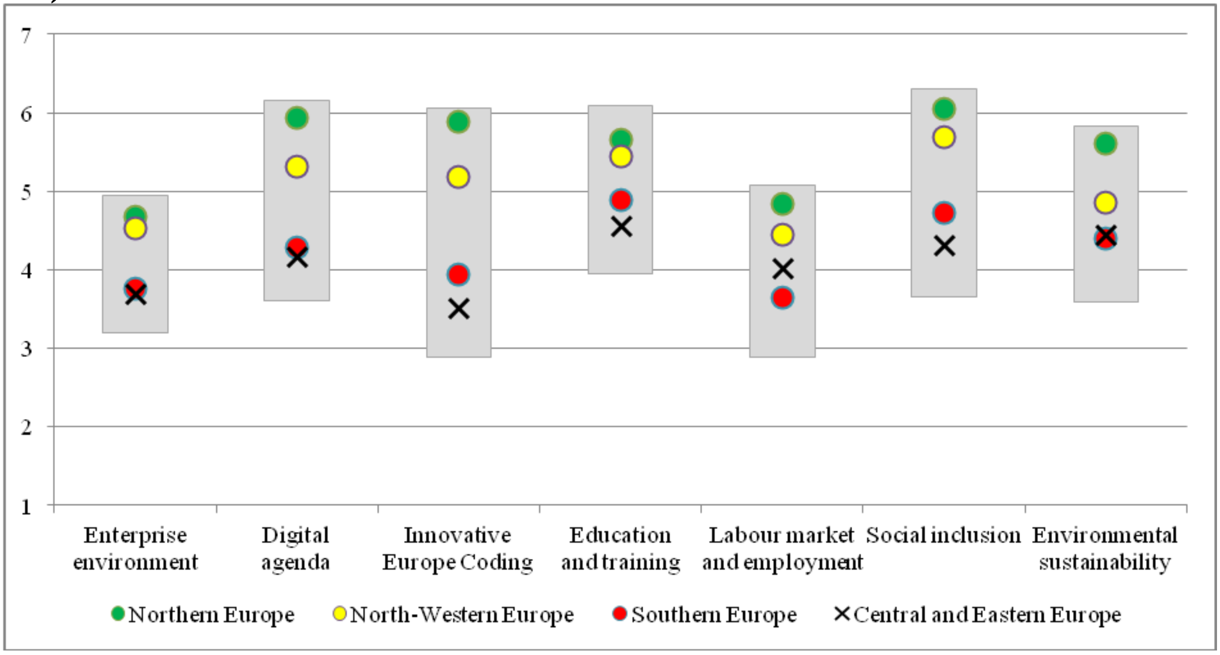
The comparison of the competitiveness levels among the EU member states reveals large differences in terms of innovation, ITC development and social inclusion. The differences are particularly evident in areas such as innovation, where the 'innovation gap' separates the best performers – headed by the Nordic countries – from the worst – the CEEs (Hungary, Latvia, the Slovak Rep., Bulgaria, Romania). Overall, Central and Eastern Europe is falling behind North-Western and Northern Europe in terms of innovation. The number of patent applications, for instance, is 16 times higher in the Nordic countries compared with the CEE, and the collaboration between the industry and academia aimed at facilitating the translation of research into marketable products is critically higher in the former. Similarly, Europe is divided digitally, with an extremely well-performing north, led by Finland, Sweden and the Netherlands, compared with a trailing centre and east. Here, the notable exception is Estonia, which compares well with countries such as Germany and France, and is well ahead of its fellow Baltic countries (Latvia and Lithuania).

The competitiveness gap also reflects a divide in building more inclusive societies at the national level. Countries with a long tradition in consensus-based decision-making do well, as do those economies with strong social safety nets such as Denmark and Belgium. This stands again in stark contrast to the less-inclusive societies in Europe's south-east and east, where the ranking ends with Poland, Romania and Bulgaria.

More also needs to be done in terms of training and educating the CEEs young demographic, since a highly skilled and educated workforce is the backbone for smart growth. Moreover, the quality of education and ability of the educational system to provide the necessary skills to find gainful employment is also crucial.

The dispersion in performance across the European countries is plotted in Figure 2 in the seven distinguished dimensions.

Fig. 2: Europe 2020 Competitiveness Index - score dispersion among EU regions, (Score 1–7)



Source: own compilation based on World Economic Forum 2014a

Note: The length of each bar is determined by the score of the best and worst performing EU member state.

5 CONCLUSIONS

Following their political and economic independence in 1989, ten Central and Eastern European countries have embarked on major institutional reforms facilitating their integration into the regional and global economy with significant effects and implications for their competitiveness levels. (Chadee, Kouznetsov & Roxas 2014, p. 1)

Although the CEE countries have made important steps toward addressing some of the challenges, a stronger commitment – in a few closely interconnected areas – is critical for boosting the region's competitiveness and helping bridge the competitiveness divide between the CEEs and the Northern and North-Western European countries as well as other well-developed economies.

The ability of CEE economies to shift towards more knowledge-intensive, higher-value-added activities depends as much on their capacity to generate new knowledge through better-performing innovation and educational systems, and the effective use of technologies, including ICT, as on the conditions for entrepreneurship facilitating or hindering the ability to bring this new knowledge into the market in a timely and effective manner. The CEEs should not neglect strengthening their innovation potential through efficient investments in research and development and innovation in a broader sense,- i.e. in education and training or other intangible assets, such as advanced management techniques. With continued efforts toward growth-enhancing reforms, there is every reason to believe that these countries will continue to improve their competitiveness in the coming years.

Furthermore, the changes aimed at increasing competitiveness and productivity of the CEEs require the combined support of government, business and civil society. Decisive measures are needed in order to raise the competitiveness levels in these countries and, as a result, support higher levels of productivity, employment and prosperity, today and in the future. The CEEs need to put the competitiveness agenda at the centre of their economic policies and attempt to influence the factors that determine their level of productivity and increase the prosperity of their citizens. It is clear from the large national disparities that paths towards a highly innovative, knowledge-driven region and priorities for improvement require differentiated strategies, taking into account the comparative and competitive advantages of individual countries. However, for all the CEE economies, investments in knowledge-generating assets will translate into important drivers for future productivity growth – those drivers being a common focus on education, information and communication technologies, the digital agenda and reforms to improve the overall enterprise environment across the region.

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International agreements concerning the abolition of the banking secrecy in OECD countries and their impact on the future of the financial sector and the global economy

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Abstract:
The start of the end of the banking secrecy within the EU countries may be dated in the year 2005. The EU-wide agreement on the exchange of the information about the interest payed from the capital of non-residents is established since then. An exception from this is a small group of countries, which instead of revealing the details about the bank account owners and about payable revenues from capital, was inclined more to burden the interest by the withholding tax. The recommendation for a complete abolition of banking secrecy in all OECD countries and also in some other countries was agreed at the International Conference *Berlin Tax Conference 2014* and it is titled *"Global Forum on Transparency and Exchange of Information for Tax Purposes"* from 28th of October 2014 and it involves in the exchange of information also the countries known as tax havens. The scientific contribution aims to analyze the causes and possible consequences of the global abolition of banking secrecy to the affected economies and their financial institutions.

Keywords:
Global Forum, Legislation, Tax, Tax Haven, Transparency.

JEL Classification codes:
G01, G15, G32, H21, H25, H26, K34

1 INTRODUCTION

Free movement of persons, goods and capital within the EU countries after the introduction of the common European currency, the euro, increased the tendency of owners of financial capital to avoid paying taxes on interests by allocation traditional financial assets of conservative investors abroad. The accelerator of unwanted capital allocation abroad was not only increasing the tax burden on those assets through withholding tax, but in some countries also the inclusion of financial capital in the basis for calculating property taxes. In many cases of cross-border capital investments we are talking about an undeclared and untaxed incomes from gray or black economy.

EU countries have begun to look for possibilities to avoid tax evasion and avoidance on the international level in recent years, which could lead to creation of the space for restructuralization of tax systems and fiscal consolidation. The fight against tax offenders in the international environment has a positive impact not only on reducing budget deficits of individual countries, but also acts as an instrument of justice. This allows to moderate the threats that the economic situation of the economies would require tax increases or social transfers cuts affecting wide layers of the population.

2 THE ERA OF BANKING SECRECY IS NEARING TO THE END

The Global Forum on transparency and exchange of information for tax purposes was founded in the year 2000 constituting a multilateral framework within OECD economies with the possibility of participation of other countries. The main achievement of the Global Forum is developing the standards of transparency and exchange of information through the publication of model contract for the exchange of information for tax purposes in 2002. (OECD Global Forum on Transparency and Exchange of Information for Tax Purposes 2014)

The publication of document laying down standards for maintaining accounting records enabling effective exchange of information, after the establishment of Directive 2003/48/EC on taxation of income from savings in the form of interest payments (*so-called Savings Directive*), is valid since 2005. The data relate to interest payments, but not to the principal of capital from which the interests were calculated. This means that the protection of banking secrecy still exists nowadays, because the total amount of principal owned by non-resident in specific country could be just estimated from the interests payed. Home tax authorities, in principle have no information about the real amount of interest-bearing funds. Therefore they cannot ensure that the fight against untaxed capital became the equivalent of transparent exchange of information between participating countries and fair competition in the field of taxation. The Directive 2003/48 /EC contains also a list of countries that are temporarily not supposed to notify the payment of interest income of non-residents to home countries of these taxpayers, but tax them directly by withholding tax. Withholding tax is represented from 1.7. 2011 by the rate of 35% percent, which is usually more than the level of conventional tax on capital income. Among the countries with fully preserved bank secrecy with the application of withholding tax is included for example Austria today in 2015. The Directive is after a decade of its validity in principle overcome because it did not relate to innovative forms of generating capital gains, where the bearer of the risk is investor. (Official Journal of the European Union 2003)

Many countries, including major financial centers like Switzerland, Singapore, Hong Kong and Luxembourg were preserving the banking secrecy in the year 2009. The period of bank secrecy is coming to an end because of the global pressure and bursting The Global financial and economic crisis all around the world. All jurisdictions of OECD member countries are going to be obligated to the automatic exchange of information. (Němec & Pravec 2014)

The OECD unveiled plans to combat gain control and tax avoidance by multinational companies in 2014. Those plans are forcing international companies to report their financial activities abroad, as well as to introduce new establishments of the contracts so that the governments have the opportunity to tax them at international level. The fact that companies will be obliged to report on sales, profits and taxes in each business in which they operate is another important milestone in the elimination of tax secrecy. The group G20 and OECD consider these steps as necessary in order to the tax legislation could keep up with changing multinational business models. (OECD 2014)

The last conference of the Global Forum on transparency and exchange of information for tax purposes took place in Berlin from 28th to 29th of October 2014. More than 300 delegates from 101 jurisdictions and 14 international organizations and regional groups meet up together and the event was classified as a historical landmark for the abolition of banking secrecy. The main outcome of the negotiations was to move the clarity and transparency of the tax law to a new level with these visions:

- The commitment to implement new standards for automatic exchange of information (AEOI) in 2017, at the latest by the end of 2018 by majority of the members of the Global Forum.
- Review of the mandate, which will include the requirements to gather necessary information on the ownership and certainty that the standard exchange of information on request will continue to reflect the evolution of a dynamic environment, and these changes will be valid from 2016.
- Greater support for developing countries by facilitating their participation in the program of automatic exchange of information. (Tax Summit in Berlin 2014)

German Minister for Finance W. Schäuble expressed certitude that banking secrecy in its old form is now obsolete. The most important point is that people can transfer their money anywhere in the world by simply clicking on the Internet. The OECD estimates that most tax-free money is in offshore centers, which tax evasion is a serious problem for jurisdictions worldwide. In the past, tax havens and countries such as Switzerland used the law on banking secrecy in order to refuse revelation of offshore bank accounts held by foreigners and liable to national tax authorities. The Swiss legislation has changed a few years ago. Tax evasion is no longer considered to be just "impalpable chivalrous misdemeanor" and Switzerland has also concluded bilateral agreements establishing the release of capital itself and not only the interests generated by this capital. (EU Business 2014)

The international offensive leading to the end of banking secrecy is particularly widespread in recent years, mostly following the adoption of similar legislation in the US (FATCA). This law obliges foreign banks to report offshore transactions of American clients, which are greater than 50 000 USD. Worldwide effort to combat tax evasion and to end banking secrecy is bringing positive results. More than half a million taxpayers voluntarily admitted more than 37 billion USD in revenues and wealth hidden from their own tax authorities under the voluntary disclosure program over the last two years. (Internal Revenue Service 2010)

The willingness of Switzerland to join and withdraw from banking secrecy can be considered as a sign of progress. Swiss Ambassador for Multilateral Tax Questions F. Filliez declared positive approach to support the automatic exchange of information and he expects the system to be put into operation in the year 2018.

The EU countries, initially faithful supporters of banking secrecy as Liechtenstein and also the tax havens such as the Cayman and Virgin Islands were among the signatories. (Ihering 2014)

Although the agreement signed in Berlin is an important first step, it is not definitive end of banking secrecy. *Tax Justice Network* has identified the group of potential shortcomings in the OECD agreement. In order to obtain the base for information exchange in 2017, banks will collect data from 2016 and only from accounts of 250 000 EUR and more. Time delay between ratification of the system and its entry into force is sufficient for the account owners to divide their property and place it in smaller amounts to several accounts in order to avoid suspicion of tax authorities. Countries will have an opportunity to decide on a case by case basis which information will be automatically exchanged. For example, Switzerland indicated that it will transmit information only to countries that are important for the Swiss industry. This step will cause that the wealthy citizens of poor countries won´t come under control. The tax payers can also hide behind so-called "Smoke-screen" of the companies and foundations, when in some cases, banks are not obliged to reveal the identity of the account holder. (EU Business 2014)

Automatic Exchange of Information

The impacts of the international financial crisis led to the fact that in 2009, the G20 Leaders agreed on the progressive implementation of strict arrangements to promote transparency for tax purposes and they declared the end of banking secrecy. (Němec & Pravec 2014)

Since 2012 the political attention is increasingly focused on the opportunities offered by the automatic exchange of information for tax purposes. OECD meeting of Ministers for Finance in July 2012 in Los Cabos, Mexico, has resulted in a report with up to date information about the status of negotiations, challenges and opportunities in the field of automatic exchange of information (hereinafter AEOI). In July 2013 the OECD Ministers for Finance and Central Bank Governors agreed to support the OECD proposal to create a global model of AEOI, which was also supported on the St Petersburg Summit in September 2013. (OECD Secretary General Report to G20 Leaders 2014)

The Global Forum has approved new standards of AEOI, in which a total of 89 member jurisdictions committed to the introduction of a reciprocal exchange of information about financial accounts on automatic basis, the first of the above mentioned information exchange should be introduced in 2017 or the latest in 2018, with certain exceptions for some countries. In addition to information about account balances countries will also share relevant information on interest, dividends or fulfillment of some types of insurance. This will involve individuals but also legal entities such as trusts and foundations, in case that behind them are individuals. The whole effort is the result of the escalating fight against tax havens and tax avoidance through intricate corporate structures and anonymous accounts in offshore destinations. (Standard for Automatic Exchange of Financial Account Information in Tax Matters 2014).

These are characterized by reluctance to provide information about the real beneficiaries of capital and income in the form of interest, dividends, or capital income. According to the authors, the institutionalization and harmonization of procedures leading to the abolition of bank secrecy has two positive dimension. The first is the induction of the concerns of owners of capital, which is not avouched by the residents of the home countries of the detection and prosecution of tax offenders who are hiding financial assets abroad. In parallel with the detection of bank secrecy in several countries (Italy, Austria, Germany) the criminal amnesty of persons who voluntarily avouch financial assets abroad with the condition to the additional tax pay is ongoing. The second dimension is to obtain information on secret accounts, property and financial assets of individual foreign entities whose owners have avoided the property tax or taxation of capital income so far. In such cases, it is in principle therefore impossible to accept the mitigating circumstances of tax offenders in the form of effective regret. This means that owners of foreign hidden capital assets are waiting to strong tax penalties and fines, arrears combined with a prison sentence.

How does AEOI Standard work

Each jurisdiction has the right to obtain financial information in accordance with CRS (Common Reporting Standard) and automatically share these information with other jurisdictions on the basis of CAA (Competent Authority Agreement) Model.

As a prevention for circumvention of the Standard by taxpayers all the information will be collected by the financial institutions on the basis of common reports under the rules of customer care. This covers everything relevant:

1. Financial information, including all types of income from capital assets (including interests, dividends, revenues from certain insurance contracts and other similar types of income), but also accounts balances and profits from the sale of financial assets.

2. Financial institutions which are not limited to banks and depositories but also other relevant financial institutions such as brokerage agencies, collective investment institutions and insurance companies.

3. The accounts, including accounts of individuals and entities (including trusts and foundations) behind which are individuals. (Meeting of the OECD Council at Ministerial Level 2014)

Implementation of the AEOI Standard

The AEOI System will become fully operational in 2017, with except for some countries to complete the necessary legislative procedures to the year 2018.

To make the system efficient and to meet the AEOI Standard, all the jurisdictions will have to undertake appropriate steps in the modification of the national law. The implementation process will continue and the OECD and G20 commited to the progressive elimination of all the problems and prevention of unnecessary costs formation for businesses. (Automatic Exchange of Information, What i tis, How it works, Benefits, What remains to be done 2014)

The advancement to greater transparency and better exchange of information can present a tangible impact on the behavior of taxpayers, even before the AEOI Standard has entered into force. More than half a million taxpayers in nine countries declared a positive approach to voluntary disclosure of information, detection of revenues and wealth hidden in tax havens. Twenty-five countries have identified additional revenues of 37 billion EUR and other initiatives aimed at offshore tax evasion.

Taxation plays a central role in the support of sustainable development and developing countries face significant challenges in the development of their own fiscal capacities and mobilization of their domestic resources. The involvement of developing countries into the international tax agenda, including Base Erosion and Profit Shifting (BEPS) and the AEOI is therefore necessary, especially by providing adequate support to solve specific implementation challenges in those countries. The Development Working Groups (DWG) have been created to help developing countries improve their tax legislation and processes. (Communiqué Meeting of G20 Finance Ministers and Central Bank Governors 2014)

Banking secrecy persists

The Group G20 agreed on an action plan to solve the problem of BEPS in St. Petersburg in September 2013. BEPS relates to tax planning that use loopholes in the interactions of different tax systems and leads to an artificial reduction in taxable revenues, or it leads to transferring profits to the countries with lower taxes, in which these entrepreneurs exhibit no or just little economic activity.

The first outputs of BEPS System have been approved on the G20 Ministers for Finance meeting in Cairns 21 September 2014. The two-year project BEPS is aimed at reforming key international tax rules with minimalization of the possibility of double non-taxation, while reducing double taxation.

The first 7 outputs of the BEPS Action Plan are showing a strong effort towards the reform of international tax rules.

Outcomes in 2014:

Action 1: Report on tax challenges raised by the digital economy and necessary actions to address them.

Action 2: Report on domestic and tax treaty measures to neutralise the effects of hybrid mismatch arrangements.

Action 5: Interim progress report on review of member country regimes in order to counter harmful tax practices more effectively.

Action 6: Report on treaty abuse containing the principle of a minimum standard against treaty shopping and model treaty provisions to counter such abuses.

Action 8: Report on the transfer pricing aspects of intangibles, containing a new chapter to be included in the OECD Transfer Pricing Guidelines.

Action 13: Report containing revised standards for transfer pricing documentation and a template for country-by-country reporting of income, earnings, taxes paid and certain measures of economic activity.

Action 15: Report on the feasibility of developing a multilateral instrument to implement the measures developed in the course of the work on BEPS. (OECD 2014)

Within the space of EEA, especially countries from Eurozone, may use the benefits of SEPA (Single Euro Payments Area) and may work with financial instruments irrespective of the domicile of the taxpayer. A prerequisite of interest to use the cross-border capital allocation is the security of a financial institution and a system of identical deposit protection as in the home country. All of this should be used as a tool to prevent the crisis situation and the unavailability of deposits. (Jamborová 2012)

Most of the problems leading to the current crisis are fundamental, with the assumption of no or small changes. This will lead to further problems again. In the stage of advanced globalization, there exists the need to find suitable ways of creating a new financial architecture with the appropriate regulatory measures. However, the problem remains. While the control rules largely take into account the causes and consequences of the current crisis, there is still no significant transnational authority as financial supervision authority upon the financial institutions. Certain elements can be observed in the process of creation the European banking union in a context with the future fiscal union, but still only at the regional level.

E. M. Jamborová (2013) indicates that the role of international standards is to try to minimize the risk of negative externalities which are comming from worse regulation of the jurisdictions abroad. But domestic politicization of financial regulation as the impact of the crisis has complicated efforts to reach an international consensus among legislators, leaders and a wide range of domestic social groups involved in discussions on international regulation. These risks have to be considered by capital holders especially when the capital is allocated abroad and first of all in cases when inaccessible deposits in one country would be paid in local currency in the country where the specific finance company has its headquarters. (Jamborová 2013)

3 CONCLUSION

Taxation of interests by withholding tax of 35 percent on the basis of the so-called *Savings Directive* refer only to a small part of the European Economic Area (EEA), because most states in this matter prefers sharing of information between countries that prevent the majority of beneficiaries, especially individuals, to avoid paying taxes on them. In connection with the transposition of legislation in the field of AEOI, the EEA countries agreed to implementation of the new Council Directive 2011/16/EU, but with a wider range of data exchanged. These include also other revenues from capital, not only interests, when the revenues are paid, held or secured by a financial institution as a benefit for the final owner of capital who is a natural person. These include: dividends, gains from the disposal of capital, but also most of the benefits paid from the performance of life insurance companies as well as the account balances and so on. Behind the abolition of banking secrecy can be primarily seen the obligation to notify the principal amount or the nominal value of interest-bearing securities under which the owner of the savings achieved capital profit. *Savings Directive*, mentioned above, will be canceled after the introduction of an extended version of the AEOI on the international platform. (Tax Insights from Global Information Reporting 2014)

According to the authors, the extension of the AEOI at the international level helps mainly to reduce the scope of the gray economy, which covers legal, but undeclared income located in specific EEA countries, where it is possible to achieve higher interest income than in the country of origin of the capital. Other part of the capital owners can prefer lower yields when those are achieved in the country and financial institution with a high rating without the threat that there could be repeated so-called "Icelandic scenario". "Icelandic scenario" is based on the fact that banks in Iceland attracted especially German, Austrian and Dutch savers to deposit their money to Icelandic banks in the euro currency with high interest rates. Those banks had to terminate their activity in the year 2008 because of high losses and low liquidity. The great part of the abroad holders of savings, who opened their accounts within Internet banking has not received inaccessible deposits so far, although they were protected by up to 100 000 EUR per person. (Tax Justice Network 2014)

The liberalization of the movement of persons within the EU requires flexibility not only in the taxation of income of non-resident taxpayers, but also in the taxation of capital income. The main problem of cross-border capital gains, which are not taxed by withholding tax, but should be taxed by filing a tax declaration is in Slovakia cumulated with the obligation to pay health insurance contributions, in cases where these are specified in the tax declaration of the individual. Health insurance contributions of such revenues are not gathered abroad.

Country, which is losing the biggest amount of capital because of the progressive harmonization of information exchange is Switzerland, where the amount of black money belonging to the anonymous owners declined since 2008 from CHF 800 billion to CHF 200 billion. (200 Milliarden Franken Schwarzgeld in der Schweiz 2014)

These trends due to the planned abolition of bank secrecy and involvement of the country into the AEOI are still continuing, with regard to the extreme reduction of interest income and possibly negative interest income on certain bonds with shorter maturities.

The introduction of extended AEOI on capital income generated by non-residents in association with the announcement of the abolition of banking secrecy raises every bank´s concerns of high implementation costs and of misuse of sensitive data about the amount of capital of the individual taxpayers. Therefore, the planned changes can be considered very ambitious with yet unexplored implications for the parties concerned.

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The effect of HRM competences on organizational success in the local subsidiaries of MNCs in CEE countries

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Abstract: By the beginning of 2010s foreign direct investments and multinational companies have arrived to Central and Eastern Europe (CEE), where they have become one of the most important drivers of the recognition of the modern HRM concept and of the implementation of the relevant HRM practices. To be a successful strategic partner of their organizations HRM managers nowadays have to possess various professional and personal competences. The aim of this paper is to present the main competences of the HRM managers and the level of the companies' outcomes in the CEE region. The relationship among main HRM competences and companies' outcomes in Hungary, Poland, Romania, Serbia and Slovakia will be analysed based on CEEIRT research from 2012-2013. The research hypothesis is that there is a statistically significant relationship among the competences of HRM managers and the performances of the MNCs' local subsidiaries in the CEE region. The analysed HR competences are: business knowledge, strategic contribution, personal credibility, HR services, HR information system and foreign language competences. The research focused on the following organizational outcomes: profitability, service quality, rate of innovations and environmental matters. The findings prove the hypothesis and show that there are statistically significant correlations among HR competences and environmental matters, rate of innovation, service quality and profitability. Beside the methodological limitations of CEEIRT research concerning the representativeness of the obtained data, the paper gives valuable insight on the HRM competences and its effect on the organizational performances at the local subsidiaries of MNCs in the CEE region.

Keywords: HRM, HRM competences, multinational enterprises, Central and Eastern Europe.

JEL Classification codes: F23, M12, J24, L21.

1 INTRODUCTION

It is widely believed that the conventional sources of competitiveness (including protected markets, technology, access to financial resources, and economies of scale) are insufficient for maintaining a competitive advantage in modern-day competitive markets (Brewster, Maryhofer, & Morley 2004, Ulrich et al. 2009).

Human resource management (HRM) is one of the most important management functions. It incorporates several interrelated activities concerning the productive use of employees: job design, job analysis, HR planning, staffing, training and development, compensation and benefits, industrial relation, and retention. It has a great impact on the effectiveness and efficiency of contemporary organizations, and it is usually in the function of competitive advantage (Campbell et al. 2012, Berber 2011, Wright & McMahan 2011).

Many themes inside the HRM theory and practice direct researches all over the world in different, specific areas. They are usually related to the international human resource management (IHRM), where comparative HRM is one of the basic elements. Comparative HRM considers the debate on convergence vs. divergence, explored bycomparative analyses between different regions and countries all around the world. Besides this comparative approach, IHRM deals with the exploration of the influence of large MNCs and their business practices on local subsidiaries in other countries. The influence is usually understood in terms of standardization vs. localization of business practices and these trends can be explained through the exploration ofthe importance and key indicators of HR function in subsidiaries, the role of headquarter and local HR department, the HR managers' competences, knowledge management in HRM, etc. Factors that are inevitably important for the success of the MNCs' subsidiaries are the HR competences of people who are working in the subsidiaries. Those are related to the business knowledge, personal authority, strategic and market orientation, etc.

Bearing in mind all above mentioned, authors proposed the aim of the research in terms of the exploration of the main competences of the HRM managers and the level of the outcomes of MNCs' subsidiaries in the CEE region. The relationship among main HRM competences and companies' outcomes in Hungary, Poland, Romania, Serbia and Slovakia are analysed on the bases of CEEIRT research from 2012-2013. The research focused on the following subjects of the research, organizational outcomes: profitability, service quality, rate of innovations and environmental matters, and several HR competences such as: business knowledge, strategic contribution, personal credibility, HR services, HR information system and foreign language competences.

2 LITERATURE REVIEW

Comparative human resource management, one of basic elements of international human resource management focuses on the differences and similarities of the HRM practices of different countries. The divergences may be the result of the companies' different internal and external environment worldwide. On the other side, due to globalization and intensified presence of multinational companies and their standardized HRM practice, there are signs of convergence, too. Convergence vs. divergence is one of the key issues in the literature of comparative HRM. According to the convergence approach and universalist paradigm the US model of managing human resources is the prime focus. On the other side, according to the divergence approach and contextual paradigm HRM practices depend on the context. Mayrhofer, Sparrow and Brewster (2012) distinguish elements of internal and external context influencing HRM activities. The elements of external context are dimensions of national culture, institutional environment, economic factors, social characteristics, education and political systems, while the internal context consists of company's size, structure, demography and strategy.

European HRM management differs from the human resource management in the US in many aspects. Brewster et al. (2004) introduced a European SHRM model, and argued that due to the more rigid institutional context in Europe, firms do not have the same amount of managerial autonomy as their U.S./American colleagues to design HRM. Based on a longitudinal study conducted in 18 European countries Nikandrou, Apospori and Papalexandris (2005) emphasize that European HRM is characterized by internal variations among clusters of countries and at the same time by external uniformity compared to the rest of the world. Europe offers a mix of hetero- and homogeneity leading to a unique context for organizational decision makers about HRM matters.

Central and Eastern Europe (CEE) due to the special environmental and institutional factors (personnel management in the past socialist regime, robust changes in the environment (privatization, high unemployment, new legislation) differ from the HRM in Western Europe. Based on the Cranet research data Kazlauskaite et al. (2013) stated that CEE countries are heterogeneous in their HRM patterns and the region should not be taken as a uniform management model based only on their socialist heritage and transitional processes.

Multinational enterprises are often seen as being carriers of globalization, spreading managerial knowledge and techniques internationally through the dissemination of 'best practice'" (Festing 2012). Kirca et al. (2011) claim that multinationality provides the most efficient governance structure for transferring the valuable, rare, inimitable, nonsubstitutable resources of a company (technological know-how, management and marketing skills) across country borders within a firm and these transfers to have positive impacts on firm profitability. Ferner, Edwards and Tempel (2011) MNCs emphasize that MNCs are complex organizations, marked by the dispersion of power among groups, functions and operating units. The subsidiaries of MNCs operate under conditions of 'institutional duality', facing both the institutional terrain of the international firm itself and that of the host environment in which they operate. These institutional spheres exert rival isomorphic pressures that come to the fore when practices are transferred from the parent to host operations. Crucially, MNCs may use power to shape macro-level institutions, affecting the processes whereby they are established, maintained over time, revised in function or scope, or replaced by other arrangements. Erdős (2003) considers that foreign companies with high capital value have an important influence on the smaller countries' growth potential, while Stiglitz (2003) calls attention to their disadvantages, highlighting that these big companies often negatively impact the operations of small local companies.

There are two main categories of foreign investments: direct investments and portfolio investments. By foreign direct investments (FDI) the investor secures direct control over assets and operation of a company in another country. Poór et al. (2012) point out that the characteristics of the local market, economic and institutional environment and the national culture might demand – to varying degrees – the adaptation of company's strategy and its management practice to local circumstances. Portfolio investment means that the investors purchase different financial assets and shares, but this approach often results in a passive influence on the operations of the purchased company. In most cases multinational companies got into the region by foreign direct investments.

Today, successful organisations need to address their human resources much more in order to achieve their goals and to acquire a competitive advantage in a turbulent environment (Zareei, Zamani and Tanaomi, 2014, p. 4). Jiang et al. (2012) recall that researchers in strategic HRM have categorized organizational outcomes into three primary groups related to HRM. HR outcomes refer to those most directly related to HRM in an organization, such as employee skills and abilities, employee attitudes,behaviours, and turnover. Operational outcomes are those related to the goals of an organizational operation, including productivity, product quality, quality of service, and innovation. Financial outcomes reflect the fulfilment of the economic goals of organizations. Typical financial outcomes include sales growth, return on invested capital, and return on assets. HR practices are falling into one of three primary dimensions: skill-enhancing HR practices (comprehensive recruitment, rigorous selection, and extensive training), motivation-enhancing HR practices (performance management, competitive compensation, incentives and rewards, extensive benefits, promotion and career development, and job security) and opportunity-enhancing HR practices (flexible job design, work teams, employee involvement). The meta-analysis proved that there is a direct relationship between skill-enhancing HR practices and motivation-enhancing HR practices and financial outcomes, i.e. HRM can improve organizational effectives.

Generally in the CEE region MNC subsidiaries have the most developed HRM practice and HR managers often have business partner role there. To be a successful strategic partner of their organizations HRM managers nowadays have to possess various professional and personal competences. Competency refers to the knowledge, skills, capabilities or personal characteristics of an individual that directly affect his job performance (Brockbank and Ulrich, 2003). For HRM practitioners and researchers it would be important to know more about the impact of MNC to the HRM practice in the CEE region and to identify the main HRM competences and their impact on the company's outcomes.

Ulrich, Brockbank, Yeung and Lake (1995) note that HRM competences fall into three domains: knowledge of business, HRM functional expertise and management of change. According to Long, Wan Ismail and Amin (2013) there are several vital competencies include business knowledge, culture management, effective relationship and human resource development skills. Similar, but more detailed, list of HR competencies gave Zareei, Zamani and Tanaomi (2014) who emphasized strategic management, business knowledge, management of talent, employee relation, quality of work-family life, and information technology. Other authors (Brockbank, Ulrich, Younger, and Ulrich, 2012) proposed next most important HR competencies for HR managers in contemporary turbulent environment. Those are:credible activist, strategic positioner, capability builder, change champion, HR innovator and integrator, and technology proponent.One very interesting research was performed in Slovenia, a CEE country, where Kohont and Brewster (2014) found that the "complexity of HR managers' roles, and expectations of their competencies, increases with an increasing level of internationalization of companies. Orientation to people and conflict resolution are seen as elementary competencies needed in all stages of internationalization. The key competence is seen to be strategic thinking that, according to CEOs and expatriates, goes hand in hand with cultural sensitivity, openness to change and a comprehensive understanding of the international environment and business processes". Šparl et al. (2013) analysed the influence of managerial competencies on the business success in Austrian and Slovenian firms. They found that in growing and motivating environment, even in times of crisis, strategic competency management focusing on leadership competencies will help to improve corporate performance. These results are found for the sample of Austrian firms, but not for Slovenian.

Since there is a lack of evidence on identifying new patterns of MNC involvement in the Central and Eastern European region and on the impact of the key competences of HR mangers to these organizational performances in the HRM literature, the data of the CEEIRT research on these topics may be valuable on for MNC leaders, HR managers and researchers, as well, especially in the CEE region.

3 METHODOLOGY OF THE RESEARCH

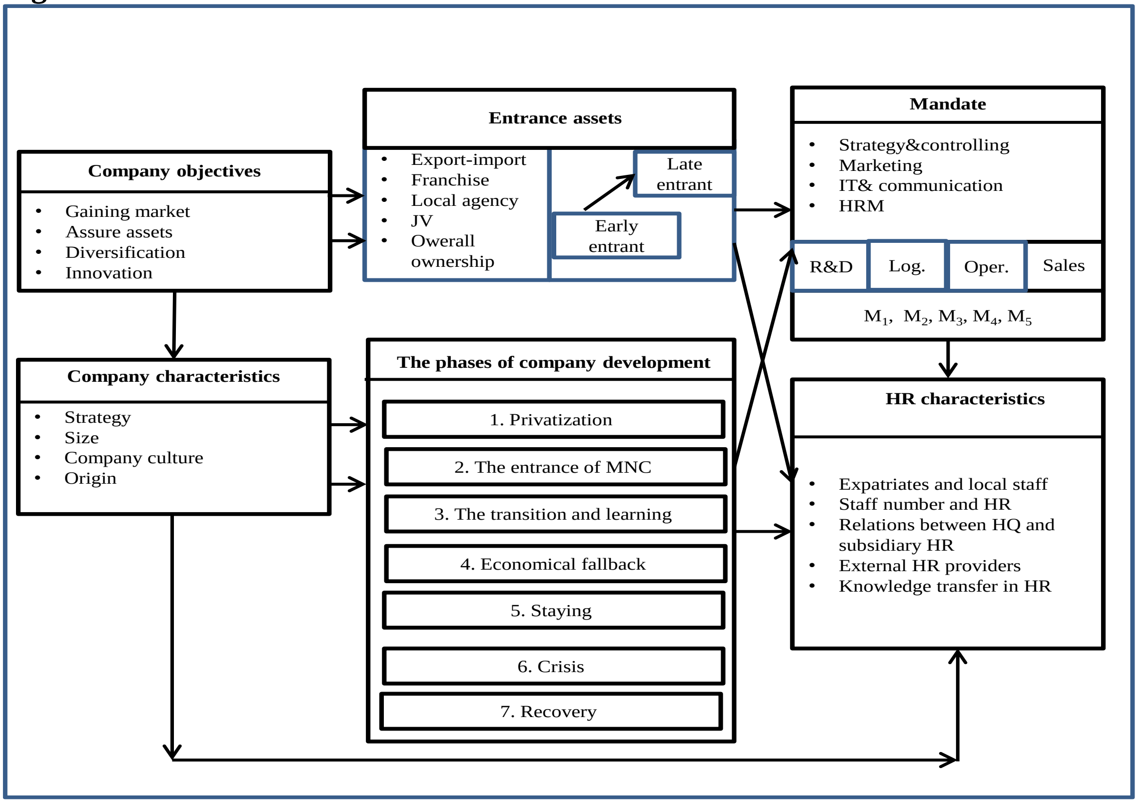
3.1 Methodology

The aim of this paper is to present the main competences of the HRM managers and their impact on the companies' outcomes in the CEE region. The relationship among main HRM competences and companies' outcomes in Hungary, Poland, Romania, Serbia and Slovakia will be analysed based on CEEIRT research from 2012-2013. The research hypothesis is that there is a statistically significant relationship among the competences of HRM managers and the performances of the MNCs' local subsidiaries in the CEE region. The analyzed HR competences are: business knowledge, strategic contribution, personal credibility, HR services, HR information system and foreign language competences. The research focused on the following organizational outcomes: profitability, service quality, rate of innovations and environmental matters.

The of international CEEIRT[36] (Central and Eastern European International Research Team) research model has developed over the past few years (Poór & Farkas 2012) and now we take into consideration additional internal factors (company characteristics, phases in company development, mandates, etc.).

[36] http://www.ceeirt-hrm.eu/

Fig. 1: Research model



Source: Based on authors' own research

To obtain data on the MNC subsidiaries' HRM practice in the CEE region standardized questionnaires (translated to the official languages of examined countries) were used. The questionnaire covered the following nine areas:

- The importance and key indicators of HR function;
- The role of headquarter and local HR department;
- The HR managers' competences;
- The utilization of expatriates (foreign and local);
- The use of external HR service providers;
- Knowledge management in HR;
- Predicting future trends and critical issues for HR executives;
- The interviewees' data;
- The companies' organizational data.

The on-line questionnaire was filled out by the person responsible for HR practice in each MNC subsidiary (HR director, HR expert, CEO, etc). The data analysis was done by SPPS Version 21, using descriptive statistics and Spearman's Correlation Test.

3.2 Sample overview

The current analysis was made on the sample of five CEE countries: Hungary, Slovakia, Serbia, Poland and Romania. The total number of organizations included into the analysis is 245. From the data in Table 1 it is evident that the main part of the sample makes Hungarian organizations, 46.5%, while Serbian organizations make the smallest part of the sample (7.5%).

Tab.1: Sample of countries participating in the CEEIRT survey 2012/2013

Country	Frequency	Percent
Hungary	118	46,5
Poland	53	20,9
Romania	34	13,4
Serbia	19	7,5
Slovakia	30	11,8
Total	**254**	**100,0**

Source: Authors' analysis based on CEEIRT data

The second table shows the respondent organizations' distribution by their main business area.

Tab. 2: Respondents' distribution by their main business area

Main business area	Frequency	Percent
Industry	116	45,7
Trade	42	16,5
Financial services	33	13,0
Other services	48	18,9
Internal business service	9	3,5
Other	6	2,4
Total	**254**	**100,0**

Source: Authors' analysis based on CEEIRT data

Regarding the main business area or sector of business, the majority of the sample is made of organizations from industry and production (45.7%), then from business services (19%), trade (16.5%) and financial services (13%).

The third table presents the sample distribution by the year of subsidiary establishment.

Tab.3: Respondents' distribution by the year of subsidiary establishment

Year of subsidiary establishment	Frequency	Percent
Before 1995	71	28,0
1995-2000	67	26,4
2001-2005	59	23,2
2006-2010	48	18,9
After 2010	7	2,8
Total	252	99,2
Missing	2	,8
Total	**254**	**100,0**

Source: Authors' analysis based on CEEIRT data

Most of the MNC subsidiaries participated in this research were founded before 1995 (28%), then in the period between 1995 and 2000 (26.4%) and then in the period until 2005 (23%). About 21% of analyzed subsidiaries were established after 2006.

Data in Table 4 point out the respondents' distribution by the form of the establishment of MNC subsidiary.

Tab. 4: Respondents' distribution by the form of subsidiary' establishment

Form of establishment of subsidiary	**Frequency**	**Percent**
Merger & Acquisition	127	50,0
Green-field investment	124	48,8
Total	251	98,8
Missing	3	1,2
Total	**254**	**100,0**

Source: Authors' analysis based on CEEIRT data

It is also interesting to explore the way of subsidiaries' establishment. According to CEEIRT data 50% of subsidiaries were established by mergers or acquisitions, while 49% of them were founded trough green-field investments (new organization and investment).

Since the economic recession started in 2008 has affected the most of European economies, the research obtained a question on how the subsidiaries faced these challenges. Table 5 shows the key business strategies of respondent MNC subsidiaries' in 2012-2013.

Tab. 5: Respondents' distribution by the key business strategies of subsidiary

Business strategies	**Frequency**	**Percent**
Growth, market expansion	149	58,7
Stability	93	36,6
Cut-back, outsourcing	8	3,1
Other	2	,8
Total	252	99,2
Missing	2	,8
Total	**254**	**100,0**

Source: Authors' analysis based on CEEIRT data

Nevertheless the threats from the external the business environment 59% of analyzed organizations used the strategy of expansion; aiming growth and market expansion. Stability, as a business strategy alternative was used by 36.6% of subsidiaries, while only 3% of them reacted to the economic crisis by downsizing their activities, using cut-back strategies and outsourcing.

4 RESULTS AND DISCUSSION

In the line with the research's aim – to analyze the relation between HRM competences and organizations' business results Table 6 presents the level of the business performances in the analyzed subsidiaries. Respondents were asked to indicate the level of their business results in 2012-2013 regarding profitability, service quality, innovation rate and environmental performances on the scale from 1 (poor) to 5 (superior).

Tab. 6: The level of business performances business in MNCs' subsidiaries in CEE (N=254)

Country		Profitability	Service quality	Rate of innovation	Environmental matters
Total	**Mean**	**3,55**	**4,06**	**3,71**	**3,70**
	SD	*,909*	*,745*	*,919*	*,957*

Source: Authors' analysis based on CEEIRT data

According to the data from the table, it is obvious that MNCs' subsidiaries in the CEE region have experienced business success, as on the average all performance measures are above 3.00 (indicating as the level which is on the average equal to their competitors' performances).The MNCs best performances were determined regarding their service quality (4,06) and rate of innovations (3,71), their performances regarding environmental matters (3,70) and then profitability (3,55).

On the other hand, as the second important variable in the research, human resource competences were explored trough the measurement of the importance of various HR competences for business success. Respondents were asked to indicate the importance of different HR competences from 1 (not important) to 4 (highly important). The obtained data are presented in Table 7.

Tab. 7: The level of importance of HR competences in MNCs' subsidiaries in CEE (N=254)

Country		Business knowledge (value chain, value creation)	Strategic contribution (managing culture, championing changes, strategic decisions)	Personal credibility (achieving results, effective relationships, communication skills)	HR services (staffing, T&D, PM, etc.)	Usage of HRIS	Foreign languages skills
Total	**Mean**	**2,88**	**2,91**	**3,30**	**3,06**	**2,67**	**3,13**
	SD	*,906*	*,914*	*,725*	*,884*	*,916*	*,842*

Source: Authors' analysis based on CEEIRT data

From the data in the table above it is evident that MNC subsidiaries in the analyzed CEE countries emphasized personal credibility as the most important competence (M=3.30, SD=0.725). Personal credibility obtains several characteristics such as effective relationships and very good communication skills, with achievement of results and organizational goals. The second most important HR competence was the knowledge of foreign language (M=3.13, SD=0.842). This was expected to be important competence, because of the nature of the business of MNCs. Large organizations usually do their business in different countries of the world, where it is important to balance between parent country, home country and even third country workers and their cultures, where the language is one of the most important elements for performing business. The third most important HR competence was professionalism in HRM activities (M=3.06, SD=0.884) like recruitment and selection of employees, training and development, compensation, performance management. The usage of the human resource information system (HRIS) was rated as the less important HR competence (M=2.67, SD=0.916) to the organizations' success.

The last and the most interesting part of the analysis was dedicated to the exploration of the relationship between HR competences and business performances. According to the data in Table 8 there are statistically significant correlations between analyzed HR competences and business performances in the CEE region.

Tab. 8: Spearman's Correlation Test (N=254)

		Business knowledge	**Strategic contribution**	**Personal credibility**	**HR services**	**Usage of HRIS**	**Foreign lang. skills**
Profitability	Spearman's rho	**,140***	,111	,111	**,172****	,099	**,153***
	Sig. (2-ailed)	*,030*	*,085*	*,084*	*,007*	*,125*	*,017*
Service quality	Spearman's rho	**,203****	,124	**,255****	**,163***	,112	**,186****
	Sig. (2-ailed)	*,001*	*,053*	*,000*	*,011*	*,082*	*,003*
Rate of innovation	Spearman's rho	**,243****	**,177****	**,236****	,049	,101	**,199****
	Sig. (2-ailed)	*,000*	*,006*	*,000*	*,444*	*,119*	*,002*
Environmental matters	Spearman's rho	**,269****	**,329****	**,275****	**,197****	**,165***	**,246****
	Sig. (2-ailed)	*,000*	*,000*	*,000*	*,002*	*,011*	*,000*

Source: Authors' analysis based on CEEIRT data

In the case of profitability as one of the most important performance measures, there are positive statistically significant correlations with the following HRM competences: business knowledge (Spearman's rho=0.140, p=0.03), personal credibility (Spearman's rho=0.172, p=0.007), and foreign language skills (Spearman's rho=0.153, p=0.017). Regarding service quality as a performance measure it has statistically significant relations with following HRM competences: (Spearman's rho=0.203, p=0.001), personal credibility (Spearman's rho=0.255, p=0.000), several HR services (Spearman's rho=0.163, p=0.011), and foreign language skills (Spearman's rho=0.186, p=0.003). Rate of innovation has statistically significant correlations with following HRM competences: business knowledge (Spearman's rho=0.243, p=0.000), strategic contribution (Spearman's rho=0.177, p=0.006), personal credibility (Spearman's rho=0.236, p=0.000), and foreign language skills (Spearman's rho=0.199, p=0.002). Especially interesting part of the research was the analysis of correlations between environmental matters and HR competences. Positive statistically significant correlations have been found between environmental matters and each of mentioned HR competences: business knowledge (Spearman's rho=0.269, p=0.000), strategic contribution (Spearman's rho=0.329, p=0.000), personal credibility (Spearman's rho=0.275, p=0.000), HR services (Spearman's rho=0.197, p=0.002), the usage of HRIS (Spearman's rho=0.165, p=0.011), and foreign languages skills (Spearman's rho=0.246, p=0.000).

5 CONCLUSIONS

Multinational companies have a significant impact on the development of HRM practice in the CEE region. Applying the similar HR patterns as in the headquarter or other MNCs, they spread the „best practice" in the ex-socialist countries concerning HRM activities, the role of HR manager in the strategic management process and the impact of HRM on organizational performances.

Based on the obtained CEEIRT data from Hungary, Poland, Romania, Serbia and Slovakia the characteristics of MNC subsidiaries operating in the CEE region and their HR patterns can be recognized. The majority of them are in industry, trade and financial services. As an answer to the economic crisis started in 2008, MNC subsidiaries' strategic goal is the growth of their business and market share. They rate their performances as above average and underline success concerning the quality of their services and the rate of innovations. In the subsidiaries of MNCs among the HRM competences the most important are personal credibility, foreign language skills, HR services and strategic contribution. The ranking points out the nature of MNCs and their expectations from a HR manager.

The results of the correlation analysis prove that business knowledge and foreign language skills are very important HR competences since there are found positive statistically significant correlations with all four performance measures. Beside those, personal credibility of managers and different HR activities are also important for business outcomes. Only in case of the usage of HRIS there is some evidence of correction only with environmental performances, but not with other performance measures.

In the case of profitability as organizational outcome, the impact of HR services is the most powerful. To reach service quality the impact of the personal credibility of HR managers is the most important. In the case of the rate of innovations business knowledge of HR professionals is necessary, while in the case of environmental matters the strategic contribution of HR mangers is the most forcible.

Beside the methodological limitations of CEEIRT research concerning the sample and representativeness of the obtained data, the paper gives valuable insight on the HRM competences and its effect on the organizational performances at the local subsidiaries of MNCs in the CEE region.

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Employment and Atypical Employment in Slovakia and Hungary in 2013 and 2014 – Empirical Research

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Abstract: The theoretical part of this study essentially examines traditional and newer forms of employment. Towards the end of the 20th century, new trends appeared in the industrialized world as increasingly severe global competition compelled companies to look for flexibility and cost-reduction in every facet of production, including, of course, labour, and the purpose of our paper is to explore – by means of an empirical research project - how traditional and new types of work forms (atypical, market, non-market and cross-border) have contributed to reducing unemployment. Our comparative research examined several factors, in that we studied in parallel the unemployed, the younger generation and also employers in both Hungary and Slovakia. Here we attempt to provide an overview of corporate practice in relation to traditional and atypical employment based on the results of our research – which comprised two surveys carried out in Hungary and in Slovakia in 2013 and 2014. These two countries do not vary greatly in their socio-economic characteristics, but our results revealed both similar and different attitudes among Hungarian and Slovak companies in relation to various forms of work, including typical and atypical employment. Our investigation particularly emphasised the direct effects of the crisis - and those of the recovery policies applied - on traditional, special and atypical employment, and we used both quantitative and qualitative methods to analyse a range of issues concerning forms of employment in the two Visegrad countries.
Keywords: Employment, atypical employment, Hungary and Slovakia
JEL Classification codes: J21, J23 and J24

1 INTRODUCTION

The various forms of employment which differ from traditional, permanent and full employment are generally referred to as ‘atypical’, and the main reason for their spread is the need to adapt to the changing demands of the economy and of labour. In the developed countries of the European Union atypical forms of employment appeared in the 1970s, and today some 40-60% of all workers are involved. These new employment relationships contribute to reducing unemployment, promote flexible adaptation to new requirements and make production processes more efficient.

The forms and role of atypical employment are constantly changing, and, although there are some easily described and well-established forms, there are other atypical forms which are more difficult to define precisely. The former category includes part-time or fixed-term contracts of employment, which can mean seasonal or occasional work. In addition, however, the term *atypical* applies to flexible hours or other forms of non-standard employment, to jobs such as temporary work at home, telecommuting and to hiring labour. The atypically employed are not employees, but self-employed - or they do contract work. (Hárs, Á., 2012)

An atypical labour force plays an important role in developing public awareness of a company and increasing the organisation’s flexibility - essential in our constantly changing society. In contrast to rigid, traditional employment relationships, using atypical work practices enables a company to adapt quickly to changing market requirements by adjusting the size and skills of its labour=force, so saving considerable costs. a(K. Szabo. - A Négyesi, 2004)

In order to increase the flexibility of the labour market in the Slovak Republic and increase employment, the new Labour Code, which came into force in 2003, details the possibilities of utilising non-standard forms of employment in a legal context. This legislation allows companies to undertake seasonal or project-based work using fixed-term contracts of employment, whilst also preventing abuse. The law carefully details the rights of part-time employees, differentiating between those who work more or fewer than 20 hours per week. The law clarifies the potential benefits for home- or tele-workers and the rights and obligations of participants in labour hire. (Hanzelová E - Kostolná Z. - Reichová D., 2005)

In Hungary, the excessive regulatory background to the hire of labour fully justified major modifications to the Labour Code in 2011. The new regulations included the principle of flexibility of employment, European Union legislation and the principle of equal pay for equal work and were enforced at the same time. (I Molnar, 2013)

It is important to emphasize the family-friendliness of certain forms of atypical work also. This was discussed by Ľapinová in her study (2013), in which she referred to the EU's objective in its 2014-2020 Human Resources Operational Programme in respect of coordinating work and family life,. She also described the advantages and disadvantages of each atypical form from the perspective of both employer and employee and proposed solutions to eliminate the negative factors.

Despite government support in our countries, the spread of atypical forms of work is very slow. The reason for this, according to Agnes Hárs (2013), can be found, first of all, in the low-levels of work organization and work culture. Atypical forms disrupt the logistics of the company; they need closer attention and are more difficult to control. Another factor impeding the spread of part-time work and job-sharing is the fact that such incomes are not enough to live on. It is also important to understand that some atypical forms of work (tele-commuting or working from home) are not good for the disadvantaged unemployed, but rather for trained individuals with professional experience and the appropriate work culture.

After accession to the European Union the non-traditional employment has gained considerable importance both for the employers and the employees by eliminating specific hazards of the international market in the EU. The non-traditional forms of the employment can be used effectively not only within a country but also between countries. These employment forms will help in cases of cross-border employment or commuting to overcome the legal obstacles or problems of commuting, while other such as language barriers did not exist. Flexible employment provides a great deal of latitude for employees, and simultaneously for corporate leadership by offering additional optimization opportunities. All these will help reduce the regional differences as well as contribute to the mutual understanding of residents of the neighbouring countries.

2 RESEARCH OBJECTIVES

In our two surveys we were interested to learn what impacts the economic and financial crisis - and the recovery – had had on the employment practices of companies and institutions in the border regions of Hungary and Slovakia. The first survey was carried out at the beginning of 2013 and the other in the autumn of 2014 – involving a gap of a year-and-a half to two years between the two data collections. Our goal was to explore the spillover effects of the financial and economic events on employment and on the response or reaction of companies to these. Specifically, we were interested in the measures taken by companies in terms of employment to counter the effects of the crisis and to promote recovery; we were also interested in the similarities and differences in the two countries, as well as in any visible changes. We examined the measures taken against the crisis concerning employment using several variables - to determine how far the respondents differ and whether there are connections between these and other characteristics of the organisations. In our surveys we paid special attention to atypical forms of employment and to related attitudes and opinions. In the two surveys precisely the same questionnaire was used = in Hungarian or Slovak, as appropriate – for the sake of optimal clarity. The statistics which were used to describe our findings (frequency, distribution, average, standard deviation) were based on binary methods.

3 METHOD

3.1 Sample

The following table shows the composition of the sample and the distribution of the Hungarian and Slovak organisations and companies surveyed.

Table 1: Distribution of the sample by country

	Hungary	Slovakia	Total
2013	218 (79%)	56 (21%)	274 (100%)
2014	161 (69%)	71 (31%)	232 (100%)

Source: Authors' own research

Although the composition and number of elements in the sample is not representative of the total of Hungarian and Slovak businesses, the list of respondents does show that clear opinions could be asked from well-established and experienced organisations to provide a convincing representation of practices in the sector surveyed and any changes.

In respect of the different characteristics of a company (staff, ownership etc.) the distribution of data is similar for both countries. The following figure shows the distribution of the sample according to ownership. As can be seen, the great majority of responding entities in both surveys were domestically-owned. In 2013 81% had a domestic owner, whilst in 2014 the figure was 75%. This is also the case with 84% of the Hungarian companies in 2013 and 74% of the Slovak. In 2014 the figure for both countries was 75%.

The vast majority of the samples consisted of private companies. In 2013 they represented 81% - 79% in 2014; in 2013 16% belonged to the public or state sector - and 15% in 2014. With the

Hungarian companies, the proportion of private companies was slightly higher in both periods: 83% in 2013 and 81% in 2014; with the Slovak companies the figures were 74% in 2013 and 76% in 2014.

In terms of employee members, in both years there was a clear majority of small firms - that is, with fewer than 100 people. In 2013, 82% belonged to this category (72% in 2014). In 2013 9% of companies (in 2014 8%) employed more than 1000, and so were classified as large companies. In the 2014 survey, among Hungarian companies employing more than 100, there is a higher proportion (33%), whilst in other cases, they range merely between 15% and 18%.

Table 2 - Distribution of the sample according to company size (numbers employed)

	Hungary		Slovakia	
People	2013	2014	2013	2014
below 100	81,8%	66,7%	81,5%	84,5%
100-500	7,4%	14,5%	7,4%	8,5%
500-1000	1,7%	7,5%	3,7%	5,6%
above 1000	9,1%	11,3%	7,4%	1,4%
	100%	100%	100%	100%

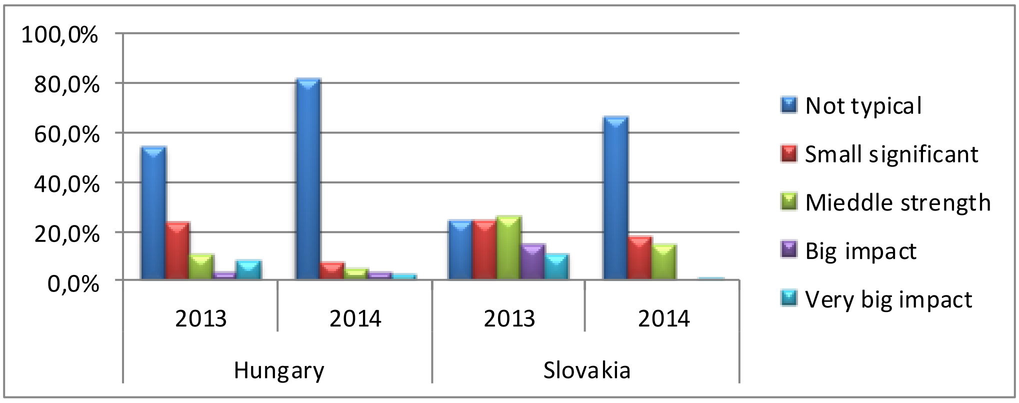
Source: Authors' own research

In both years, a quarter of the companies surveyed represented the manufacturing sector, a further 17% (2013) and 16% (2014) the commercial. There was a significant proportion of companies engaged in business services in 2013 (12%), but only 7% in 2014. Among Slovak entities the proportion belonging to the administration sector was slightly higher in 2013 than in 2014 (13% as opposed to 11%) with the Hungarian figures being 2% and 4% respectively. The rest were spread across the FMCG, finance, IT, telecommunications, transport, energy, health, education and agriculture sectors. However, 19% of all respondent companies in 2013 (17% in 2014) could not be classified in any of these areas.

3.2.The effects of the crisis on employment

In 2013 the impact of the crisis on employment was primarily evident in *downsizing* in the case of the companies surveyed. However, whilst this featured in three-quarters (76%) of the Slovak companies, barely half (46%) of the Hungarians reported that they had done so 'to some extent'. Of these, nearly a third of the Slovak (26% of all Slovak companies), and nearly a quarter of their Hungarian counterparts, (12% of all Hungarian companies) believed that downsizing was typical of them to a ‘great or ‘very great’ extent. In 2014, however, a large majority - 82% of Hungarian and 66% of Slovak - no longer believed that their companies were still characterised by downsizing. According to a further 8% of Hungarian and 18% of Slovak, this could be regarded as ‘slightly characteristic’, but few think it characteristic to a ‘large’ or ‘very large’ extent. (6% of Hungarian, 1.5% of Slovak). (Figure 1) Between the variables there are significant (Chi-square test sig = 0.001 and 0.007), medium strength (2013 Cramer's V = 0.342) and weak (2014 Cramer's V = 0.258) connections in both years.

Fig. 1: Impact of downsizing



Source: Authors’ own research

In 2013 foreign and jointly owned firms felt that downsizing was very characteristic of themselves, in that the vast majority (72% and 87% respectively) thought that this was, to some extent, typical of them, whilst only half (51%) of the domestically-owned firms held this opinion. In 2014 only 22% of the domestic, 20% of foreign and 43% of jointly owned companies expected layoffs to continue. Based on the responses by sector, there is not much difference, in any of the years. In 2013, 54% of private, 61% of public and 50% of other companies said that it was typical ‘to some extent’, whilst in 2014, only 22%, respectively, 34% and 17% expected a further reduction in their workforce. In 2013, the headcount reduction was mainly characteristic of the medium-sized and large firms; 82% of the former (100 - 1000 employees) and 87% of the latter (1,000+) stated that it would be typical of some, whilst only 49% of those employing fewer than 100 said the same. In 2014 there is almost no difference between companies employing different numbers, The proportion of those not expecting further layoffs were: 77% (100+) 75% (100 - 1000) and 79% (1,000 +).

In 2013, companies operating in the public sector (80%), in education (67%) and in health care (60%) expected the highest percentages in terms of reduced numbers, but manufacturing (57%) and commerce (56%) were not much behind. In the IT sector both of the respondent companies (100%) stated that downsizing was not typical of them, followed by business services, where 60% were of the same opinion. Although far fewer people are involved, in 2014 in the public sector 60 expected further layoffs, followed by telecommunications (40%) and business services (35%), where the situation is similar to 2013 (40%) in this respect. In the energy sector 100% of the companies stated that they were not affected (although this applies to only 3 companies) whilst 87% in the finance sector and 83% in manufacturing were of this opinion.

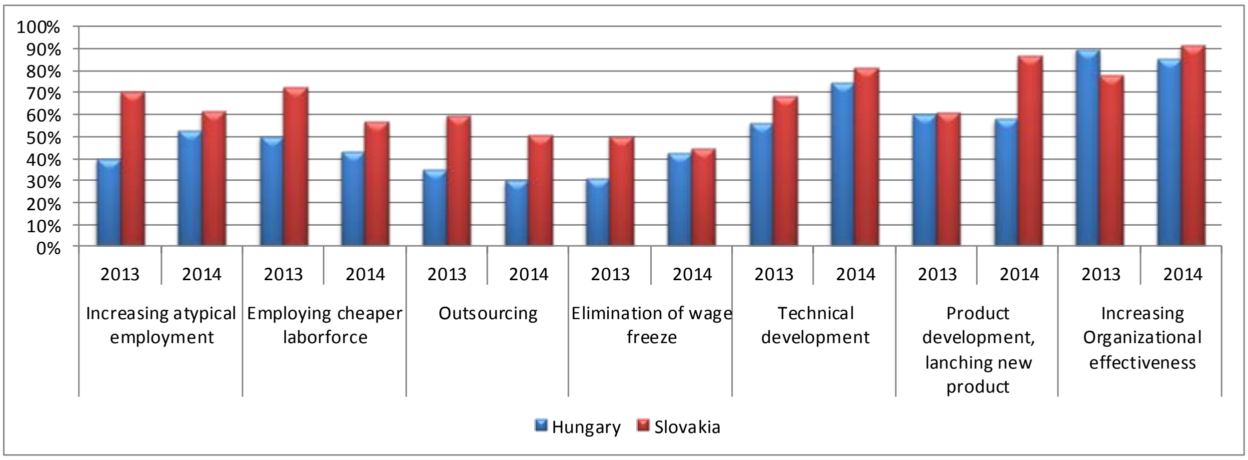
We further investigated what measures the companies planned in the field of employment to counteract the effects of - and promote recovery from - the crisis. First, we asked what they thought about the issue in general - whether they needed to do something – and we also asked about seven specific, possible actions concerning employment. The answers could be given on a five-point scale, according to how typical they considered it to be of themselves. (1 = not applicable, whilst 5 = Very highly)

Overall, in 2013 69% of the Hungarian companies and 24% of the Slovak respondents stated that they had to do something about the crisis in terms of employment. In 2014 about the same number of Hungarian companies (67%), but twice as many Slovak (50%) was of this opinion. The most common measure preferred - to provide a long-term solution (in both periods and both countries) was to *increase organizational efficiency*. In 2013 89% of Hungarian companies and 78% of Slovak (in 2014 85% and 91% respectively) declared that they would deal with this issue. Similarly, many people wish to deal with *product development engineering* and *technology development*, although in 2013 even more of the Slovak companies planned to *increase atypical employment* (70%) and to *use less expensive labour* than before (72%).

The elimination of the wage freeze and outsourcing were the least preferred measures in both countries, although Slovak firms are much more likely to plan for them than are Hungarian. In the case of Hungarian companies, outsourcing is at the bottom of the list - in 2013, 65%, and in 2014, 70% have no plans for that, whilst with the Slovak equivalent figures are 41% and 49%. With Slovak companies eliminating the wage freeze comes last in both periods. In 2013 50% of companies were planning this, and 45% in 2014, whilst in the Hungarian companies only 31% and 43% respectively were planning similarly .

Although the increase in atypical employment in both countries and in both periods is in the middle of the scale, in 2013 there is a big difference between the two countries, only 40% of Hungarian, but 70% of Slovak companies wishing to apply this. In 2014, however, 53% of Hungarian companies and 61% of Slovak are planning to use it to a greater or lesser extent. In 2014, the biggest difference is in relation to the *product development* between the two countries, the vast majority of Slovak companies (87%) took the use of this option into account, whilst only 58% of the Hungarian did so.

Fig. 2: Planned measures – Proportion of more or less typical answers



Source: Authors' own research

Similarly, the answers in respect of both countries and both periods show *improving organizational efficiency* as scoring the highest average value, followed by *engineering, technology development* and *product development.* This was overall in 2014 – as opposed to earlier – and much favoured by the companies. In 2013, *eliminating the wage freeze*, and, in 2014, *outsourcing* had the lowest average ratings, both types of measures, in both countries being somehow less typical in 2014 than in 2013. The values of standard deviations indicate that in the case of the measures most preferred, the largest dispersion of the responses occurred, whilst the low standard deviation values for the least preferred indicate greater uniformity of responses. (Table 2)

In 2014 the averages of the two countries are very similar, the only major difference being met in the case of *product development*, which is also indicated by ANOVA as a significant relationship. The standard deviation ratio was 0.216. In 2013, however, there was a significant difference between the replies of the Hungarian and Slovak firms in respect of a number of actions. The *increase of atypical employment*, the use of *outsourcing* and the *elimination of* *wage freeze* were for the Slovak firms much more characteristic. In these cases there is a significant weak relationship between the two variables, whilst the ratios of the standard deviation are, respectively, 0.279, 0.215, and 0.237.

Tab. 2: Planned measures – averages and standard deviations by country

		Increasing atypical employment		Employing cheaper laborforce		Outsourcing		Elimination of wage freeze		Technical development		Product development, launching new product		Increasing Organizational effectiveness	
		2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
Hngary	Average	1,72	1,96	1,93	1,71	1,63	1,53	1,52	1,81	2,15	2,74	2,43	2,54	3,45	3,36
	Std. Dev.	1,092	1,202	1,156	0,993	0,984	0,974	0,950	1,158	1,253	1,377	1,428	1,559	1,250	1,380
Slovakia	Average	2,41	2,15	2,28	1,96	2,07	1,82	2,04	1,84	2,54	2,97	2,54	3,24	3,15	3,70
	Std. Dev.	1,237	1,145	0,998	1,093	1,025	0,952	1,181	1,149	1,424	1,393	1,424	1,361	1,522	1,267
Total	Average	1,98	2,02	2,06	1,79	1,80	1,63	1,73	1,82	2,30	2,82	2,47	2,78	3,34	3,48
	Std. Dev.	1,191	1,184	1,109	1,030	1,021	0,974	1,075	1,152	1,297	1,383	1,422	1,528	1,358	1,349

Source: Authors' own research

Company ownership has no significant differentiating effect on the application of different measures. However, a notable difference is that the *increase in atypical employment* in 2013 was more characteristic of domestic companies, whilst of the foreign ones in 2014. In both periods foreign- and jointly-owned ones attributed greater importance to the *increase of organizational efficiency* and *product development* than did domestic ones, but in the field of *technical development,* there is no significant difference in any of the periods.

Comparing the private and the public or state sector, similar trends can be observed in the two periods - although in 2014 there are major differences between the sectors, unlike in the previous survey. In 2014 the most significant difference appeared in the field of *product development* which was much more typical of private companies than of public or state companies, or other categories of entity (in the latter, mainly foundations or non-profit organizations are found). Similarly, in 2014, in respect of *increasing organizational efficiency* and *technical development,* there are also striking differences to be seen, although these are mainly typical of private companies. Regarding the implementation of *outsourcing*, there is no significant difference across sectors in both periods, whilst in *atypical employment* in 2013, there is also no difference. However, in 2014, it is clearly prevalent in the private sector. In respect of the *increase of organizational efficiency*, *product development*, *technical* *development* and *atypical employment*, in 2014 there is a significant weak relationship (the ratios of the standard deviation are: 0.188; 0.220; 0.257; and 0.187)

Examining the single measures of the two periods shows that, depending on the size of the company (number of employees), a clear trend can be discerned which becomes increasingly typical with increasing size. Significant differences can be experienced in the industries; in 2014 there is a moderate relationship between *product development*, *technical development* and *increasing organizational efficiency* and the sector (the values of the ratio of the standard deviation are: 0.410; 0.401; and 0.353). These three measures are least characteristic of the administration and energy sectors. *Product development* is of the greatest importance in the financial sector and in FMCG and the industrial context, whilst *technical development* is so in the transport and industrial areas and *improving organizational efficiency* mostly in the financial sector and in education. In 2013 there is a significant moderate relationship in respect of *product developmen*t and *improving organizational efficiency* (standard deviation ratios are: 0.425 and 0.435 respectively). They are less specific to education and administration, and most characteristic of the IT and financial sectors. Atypical employment and the use of outsourcing are most significant in IT in 2013, whilst, in 2014, IT and education (atypical) and the financial sector (outsourcing) were at the forefront.

3.3 Attitudes towards atypical employment

We examined the attitudes of the companies to atypical employment with the help of a series of twelve carefully formulated alternative statements. Responses could be given on a five-point scale, with the figure 3 signifying neutrality or indifference. In other words, respondents had four further choices – two to express levels of agreement and two of disagreement. The distribution of responses is shown in table 3, where we combined those responses which showed agreement or disagreement. Our results show that the knowledge of atypical employment and the positive attitude towards it strengthened during the period between the two surveys. Atypical forms of employment are known in both countries by a clear majority of the respondents, and those who had used them had had no bad experiences. Only 7% of the companies in 2013 and 10% in 2014 reported any unsatisfactory experience. However, nearly half of those surveyed - 55% in 2013 and 47% in 2014 - stated that their leaders were more likely to adopt the more traditional forms of employment, although by 2014 this proportion was somewhat reduced. Among the Hungarian firms in both periods, the proportion of those who are aware of these modes of employment is slightly higher at 60/64% and 56/54% respectively, whilst with those who have had no bad experience the corresponding figures are 61/76% and 56/59% - again respectively. Significantly, in both countries there was an increase of some 50% in the percentage of companies who believed that their employees were also interested to work under non-standard forms of employment (24%/38% and 15% /24% respectively). Hungarian companies represent a major percentage of this when compared with their Slovak counterparts. The majority of the companies surveyed, however, are reluctant to work with labour-providing companies: in 2013 60% and in 2014 58% were so minded. Among the Hungarians, slightly more show a positive attitude, and the proportion in both countries has increased.

However, in both periods, the Slovaks proved to be more flexible than the Hungarians. In both countries the proportion of those who insist on current employment systems (58%/44% and 48%/38%) and the proportion of those who believe that their company has no employment issues which could be resolved by atypical employment (42%/31% and 33%/31%), declined. Among the Slovaks there were fewer who agreed on both issues, although among the Hungarian firms, the numbers showed a greater inclination to employ disadvantaged workers (29%/35% and 15%/27%), a more positive attitude towards the long-term unemployed as opposed to the employed (59%/68% and 41%/43%) and to foreign workers (25%/33% and 17%/13%). What can also be seen is that the ratio of positive opinions increased in most cases in the 2014 survey. (Table 3)

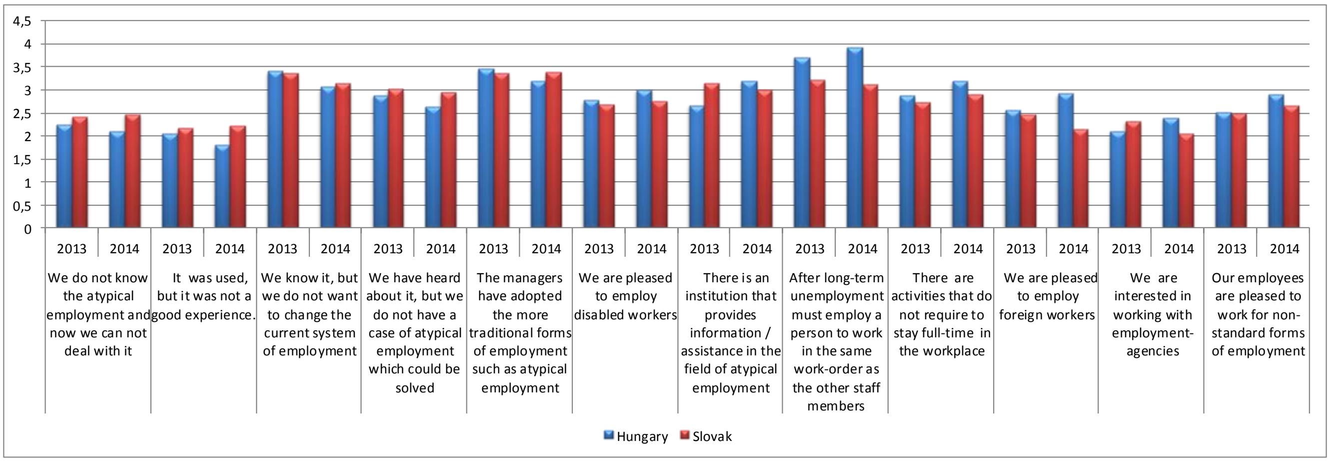
Tab. 3 Opinions on atypical employment by country

		2013			2014		
		Hungary	Slovakia	Total	Hungary	Slovakia	Total
1. We do not know the atypical employment and now we can not deal with it	Agree	16%	15%	15%	17%	17%	17%
	Don't agree	60%	56%	58%	64%	54%	61%
2. It was used, but it was not a good experience.	Agree	9%	4%	7%	10%	10%	10%
	Don't agree	61%	56%	59%	76%	59%	70%
3 We know it, but we do not want to change the current system of employment	Agree	58%	48%	54%	44%	38%	42%
	Don't agree	27%	24%	26%	37%	32%	35%
4. We have heard about it, but we do not have a case of atypical employment which could be solved	Agree	42%	33%	39%	31%	31%	31%
	Don't agree	51%	33%	44%	52%	40%	48%
5 The managers have adopted the more traditional forms of employment such as atypical employment	Agree	57%	52%	55%	45%	52%	47%
	Don't agree	24%	32%	27%	32%	28%	31%
6. We are pleased to employ disabled workers	Agree	29%	15%	24%	35%	27%	32%
	Don't agree	44%	37%	41%	35%	43%	37%
7. There is an institution that provides information / assistance in the field of atypical employment	Agree	19%	32%	24%	42%	30%	38%
	Don't agree	39%	15%	29%	30%	23%	28%
8. After long-term unemployment must employ a person to work in the same work-order as the other staff members	Agree	59%	41%	52%	68%	43%	60%
	Don't agree	17%	22%	19%	17%	36%	23%
9. There are activities that do not require to stay full-time in the workplace	Agree	42%	35%	40%	50%	41%	47%
	Don't agree	44%	50%	47%	34%	41%	37%
10. We are pleased to employ foreign workers	Agree	25%	17%	22%	33%	13%	27%
	Don't agree	48%	54%	50%	36%	59%	44%
11. We are interested in working with employment-agencies	Agree	17%	13%	15%	22%	15%	20%
	Don't agree	65%	52%	60%	54%	65%	58%
12. Our employees are pleased to work for non-standard forms of employment	Agree	24%	15%	20%	38%	24%	33%
	Don't agree	50%	48%	49%	35%	45%	38%

Source: Authors' own research

Average responses also reflect the above trends and the responses of Hungarian and Slovak firms are, in most cases, similar and convergent. Comparing the averages with our analysis of variance, the F-test showed significant differences between countries in 2013 in two cases (the existence of an institution providing assistance in the field of atypical employment, employment after permanent unemployment). In 2014 there were three cases (the use of atypical forms of employment, employment after long-term unemployment and the use of foreign labour) The values of the ratio of standard deviation were in 2013, respectively: 0.225 and 0.194; in 2014, 0.172 and 0.281; 0.257. (Figure 3)

Fig. 3 Average opinions on atypical employment – by country



Source: Authors' own research

Examining the responses according to ownership, no significant difference can be seen in knowledge of and attitudes towards atypical employment. However, there is a significant connection in both years between ownership and the use of foreign labour. Foreign (3.37 and 3.20 respectively) and joint ventures (4.13 and 2.93 respectively) prefer to employ foreigners, whilst domestically=owned companies are averse to this (2.22 and 2.49). The ratio of standard deviation values (0.435 in 2013 and 0.06 in 2014) indicates a moderate to weak relationship between variables. Cooperation with contract labour providers indicates also significant differences. In 2014 ANOVA shows a significant weak link (the value of the ratio of standard deviation is 0.256), as this is ruled out less by foreigners (2.58 and. 2.90 respectively) and joint ventures (2 38 and. 2.60) than by those domestically-owned (2.10 and. 2.06 respectively).

Respondents from the public or state sector stated that leaders are more likely to accept atypical forms of employment and prefer to employ a disadvantaged workforce, whilst larger companies are more aware of atypical forms of employment, and relatively more willing to work with labour recruiters. The larger a company is, the more willing it is to employ foreign workers, and in this case there is a significant weak relationship between the variables in both years. Ratios of standard deviation are e employees are not0.261 in 2013 and .264 in 2014.

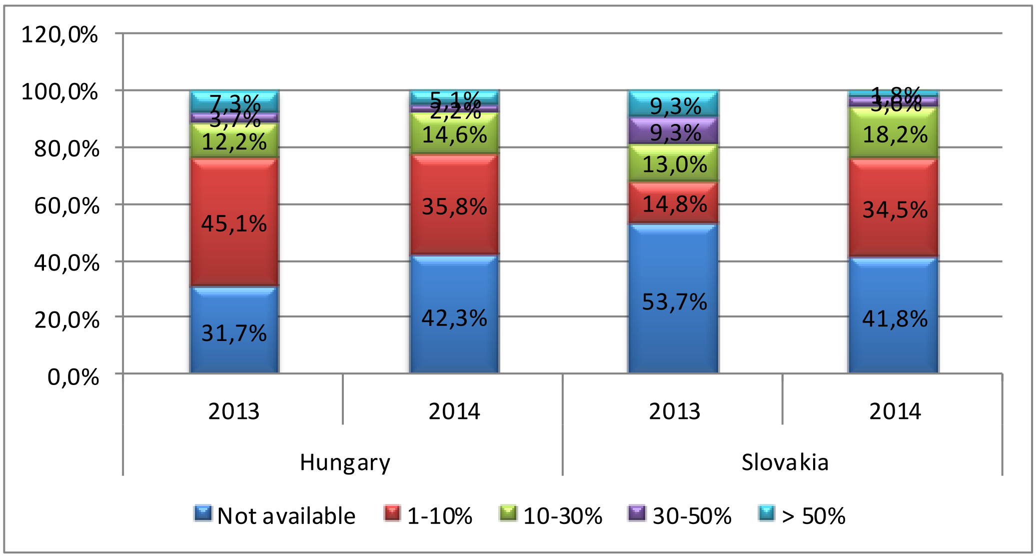
Based on 2014 reviews, atypical forms of employment are best known in the IT and telecommunications sectors,. These are the most likely to change their employment system in this way and there are cases where they actually do so, as well as being the companies most likely to accept them. These also feature many activities which do not need employees to stay in a given workplace, and so are happy to operate within the framework of atypical forms of employment. They are also the most willing to use foreign labour. Atypical forms of employment are least known in FMCG, in agriculture and education. In the field of public administration there is also less willingness to change, and in the opinion of respondents there are no cases which could be solved by atypical employment. In these two areas, as well as in agriculture, is the attitude of management or leadership is the most negative towards these forms. In the financial and public sectors it is unlikely for there to be activities which do not require employees to stay in the workplace. In two cases, there was a significant, moderate relationship (Figure 4):

- Leaders more likely to adopt the traditional employment model than any non-standard form. (Standard deviation ratio 0.34).
- “I would hire foreign nationals with pleasure” (Standard deviation ratio 0,343).

3.4 Part-time work and telecommuting

In the area of part-time employment, in 2014 there was no significant difference between the Hungarian and Slovak companies, some 58-58% of both having part-time employees. Hungarian companies with more than 50% of their work-force on a part-time basis have a considerable advantage; 5% of them said so, although only 2% of Slovaks. Compared to 2013, however, in the case of the Hungarian companies employing part-time workers, there is a decline in the proportion (from 68% to 58%), whilst with the Slovak companies there is an increase (from 46% to 58%).

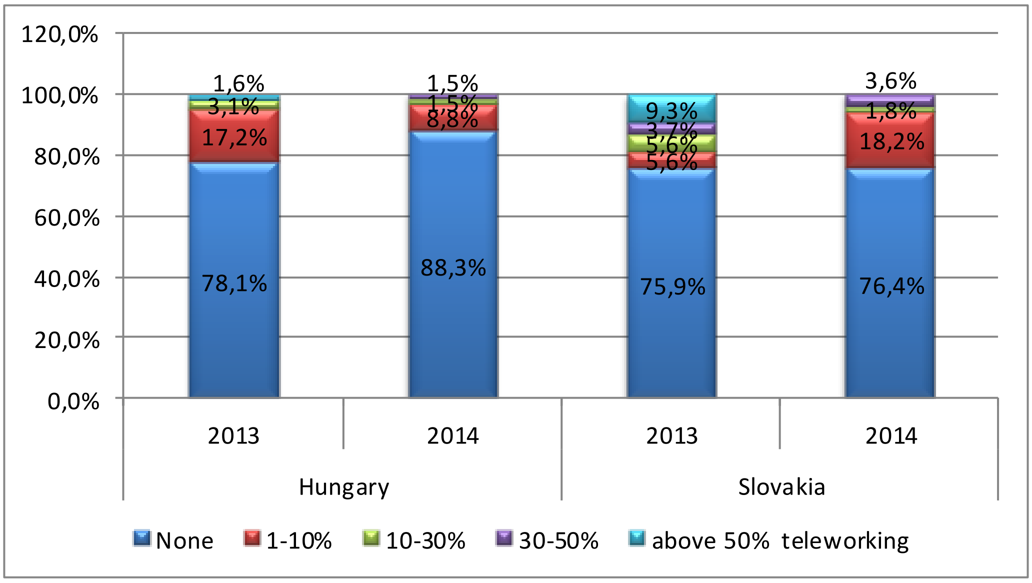
Fig.4: Part-time employment – by country



Source: Authors' own research

In 2014 12% of Hungarian, but nearly a quarter (24%) of Slovak companies, used the opportunity to employ teleworkers, and the Slovak companies which employ a significant (above 30 %) ratio of teleworkers represent a slightly higher rate (3.6% vs. 1.5%). Compared to 2013, there is a 10% decrease in the proportion of Hungarian firms adopting teleworking (from 22% to 12%), whilst the Slovak figures did not change overall. However, there are no longer companies using more than 50% of teleworkers, whilst the 1-10% teleworker rate tripled (6% to 18%).

Fig. 5: Telework – by country



Source: Authors' own research

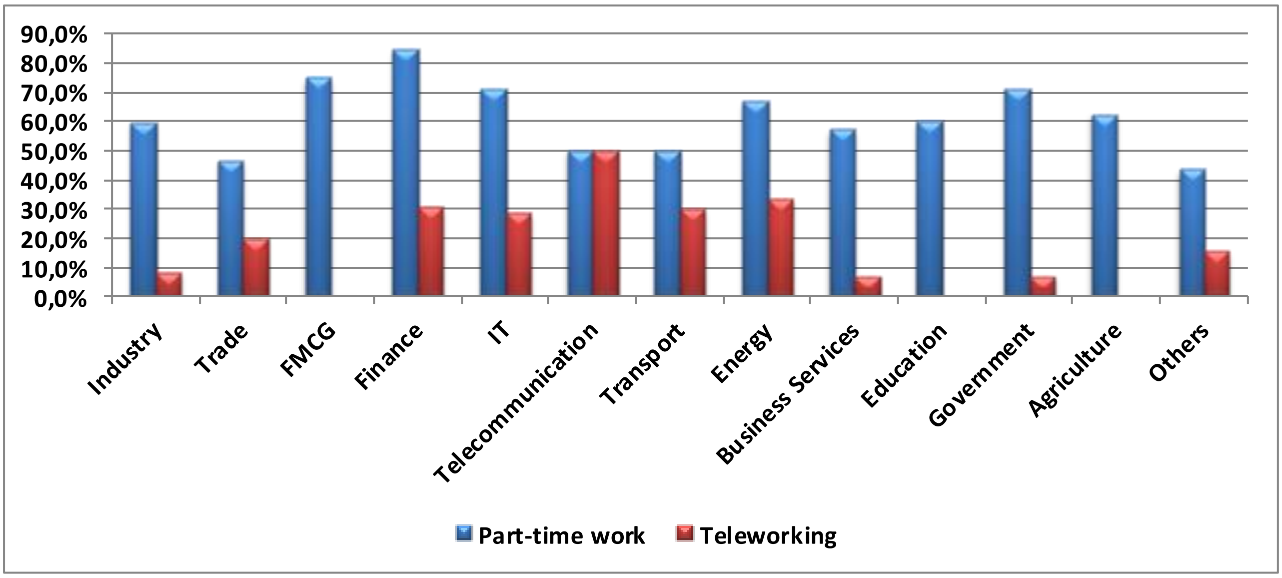
In both periods jointly-owned companies are the ones most using part-time labour. In 2013 75% of these companies had 1-10% of their workers on a part-time basis, 13% had over 10%, whilst, in 2014, 67% had 1-10% and 25% more than 10 %. In 2013, 59% of the domestically-owned firms and in 2014 52% used part-time employment; whilst at foreign companies these figures were 50% and 69%. Jointly-owned companies are also the ones most using teleworking In 2013 62% of them in 2014, 25% - but these figures are based on merely 12 responses in 2013 and 8 in 2014. 17% of the domestically- owned companies used this opportunity in 2013 and 14% in 2014, whilst 37% and 17% respectively of foreign companies did so.

In the case of private companies there is a significant decline in the use of teleworking in 2014. In 2013, 24% made use of it, but in 2014 only 15%. However, in respect of the public or state companies no change can be seen in their share, which was 12% in both periods. There is a significant decline in the number of private companies using more than 10% in terms pf of tele-workers. With private companies this decline is from 12% to 5% and in public or state institutions from 4% to 0. In 2014 part-time employment is more typical of the public or state sector than of private firms; in the latter they number 56%, but 70% in the public or state sector. In 2013 these figures were 60% and 54% respectively. In both periods, private companies outnumber by far all others employing in excess of 10% as part-time workers - 30% in 2013 and 25% in 2014 - compared with 8% and 12% in the public sector. In the public sector, however, the proportion of those employing part-time workers from 1 to 10% is much higher: 46% on 2013 and 58% in 2014, whilst these percentages for private companies are 30% and 31%

In terms of the number of employees, the use of part time labour is most typical of companies employing over 1,000 people. In 2013, 80% and, in 2014, 88% used this opportunity. Of these 73% and 77% respectively represent those with 1-10% of workers in this category. By contrast, in the case of the smaller companies (below100) 57% were operating in this way in 2013 and 56% in the 100-1000 bracket. In 2014, , 53% and 60% respectively used part-time workers. The highest proportion fell in the smallest category - below 100 employees. The percentage of those companies who employ in excess of 10% on a part-time basis was 31% in 2013 and 27% in 2014. Telework is also typical of rather larger firms. In 2013, 40% in the 1000+ category used it, whilst in 2014 the percentage is 35%. In the smaller companies (100 and below) these rates are 18 and 12% respectively, whilst the figures applying to the 100- 1000 employee bracket, the rates are 33 and 17%.

Part-time employment in 2014 appears at its maximum in the financial sector (85%), in FMCG (75%) and in IT (71%). It is lowest in the administration (71%) and # the trade (47%) sectors. Telework is used in telecommunications companies (50%), in the energy sector (33%) and the financial sector (31%), and – understandably – in education, agriculture and FMCG it does not feature at all. (Figure 6)

Fig.6: Part-time and telework – by sector



Source: Authors' own research

4 SUMMARY

In summary, the research we carried out into Slovak and Hungarian organizations shows that, in 2013, 49% of the organizations surveyed - in 2014 only 39% - stated that, in order to counteract the effects of the crisis, there is no need to make any special changes to employment. The Slovak companies reflect this opinion in both years at a much higher rate than the Hungarians. Instead of personnel solutions, planned, long-term measures are more typically applied to employment in both countries. Whilst in both countries in both periods, slightly more than half of the firms were planning to *increase atypical employment*, the measure most preferred is *increasing organizational efficiency* (85% in 2013; 87% in 2014). This is followed by *technical and technological development* (61% and 77%) and *product development* (60% and 68%). The great majority of both Hungarian and Slovak companies were planning to take such measures. Although the two least preferred measures (outsourcing and eliminating wage freeze) are the same in both countries, there are also significant differences between the Hungarian and Slovak companies. The biggest difference between the two countries in 2014 relates to product development. Whilst the vast majority of Slovak companies (87%) were planning this, only 58% of the Hungarians were doing so. Although the increase in atypical employment in both countries and in both periods was somewhere near a median point in 2013, there is the greatest difference between the Hungarian and Slovak companies in this area, (40% as opposed to 70%). This and outsourcing are much more typical of Slovak than of Hungarian companies. Only around a third (35% and 30%) of Hungarian companies was planning *outsourcing* in both periods. This percentage with Slovak firms is rather more than half (59% and 51%). *Increasing organizational efficiency, product development, technical development* and *atypical employment* are, understandably, of greater importance in the private sector than in public or state institutions and the use of outsourcing grows increasingly with the growth of the firms.

Atypical forms of employment are known by the majority of respondents in both countries. Relatively few are unfamiliar with them and do not wish to deal with them (15% and 17% respectively), and there are very few who, had used atypical forms, but had found them less than satisfactory (7% and 10%). About half of the respondents, however, believe that management is rather committed to traditional forms of management, and the majority think that their employees are not interested in working in atypical forms of employment; there are also a few who like to work with labour hire companies. However, in both countries, the proportions of those certainly not wishing to change their usual employment structures and of those believing that they have no situation in which atypical forms could be used are declining. In both cases the Slovak companies proved to be more flexible, although Hungarian employers are less rejective of atypical employment, less discriminatory towards disadvantaged labour, foreign nationals and towards employing people after long-term unemployment than is the case with Slovak companies. Overall, the two surveys show that more and more companies are trying to adapt, and the indicators of positive attitudes increased in the 2014 survey in both countries, and in respect of most of the issues.

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Sustainable Development of the Global Economy as an Imperative of Post-Crisis Orientation in Europe

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Abstract: Global economy is characterized by decline phase requiring unconditional recovery and therefore it is necessary to reassess its future tendency. This change necessitates common responsibility not just in business environment, but in the society as the whole, respectively. Local, national, regional and global governance plays remarkable role in this process. Holistic approach in identifying limited gaps and dealing with them could be the first step of recovery. Environmental protection, social cohesion and economic growth are of equal importance in achieving sustainable development. Economic development, prosperity, stability, freedom, peace and security issues were fundamental matters when establishing European Union, as the most developed model of regional integration up-to-date. It has promoted these efforts via different policies, projects and activities within its boundaries and outside, as well. It would be insufficient to perceive recent crisis just in financial or business terms, because it has affected global environment including different aspects of life. The European Council agreed five overarching priorities - stronger economies with more jobs; societies enabled to empower and protect; a secure energy and climate future; a trusted area of fundamental freedoms; effective joint action in the world – as *The Strategic agenda for the Union in times of change SAUTC* which will guide the work of the European Union over the next five years. The aim of this article is to identify the limited gaps in the European environment and to present alternative ways of action.

Keywords: Global environment; crisis; sustainable development; Europe

JEL Classification codes: O19, O40, Q01

1 INTRODUCTION

National (local), regional and global environment have witnessed remarkable changes since economic crisis emerged. People, companies, governments are affected by serious consequences and it is essential to face it and to try to overcome that period of uncertainty and insecurity. Some experts recommend adaption to a turbulent situation, which requires identification of threatens of environment, weaknesses of company, or government, setting goals and ways how to achieve them. It is necessitate to gain more stable position at local, national or even global market (when taking into account e.g. regional integration in world economy), that is possible through being more competitive.

It is easy to ask a question: how to avoid crisis? How to bring better results? How to secure employment, energy, climate, freedom, stability, prosperity? But the answers are not so exact and the actions not so easy to make.

The global economy is in a period of decline, requiring urgent review and reconsideration. This change imposes co-evolution between ecosystems, human society and lifestyle within a limited period. The local and regional approach takes a role and responsibility in the success of the process that has no precedent in the economic development history. (Pulido, cited in Marín Vargas, López Torres & Moreno Moreno 2014)

In this connection it would be affordable to realize systematic actions to build strong and prosperous economy not only now but also in the future – simply marked as sustainable.

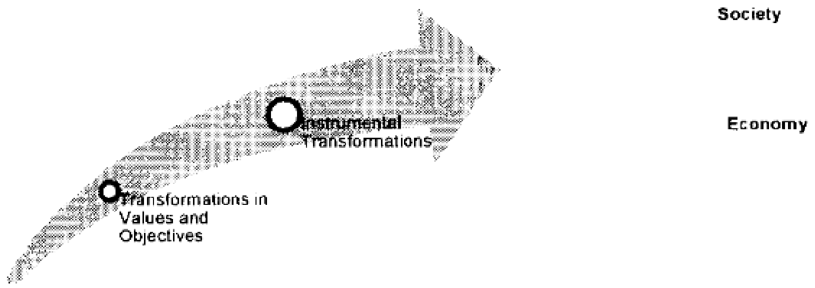
Sustainable economic growth means an increase of output achieved without creating other significant economic problems, especially for future generations. In this connection it is necessary to mention a compromise between rapid economic growth presently and economic growth in the future, as the rapid growth at present can cause depletion of natural resources (and much more expensive exploitation of natural resources) and environmental problems for future generations, including the depletion of oil reserves and fish, as well as global warming, respectively.[37] (Sustainable growth 2009)

2 SUSTAINABLE DEVELOPMENT

The term sustainable development was popularized in *Our Common Future*, a report published by United Nations, World Commission on Environment and Development in late 1980s. From the analytical and strategic perspective sustainable economic development is conceived as the process of global structural change that requires transforming the economy and society, not only changes the values and goals, but also their implementation and institutional support (Fig. 1).

[37] In the energy field unconventional oil has become much more important in connection with technological improvement that can cause migration of resources from hitherto unconventional into conventional category. In this context it is necessary to say that the extraction of this type of oil combine higher costs, but also negative externalities in the form of a greater burden on the environment. For more information see Baláž 2007, IEA.org.

Fig. 1: Economic development as a process of global structural change



Source: Marín Vargas, López Torres & Moreno Moreno 2014, p. 21.

For the implementation of changes in the global economy, meaning its growth, it is necessary to perform fundamental transformation in the understanding of economic growth itself, and thus firstly change a system of values and the resulting targets (phase "Transformations in Values and Objectives" in Fig. 1). Consequently, it is but necessary to successfully implement these changes (phase "Instrumental Transformation" in Fig. 1), which requires the transformation of institutional elements, e.g. building of relevant capacities and capabilities. By Ivanička perhaps the biggest change in the understanding of the global world was caused by the Club of Rome,[38] which he considers the initiator and institutional pioneer of cross-disciplinary science Globalistics dealing with global world and its problems. Further he explains that although ecology is the key tool for understanding global world, it is not a sufficient substitute for political Globalistics. It is eligible not only to examine and analyze a Global World, a global environment, but also to apply then lessons learned in the process of addressing the issues of analyzed facts.

An important contribution to link a global analysis and global action is resolutique, meaning bringing analysis into practical solutions. Turbulent global world requires not only "to examine the complexity of the planet, but also to achieve a change of direction - i. e. to handle a large

[38] The Club of Rome is an international non-governmental association of scientists, businessmen and public officials engaged in the research of global problems and finding their solutions founded in 1968 by Italian industrialist Aurelia Peccei. It was converted to significant and influential global *think tank* that focuses on search for ways to a sustainable future. The Club of Rome has also significantly contributed to the development of the futuristic thinking and became a pioneer in the use of global modeling, system dynamics, scenario thinking and other research methods and tools of the future. (Ivanička 2006; Klinec 2011; Klinec 2013; Meadows et al. 1972; Šikula 2009)

set of problems of transition from unsustainable to sustainable development, which the society needs to realize" (Šikula 2009). It is a field of interest of leading authors of the Club of Rome – King and Schneider. In their report First Global Revolution they consider persisting or emergent conflicts in different places of the earth being the first signs of a global revolution that produces "mixture of geostrategic movements and system of economic, technologic, environmental, cultural and ethnic factors. The combination of these factors leads to unpredictable situations" (King & Schneider 1993, p.3). They point to discrepancies in the global economy concerning the existence of extreme poverty alongside great wealth (unequal distribution of wealth and income) as causes of tensions, unrest, conflicts. According to the authors these remarkable differences indicate an uncertainty or insecurity of further development of global economy, humanity. In order to creating a new global society is primarily important to recognize and determine values characterizing the environment best suited for humankind, appreciate an availability and feasibility of material, human and moral resources and thus set a realistic and sustainable vision of the society and subsequently mobilize human capabilities and political will. The following figure declares the need for a holistic approach when trying to change human life, ensure sustainable global economic development and secure society and to address current and future problems. It is important to consider two (could be said fundamental) aspects related to human society namely global economic growth and population growth. An endeavour should be to ensure sustainable global economic growth with simultaneous perception of population growth challenges or threats such as food security,[39] migration, health, employment, transformation of values and eliminating of excessive consumption while reducing the use of input materials and depletion of natural resources, innovation in the field of energy reducing environmental degradation.

The authors expressed the factors influencing humankind as the following scheme (Fig. 2 on the left). It was also the field of interest of Ivanička, who names it as Synergetic system of human life dynamics (orig. Dynamika synergetického systému obyvateľstva planéty). Its graphic design (Fig. 2 on the right) expresses emphasis on global economic growth and

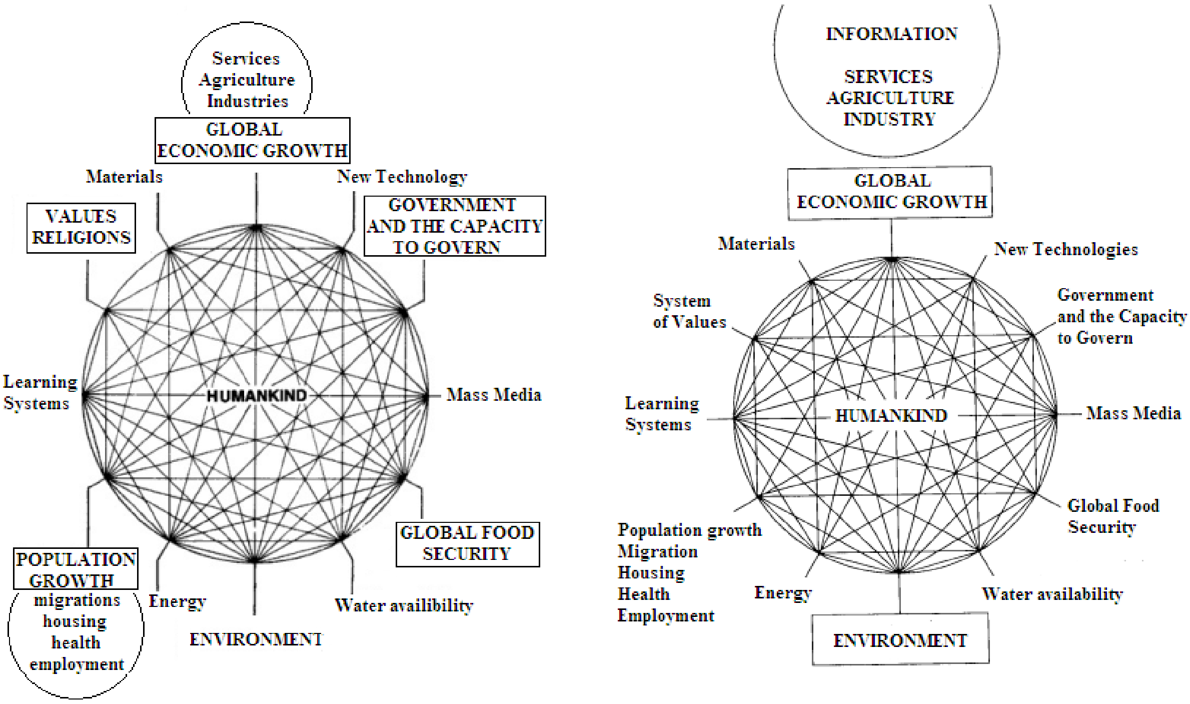
[39] In the context of ensuring food security is necessary to eliminate the threats. Obadi compares two food crises – one in 70s of the 20th century and another in 2008. Their common denominator was unfavorable climatic conditions, oil shocks, resulting in a decline in production and on the other hand they were accompanied by increases in global demand caused by the impact of population growth in developing countries. The essential difference, however, was that the food crisis in the 70s of last century was caused by the supply side, the other mentioned driving by demand (largely due to the growing demand for biofuels). (Obadi 2011).

environment along with significant importance of information, thus in simple terms the classic sectors of the economy are completed by quaternary sector.

New technologies and knowledge based economy mean positive factors for improving the quality of life, but alongside they may also bring negative consequences;

... revolutionary transformations in the technological process of producing present not only material conditions, assumptions and factors of globalization, but also reveal and limiting new space, which can generate a wide range of social, economic, and social forms of globalization processes (Šikula 1999, p.62).

Fig. 2: Humankind (on the left); Synergetic system of human life dynamics (on the right)



Source: King & Schneider 1993 (on the left); Ivanička 2006, p.35 (on the right).

On the basis of the figures 2 (on the left and on the right side), it can be said that the global economic growth, while being somewhat limited by the environment (attempting to prevent its degradation e.g. due to excessive extraction of raw materials), but an important factor is the population growth and related so. accompanying phenomena like migration, household consumption, the need for housing, health and the possible spread of diseases, education and literacy, and the like. Population growth but cannot be generalized because it is accompanied by various aspects with a significant impact on the world economy. It is necessary to take into account not only the population, but mainly its distribution in terms of maturity of countries. Despite the fact that the population is growing at a slower rate, a growing proportion of its population consists of growth in less developed countries, or the least developed countries, that is closely connected with education, unemployment, (il)legal migration, and the like.[40] Undoubtedly, economic development, as well as population growth (with the corresponding increase in consumption, increased urbanization, increased mobility, etc.) has a major impact on the status of the environment. Economic activities affect nature on a global scale. Social modification, management, subsidies have hit one half of terrestrial and one quarter of the freshwater ecosystem.[41] The environmental degradation is also related to food secure for an ever larger population, in other words, food security is somewhat limited by burden of environment and on the other hand, the goal of improved agricultural production with shorter "life cycle" is accompanied by the use of pesticides, artificial irrigation that significantly harm the environment.

2.1 …at a global level

A crucial step to redefine and implementation of measures to ensure sustainable development with respect to the protection of the environment was a two-week Earth Summit (UN Conference on Environment and Development, UNCED) held in 1992 in Brazilian Rio de Janeiro as the culmination of the process initiated in December 1989 for the purpose of planning, education and negotiations between UN Member States leading to the adoption of Agenda 21, the spread of the proposal for the implementation of actions for sustainable development (United Nations, 1992). The objectives set by the conference – production and consumption matters, the use of alternative energy sources as a substitute for fossil fuels in

[40] At the time of the International Conference on Population and Development under the auspices of the UN in 1994 the world population was estimated at 5.7 billion, until 17 years later has reached the level of 7 billion with an average annual increase of 84 million. Share of population growth is steadily increasing in favor of less and the least developed countries. A difference in population growth between countries is caused mainly due to different birth rates. In the period 2010 - 2014 the population growth amounted to 1.2% per year, compared to the previous decade (growth of 1.5% per year) means a slower rate of growth (average annual growth of 82 million); that is a prerequisite for the future: while in 2025 is expected to 8.1 billion, in 2050 the population will rise to 9.6 billion. (United Nations 2013; United Nations 2014a).

[41] There are endangered species, plant species, an increasing problem of fresh (and drinking) water that is called biological invasion, as the result of changes in natural environment. Carbon dioxide emissions due to fossil fuel combustion and gas emissions of cement factories increased over twelve years by one-third. Up to 41% of the oceans are affected by the negative impact of human activities with the greatest impact on coastal areas. (United Nations 2014b).

global climate change, increased responsibility in respect of transport and reducing emissions, the implementation of the actions for better access to water – and a commitment to the principles of the Rio were confirmed then at the World Summit on Sustainable Development (WSSD) in 2002 in the African Johannesburg.

At the UN Millennium Summit in 2000, world leaders adopted the Millennium Declaration, which set eight major measurable objectives of reducing poverty and hunger, achieving universal education, reducing child mortality, improving the health of mothers together with development of housing, combating diseases, ensuring environmental sustainability and global partnership for cooperation. Freedom, equality, solidarity, tolerance, respect for nature and sharing of responsibility were raised as key values for the development of international relations in the 21st century.

20 years after the Earth Summit Rio + 20 was held (UN Conference on Sustainable Development, UNCSD), a conference focusing on the same issues. Under the auspices of United Nations Environment Programme (UNEP) it has issued a publication Keeping Track of Our Changing Environment: From Rio to Rio + 20 (United Nations Environment Programme, 2011) to compare the indicators for the period between both conferences. A significant factor in the course of twenty years has been marked Internet and related social networking media blurring of geographic distance. To give meaning green economy, there was a boom in the use of biofuels, solar and wind energy, recycling (even if not global and waste production is high). Consumer values, behavior especially in developed countries have been gradually changing, i.e, consumers prefer production of sustainable agriculture without the use of fertilizers and pesticides, for instance.

2.2 …at a regional and national level

The European Union is fully aware of pressure of rising demand, and therefore it pays attention to an environmental policy and its various aspects are then incorporated into other politics, because successful achievement of goals requires a holistic approach.

> Our behaviour makes huge demands on the planet. During the 20th century, the world increased its use of fossil fuels by a factor of 12 and extracted 34 times more material resources. Demand for food, animal feed and fibre may increase by 70 % by 2050. If we carry on using resources at the current rate, we will need more than two planets to sustain us.
>
> (European Commission 2013, p.3).

Evolving different environmental challenges has brought a qualitative change in environmental politics of the European Union. Europe's environmental policy started in 1973, following the

1972 UN Conference on Environment, addressing the public and scientific concerns about the "limits of growth". (ed. Scheuer 2005) At the beginnings of environmental policy European policymaking process in this field emphasized the protection of certain species, improving air quality, reducing emissions, and the like. Now, it pays priority attention to a more systematic approach linking different themes and politics to gain synergetic effect. EU's growth strategy Europe 2020 (European Commission 2010) is currently regarded as perhaps the most important document of the EU with setting objectives like EU's better position in the global market and competitiveness. The strategy recognizes the importance of dedication to the environment because it is closely linked to the knowledge economy (eg. Support eco-innovation). It represents a document which individual Member States themselves take a set together with a time horizon of its fulfillment.

Specific feature of natural environment is connected with its impacts because of no boundaries. It would be insufficient to enforce EU environmental policy and emphasizing the principles of protection and prevention of damage also in other policies just within the EU. On the contrary, it is necessary that neighbouring countries would pay attention to this area and keep a strict policy. It is one of the fields that needs to be managed at different levels: national, regional, global. The objectives set out in Europe in 2020 related to the environment are therefore part of the Millennium Goals, Agenda 21 and the commitments made at the aforementioned conferences.

Turbulent environment, as a consequence of some years lasting crisis, is characterized by unemployment, low investments, energy dependency, irregular migration, and so on. European Union considers its current energy dependency as being vulnerable, scarce natural resources, the cost of energy and impact of climate change as major challenges. According to member states' representatives irregular migration flows require common answers and concerted action and unemployment is still their highest concern – especially for young people. Geopolitical stability at very borders of the European Union cannot be taken for granted.

All these issues have the European Union led to act and therefore the European Council agreed *The Strategic agenda for the Union in times of change SAUTC* in June 2014. Five overarching priorities will guide the work of the European Union over the next five years. One of them – A Union of jobs, growth and competitiveness – means to fully exploit the potential of the single market in all its dimensions (by completing the digital single market) and to promote better conditions for entrepreneurship, e.g. by facilitating access to finance and investment, shifting taxes away from labour and thus promote job creation. Economic cooperation outside European Union is also very important therefore it is affordable to complete negotiations on international trade agreements. Through second, A Union that empowers and protects all citizens, the European Union will help develop skill and talents by freely move and reside and work in different member states, and the like. Geopolitical events, the worldwide energy competition and the impact of climate change have caused a needed rethink of energy and climate strategy. The mentioned field is third priority of the European Union focusing on an affordable energy for companies and citizens, e.g. by completing energy market, enhanced energy efficiency, secure energy for all countries by speeding up the diversification of energy supply and routes, including use of renewable and sustainable energy sources together with respect to global warming and a fight against it. Fourth priority, A Union of freedom, security and justice should bring better managing migration by dealing more robustly with irregular migration also with better cooperation with third countries, preventing and combating crime and terrorism, as well as improving judicial cooperation among countries. The fifth priority is connected with foreign policy of the European Union and of its member states, as well, with ensuring consistency and better coordination between them bringing better results in the field of energy, trade, justice and home affairs, promoting stability, prosperity and democracy in close and wider neighbourhood. It could build or strengthen cooperation with strategic partners and neighbours to develop security and defence cooperation. (European Council 2014)

In the connection with sustainable development, economic growth and secure environment bioeconomy is recognized. It is "the sustainable and innovative use of renewable resources to provide food, feed and industrial products with enhanced properties. Besides economic growth the bioeconomy aims for food security, climate protection and conservation of scarce natural resources. In the past five years alone, the essential objectives of the bioeconomy have been incorporated in the strategic activities of more than 30 countries. The EU and the OECD have made their own important contributions at the international level, including providing support for intra-regional cooperation (through strategies in the field). The FAO was recently mandated to develop an international policy framework for bioeconomy." (biooekonomierat.de) There are some so called Bioeconomy Councils that lead regulatory, social and technology policies to move towards an ecologically sustainable economy that is based on innovation, renewable resources and efficient production processes. The so called Global Bioeconomy Summit 2015 will be held this year to discuss and meet opinion, attitudes and actions of different countries. Representatives of policy, research, industry and civil society, non-governmental organisations will take part to make recommendations in view of global governance and international cooperation (for more information please see www.gbs2015.com). Countries at national level or local level through non-governmental organisations, industry or research are thus important elements in developing bioeconomy and its principles.

Another example of relation and interaction between global or regional (meaning e.g. at European Union level) and national or local level is setting concrete strategies for countries with common targets agreed at global or regional level. One of them is also National strategy for sustainable development setting targets for different fields of sustainable development. Slovak National strategy for sustainable development was agreed by Slovak government in 2001 specifying aims and actions of many departments including fields of economy, finance, environment, education, culture and so on.

Above mentioned types of cooperation and relation among countries, regions (or regional integrations) are remarkable and undoubtedly necessary to achieve set targets and create better prerequisites for sustainable development.

3 CONCLUSIONS

Three fundamental dimensions of sustainable development – social, environmental and economic – are of the same importance and require great attention of global players as well as of small national economies. There are no boundaries between countries when speaking about air or water pollution, spread of diseases, depletion of scarce energy sources, armed conflicts… The impact of globalization and interdependence in the global economy reveals a wide diapason of areas affected at different levels. It is therefore conductive to cooperate not only in defining problems and set the issues that need to be addressed, but also in determining the course objectives and strategies and concrete measures to achieve them. All actions and the accompanying processes as factors limiting or supporting their implementation should be monitored and evaluated. It is thus possible to achieve a positive synergy effects, i.e. by coordinated cooperation avoiding duplication (or multiple) efforts, resulting in not only time but also cost saving.

May be one of useful step or a tool to act is values changing of the whole society. To set concrete targets, measure them and evaluate their fulfillment is undoubtedly important and convenient but on the other hand insufficient itself. It is therefore necessary to gain societies (people), companies, schools, district authorities in the process of transformation of values, attitudes and then reactions, steps to make remarkable progress. Sustainability and value system are presented at the same level by (not just) Ivanička. He even explains a model of establishment of the European Union via these principles. The European Union has been formed with respect to the recognition of value systems, namely respect for individual freedom, solidarity, humanity, democracy and social responsibility. They represent a kind of *de facto* conditions for the realization of social, economic, environmental and demographic sustainability and world ethos, as well.

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Corporate social responsibility as a source of competitive advantage in the application of competitive strategies of banks in Slovakia

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Abstract: Our contribution deals with the concept of corporate social responsibility as part of the implementation of competitive strategies in the banking sector in Slovakia. The concept of corporate social responsibility is gaining on importance especially under the influence of the current social and economic crisis. In our paper, we focuse on the implementation of CSR as part of competitive strategies applied by VUB, a. s. (member of the Intesa Sanpaolo Group), the second largest bank in Slovakia. Based on the theoretical assumptions, that forme the underlying assumptions for the implementation of CSR, we analyze VUB´s implementation of CSR in its competitive strategies in focusing on strengths and weaknesses of the application of this concept with the impact on specific groups of stakeholders.

Keywords: corporate social responsibility, banking sector, competitive strategy, competitive advantage

JEL Classification codes: F39, F68, M31

1 INTRODUCTION

The current crisis that persists in Europe already seven years, deepened the mistrust against the banking sector, especially among public, customers, shareholders and employees. The banking sector, as crisis originator, is facing more increased pressure on sustainability and responsibility, in order to contribute to the welfare of the society. For this reason, several measures in the new banking regulation have been adopted. The concept of corporate social responsibility (CSR) as a part of competitive strategy can be a good possibility for banks to improve their lost reputation. The CSR concept focuses on transparent, sustainable products as well as on proactive cooperation with stakeholders. Responsible behavior, incorporated and implemented in this way, in the competitive strategies of banking groups can contribute to better achieve their strategic goals.

The aim of this paper is to analyze the implementation of socially responsible behavior in applying competitive strategies of the bank VUB, a.s., as a part of Intesa Sanpaolo Group for the years 2011-2013 and to highlight the strengths, weaknesses, threats and opportunities of the application of the CSR concept with the impact on specific groups of stakeholders in Slovakia.

2 LITERATURE REVIEW

2.1 The competitive strategy of the international company and the implementation of the CSR concept on a local market

Markets differ in the characteristics of demand, in the nature of competition, in the development of market infrastructure. Markets are also different in nature, in importance, in tactics of the domestic competition, in the level of sophistication. Client interests, tastes, shopping patterns and price sensitivity vary from country to country. Those factors influence the development of new and different strategies tailored to the country or to the specific region. The increasing integration of markets pushes firms to move from centralized strategies to utilize the experience and resources of one country worldwide. This places increased demands and increased attention to cooperation and integration of operations at different stages of the value chain. Companies must reorient their focus on global integration and coordination strategy to develop different strategies, taking into account the different client needs, competition and market conditions in different geographic locations, what requires rather than as a centralized strategy a local or regional strategy and a greater connectivity with local knowledge, skills, and knowledges.(Douglas ; Craig 2011) In facing the increasing competition, companies have to develop new products and promotional strategies. Promotional strategies should focus on the changes in technology and the development of new media such as the Internet, mobile phones, and social networks and to more interaction with the customer, to reach the target group. Products and customer-oriented strategy in one country require adaptation due to the differences in marketing infrastructure as well as cultural and regulatory factors in other countries. By emphasizing global and regional brands, greater synergies can be achieved. The company must be oriented to consumer habits in different variations, so the experience gained in the adaptation and implementation of the strategy in one market can be applied in the formulation and implementation of strategies for other markets. Countries are different in economic characteristics such as income, financial stability, political risk, ease of doing business, population growth. They also differ in distribution, cultural factors, national identity, ecology, social change. In the firms strategy it is necessary to consider the values, influencing consumer behavior. Customer´s use of products, the social context as well as the infrastructure which supports consumption and consumer decisions is also important. The change of international strategies with a focus on common habits of consumers implies a shift of decision-making powers to the local level. (Zorkóciová ; Jamborová 2013) Porter's competitive strategy focuses on the attractiveness of the sector as well as on the competitive position of firms in the industry. It is based on the understanding of the competition rules that determine the attractiveness of the sector. The value chain theory divides activities in the company to value-based activities (including suppliers, customers, operations and market activities) and to service-based activities (such as human resources management, financial resources, information technology and other support activities).(Kotler 2007) According to Furdová (2013) the term value was specified by many authors engaged in strategy issues in the past, whereby in the center of their attention was still the value as added for the customer. Accordig to J. Rowe (2008) value is the language of competitive strategy, whereby all models of competitive strategies seek to obtain, maintain and add value. A strategy based on sources relies in the way the company uses its resources and its competences. Intangible assets of the company are the key drivers of the competitive advantage. They may include the technical expertise, brand, reputation, organizational culture etc. The competitive advantage of a firm, that consists mainly of tacit assets, is difficult to imitate, or difficult to replace. It is based on gap in the market in recovering the unique own internal resources on which the company has to build its strategy. (Lesáková 2007) Reputational assets, associated with the brand. are of great importance to the perception of company´s successes as well as mistakes and shortages by client and the other stakeholders. (Rowe 2008)

Corporate social responsibility (CSR) is a form of corporate self-regulation, which is integrated into a business model. CSR policy functions are a self-regulatory mechanism whereby a company monitors and ensures its e compliance with the spirit of the law, ethical standards and international norms. The essence of CSR can be expressed as a goal of the company, which in not only in maximizing profits, but also in firm´s orientation to the need of the company´s internal and external environment. The features of CSR are focused on long-term profit creating and on sustainable contribution to the development of the society. Expanding the socially responsible approach was enhanced since the 60 ties of the 20-th century by the increasing power of customers, as well as shareholders, who are interested in company´s stability. Socially responsible behavior can be divided into the economic, ecological and social area with internal and external dimension. The internal dimension consists of human resource management, management of natural resources and on the adaptation to change. The external dimension constitutes of local communities, suppliers, and customers. The increasingly significant resonance of CSR is currently in redefining of the role of the business entities and in the integration of established business benefits to social benefits. (Moon et al. 2011)

2.2 Creation of Corporate social value in a bank

Marketing management of banks began to be an important issue in the context of the growing competition (domestic and foreign). It was influenced also by the development in information technology, combined with a strong pressure on cost savings. According to Medveď (2012) in the 90´s of the 20-th century, new opportunities, connected with the deregulation of financial markets and with the opening of the internal bank market within the EU, have arisen to banks. These facts have contributed to the extensive internalization of banks as one of the causes of the current crisis in the EU. The period after 2008 was marked by the financial and economic crisis and by subsequent weakening of confidence, which is largely determined by the increasingly expertise of wider public about the nature and form of money and their limited capacity as a store of value.(Pavelka ; Turan 2014) As reaction on crisis new stricter regulatory measures for banks as well as new financial architecture have been adopted. According to Kittová and Fifek (2014), the new bank regulation is not sufficiently covered in communication of medias in the SR, especially with the impact to bank customer. However the adoption of regulatory measures to solve the negative externalities of the global financialization is not covered enough. According to Pavelka (2009) crisis solving and learning from crisis should be the common task of economists, bankers, analysts, politicians, lawyers and philosophers which consists in more engaging in business ethics in the future. The bank strategy is greatly influenced by the developments and changes in customer preferences (changes in the customer's age structure, mass propagation of internet, availability of the mass media) which contributed to the increase of the awareness of clients. The precondition for the competitiveness of a bank is the need for a response to any changes in the economy, changes in major customer as well as the ability to predict future trends. According to M. Friedman, (cited in Moon et al. 2011) the corporate social responsibility is executed by company´s managers, not by companies themselves. The managers have to save money of someone else in order to serve the general social interest, which will in fact reduce the income of shareholders and will raise prices to customers. Thus, in fact, the cost of CSR is paid by the client, not by the company. Finally it will reduce the salaries of employees. On the other hand, Porter and Kramer (cited in Moon et al. 2011) state that the social and economic objectives and benefits are not independent and that business and society are not opposed but complement each other. Companies making use of the CSR concept will avoid short-term, socially harmful conduct or behavior, in order to achieve long-term economic performance. Firm that is seeking only maximization of corporate profits and not contributing to social benefits is according to Moon et al. (2011) "selfish corporation". The company, however, did not show negative, because in paying tax. Without violating regulatory rules, it actually contributes to the development of other stakeholders. However it does not have interest in the creation of social benefits beyond the immediate stakeholders. Companies that are interested in the social benefit more than in their own benefit are called "Good Corporation". Firms forming corporate and social benefits are called "Smart Corporation". According to the authors stated, purely theoretically - a company called "Stupid Corporation“is a company, which covers only a social activity. It can be difficult to find it in the market, as in the long term, it is not able to survive. Based on the comparison of these approaches, it is possible to draw two important variables – the ethics and strategy. In order to place the company to the category "smart company", it must have a good business strategy as well as business ethics. “Good companies” are donating funds for philanthropic purposes, regardless of profit or value creation. Rational (“smart”) companies use the market opportunities to meet their needs in increasing their profit levels, and enhance their market scope. The concept of CSR can be called as concept of profit redistribution created by good company. Corporate Social Value (CSV) is a concept which maximizes profit by reasonable companies. (Moon et al. 2011)

3 METHODS

Our contribution deals with the implementation of CSR activities as part of the implementation of competitive strategies by foreign bank entity in Slovakia. Based on the analysis of the CSR activities of the bank - VUB, a.s., we point out the implementation of the CSR concept in the banking business practice in SR. Based on the SWOT analysis of its CSR activities will point out the strengths and weaknesses, opportunities and risks for further successful implementation of this business concept in the international strategies of the financial group Intesa Sanpaolo in Slovakia**.**

4 RESULTS

4.1 CSR implementation in VUB, a.s., Bratislava, SR (case study)

VUB as the second largest bank in Slovakia belongs to the financial group Intesa Sanpaolo SpA. In 2013, the bank issued already its seventh Annual Corporate Responsibility Report, which is compiled under the G3 version of the international Global Reporting Initiative. The report informs about bank´s performance in the economic, social and environmental area. Bank´s social responsibility staff unit is included into the organizational structure of the bank as an independent department, which reports directly to the General Director. It is managed by the manager for corporate responsibility, which is also a member of the International Coordination Group for the corporate responsibility of the parent company Intesa Sanpaolo.

For the implementation of corporate responsibility principles into all activities of the bank there is continuously active working group on corporate responsibility, which members were nominated by the Board of Directors of the Bank from each bank division. Subsidiaries in the Intesa Sanpaolo group implement values, policies and principles of corporate responsibility into their business activities. A section dedicated to corporate responsibility for employees in the intranet of the bank was created. It contains all documents relating to the responsible business (as the Code of Ethics, Internal Code of Conduct and other relevant policies); annual reports on corporate responsibility, as well as business presentations and information materials. The parent bank documents of on corporate responsibility also available for the employees. In the second half of 2013 the education about responsible business for selected employees in VUB was held. VUB runs several programs aimed at dialogue and communication with partners that affect their business activities. It focuses on dialogue with key partners in the following areas:

-customer satisfaction surveys,
-solving of client suggestions,
-employee surveys and polls,
-discussions between staff and management,
-communication with the community.

Particular attention, in using several types of surveys and satisfaction surveys to the category of clients is paid. The survey is built on the basis of the recognized European Indicator of European Customer Satisfaction Index (ECSI Index). Attentive listening and dialogue is also important in relation to the employees. Their satisfaction is examined periodically through employee surveys and by promoting bank's values and principles enshrined in the Ethical Code. The bank is informed about the needs of communities through its meetings with community's representatives, meetings with third sector, education and other entities. The dialogue results in measures and commitments the bank implements it its business and action plans. All these measures help to fulfill the bank's mission, in improving services and products, as well as in managing relations with the bank's partners, so that their relationship can be evenly balanced. VUB Bank decided to implement his business ethics into concrete actions in the context of various important measures introduced by the Code of Ethics as set of principles. It has strategic importance for the bank in regulating the conduct of its employees. The Corporate Anti-Corruption program with its specific systemic and organizational measures builds also on the Code of Ethics of VUB. The bank´s effort to bring clear and truthful information - transparency is translated into the practice as one of bank´s core values. The Bank has prepared the following codes of conduct:

-Code of Ethics of the Consumer Protection

-European Agreement on Pre Contract Informations

-Code of Conduct for Housing Loans (ESIS)

-Ethical Code of Advertising Practice.

The VUB bank continues to build the Corporate Governance in cooperation with Intesa Sanpaolo in setting its own internal rules of responsible business, above the required basic framework of the Slovak legislation. The bank has in force the following internal regulations:

-Code of Ethics of VUB

- Internal Code of Conduct of the Group

-Environmental Policy,

-UN Global Compact,

-Equator Principles,

-Policy of Non Financing of Arms,

-Gift Acceptance Policy,

-Procedure for Handling Complaints (i.e. Whistle Blower Policy)

- Management Policy Relations with Political Parties and Politically Engaged Parties, Clients Operating in Armaments and Risk Industries, Clients from Risk Countries and Countries with Risk Transactions within the Intesa Sanpaolo Group.

The Bank created a specialized unit as a part of the Risk Management Division, which aim is to detect fraud and corruption. It closely cooperates primarily with the Internal Audit and Control as well as with Compliance Departments. (Správa o zodpovednom podnikaní za rok 2013)

Table 1 shows the evolution of selected indicators of CSR activities by the Bank for the years 2011-2013.

Tab. 1: Economical, social and environmental indicators in VÚB, a.s. for the period of 2011-2013

	2013	2012	2011
Loans to clients in mlrd. EUR	7,2	7,1	6,9
Deposits from clients in mlrd. EUR	7,8	7,8	7,5
Shareholders Equity in mil. EUR	430,82	430,82	430,82
Number of clients	1 245 229	1 252 874	1 255 997
Number of sales points	243	246	249
% of local suppliers	92	92	92
Number of employees	3 485	3497	3520
-from which women	2 576	2 565	2 606
-from which disabled	35	36	26
% of fluctuation	14	13,7	12,2
Number of accidents	2	7	6
Support of non-profit organizations	234	295	274
Energy consumption per employee (in kWh)	9 126	9 440	9 767
Paper consumption per employee in kg in a year	136	129	148
Water consumption per employee in l a day	37	37	65

Source: Správa o zodpovednom podnikaní za rok 2013, *VÚB, a.s.,* Available from: www.vub.sk. [20 January 2015].

As evident from table 1, the figure of the loan to customers compared the years 2012 to 2011 grew by 2.9%. Only 1.4% growth of this indicator was achieved in comparing the figures from the year 2013 to the year 2012. The indicator of client deposits grew in comparing of periods 2012/ 2011 by 4%, however in comparing this figure in the year 2013 to the year 2012 the deposits from customers have stagnated with 0%. The capital examined for the period of years 2012 to 2011 and for the period of years 2013 to 2012 has not changed. While in the year 2012 comparing to the year 2011, the indicator of number of clients decreased slightly by 0.25%. In the period of years 2013 to 2012, the number of customers dropped by 0.61%. The figure of the number of sales points in comparison for the periods 2012 to 2011 and 2013 to 2012 fell just about 1.2%. While the indicator of number of employed people with disabilities has increased by 38.4% in the years 2012 to 2011, in the period of years of 2013 to 2012 the increase was significantly lower - only 0.43%. The comparison of the selected financial figures has in contrary improved the stabilization of women employees. While comparing the years 2012 to 2011, the figure fall by 1.43%, in the period of years 2013 to 2012 there was noted an increase by 0.43% in this indicator. The percentage of staff fluctuation in the reporting periods has decreased from 12.3% in comparing 2012 to 2011 to only 2.9% for the period of years of 2013 to 2012. The number of injuries has been reduced, while in the period of years 2012 to 2011 the number of accidents increased by 16.67%, in the year 2013 compared to 2012 it amounted to the fall by -71.43%. In the period of 2013 to 2012 decreased the support to non-profit organizations from the initial increase 7.66% in the period of 2012/2011 to the decrease by -20.67% in the years 2013/2012. There was also an increase in the figure of consumption of paper noted, from the original -12.84% decrease in years 2012/2011 to the increase by 5.43% compared the years 2013/2012. From the above analysis is evident the impact of the crisis on client businesses, employees as well as expenditures of the bank in connection with the implementation of social responsibility concept.

5 CONCLUSION

In our contribution we have analyzed the VÚB´s CSR concept as part of the implementation of bank´s competitive strategy on the Slovak market. Based on the achieved results in the area of CSR for the period of 2011-2013, in our SWOT analyzis we come to the following conclusions: The strengths of the application of the CSR concept in VUB are especially the on-line communication with clients, including the management of complaints, regular evaluation of questionnaires from employees, as well as the raising awareness of CSR throughout the company. The weaknesses include the stagnation of the number of domestic suppliers, the reduction of funding of non-profit organizations, the increased consumption of office supplies. As opportunities the improving working conditions for female employees cn be mentioned, as well as better communication of CSR actvities towards clients and better management of administrative costs with the impact on the environment. Amoung threats we can state the decreased number of customers, as well as the slightly increase of volume of loans and the stagnation of bank deposits. Based on the SWOT analysis we can state, that the VUB bank consistently implements the concept of CSR in all its aspects. In the context of its CSR activities, the emphasis is based on value creation at all levels of the value chain. The current crisis, however, is reflected in the costs incurred to social responsibility of the bank. VUB applies rationalization measures, reduces the number of sales points, as well as the number of employees. Sensible decline is also noted in the indicator of the contribution for non-profit organizations. On the other hand that the bank is organizationally very well prepared for the consistent implementation of CSR principles, not only through the establishment of group-wide management structures, equipped with the necessary skills, but also in the adoption of system elements in the implementation of CSR in the form of links to the ethical principles of management, policy compliance and corporate governance and risk management systems.

6 DISCUSSION

In our research, we confirmed the findings of Douglas and Craig (2011), who argue that companies must reorient the focus on global integration and coordination strategy and issues of global brands to develop different strategies taking into account the different client needs, competition and market conditions in different geographic locations. The CSR implementation in VUB which is based on the implementation of CSR strategy of the financial group Intesa Sanpaolo. According to Zorkóciová and Jamborová (2013) the change of mmarketing strategies with a view to focus on common habits of consumers implies a shift of decision-making powers to the local level. These facts can be also seen in the implementation of CSR strategies VUB, with particular emphasis on the client. Lesáková (2007) states, that the competitive advantage comes from the need to find a gap in the market in recovering the unique own internal resources on which to build. These can be classified as reputational assets, which, according to Rowe (2008), associated with the brand, are of great importance to both client and other stakeholders perceiving the bank´s mistakes, successes and shortcomings. This can be unambiguously characterized in implementation of CSR at VUB, which after 7 consecutive years; voluntary compiled a report on CSR activities of the bank, despite the difficult crisis period.

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Economy and Regional Cooperation of Nordic Countries

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Abstract:
The aim of the paper is to provide brief overview of economy and regional cooperation of Nordic countries. The second chapter examines historical development of economies, environmental conditions and natural resources of the Nordics. It serves as a brief summary of characteristics of the Nordic's economies. The final part of the second chapter interprets the regional integration of the Nordic countries focusing on the historical and cultural aspects of the development of mutual cooperation within the Nordic Council, Nordic Council of Ministers and cooperation of Nordic and Baltic countries.

Keywords: Nordics, Economy, Natural Resources, Regional Cooperation

JEL Classification codes: O 13, F 15, F63

1 INTRODUCTION

Nordic countries stand out by their economic development, high standards of living, educational system, approach towards the environment and the efficient use of scarce resources, as well as, their orientation towards the use of alternative energy sources. The Economist magazine in 2013 introduced article with tittle: ,,The nest supermodel", which claimed that if a person with average talent and income should be born again anywhere in the world, the best place would be in one of the Nordic countries.

The Nordic region represents smooth harmonization of all the spheres of human life – it continues to rank highly on international evaluations on the long term, from an economic (e.g. competitiveness), as well as social perspective (e.g. health and happiness). Therefore, Nordic countries are justifiably considered as successful model of a functioning social state based on the principle of a market economy.

Nowadays, cooperation between countries in region is intensive and plays a great role in developing regional relations and rising global competitiveness. The beginning of Nordic cooperation dates back to the 19th century and is linked to the emergence of the political movement called “Scandinavism". More significant cooperation of the Nordics developed in the post-war period. It is closely linked to the creation of the Nordic Council, the Nordic Council of Ministers and cooperation Nordic and Baltic countries.

2 METHODOLOGY

The focus of the paper will be to briefly examine current state of the economies of the Nordic countries. We will attempt to point out how initially agrarian countries became some of the most competitive economies in the world. We will also look at the importance of the natural resources for their economies at present. Part of the paper will deal with the way raw materials are being used. Furthermore, we will focus on the current state of the economy of Nordics and the character of their trade (mutual, foreign).

Next part of the paper will focus on interpretation the regional integration of the Nordic countries focusing on the historical and cultural aspects of the development of mutual cooperation, as well as, the importance and implementation of Nordic cooperation within the Nordic Council, Nordic Council of Ministers and cooperation of Nordic and Baltic countries.

3 LITERATURE REVIEW

Denomination the „Nordic countries" represents the geographical definition of the region of northern Europe, including the following countries: Denmark, Finland, Iceland, Norway, Sweden and three autonomous regions - the Aland Islands, Greenland and the Faroe Islands. Status of these states in the context of the global economy is extremely significant. The region is outstanding from the perspective of economic development, competitiveness, large reserves of natural resources and efficient use of them. Culturally and socially the Nordic countries are a typical example of a feminine society (as determined by Hofstede's approach to cultural differences), oriented to moderation, tolerance, interpersonal relations and concern for the environment (Zorkóciová 2007). Linking geographical and natural conditions, historical links, cultural and social characteristics of individual nations with favorable standards of living and economic environment, create preconditions for successful integration of the countries into the international division of labor, the global economy and regional integration.

3.1 Historical development, environmental conditions and natural resources of the Nordic countries

The Nordic countries are considered developed, relatively small, export-oriented economies. Historically, these economies developed from poor agrarian economies into modern, industrialized ones, which are presently among the most competitive in the world. The process of industrialization in these countries came relatively late (1850 - 1914), although when it then occurred it was larger dynamic. The bases for industrialization were set due to extensive use of natural resources, which these countries possess. Development of the Danish economy was based on agriculture and the food industry. Norway used its hidden potential in forestry, fishery, and water resources; and became significantly rich from mining and exporting oil from the North Sea. The Iceland laid the basis of its growth in the fishery sector. The primary source for Finland and Sweden was the development of forestry and in the case of Sweden also extensive ore reserves (Norden 2015).

Even to this day the five Nordic countries widely rely on their favorable natural and geographical conditions. Especially in Sweden, Norway and Iceland hydroelectric and geothermal energy continues to play an important role. Energy produced in hydroelectric plants is a cheap source of energy, which reduces production costs, increases competitiveness and consequently contributes to economic growth. Norway could serve as a good example. Hydroelectric power ensures cheap energy for the production and processing of aluminum, followed by shipbuilding. As previously mentioned, the Nordic countries devote a lot of attention to environmental and resource efficiency, therefore, are constantly attempting to increase the amount of renewable energy and energy generated from biomass. For instance, Finland belongs among the world leaders in renewable energy, particularly bioenergy. They have built the largest biomass power plant in the world. The utilized fuel is made of peat and biomass based on wood, i.e. sufficient resources in the country.

Other important economic sectors are forestry, fishing and mining industries. Forestry, wood and paper-processing industries are historically traditional sectors of the economy in most Nordic countries. It is of great importance in Norway, Finland and especially in Sweden. Sweden is the third largest exporter of paper in the world (Ministry of foreign affairs of Slovak republic 2015) and together with Finland represents 13.2% of world production of cellulose, which is one of the main export items of the two countries. In Denmark and Iceland, wood is a scarce resource.

Fishing plays an important role in Denmark, Norway and Iceland. They provide significant amounts of herrings, cod and salmon (Norway). According to Nordic Statistical Yearbook 2012 fishing reaches 40% of all export revenues in Iceland. Denmark and Norway‘s fishing represents 4-6% of total export revenues (Nordic Council of Ministers 2012).

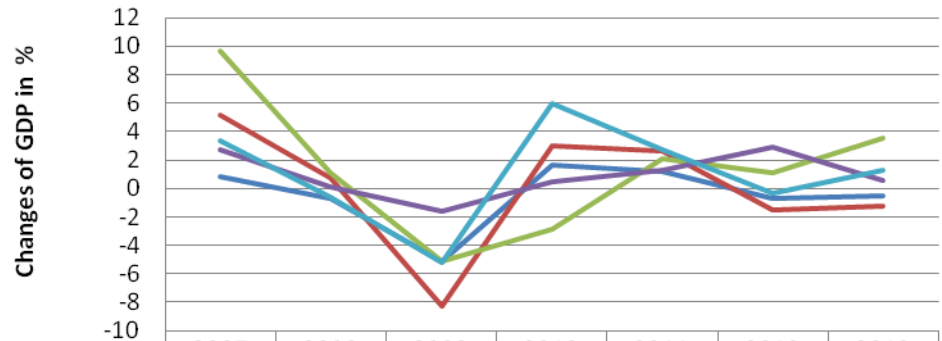
These countries are also rich in raw materials. Sweden benefits from the existence of large reserves of iron ore, Norway and Denmark from the extraction, processing and export of crude oil and natural gas from the North Sea. Denmark is not among the major global exporters of oil. Its share in global production is relatively small, on the other hand, stocks are sufficient to

meet domestic demand, and the rest of the production is exported. Natural gas is extracted from the North Sea, and is used for heating homes and generating electricity. Other Danish‘s raw materials are limestone, chalk and clay (Prodenmark 2013). In the case of Norway the mining industry can be considered the driving force of the economy. Norway possesses the largest reserves of ilmenite in Europe, which is used in paint, production of plastic material and paper, and also has extensive reserves of iron ore, copper, zinc, gold, nickel and coal. Furthermore, according to country's Petroleum Directorate was Norway in 2012 the tenth biggest exporter of oil and the sixth biggest gas exporter in the world (Hovland 2014). Norway's natural gas supplies satisfy approximately 20% of the needs of Western Europe (Norway.org.uk 2013).
These facts prove the importance of natural resource wealth for the Norwegian economy, which gives Norway a significant position in the global economy.

3.2 A brief summary of the characteristics of the Nordic Economies

Although the Nordic countries are often considered to be a global model for the successful implementation of economic policies, this region has not been without economic crisis. Many Nordic countries in the 80's and 90's of the last century, suffered a severe crisis (Finland, Sweden, Denmark, Norway). This led to structural changes in their economies. Nowadays, the widely export-oriented economies are becoming to be a threat to certain extend because they are very dependent on external demand. The global economic crisis in 2008 caused a worldwide recession, which had a severe impact on international trade. Reduced foreign demand, resulting in decreased export naturally had a negative impact on the GDP in the Nordic countries. After an extended period of economic growth, 2008/2009 brought a decline in GDP. The following years the countries of this region (except Iceland in 2010) had recorded growth again. The impact of the global economic crisis affected the Nordic countries, but Iceland, and especially its financial sector, suffered most severely.

Fig. 1: Percentual changes of GDP of Nordics, in term 2007 - 2011



	2007	2008	2009	2010	2011	2012	2013
Denmark	0,8	-0,7	-5,1	1,6	1,2	-0,7	-0,5
Finland	5,2	0,7	-8,3	3	2,6	-1,5	-1,2
Iceland	9,7	1,1	-5,1	-2,9	2,1	1,1	3,5
Norway	2,7	0,1	-1,6	0,5	1,3	2,9	0,6
Sweden	3,4	-0,6	-5,2	6	2,7	-0,3	1,3

Source: authors according to data from OECD, < http://stats.oecd.org/>

These countries are at high economic level. The GDP of these states for the last 10 years recorded a higher growth rate than in the case of the EU – 15. A similar phenomenon can be observed with the trend of GDP per capita. In Norway this indicator is 70% higher than the average GDP per capita in the EU-15. Thus, Norway ranks among the countries with the highest living standards in the world (Nordic Council of Ministers 2012).

Tab. 1: GDP per capita (current USD) and population of Nordic countries, 2013

Country	GDP per capita (current USD)	population
Denmark	59 831	5 627 235
Finland	49 146	5 451 270
Iceland	47 461	325 671
Norway	100 818	5 109 056
Sweden	60 430	9 644 864

Source: authors according to data from: World bank and Nordic Statistical Yearbook 2014, <http://data.worldbank.org/indicator/NY.GDP.PCAP.CD> and <http://www.norden.org/en/theme/theme-2012/nordisk-statistik-i-50-aar-1/nordic-statistical-yearbook>

Domestic markets of the Nordic countries are relatively small, therefore international trade represents an important pillar of their national economies. In order to develop business activities, Nordic countries engage in cooperation at regional and international level. Intra-regional trade accounts for about one fifth of the total foreign trade of the Nordic countries (Nordic Council of Ministers 2012) and plays a significant role for their economies. Mutual trade represents approximately 22 % of their total trade volume. The greatest share of mutual trade (in 2013) was achieved by Denmark; 35,92 % of its total foreign trade. Denmark was followed by Sweden with its share 23,42 %; Iceland 18,27 %; Finland 16,3 %; and Norway 14,88 % of mutual trade of total country trade.

Tab.2: Intraregional trade as a share of total trade in %, 2013

	Sweden	Denmark	Finland	Iceland	Norway
Sweden	-	20,75	11,39	2,22	8,5
Denmark	7,38	-	2,46	5,58	4,43
Finland	6,21	3,79	-	0,57	1,59
Iceland	0,09	0,48	0,03	-	0,36
Norway	9,74	10,9	2,42	9,9	-
Total Nordics share on trade	23,42	35,92	16,3	18,27	14,88

Source: authors according to data from: UN Comtrade database, < http://comtrade.un.org/data/>

Region‘s important trading partners (in terms of exports) are the EU and USA. Major import partners are Germany, Russia, China and other EU countries (mainly the UK and the Netherlands). All the Nordic countries, except Finland, recorded positive trade balances in 2013 (Norden 2014).

The structure of these economies reflects their economic level. The highest proportion of the GDP are services (tertiary sector), industry (secondary sector) and the smallest share is formed in the primary sector. Structural changes in the Nordic countries led to expansion of the service sector and to the transformation of the economy to one based on active use of modern technologies. These countries are highly innovative. Companies such as Nokia and Ericson can serve as a good example of successful transnational companies operating in the field of information and communication technologies. The ability to be innovative has nowadays become a necessity for remaining competitive in global markets and for ensuring sustainable economic growth. The Nordic countries are fully aware of this trend. Therefore, large funds are designated to fuel scientific research. Their spending in this area, represented as a share of GDP, belongs among the highest in the world (Finland – 3,55 % of GDP, Sweden – 3,41 % of GDP, Denmark - 2,98 % of GDP, Iceland with 2,4 % GDP, Norway – 1,65 % of GDP in 2012) (Norden 2014). The average EU-15 expenditure on R&D which is 2,17 % (2012) of GDP. This demonstrates that expenditures in the Nordic countries (excluding Norway) on research and development are higher than in the EU-15. Even though Norwegian share of spending is seemingly lower, the country's GDP per capita is extremely high, therefore the actual amount of funds designated for R&D is in reality higher than the average of the EU-15. The key to the success of the Nordic countries is their ability to effectively adapt to the constantly changing conditions of the world economy.

3.3 Regional cooperation between the Nordic countries

Existing relations among the Nordics have been developed on the basis of previous historical ties. There are linguistic and religious affinities (Lutherans), as well as a common cultural value system. These significant factors established common ground for successful cooperation of the countries in the region.

Historical basis for mutual relations - The first unification of the Nordic countries dates back to the 14th century. Today's five Nordic countries (Iceland, Denmark, Norway, Sweden, Finland), all formed part of the newly established Kalmar Union (1397 - 1523) got under hegemony of a common ruler. The existence of the Kalmar Union led to constant civil wars, resulting in the Union disintegration in 1523. The following period is characterized by various military conflicts. Normalization of relations came about in the 19th century and is linked to the emergence of the political movement called “Scandinavism". Scandinavism was based on the ideal of the convergence of the Nordic countries, through the re-discovery and awareness of commonalities and historical connectedness. The result of this initiative was the emergence of a movement for political, economic and cultural unity of the Nordic countries which should lead to the development of relations between the countries (Krines 2000). In the monetary sphere there was an initiative that resulted in the establishment of the Scandinavian Monetary Union (1873)(Bordo - James 2008). Member States (Denmark, Norway and Sweden) became the Scandinavian countries. The Union formed the platform for the international monetary cooperation, based on gold monometallism. It also led to joint changes in minting. The gold coins of these countries become the legal currency within the Union (Jankovská 2003).

The beginning of scientific and technological progress led to the deepening of cooperation among countries. Removing distance barriers (construction of railways, maritime transport development and the emergence of the telegraph) accelerated regional cooperation. Scandinavian labor movements and cooperation of people based on professional basis became the machinery for spreading ideas of unity. During the First World War Scandinavian countries declared neutrality, except Finland (as it was part of Russia). The political and economic situation consequently led to a significant increase in intra-regional trade from 12% in 1914 to 30% in 1917 (Krines 2000). In contrast, the Second World War II led to the division of the Nordic countries. Finland became an ally of Germany. Denmark and Norway were attacked by German troops. Iceland was occupied by Great Britain and Sweden remained neutral. The most negatively affected countries were Norway and Finland, while Sweden, as a neutral state, became wealthier during the war. Repair of the war-torn economies occurred quickly.

More significant cooperation of the Nordics developed in the post-war period. It is closely linked to the creation of the Nordic Council, the Nordic Council of Ministers and cooperation Nordic and Baltic countries.

- **Nordic Council**

In 1952, Denmark, Iceland, Norway and Sweden established the Nordic Council. Finland with regards to its relations with the Soviet Union joined the Council only in 1955. The Nordic Council has created a space for collaboration based on an inter-governmental approach. The goal of the Nordic Council is strengthening regional development through cooperation of their governments. The Nordic prime ministers have ultimate responsibility for the Nordic governmental cooperation. Decisions taken by the Nordic Council are firstly presented to the Nordic Council of Ministers and then passed on to Nordic Parliament for approval and implementation.

Initial cooperation included issues concerning education and culture, later expanded into the field of law, defense, economic and social policies, transportation, telecommunications, environment, research, development and innovation (Ministry of foreign affairs of Finland 2015). One of the greatest achievements s in the early years of the Council was to create a single labor market which enabled free movement of people. At present, the Nordic Council faces issues such as how can the Nordic region deal with the challenges and constant changes on world markets and global economy as such.

Activities of the Nordic Council reach beyond the borders of the region. The Council deepens cooperation not only within Member States but also in the neighborhoods (Baltics, Russia).

There is active cooperation with Estonia, Latvia and Lithuania in areas such as energy security, the environment. There is common effort to protect the Baltic Sea from oil pollution. Furthermore, there is cooperation the Council and Russia, especially northwestern part of Russia. There are exchange programs, during which Russian leaders have the opportunity to visit the Nordic region and get familiar with the work of the Nordic Council (Norden 2013).

- **Nordic Council of Ministers**

An organization dedicated to intergovernmental cooperation of the Nordic countries, founded in 1971. Membership is the same as in the case of the Nordic Council. The aim is to provide more operational implementation of the recommendations of the Nordic Council. Nordic Council of Ministers is working closely with the Nordic Council, dealing with matters in the Nordic interests. It is a decision-making body working on the implementation of projects in the Nordic countries. The meetings of Nordic Council of Ministers are generally composed of 10 ministers representing specific areas of cooperation matters (e.g. culture, environment, education, science, research, energy, etc.). Ministerial decisions are binding, therefore voting requires unanimity (Ministry of foreign affairs of Iceland 2015).

- **Cooperation between the Nordic and Baltic countries**

Cooperation between the two regions is based on a common cultural, historical, political and economic ground, as well as the effort to create an area of stability, security and prosperity in the Baltic Sea. The Baltic countries, despite their relatively insufficient economic development, were not asked to participate in Nordic cooperation. Although the Nordic countries by 90's years develop cooperation efforts. Cooperation referred to as NB (Nordic-Baltic cooperation) includes five Nordic and three Baltic countries. It basically acts in form of regular informal consultations in various fields of foreign and security policies. It is a complementary cooperation for solely Nordic cooperation (Ministry of foreign affairs of Latvia 2015).

4 CONCLUSION

Nordic countries belong to the most competitive economies in the World. From agrarian countries in the beginning of the 19. century became the most developed ones. It happened due to the industrialization process in the period 1850 - 1914, that was based on using natural resources and implementation of new technologies and processes. As well, the crisis in 80's and 90's led countries to structural changes in their economies. Nowadays, Nordics are considered as social states with market economy. Sometimes, it's called as third way, the combination of the best features of socialism from the east and capitalism from the west. However, the historical, lingual and religious affinities created the basis for developing mutual cooperation of Nordics, that led them to the regional integration within the Nordic Council, Nordic Council of Ministers and cooperation of Nordic and Baltic countries. Regional cooperation helps rising the ability of region to adapt to changes in global economy, especially strengthening their competitiveness.

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Intellectual Property Rights in International Investment Agreements

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Abstract: Intellectual property rights (IPRs) constitute an important and strategic asset in international business. IPRs are generally considered as a proof of technical advancement of an industry and therefore are of an interest for governments trying to attract foreign direct investments in technologically advanced sectors.
In order to promote foreign investments, countries often bilaterally conclude international treaties on investment protection. Additionally, investment protection is currently, besides IPRs regulation, often included in complex preferential trade agreements.
The IPRs are often explicitly listed in the definition of what is considered as covered investment under a given international investment agreement (IIA), however, the wordings of definitions differ.
In the context of investment protection, specific characteristics of IPRs protection raise conceptual questions in relation to potential disputes over expropriation of an investment, e.g. definition of the rights covered, compulsory licences for patents granted, standard of treatment of an investor stipulated in BITs (national, most-favoured-nation and fair and equitable treatment) or available dispute settlement systems – investor-to-state in BITs vs. state-to-state in multilateral international treaties covering IPRs protection.
The aim of this article is to scrutinize to what extent intellectual property rights constitute an investment under bilateral investment treaties and to identify possible impacts and connotations it might have in investment as well as IPRs protection in international trade – for both investors and governments involved.

Keywords: Intellectual property, IPRs, investment, IIA, BIT, PTA

JEL Classification codes: F13, K33, O34, L24

1 INTRODUCTION

Intellectual property rights (IPRs) constitute an important and strategic asset in international business. IPRs are generally considered as a proof of technical and creative advancement of an industry and therefore are of an interest for governments trying to attract foreign direct investments (FDIs) in technologically advanced and creative, thus generally high-value-added sectors. Due to their territorial character, entrepreneurs are, generally speaking, forced to seek the IPRs protection on every market separately. International aspects of the protection of IPRs are governed by international treaties administered by the World Intellectual Property Organisation (WIPO) and by the Trade-Related Aspects of Intellectual Property

Rights Agreement (TRIPS) concluded within the World Trade Organisation (WTO), binding upon all WTO members.

In order to promote investment, countries have been bilaterally concluding international treaties on investment protection (in general: *International Investment Agreements* – IIAs[42]). IIAs are concluded between countries (or integration groups, i.e. the European Union), however, they provide for obligations for governments and rights for investors. Currently, there are almost 2500 IIAs in effect (2223 BITs and 274 other IIAs; *in* UNCTAD 2015). Additionally, investment protection is, besides IPRs regulation, extensively included in complex preferential trade agreements (PTAs), concluded both bilaterally and regionally. There has been no international treaty on a multilateral level covering investment, however, the WTO law includes a plurilateral *Agreement on Trade-Related Investment Measures* (TRIMS), covering only investment measures related to trade in goods. Additionally, investment-related measures are stipulated in other WTO Agreements, e.g. the GATS[43] with regard to services, the TRIPS with regard to IPRs or the GPA[44] concerning public procurement (WTO: TRIMS, 2015; in detail *in* Štěrbová 2013).

The IIAs differ as to their content and their extent; nevertheless, they generally include three main principles: guarantees against unlawful expropriation, duties to treat investment fairly and equitably and full security and protection (Lowe 2002).

The IPRs are often explicitly listed in a definition of what is considered as investment under a given IIA. However, explicit wordings of definitions of investment differ. In the context of investment protection, specific characteristics of IPRs protection raise conceptual questions in relation to potential disputes over expropriation of an investment, e.g. definition of rights covered, compulsory licences for patents granted, standard of treatment (national – NT, most-favoured-nation – MFN, and fair and equitable treatment) or available dispute settlement systems – investor-to-state in IIAs vs. state-to-state in multilateral international treaties covering IPRs protection. As both investment and IPRs protection have been currently included in negotiations of one single complex PTA, their ties and possible regulative discrepancies require thorough drafting as well as cautious interpretation. That is also the case of the European

[42] Alternatively also '*Bilateral investment treaties*', BITs, or '*Investment Promotion and Protection Agreements*', IPPAs (Lowe 2002).

[43] General Agreement on Trade in Services.

[44] Agreement on Government Procurement.

Union since the Lisbon Treaty, as the Treaty on the Functioning of the European Union (TFEU) has expanded EU's exclusive external competences, having included both foreign direct investment and trade-related aspects of IPRs into the scope of the Common Commercial Policy (CCP; *in* Kleimann 2011).

The relationship between IPRs and investment protection have extensive impacts on real investor-state relationships, as investors start to realise the IIAs might provide them with a possible additional way of reversing decisions or regulation related to their IPRs interests. As highlighted by B. Mercurio (2014), there have been recently three important claims, namely the case of plain packaging, as Phillip Morris challenged restrictions on the advertising and packaging of cigarettes in Australia and Uruguay (further *in* Farley 2014; Mercurio 2012), and the case of Eli Lilly, a pharmaceutical company claiming that invalidating two of its patents by Canadian courts violated its rights as an investor under the North American Free Trade Agreement (NAFTA; *in* Managing IPRs, 2013). Previously, the NAFTA Agreement was also used as a tool to initiate arbitration proceedings against the USA by Apotex, generic drugs manufacturer, who failed to obtain FDA approval[45] for their generic drugs, claiming that the USA failed to provide MFN and fair and equitable treatment for their investment (Managing IPRs, 2013).

As illustrated by the case of plain packaging, the relationship between IPRs and investment protection might be further complicated by other considerations, such as the role of public policy regulation (public health, environmental protection, etc.).

The aim of this article is to scrutinize to what extent intellectual property rights constitute an investment under IIAs and current PTAs and to identify possible impacts and connotations it might have in investment as well as IPRs protection in international trade – for both investors and governments involved. In this context, the specific examples of IPRs-related issues discussed with regard to the wordings of IIAs are applications for IPRs and compulsory licences. Therefore, these two issues are scrutinized in a separate chapter.

2 INTELLECTUAL PROPERTY RIGHTS AS COVERED INVESTMENT

The aim of IIAs is to lure foreign investment, promising stable and fair environment for business operations. From a legal point of view, IIAs provide for protection of investment that fulfils the definition stipulated therein, i.e. falls under the definition of so called "*covered investment*".

[45] Food and Drug Administration.

The definition of '*covered investment*' usually consists of two parts – general definition, stating that an investment means every asset that the investor owns or controls, directly or indirectly[46], followed by the second part – an express list of forms that an investment may take. Currently, IPRs have been standardly expressly included in the list of forms of covered investment which is, as stressed by L. Liberti (2010), not a novelty[47], also e.g. in case of the Czech Republic (MF ČR, 2015).[48]

The extent and wording of the definition is crucial. Some IIAs include into the list of forms of covered investment only "*intellectual property rights*"[49]. Other IIAs stipulate a broader definition that includes a sublist of intellectual property covered, provided that the sublist is usually meant as illustrative and non-exhaustive.[50] Still, the lists often include additional rights going beyond the TRIPS Agreement, e.g. goodwill or confidential business information (Farley 2014). The wording of the list is then crucial, as sometimes it is limited to types of IPRs[51], however, sometimes it refers to the *"rights with respect to copyright, patents, (...)"*, followed by other types of IPRs. In the later case, the list of covered rights is, arguably, broader than merely types of IPRs, provided that the contentious institute constitutes a right (see below). Occasionally, IIAs do not expressly mention IPRs in their definition of investment. However, as argued by B. Mercurio (2012), IPRs may also qualify as covered investment as "*a form of property rights and an intangible asset used for economic benefit or other business purposes*".

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[46] USA Model BIT.

[47] As IPRs occurred already in the US Friendship Commerce and Navigation Agreement concluded between the USA and China in 1903 prior to the expansion of BITs (L. Liberti, 2010).

[48] IPRs should be covered also in the negotiated EU-China IIA (EC, 2010).

[49] USA Model BIT 2012, consequently in e.g. USA-Uruguay; Norway 2007 Model Draft BIT; in case of Indian Model text of BIPA 2003 „*intellectual property rights, in accordance with the relevant laws of the respective Contracting Party*".

50 USA-Bahrain BIT: Investment consists or takes the form of: „(…) intellectual property, including, but not limited to: copyrights *and related rights, patents, rights in plant varieties, industrial designs, rights in semiconductor layout designs, trade secrets, including, but not limited to, know-how and confidential business information, trade and service marks, and trade names (...)".* (Art. 1 (d) (5) USA-Bahrain BIT).

[51] USA-Bahrain BIT.

Similarly, definitions in IIAs often cover royalties. Those might be expressly included (i) under *return* on investment[52] or, similarly, under *transfers* relating to covered investment[53], or, less frequently, (ii) under investment itself[54], or theoretically, (iii) not expressly mentioned at all.

The definition of covered investment is usually stipulated in introductory paragraphs of an IIA and thus, if disputed, subject to interpretation in compliance with dispute settlement procedures stipulated therein.

Once the issue is determined to fall under the covered investment, *expropriation* is a key word in investment cases to establish whether the government's decision or regulation might have amounted to violating the IIA. As highlighted by V. Lowe (2002), expropriation is no longer understood only in a sense of uncompensated takings of private property by the state, as *"(...) it is recognized in international law that measures taken by a State can interfere with property rights to such an extent that these rights are rendered so useless that they must be deemed to have been expropriated, even though the State does not purport to have expropriated them and the legal title to the property formally remains with the original owner."*[55] As obvious in the above described cases, this finding is crucial also in IPRs-related investment disputes.

2.1 Applications for IPRs

A patent application, and any application for intellectual property rights in general, does not constitute an intellectual property right per se. Nevertheless, it may be covered by IIAs that use the broad definition of covered investment with regard to IPRs: *"rights* ***with respect to*** *copyright, patents, (...)"* (see above). However, in that case it should be scrutinised whether a patent application would constitute an *"intangible property"*, specifically, whether it may be qualified as *"property"*. L. Liberti (2010) argues that *„[a]lthough a patent application creates a mere expectation of obtaining an exclusive right, it entitles the holder with certain*

[52] Indian Model text of BIPA 2003.

[53] USA Model BIT 2012, Norway 2007 Draft Model BIT.

[54] Japan-Korea BIT.

[55] Iran-United States Claims Tribunal, Starrett Housing Corp. v. Islamic Republic of Iran, Iran-U.S.C.T.R. 4 (1983 III), S. 122 (154).

prerogatives such as the ability to act against infringers." Additionally, it is generally possible to legally dispose of a patent application, e.g. by means of an assignment or a licence.[56]

Secondly, L. Liberti argues that patent applications might be also covered by IIAs whose definition of covered investment includes *"copyright and* ***related rights****"*. However, this term is traditionally used to address specific rights related to copyright[57], therefore, if only this connotation is used in the definition of covered investment, the patent applications should not be considered to be included.

Additionally, some BITs concluded by the USA, Canada or Japan cover not only the investment phase, but also allow for national treatment (NT) of investment projects in their pre- and post-establishment phases (Liberti 2010; Štěrbová 2013). Consequently, some authors argue that applications for IPRs might be considered as a pre-establishment phase of an investment project (Liberti 2010). Nevertheless, these considerations should reflect the IPRs principles, as it remains in the discretionary power of a patent office to decide whether, subject to compliance with applicable national and international regulation and MFN and NT principles, a patent (or any IPR in general) shall be granted.

Recently, several IIAs have addressed this issue expressly, leaving no further room for doubts, e.g. agreements concluded by the USA[58] set out that investment provisions do not apply to the cases of revocation, limitation or *creation* of IPRs, provided they are in compliance with the TRIPS, or, interestingly in case of comprehensive PTAs, in compliance with the Chapter of the same Agreement regulating the IPRs protection[59]. However, as mentioned also in the case of compulsory licences, such compliance would be, if disputed, assessed by dispute settlement mechanism foreseen in the given IIA, i.e. by arbitrators in an investor-to-government case, who, as argued by B. Mercurio (2014), might lack sufficient expertise in interpreting the TRIPS Agreement and jurisprudence related thereto.

[56] E.g. Chapter IV (Art. 71-74) of the European Patent Convention – EPC.

[57] as regulated by Part II, Section 1 of the TRIPS Agreement; related rights were previously referred to as neighbouring rights and cover protection of performers, producers of phonograms – sound recordings – and broadcasting Organizations. Related rights cover Protection of Performers, Producers of Phonograms (Sound Recordings) and Broadcasting Organizations

[58] Conclusion based on assessment of the following treaties: USA – Uruguay BIT, KORUS FTA, USA-Bahrain FTA in connection with USA-Bahrain BIT, CAFTA-DR FTA,

[59] KORUS Agreement.

2.2 Compulsory licences

A compulsory licence represents an institute of IPRs law that is meant to balance monopoly rights awarded to an owner of a patent. Having met conditions stipulated in Article 31 TRIPS, governments may decide, primarily in cases of national emergency, to grant a compulsory licence without consent of a rights owner.

Recently, given the disputable status of compulsory licences under IIAs, they have been expressly exempted from the covered investment definitions by numerous IIAs.[60] Other IIAs do not exempt compulsory licences expressly, however, provide for an exemption for cases of transfer of IP undertaken in a manner not inconsistent with the TRIPS Agreement.[61] Consequently, this general wording may cover also other questionable issues, including protection of undisclosed information or protection of public health[62].

Some PTAs prefer an even more general approach, stating that *„[i]n the event of any inconsistency between this Chapter* (on Investment) *and another Chapter, the other Chapter shall prevail to the extent of the inconsistency."*[63] That provision would exclude from possible investment cases all limitations of IPRs that are in compliance with the IPRs Chapter that usually further refers to the TRIPS Agreement.

The compulsory licences or transfers of IP in general are usually exempted subject to compliance with the TRIPS Agreement. Nevertheless, the TRIPS compliance would be, in case of a dispute, also interpreted by means of dispute settlement mechanisms foreseen in the given IIA, i.e. by arbitrators (see also Fig. 1 *in* Boie 2010).

3 STANDARD OF TREATMENT AND IIAS PROVISIONS AS TRIPS-PLUS

The relationship between standards of treatment of investment on one hand and IPRs on the other hand constitutes a complex question. Even when regulated in one comprehensive PTA, IPRs and investment chapters provide separately for their own definition of standard of treatment – e.g. IIAs concluded by the USA[64] stipulate NT and MFN treatment for investment,

[60] US Model BIT 2012.

[61] Norway 2007 Draft Model BIT, Korea-Japan BIT.

[62] Art. 39 TRIPS. US Model BIT 2012 refers to Art. 39 expressly as a possible preclusion of the imposition of requirements related to the transfer of technology (further also in OECD, 2006).

[63] USA-Australia FTA, CAFTA-DR FTA.

[64] USA Model BIT 2012 as well as FTAs, e.g. KORUS Agreement, USA-Australia FTA, USA-Chile FTA.

in connection with minimum standard of investment treatment in accordance with customary international law, including fair and equitable treatment and full protection and security, as provided for in international law; whereas the US PTAs provide for NT for IPRs[65].

The debate on the relationship between investment and IPRs protection is crucial with regard to the international level of IPRs regulation, namely the analysis of TRIPS-plus provisions – regulation going beyond the minimum standard stipulated in the TRIPS Agreement and, possibly, binding multilaterally, given the non-existence of exemptions to the MFN and NT principles in the TRIPS Agreement (*further in* Drexl et al. 2014).

Therefore, some of the IIAs regulate this question specifically, stipulating that: *"[n]othing in this Agreement shall be construed so as to oblige either Contracting Party to extend to investors of the other Contracting Party and their investments treatment accorded to investors of any third country and their investments by virtue of multilateral agreements in respect of protection of intellectual property rights, to which the former Contracting Party is a party."*[66] In other words, all provision contained in this given IIA shall be exempted from the NT and MFN principles not only under the TRIPS Agreement, but also under other multilateral IPRs agreement, i.e. those administered by the WIPO. Therefore, provisions contained in this IIA shall not be deemed to constitute the potentially multilaterally binding TRIPS-plus standard.

4 DISPUTE SETTLEMENT MECHANISMS

Investors willing to question an IPR-related decision or regulation are supposed to use national remedial procedures, or, turn to their government with an attempt to address the contentious measure on a government-government level, within the WTO dispute settlement mechanism, should it concern the TRIPS Agreement. On the other hand, IIAs usually provide for investor-to-state dispute settlement mechanisms, namely arbitration[67], which might constitute an additional remedial tool. Arbitration is generally considered as a less time-consuming means of dispute settlement and, as highlighted by B. Mercurio (2014), arbitrators

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[65] The case of the KORUS FTA, USA-Australia, CAFTA-DR FTA, US-Bahrain FTA, but not the case of CAFTA-DR, US-Chile.

[66] Japan-Korea BIT.

[67] IIAs may also stipulate other dispute settlement mechanisms, i.e. national court proceedings. Furthermore, some IIAs include so called *fork-in-the-road* provision that precludes arbitration, should the investor have previously initiated proceedings in a court or national tribunal in the host country (OECD, 2006).

tend to be more pro-investor. Additionally, as mentioned above, arbitrators may lack in-depth expertise in IPRs and WTO law related issues and jurisprudence.

5 CONCLUSIONS

Fair, equitable and transparent protection and enforcement of IPRs contribute to fair, equitable and transparent investment and business environment. Nevertheless, an IIA shall not be viewed only as an additional remedial tool available to investors to compensate for adverse IPRs-related rulings or regulations. Therefore, IPRs-related issues in the context of investment policy have been given additional attention when drafting IIAs, as their wordings have gradually developed. Both governments and investors scrutinize the wording of the effective provisions, as some of them refer to specific IPRs institutes (e.g. compulsory licences or creation of IPRs); some of them are phrased rather generally, referring to the TRIPS Agreement or IPRs-related international agreements. Some comprehensive PTAs address the relationship between IPRs and investment chapters by stipulating prevalence of the IPRs-related chapters.

Occasionally, some IIAs include additional referrals to IPRs, e.g. declaring that *"[t]he Contracting Parties shall grant and ensure adequate and effective protection of intellectual property rights, and promote efficiency and transparency in administrations of intellectual property protection system."*[68] That is possibly the case of countries that lack other bilateral regulation of IPRs. Nevertheless, governments should bear in mind that vague wordings will not contribute to transparent investment and business environment and may only establish niches for potential claimants.

The IPRs are regularly included into the definitions of covered investment under IIAs. It should not be argued otherwise, as they inarguably constitute a significant asset in the contemporary knowledge-based and innovation- and creativity-driven economy. However, the definition should be understood narrowly, leaving no space for extensive interpretations including not only IPRs per se. On the other hand, in cases that the definition is drafted extensively, adequate protection shall be also given to rights related to IPRs. Consequently, these differences in numerous IIAs may lead to forum shopping, given that definitions of an „*investor*“, „*company*“ or "*enterprise*" under IIAs are also often complex, covering branches and subsidiaries or special purpose vehicles (SPV). On the other hand, forum shopping by means of an "*investor*" may not even be necessary, if the MFN principle in the applicable IIA is not restricted with regard to IPRs, investors may then rely on the MFN principle and claim

[68] Japan – Iraq BIT 2014.

its rights upon the most advantageous IIA signed by the host country. Therefore, several contemporary IIAs tend to limit the scope of MFN treatment for IPRs-related investment cases[69] (Mercurio 2012).

Last but not least, disputes under IIAs are to be decided in compliance with dispute settlement procedures foreseen in IIAs, i.e. by arbitrators who might lack sufficient knowledge of IPRs or WTO law related regulation and jurisprudence. That only encourages governments and IIAs drafters to seek precise and clear wordings of their IPR-related provisions in negotiated IIAs.

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Changing regional policies in Poland: The endeavour to create regional sustainable development

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Abstract: Poland with strong centralized administrative traditions tried to realize economic development and efficient management through planned economy and centralized administration. But in the post-1989 period, in the Central and Eastern European countries, the centralized economic and administrative structures perceived as the source of inefficiency paving the way for the decentralized and especially regional economic and administrative structures. What's more the European Union (EU) accession process also encouraged Poland to create regional development agencies and introduce region as an administrative tier to overcome the development gap among Polish regions.

Poland has planned economy experience without tradition of region, so its endeavour to introduce regional development policies under EU influence is valuable to understand difficulties and opportunities of regional development in countries with a centralized administration tradition.

Keywords: Poland, Region, Regional Development, European Union.

1. INTRODUCTION

In this article the foundation of regional development agencies was accepted as beginning point of the regional policies. Fortification of regional tier against the centre in economic and administrative activities and diversification of the actors in the economic domain are conceived indispensible for the flourish of sustainable development. So, the article focuses on the changing patterns in relation between tiers and the number and roles of actors in the process of regional development. There will be only short references for Turkey as in Turkey only statistical regions were introduced and RDAs were established but there have not been any progress in political and administrative grounds.

In many unitary member states of EU including France, Spain and Italy, Regional Development Agencies (RDA's) and regional policies were initiated under the influence of EU. This assumption is also valid for Poland and Turkey. Both countries do not have tradition of region, so they have similar difficulties in the inception period of the regional policies. In spite of affinities in two countries, Poland certainly goes forwarded in administrative and political ground and highly probably in economic ground of regional policies.

2. INITIATION OF REGIONAL POLICIES IN POLAND

In Poland, the need for decentralized structures was perceived in the early 1980s. In spite of existence of centralized socialist structures their legitimacy was eroded among people in the context of their inefficiency (Goetz, 2001, p.1041). The eroded legitimacy of centralized socialist structures created a drastic momentum in favour of regional policies. Nonetheless the genuine driving force behind the novel regional policies is the EU effect (Grabbe, 2002, p. 5).

Following the collapse of Soviet Union, Poland turned its direction to the EU. Meantime, in EU regional policies reached institutional stage. EU perceived its regional standards as a vital condition for administrative efficiency and sustainable development. In other words, EU members, without a discrimination of federal or unitary states, reached a consensus about necessity of regional structures and stipulated the foundation of regional structures instead of huge and inefficient centralized structures in applicant and candidate countries (Börzel, 2001, p. 1; Schimmelfennig & Sedelmeier, 2004, p.669). The 21. chapter of the yearly Progress Report of EU is upon evaluation of advances in regional policies.

In centralized countries the implementation of regional policies is one of the important platform for the struggle of old and new (Tuncer, 2012, p.68). The focus of struggle concentrated on the resistance of central bureaucracy against the novel regional- local structures. However, when the debut of sub-national structures is inevitable, central bureaucracy tried to control the course of reforms and took leading part in the planning and implementation stages of regional reforms.

2.1 Region as a Platform for Sustainable Development

In nearly all unitary states including Poland and Turkey the advances related to region initiated by economic motives. The centrally planned development generally resulted in concentration of the industry in a few metropolitan cities and created disparity among the regions. This process generally created much more disadvantaged regions which were trapped in outmigration and lack of qualified personnel. In the late 1970's , as a result of the centrally planned development, the advantaged areas became overpopulated which made lack of infrastructure evident. So regions started to be perceived as "the motor of development" (Dornish, 1999, p.1) with a fairly distributed population and sufficient infrastructure.

The same tendency is also valid for Poland. The outstanding disparity was easily seen between east and west part of Poland. The lagging east regions which were based upon agriculture and had a considerable poor infrastructure. In 1996, most developed 9 provinces had 50% of GDP while the lagging 9 provinces had only 5% of GDP (Bachtler, 1999, p.99). In post 1989, a transformation program was initiated to cope with serious economic problems which stemmed from the drastic decrease in public sector production and increasing unemployment rate. The attempt to "enhance the economic welfare of the society" (Moravcsik & Vachudova, 2003, p.43) resulted in increasing disparity among regions (Lobatch,2004, p.2).

The first cooperation with EU on regional policies was initiation of PHARE program in Poland. Following positive results of the program, first RDA's were established in 1991 when Poland composed of 49 province and region as an administrative tier did not exist.

RDA's were designed by EU experts and financed by EU. Their popularity maintained until 1994 and a great number of new RDA's were established (Gorzelak, Kozak & Roszkowski, 1998, p.104). Economic reforms in line with decentralization accomplished in comparably high level in Poland when compared to other central and eastern European countries (Jahn & Müller-Rommel, 2010, p. 27). In 1999 region was included to the administrative system as a tier.

In spite of government's willingness to control RDA's, Polish RDA's were not established as governmental organization. So government tried to control them by means of intermediary organizations, Poland Regional Development Agency (PARR) and Industrial Development Agency (IDA) functioned in Poland for this purpose (Bachtler vd,1999, p.102).

In the early stages of RDA's, having official statue or at least gaining governmental support is vital for their proper function, whereas polish RDA's were in statue of joint stock company (EURADA, 1999, p.33) which created difficulties for RDA's to attain their planned goals. Because other public organizations perceived them as rival and hesitated to contribute or even cooperate with them.

Another disadvantage of RDA's related to having statue of joint stock company, they could not receive any share from the budget so they were entrapped by financial deficiency (Tepav,2005, p.11). Under these conditions, RDA's tried to overcome the financial deficiency in short run by the support of private sector and nongovernmental organizations and this move also was not true remedy to have financial sufficiency. Finally RDA's tried to benefit from their joint stock company position and they started to activities aiming profit. But this drive gave birth to a rivalry with private sector and impeded the formation of deeply rooted permanent cooperation between them.

Comparing to Turkey, RDA’s started to function relatively early in Poland which was an opportunity for creating a useful mechanism for sustainable development. But the administrative system of Poland was not compatible with the regional agencies, so lacking a fertile ground for healthy flourish and agencies must have overcome deadlocks for their survival (Gorzelak, Kozak & Roszkowski, 1998, p.104).

In Poland and Turkey alike, an institutional disharmony prevailed in regional affairs. In order to overcome problems related to poor coordination of various organizations , Polish central administration took active role by means of Central Planning Office which carried out short term planning and coordinating function (Ferry, 2004, p.7). The next step upon coordination of regional development institutions was the establishment of Regional Development Department under Ministry of Economics in 1998. Nonetheless, Regional Development Department was not the single authority coordinating regional affairs. The government itself was responsible for long term planning and formation of regional strategy and Ministry of Finance held responsibility for financial affairs and the allocation of EU funds (Bachtler vd,1999, p.105).

In unitary states, as in the example of Poland, in the first step of regional development, the authority was shared by institutions on regional and national level. Even more in national level there were more than one ministry or institution responsible for regional development. The institutional conglomeration caused a mess and existed as barrier for further improvements. EU emphasized the necessity of a single authority and Poland surmounted this requirement by establishing Ministry of Development in 2005.

2.2 Regional Assembly as The Actor of Regional Development

The main subject of EU is to close the development gap among regions or at least to minimize the gap and anchor to a sustainable degree. This aim could not be easily attained by only introduction of RDA’s and an NUTSII, so the consolidation of region with administrative, political and cultural aspect was necessary in the long term. In 1999 region as an administrative tier took place in Polish administrative mechanism and thereafter the formation of Regional

Assembly (RA) provided a new momentum for stagnating RDA's. Central administration devolved some authorities upon higher education, health services and preparations of economic plans to the Regional Assemblies (OECD, 2010: 230) which was promising move for the flourish of sustainable development by eroding the monopolistic power of the Centre.

Moreover, when central administration conceived the solution of problems became insurmountable in the national level, they abandon their negative attitude against sub-national tiers and showed eagerness for delegation of authority to the regional and local tiers (Bruszt, 2008, p.617). In this context, in Poland Law of Support of Regional Development was promulgated in 2000, by which a wide range of authorities delegated to regional councils including; buttressing of small and medium enterprise, creating opportunities for employment, taking part in infrastructure investments, enhancing institutional capacity and taking part in activities related to environment, education and culture (Tepav,2005, p.9).

As a result, Regional Assemblies actively participated in the establishment of a number of RDA's and became the third greatest shareholder of RDA's by 14% share. When RA's were exercising the delegated authorities, they densely cooperate with RDA's by which RDA's gained acceleration to have a non-volatile position in the administrative mechanism and undertook more parts in regional development than defined in the law.

The support of regional elites for RDA's is crucial for boosting the regional potentials. This support, also, could assure perennial cooperation in the way of sustainable development by restricting central government's role. While in Poland the regional groups wavered to support regional institutions in the early stage. Regional Assemblies endeavoured to change their attitudes and succeeded in time by performing delegated authorities in masterful manner. In spite of central administration's lasting influential roles, RAs gained success by providing consultation services to regional entrepreneurs and giving support to small and medium enterprises, and became one of the main actors of regional development.

The facility of credit for the local/regional entrepreneurs has significance for the permanence of regional sustainable development. RDAs by issuing credit with a lower interest rate than commercial banks made a valuable contribution to encourage regional investment. Furthermore, RDAs reinforced their own financial structures and got extra resource to foster regional publicity activities and organize expositions so as to attract entrepreneurs to invest in their regions. These activities without doubt contributed to boost the regional dynamics. In this direction RDAs by establishing new companies or by reinforcing the current companies by means of partnership facilitated to increase employment capacities of the regions. RDAs also by opening channels for export and pioneering in instalment of new technologies encouraged regional development (Tepav,2005, p.14).

In Poland, as in other unitary states of EU, in spite of delegating some authorities to the regional level, the leading actor is still central administration and regional government could only performed the parts allocated by the centre and could not negotiate in primary matters (OECD, 2010, p.229). But negotiation about core values between tiers is an important pillar of sustainable development. In Poland, in this way, regional contracts is a further step for building the channel for negotiation between regional and central tiers.

2.3 Regional Contracts

Regional contracts bear a strong resemblance with French planning contracts (Balme, 1995, p. 178; Mazey, 1995, p.7) and started to be carried out in 2001. In Poland, regional contracts aimed to create a ground for the coordination between the regional and national level for specifying regional policies. The first draft of the contract prepared by regional government and then the President of region negotiated with Ministry of Economy. Following, the approval of Council of Ministers and Regional Assembly, the contract gained the statue of official document (Ferry, 2004, p.16) and had 1 year validity.

In accordance with regional contracts, the central government was responsible to financially contribute to the regional governments on education and health activities and for transportation and infrastructure investments through the Ministry of Finance. In 2005, approximately 786 projects were presented in the context of regional contracts and a 165 million Euros budget was spent. The budget was supplied by the central and regional governments together. Yet, because an important amount of regional resources was transferred from the central budget, significant portion of the regional expenditure belonged to direct or indirect resources of central government.

As a requirement of the regional contracts, 80% of the funds was given in the context of population, 10% was transferred to the regions where unemployment was high and the remaining 10% was given to regions with low GDP.

The contracts specified the methods by which investments were carried out. The contracts could be accepted a progress in the way of multiplying the number of actors and creating a platform for sustainable development. In this term, the allocation of the funds and monitoring of expenditures were assigned to the Regional President (OECD, 2010, p.234-235). Even though regional contracts ascribed reciprocal responsibilities to the both tiers (Kovacs, 2009, p.47), it could not establish an impeccable channel of coordination between Warsaw and regions. Furthermore, in the implementation process priority was given to meet the EU criteria rather than taking into account regional peculiarities which gave birth some imminent obstacles for enhancing regional capacity and fostering sustainable development.

Participation of private sector and local elites has a vital significance for the success of regional development but their support could not be gained as in the expected level. In 2010 by taking into considerations the previous deficiencies, the National Regional Development Strategy was introduced. It emphasized human capital, fostering entrepreneurship, revitalizing the local potential, increasing competitiveness of the regions through efficient production and innovation. The most outstanding novelty of the Strategy was the introduction of the Territorial Contracts which aimed to enhance the institutional capacity of the stakeholders taking parts in the implementation stage of regional policies.

Different from previous ones, the Strategy stressed the importance of cooperation with sub-national tiers and provided opportunities for all participatory institutions to involve in negotiation phase of the Strategy. By the Strategy, there was a changing approach towards economic problems, in that there was a shift from sectoral basis to spatial-regional basis (OECD, 2010, p.232) and allocated a greater share for regions.

Nonetheless, the Strategy contains contradictions that are generally experienced in the centralized states. On the one hand, it pointed out the importance of enhancement of the capacity of regional institutions for development and indispensability of a harmonious cooperation between tiers. On the other hand, it was expressed that a focus on regional and local problems could cause to overlook national ones and could have negative effect upon national public policies.

It can be claimed that the regional contracts based upon regional dynamics were a positive attempt to trigger regional dynamics for sustainable development. The GDP increased 70% as of 2008 in Poland when compared to 2005 when regional contracts started to function smoothly. However, all regions could not benefit from this growth in a balanced way. Some regions exercised the devolved authorities in an effective manner and fulfilled their potential efficiently by adopting the changes, so recorded a significant progress, while some others, especially the eastern regions, had difficulty in keeping pace with changing environment and continued their disadvantaged positions (Kolodko, 2009, p.104-106).

3. CONCLUSION

For the flourish of sustainable development, regions should have strong administrative and political foundations. Poland, when compared to its counterparts such as Turkey, is in an advanced point (Gorzelak, 2009, p.177), whereas Polish accomplishment could not reach a point comparable to other unitary EU members such as France and Italy.

Regional structures in Poland are still in the formation stage rather than reaching their final form (Gasior -Niemiec, 2009, p. 228). Probably the final destination is EU15 regional governance in which all tiers participate actively to decision making process. In this model, also, a horizontal coordination and cooperation prevails, and public and private sectors negotiate without any tutelage (Schimmelfennig & Sedelmeier 2004, p.683). Economic issues are built on consultation rather than top-down manner (Ansell, 2000, p. 304).

Poland left aside an important proportion of centralized legacy of socialist period (Jahn & Müller-Rommel, 2010, p.33) and the possibility of institutionalization of power sharing between tiers is high. In this direction, in the planning and implementation stages of regional development, the role of regional administration is becoming stronger and stronger. Even more, it is on the agenda, to delegate the authority of regional development project preparation to the regions (OECD, 2010, p.236). Furthermore, negotiations between the parties to strengthen the financial resources of the regional government are carried out and the share of regions on public expenditure has increased (Kolodko, 2009, p.101). Finally, the Ministry of Regional Development prepared the National Regional Development Strategy covering the years 2010-2020 in consultation with the regional administrations (OECD, 2010, p.231).

In Poland, on the one hand, the consultation and negotiation mechanisms started to function, so regions' financial capacities are increasing. On the other hand, they are still dependent upon the central budget and central administration has a privileged position against the regional tier. Regional actors are difficulty in representing their demands which are in contradiction with central preferences. Therefore, Polish regions cannot be classified as self sufficient regions based upon their own resources (Hudson, 2005, p.620). Even, regions are in need of cooperation with central government. This vertical cooperation is called as hierarchical governance meaning the consolidation of central power by delegating some authorities to the sub-national levels

(Bruszt, 2008, p.608-612). In sum, the legacy of centralization survives in different forms of new centralization which stand as an intrinsic obstacle for regional sustainable development, and the further success of Polish regional policies depends upon their capacity to limit centralized tendencies and create a fertile platform for regional actors.

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Possible directions for further development of insurers' marketing strategies in selected EU countries in the ongoing global recession

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Abstract: The global financial and economic crisis has affected all sectors of the economy. In addition to the banking sector, which is considered to be a trigger of instability in the financial market and suffered the greatest losses, the crisis has also negatively impacted the insurance industry. Currently, the insurance sector must fight the risk of persistence of low interest rates in the long run, what is devastating for this sector. Furthermore, it must also adequately respond to changes in the demand for insurance products, manifested by the increasing importance of non-life insurance at the expense of the life insurance. The aim of this paper is by analysis of changes in Central and Eastern Europe contingent on the ongoing financial and economic crisis – the current recession, which affected the conditions on the financial market, to identify its impact on the insurance sector in the EU and changes in consumer behaviour as a basis for formulating recommendations for change of insurers' marketing strategies in the region of Central and Eastern Europe to streamline their operations on the domestic and international insurance markets.

Keywords: insurance sector, global recession, consumer behaviour, marketing strategy

JEL Classification codes: D 14, F 65

1 INTRODUCTION

Six years after the outbreak of the global financial and economic crisis in 2008, Central European economies are experiencing continuous slow recovery with persistent recession. The current highly competitive environment requires companies, in order to operate successfully in the market, to modify their business strategies. The insurance market in Central Europe is undergoing significant changes and consumer behaviour towards financial products is also changing. Traditional insurance models are becoming inconvenient and insurance entities are challenged to create new models, that will accumulate the cost effectiveness and at the same time understanding clients' needs, allowing them subsequently to achieve profitable growth and simultaneously consumer satisfaction. The growth potential of the insurance market is limited by the low accumulation of financial assets and significant fluctuations in the number of objects, that can be insured (e.g. a large drop in the number of new cars sold in 2009), which puts profit margins of insurance companies under pressure. The fact that the insurance market is perceived as relatively highly saturated, sharpens competitive tension in the insurance industry. In situation when the Central European insurance market's profitability has recorded a downward trend since 2009, operational efficiency of companies offering insurance products can become a significant factor in enabling them to obtain the relevant market share and to create room for accumulation of profits. The aim of this paper is by analysis of changes in Central and Eastern Europe contingent on the ongoing financial and economic crisis – the current recession, which affected the conditions on the financial market, to identify its impact on the insurance sector in the EU and changes in consumer behaviour as a basis for formulating recommendations for change of insurers' marketing strategies in the region of Central and Eastern Europe to streamline their operations on the domestic and international insurance markets.

2 LITERATURE REVIEW

Insurance industry is a specific sector of the economy, whose activities are focused on insurance, reinsurance and intermediation. The primary function of insurance industry consists in elimination of risks arising from the presence of random claims. E. Kafková defines the following functions performed by insurance industry in the economy: (Kafková et al. 2012)

- accumulative – creation of sources in form of financial capital,
- redistributive – optimizing capital allocation,
- stimulative – mobilization of free financial funds,
- control – control of cash flows during period of insurance.

The importance of insurance industry according to the author consists in helping to maintain the standard of living and the stability of enterprises. Technical function of insurance industry is based on compensation for damages incurred as a result of the implementation of the insurance risk. It also fulfils business function, because through its investment activities it contributes to increasing the rate of economic growth. The preventive role is manifested by acting to eliminate the possibility of risk and increasing responsibility of insured people for their protection (Kafková et al. 2012). A. Korauš states that the marketing of banking and insurance companies may be collectively termed as financial marketing and it is understood as planning, coordinating, directing and controlling the activities of financial institutions aimed at exploring the market and achieving business goals by meeting the needs of clients (Korauš 2011). L. Richards argues that insurance companies take unique position in terms of marketing. They do not sell tangible products but services, therefore they must focus on building strong relationships with loyal customers (Richards 2015). The financial services sector comprises on the trust and on social and psychological aspects associated with money. Globalization contributed to the release of business conditions, that brought the growing complexity and uncertainty. In order to stabilize the conditions, the necessary input from the position of state controller to establish security and rebuild confidence was needed (Jamborová 2012 a). The insurance market has undergone significant changes in recent years, that were caused by the global financial and economic crisis and currently still ongoing recession, on the other hand by changes in consumer preferences. All these factors necessitated modification of marketing strategies of insurance entities.

Regarding to the quantification of the impact of the global crisis on the EU insurance sector, relevant sources of information are the statistics Insurance Europe, which brings together national associations of insurance companies from 34 European countries. Development of total gross written premiums for life and non-life insurance from the pre-crisis period up to the present helps identify the basic trends of the insurance market.

Dynamics and importance of this topic have inspired the authors to the analysis, comparison and evaluation of the results of the surveys of the three largest world renowned consulting companies (Roland Berger Strategy Consultants, Ernst & Young and Capgemini), because they involve relatively wide representative sample of respondents and the results of their findings represent the high quality initial basis for selection and understanding development trends in the insurance industry in Central and Eastern European countries.

3 THE REAL IMPACT OF THE FINANCIAL CRISIS ON THE EU INSURANCE SECTOR

The global financial crisis has affected negatively not only banking sector, one of the triggers of instability in the financial market, but also other economic sectors. Because insurance companies are among the major investors in financial markets, they were also negatively affected by the crisis and suffered losses, although not as much as in the banking sector. In Europe the losses in the insurance sector stood at about 62.3 billion USD (Bobovník 2013). The crisis has highlighted some of the weaknesses of insurance industry, particularly in relation to the placement of technical reserves, the development of new insurance products that were not included in the relatively static insurance risk model, the financial conglomerates, the lack of their regulation and the delayed regulator's reaction to trends in insurance industry (Jamborová 2012 b).

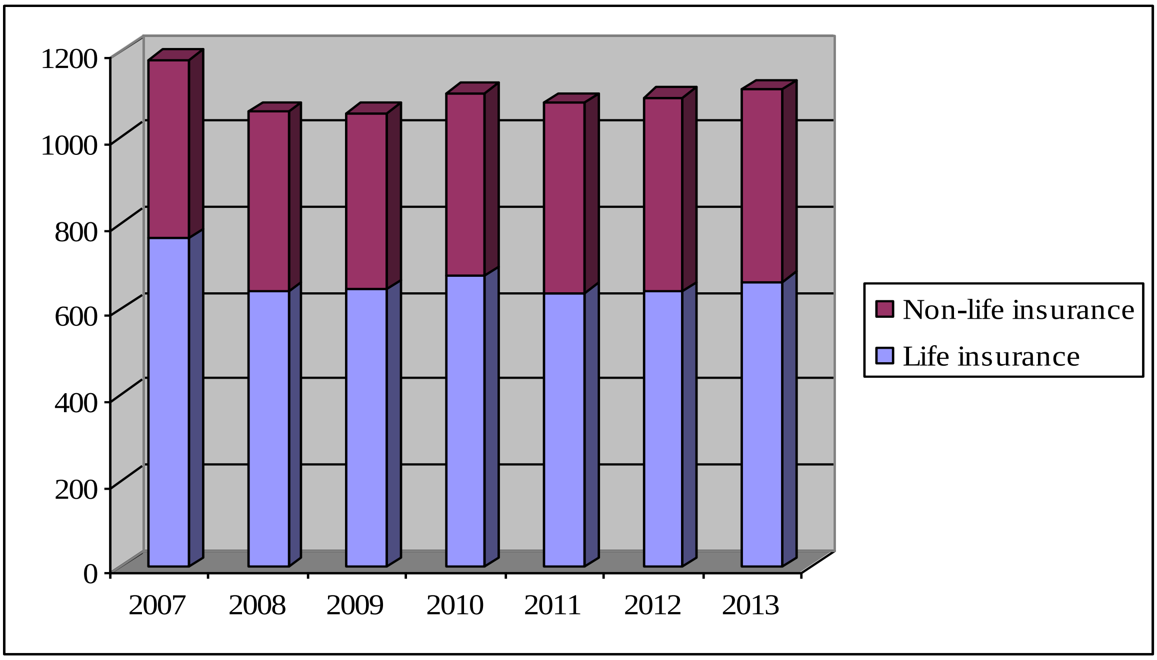
For analysis of the development of the EU insurance sector since the crisis (since 2007) up to the present, we selected two of the most important indicators: total gross written premiums and insurers' investment portfolio. We also identified a modification of development of the insurance sector in the current crisis in terms of differentiation of insurance products divided mainly in life and non-life insurance, which includes motor insurance, health insurance and property insurance. The total amount of investments of European insurers in 2007 reached 7283 billion EUR, representing an increase of 2.2% compared to 2006. The European insurance market was at that time highly competitive, which was reflected in very low increase in written premiums (1086 billion EUR in 2006, 1110 billion EUR in 2007). This increase of 0.1% was the lowest recorded increase since a significant decrease in premiums in 2001 (CEA 2008). Although the banks were significantly affected by the global financial crisis in 2008, European insurers have not yet been significantly affected by the development. However, given that they were among the largest institutional investors, total assets under their management have experienced a significant decline. After the subsequent recession that hit the EU in 2009, when the total real GDP fell by about 4%, the year 2010 was marked by a very slight economic recovery in many European countries. However, this recovery resulted in an increase in total gross written premiums in life and non-life insurance. Due to the partial recovery of capital markets, which began in 2009, despite the high level of volatility in 2010, total investment portfolio of European insurers increased by 5% this year (CEA 2011). After increasing the total gross written premiums by 2.5% in 2010, they recorded the subsequent decline by 1.5% in 2011, which was mainly due to a reduction in life insurance. It fell even below the 2008 level, when it dramatically fell by 10%. The situation was influenced by the fact that European households have focused on investing in short-term savings products, especially those offered by banks. Non-life sector, however, increased mainly due to motor insurance this year. The increase was also recorded in the volume of investments of European insurers (Insurance Europe 2012). In 2012, European insurers generated premium income in the amount of nearly 1100 billion EUR, employed million people and invested approximately 8500 billion EUR into the economy. European insurance industry operated in bad economic environment, with low interest rates, that affected the return on investment and austerity measures, that affected consumer purchase decisions. Nevertheless, in 2012 there was a slight increase in gross written premiums by 1.6% to a volume of 1093 billion EUR. The largest European life insurance markets in this period were United Kingdom, France, Germany and Italy, whose combined share in the total life insurance in Europe accounted for 70%. Regarding the non-life sector, motor insurance, health insurance and property insurance recorded an increase in the volume of gross written premiums. Development of the total investment portfolio of European insurers also increased by 9%, reflecting increased investments of French, German and British insurers (Insurance Europe 2013). Unfavourable economic environment affected the situation in Europe also in 2013. The gross domestic product of the euro area fell by 0.4%, EU member states outside the euro area recorded modest positive growth, low economic activity in the sector of goods and services caused high unemployment, which reached 10.7%. Notwithstanding this, the insurance sector recorded a positive development trend. Total written premiums in Insurance Europe's member states grew by an average of 2.8% at constant exchange rates and achieved a total volume of 1111 billion EUR. This growth was due to positive development in the life insurance market (annual growth of 4.7% at constant exchange rates), while non-life written premiums stagnated. The biggest decline in non-life insurance premiums was in the motor sector (Insurance Europe 2014). The following Table 1 and Figure 1 show the evolution of total gross written premiums. Based on these data, we can identify the increasing importance of non-life insurance as an evolving trend in the insurance industry, which with the exception of 2009 and 2013, has been experiencing continuous growth. Within the non-life insurance, we can observe the highest rate of growth in health insurance, which recorded an increase of total gross written premiums of 21 billion EUR in 2013 in comparison with the situation in 2007.

Tab. 1: Total gross written premiums in Europe (bn EUR)

	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Life insurance	765	642	645	677	639	643	665
Non-life insurance	416	418	412	427	441	451	446
Motor	130	127	121	124	131	134	126
Health	93	99	101	108	112	113	114
Property	80	81	80	84	86	89	87
Other non-life	113	112	110	111	111	115	119
Total	**1182**	**1060**	**1058**	**1104**	**1079**	**1093**	**1111**

Source: CEA 2010, CEA 2011, Insurance Europe 2012, Insurance Europe 2013, Insurance Europe 2014.

Fig. 1: Development of the total gross written premiums in Europe during the years 2007-2013 (bn EUR)



Source: CEA 2010, CEA 2011, Insurance Europe 2012, Insurance Europe 2013, Insurance Europe 2014.

Accurate figures for 2014 are not yet available, but the development of the European insurance market was negatively affected by continuing low interest rates, which resulted in the fact, that for insurers it was more difficult to achieve guaranteed return arranged in insurance contracts.

4 CHANGES IN MARKETING STRATEGIES OF INSURANCE ENTITIES OPERATING IN CENTRAL EUROPEAN MARKETS UNDER THE EFFECT OF CHANGES IN CONSUMER PREFERENCES IN THE RECENT RECESSION

Decision about the internationalization and its intensity is the process, that consists of a wide variety of decisions: the selection of the market, creation of the appropriate international marketing strategy bound to marketing plan, feedback to evaluate effectiveness. The financial market can be characterized by certain specifics of the application of financial marketing strategy compared to traditional marketing methods, particularly: (Zorkóciová et al. 2014)

- market players in the mutual relations between the financial institution and the market at the same time act as suppliers of funds and clients,
- financial institution can not fully and without restrictions control its profits,
- relatively low level of customer loyalty in the financial sector,

- financial institutions are given significantly more stringent conditions for entrepreneurship,
- there are specifics of the distribution process, where the production, distribution, sale and consumption of a product often occur simultaneously,
- the quality of the product offered is strongly dependent on the seller - an employee of a financial institution,
- specific character of price determination,
- human factor plays a decisive role in all marketing activities.

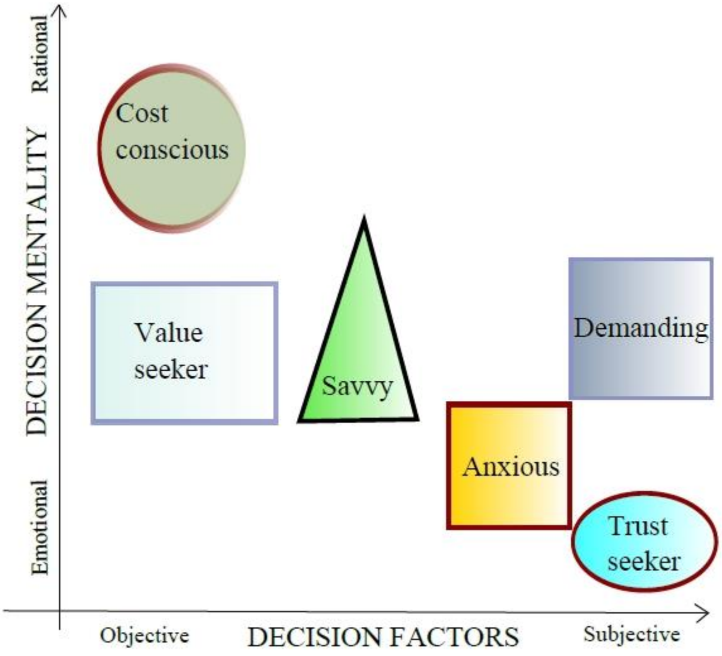
As already mentioned, authors proceeded from the survey findings of the three largest world renowned consulting companies to evaluate consumer behaviour in the insurance products, Roland Berger Strategy Consultants, Ernst & Young and Capgemini:

The survey conducted by the international consulting firm Roland Berger Strategy Consultants in 1800 Central European households (Poland, Czech Republic, Slovakia, Hungary and Croatia), identified three key sources of potential future growth for insurance companies operating in Central Europe in the recession - uninsured risks, underinsured people and the level of implementation of innovation in marketing strategies of insurance companies (Roland Berger Strategy Consultants 2014). The most limited group within the potential growth opportunities for the insurance sector are uninsured risks, because despite the growth of insurance markets in recent years and increasing saturation, many inhabitants of Central Europe still lack the basic insurance products. Some of them represent households with lower incomes, insurance companies should therefore apply special insurance terms to exploit their potential and offer them particularly low cost insurance products. The next prospective growth segment of insurance entities is the new generation of consumers who just entered the insurance market, this means that these potential customers are not insured and are located at the beginning of the insurance life cycle. The biggest potential growth opportunities are so called underinsured people. These are individuals who are not covered for all risks or whose insurance coverage is inadequate, which means that in the event of a claim not all financial losses will be compensated. However, the biggest and most enticing growth opportunities for insurers are innovations in all areas of application of their business marketing strategies. For example, more households than ever before are interested in motor insurance literally "tailored" (usage - based insurance), that is based on individual needs and risk profile of the driver. The introduction of this type of insurance product was allow by technological progress, particularly telematics, through which insurers can monitor driver behaviour and mileage using the box installed in the vehicle or even via a mobile phone application. This new type of insurance product is popular in the USA, Canada, Japan or Australia and gradually penetrates into the European market - the driver pays insurance according to the way he drives. Insurance rate depends on the number of kilometers, accident rate and on whether the driver uses town roads or highways. So called bonus - malus system also plays an important role in determining insurance rate. This means that a driver who uses a vehicle sporadically, but takes care, pays less than those who drive regularly, but less cautiously. The introduction of such innovative motor insurance in Central Europe is a business opportunity for insurance entities in the amount of 5 to 15 million vehicles (Uniqa 2014). It also opens the possibility for this type of usage – based insurance in other areas, particularly in the case of property insurance and health insurance. To be able to use these growth opportunities insurance companies should apply innovative strategies of learning organizations in the field of product innovation and sophisticated segmentation of consumer markets, modifying business approaches specific to each consumer segment.

Based on detailed surveys six types of insurance customers and the features of their behaviour were identified. Each type takes a different approach to insurance, which can be captured in Sales Psychology Matrix using two dimensions - decision mentality from emotional to rational and decision factors from objective to subjective. Typology of insurance customers according to this model for the region of Central Europe is as follows: (Roland Berger Strategy Consultants 2014)

- savvy customers – take a balanced approach between emotional and rational and, on the other hand, objective and subjective,
- value seekers - oriented more objectively and rationally, they rely on the credibility of the insurance company or insurance agent,
- cost – conscious customers - extremely rational, price is a primary factor during decision making,
- anxious customers – subjective decision factors, these people are worried about their life, health and property and are looking for the best coverage of risks,
- demanding customers – more subjective and rational, they want insurance at a good price and get it as soon as possible,
- trust seekers – the most emotional and subjective client group, they are looking for trustworthy and reliable insurance company or agent and long-term cooperation.

Fig. 2: Sales Psychology Matrix



Source: Roland Berger Strategy Consultants 2014, *Next generation insurance in Central Europe*. Available from: <http://www.rolandberger.com/media/pdf/Roland_Berger_TAB_Next_generation_insurance_in_Central_Europe_20141015.pdf >. [27 January 2015].

This customer segmentation may represent a starting point for the creation of an appropriate communication marketing strategy based on an individual approach to each client, including use of appropriate arguments, dealing with possible objections, understanding the motivation of the client and his concerns.

The most significant change in the insurance market is the arrival of a new generation - clients under 35 years of age. This new generation of consumers is changing the basic rules of insurance, but it also represents a great opportunity for insurers. In fact, the group of young consumers is divided into two main groups - generation Y and generation Z. Generation Y are young people born between 1980 and 1994. Their characteristics are: self-sufficiency with regard to the decision-making process prior to purchase as well as the purchase itself, the constant access to new communication technologies (mobile phones and other communication devices), their possession and everyday use, based on which they expect to be serviced through these channels. Insurance companies should adapt their communication strategy and focus on the latest communication media to attract these potential clients. Generation Z are young people born between 1995 and 2010, internet, mobile phones, tablets and other achievements of modern communications technology are part of their everyday life in even higher level than in the case of the generation Y (Generation Y 2015). In 2020 - 2025 generations Y and Z will form about 60% of the total productive market in Central Europe. A survey of the insurance market has revealed interesting findings, that these young people prefer online channels, but when it comes to buying insurance product electronically, surprisingly, classic method of purchase dominates in the case of the 18 - 24 year olds. This generation takes into account when deciding the price, mainly because of their own limited disposable income. On the other hand, the reputation of the insurance company and the level of coverage offered, are less important to them than to their parents or grandparents. The use of electronic communication channels is already very popular in purchasing motor third party liability insurance for all generations. Generations Y and Z also increasingly buy accident life insurance and property insurance through electronic channels, because of low level of complexity of these insurance products and their easy availability online. Prospective young generation of consumers will use new forms of digital purchasing of insurance products more intensively and will prefer mobile applications than websites.

With regard to investment and capital life insurance, only 5% of insurance products is now sold online, the rest is purchased through conventional distribution channels. In fact, more and more customers are characterized by hybrid behaviour, which means that they switch from one channel to another during the purchasing process and after. They can first evaluate the range of products offered online, but when it comes to the purchase itself they turn into insurance companies or their insurance agent. The digitization of offer and sale process is also associated with depersonalization. Especially in the case of less complex insurance products, they are sold through a computer program, the fact remains that only trained salesperson finds specific insurance needs of the client and inform him of products tailored to him. For insurers such an approach may pose a risk that they overlook potential business opportunities with their customers. External distribution channels operating outside the insurance companies (brokers, multilevel marketing companies) have 53% higher share of sales of insurance products for consumers aged 25 - 34 than in the case of consumers aged 18 - 24. Insurers should therefore obtain the loyalty of these customers as soon as possible. As already mentioned, the new generations of consumers primarily consider the cost and convenience of purchase, which means that they will not be interested in an insurance product that can not be easily bought. This attitude of consumers heralds the development of commoditization, many types of insurance products and forms of their sales will be standardized, with comparable prices and lower respectively no modifications. As a result of that insurers will have limited opportunity for differentiation of sales strategy, which further boosts the pressure on margins in the insurance sector. Insurance companies need to understand the psychology of customer behaviour, which forms a central element of the effectiveness of their sales. This new approach to clients will be more focused on adding value and building relationships with customers than on persuading (Roland Berger Strategy Consultants 2014). In this context, developing cross - selling and up - selling will become the key to the future success of insurance entities, particularly in the case of online sales.

Changes in consumer preferences in the insurance market significantly influence the modification of their business marketing strategies. Generally they fall within a set number of other factors that deform the economic environment during the current recession and thus affect the activities of insurance entities in the European insurance markets. According to a survey Ernst & Young we assign to them the following opportunities and challenges: (Ernst & Young 2014)

- successful insurence companies will be those that simplify their organization and business models allowing them to increase the efficiency of operations and seize new growth opportunities,
- insurance companies should take into account changing regulations, which are constantly stricter and affect everything from capital requirements, through the commission rates to customer care,
- as the low interest rates continue, insurers should modify their investment strategies to increase investment revenues and to compensate adequately the increased risk in their portfolio,
- insurance companies should expand their digital presence and invest in technologies, that will improve customer services for those that purchase insurance on the internet,
- development of comprehensive data analytics strategy should ensure improvement in insurance products design, insurance pricing, claims, underwriting and reporting.

The fact, that the insurance entities are currently successful only when focusing more on online communication with customers, is confirmed by the results of a survey conducted by Capgemini implemented in 32 countries. The results show that customer satisfaction with financial services is closely related to the option of online communication on social networks such as Facebook and Twitter (Generácia Y mení pravidlá 2014).

5 CONCLUSION

In this scientific paper, the essential features of the ongoing financial - economic crisis - the recession, that affected the business environment in the EU with a focus on the insurance market, were identified. The assumptions of the authors that the correct positioning of insurance companies in a particular market, the timing, duration and speed and the correct form of the strategic activities, confronted with the speed of internationalization of competition plays a key role in the current growing competitive environment, were also confirmed. Achieving those market positions is possible only by implementation and correct identification of the key factors including consumer behaviour. We have identified standard as well as the specific characteristics of modification of consumer behaviour in the EU. We also highlighted the fact that, despite the continuing development of recent years, in many cases the business community uses strategies unable to optimally respond to turbulent changes in the environment. Only by introducing innovative strategies, based on the principles of constantly learning organization, insurance entities can build a stable and efficient market position.

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Start-ups as one of the Current Phenomena of Entrepreneurship and Their Significance for Successful Development in Slovakia

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Abstract:

Globalization transforms the whole world. The constant development and implementation of new technologies that affect all spheres of business entities operating in international markets, define the modification of their strategies in order to maintain their position in the highly competitive market. The appearance of new technologies affects the business environment with its increasing intensity and develops uncompromising pressure on radical changes in business processes and their overall effect on global markets oversaturated with competition. The aim of this paper is to analyse the deeper meaning of start-ups, as one of the current phenomena of entrepreneurship and the support of young innovative companies within the state and public administration, with particular reference to their potential, as a fundamental basis for further economic development, increasing the efficiency and achieving the competitiveness in a wide range of differentiated business entities. The application of specific case studies analysing start-ups, ranking among the most successful in Slovakia in 2014, designates many positive as well as negative aspects of their use in the Slovak business environment and offers solutions for the further successful development.

Keywords: Startup, StartupAwards, Innovation, Technologies

JEL Classification codes: M13

1 INTRODUCTION

Currently, sustainability and new technologies entering online revolution are important factors affecting the effective operation of each one of the companies in the market. The aforementioned trends make constantly accelerating pace of introduction of new breakthrough innovations, while the growth of global competition evokes the emergence of new innovative and technology-oriented companies that are able to function in a world of rapid changes and extreme uncertainty for market development fearless of the new challenges and tasks to find new solutions. Thus characterized hectic development extends into all spheres of business companies active in international markets and makes modifications to their marketing strategies. The ambitions of Slovak companies are not any lower than those of their corporate partners from developed market economies, it is a successful positioning system and maintaining of its position, unless the improvement in international markets.

It should also be noted that in the evaluation international rankings, in development of companies producing value-added products directly related to successful application of innovation in practice, Slovakia places mostly on the lower positions, i.e. with insufficient number of companies applying the innovation in their practice or with insufficient intensity of innovation introducing into practice. The reasons we might search as in the historical context of economic development in Slovakia, as well as in the amount of current socio-economic international factors, but also often "Slovak" ones. The fact that it is undesirable that Slovakia was known only as 'assembly hall' of companies, but reversely let the companies operating in Slovakia, but also those coming to work in Slovak business environment, work their business especially in sophisticated fields, is seen through the many initiatives of government and state institutions to support the development of innovations applications in practice.

One of the many initiatives includes the promotion of young start-ups bringing innovative solutions to streamline business.

The aim of this paper is to analyse the deeper meaning of start-ups, as one of the current phenomena of entrepreneurship and the support of young innovative companies within the state and public administration, with particular reference to their potential, as a fundamental basis for further economic development, increasing the efficiency and achieving the competitiveness in a wide range of differentiated business entities.

2 LITERATURE REVIEW

One of the main current phenomena and success factor for companies in many countries of the world is the startup associated with new, young technology-oriented companies. Startup, like many other currently emerging economic terms, is not clearly defined by scientific community. At the same time, their definitions are formulated subsequently, relying on the practice of successful solutions and the participants themselves, who are in these solutions directly involved, often contribute to them. It is not any different in startups phenomenon where to formalize their definitions contributed such personalities as Steve Blank, and Eric Ries.

2.1 Theoretical definition of a startup as the current phenomenon

Famous business legend of Silicon Valley - Steve Blank has initiated several successful startups. For his greatest success in his career he considers the establishment of E. Ppihany, the company focused on customer relationship management, today known as the so-called CRM (Customer Relationship Management). Steve Blank defines the term startup as "temporary arrangement designed to search repeatable and scalable business model" (Blank, 2010). Based on the above perception of startup is its main product the company itself - either its business plan or organizational team that stands for it. Another who contributed to the clarification of the concept is a specialist Eric Ries, one of the best pupils of Steve Blank, who has come with his own definition of startups and philosophy so-called Lean Startup (called as Ries´s understanding of startup). Ries understands startup as "human institution designed for the creation of a new product or service under the conditions of extreme uncertainty" (Švač, 2013).

Start-up company at the beginning of its business do not know what product will enter the market or who will be their customers. The main purpose of the company is in the shortest possible time frame to create a product or service that would be attractive to customers. A specific feature of startups is creating a company under conditions that are characterized by a high degree of uncertainty, risk and interest to break through regional or global markets with breakthrough innovative product or service. Start-ups present a means for increasing the innovation potential of the country and attracting new talents and investment, but also for the creation of innovation centers bringing breakthrough innovations. The success of start-ups can be controlled by using of correct tested and functioning processes, which means that it is possible to learn how to apply and adapt them to the conditions of a subject adequately (Ries, 2011). Another view of the definition of start-up brings a British programmer and co-founder of Ycombinator, the American accelerator, Paul Graham, who says that the start-up is a company destined to the rapid growth and progress in comparison with its competitors. According to financial glossary the start-up can be marked any newly generated project, a start-up - often in the phase of the business plan creation, which is characterized by the following properties: (freely by Business Dictionary)

- Low entry costs (and therefore the concept start-up is often misinterpreted and associated with social networks, games, web applications, etc.)
- Higher business risk (higher than in the so-called. "Standard Companies)
- Potentially greater cost recovery in case of successful establishment of a company in the business environment.

One of the wrong approaches explanatory the nature of the start-ups is their comparisons to small and medium-sized companies, respectively the start-ups are considered to be any start-up companies. Similarly, the misinterpretation of start-ups includes their assimilation to each newly created website. This error is probably associated with the fact that lately are among the most successfully rated start-ups the ones that develop Internet applications such as Facebook, LinkedIn, Zynga and so on. (SEC, 2012). Start-ups issue increased in importance at the time so-called Web fever, in the years of 1996 - 2001, which created a lot of companies with distinctive elements of start-ups. The huge boom lasted until the outbreak of the Internet bubble ("Dot-com bubble"), when was based mainly overseas, specifically in the Silicon Valley, a large number of companies with the specific elements to start-ups, mostly in the realm of the Internet.

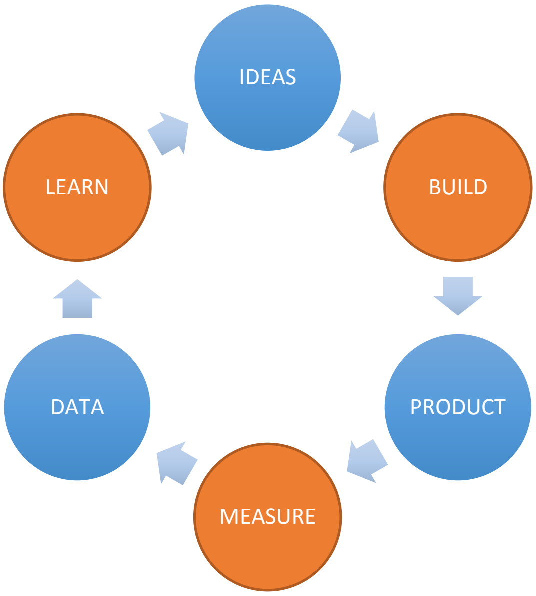
After the outbreak of "Internet bubble" many of these rapidly established companies suddenly went bankrupt because they failed to establish in the turbulent paced environment that was determined by the huge technological boom and the development of the Internet. Currently the start-ups issue again arranges to the forefront of interest of economists and representatives of practice in finding new and innovative solutions for effective forms of business. Start-up can appear in any sector, but the most successful was born just in technology and the Internet. According to one of the largest US investor Dave McClure, changes in technology start-ups are identified in the following areas (McClure, 2012):

- Less need for capital to start a business and market entry,
  - the lower cost of servers and software,
  - the low cost for marketing based on new platforms with millions of users, in this case the consumers,
  - several major inputs to the stock market (over one billion dollars) and the establishment of a number of small acquisitions (less than one hundred million US dollars)
- Easier to reach customers through online platform,
  - through the search (e.g. Google)
  - through social networks (e.g. Facebook, Twitter, LinkedIn)
  - via the mobile platforms (e.g. iOS, Android)
  - through the local services (e.g. Groupon, Yelp)
  - through the new media (e.g. Youtube, Pinterest, Tumblr)
  - through the communication channels (e.g. e-mail, chat, sms, Skype)
- The quantity of new strategies relying on start-ups,
  - the creation of incubators and accelerators,
  - the investments associated with co-working (work and business style in a flexible office environment shared with other freelancers)

- failure and fiasco are cheap

Ric Ries argues that the success of start-ups can be controlled and learned, and he highlights the fact that it is learning, so-called learning organizations, that is the proper and effective solution to the corporate governance and on the basis of this argument identifies the key success factors of start-ups (see Chart 1).

Fig. 1: Kľúčové faktory úspechu startupov/ Key success factors of start-ups



Source: Ries, 2011, The Lean Startup: How Today's Entrepreneurs Use Continuous Innovation to Create Radically Successful Business, Crown Business, First Edition, p 172. ISBN 978-0307887894

Lean Start-up philosophy based on the fundamental premise to discover innovative idea - thus to establish business vision. The next step is highly efficiently process so-called business search verifying the authenticity and appropriateness of the business vision for its possible further elaboration and application to real business environment conditions. In achieving positive results arising from the research undertaken by the business, in the sense Lean Start-up the next step of cycle of the key success factors is to suggest so-called minimum product - something like a trial, prototype, whose aim is to acquire information on whether the prototype is designed correctly, or customers are interested in it, therefore, it has the potential to be competitive. Based on these findings - the management - staff should instruct, acquire new knowledge, respectively stick to the original plan and further continue. In particular, the sequence of the steps regarded by Ries as crucial in order to create a successful, efficient functioning, prosperous and profitable Lean Start-up.

3 RESULTS

3.1 Start-ups effective support focusing on conditions in Slovakia

Many countries, in order to support innovative business and thus the creation of young innovative companies, create different concepts and development programs often characterized by a systematic and long-term nature. Just consistency, long-term support and innovation culture building are among the key factors for success in this area. Within Central Europe, several regions have implemented so-called ***i.e.SMART*** project, which aims to increasing competitiveness and increased introduction of companies innovations by developing new business skills and innovative environment upgrading. Project towards a new generation of businesses represents an international implementation education network interconnecting 7 regions concerned.

SMART Points, sort of one-stop-shop space for start-up businesses operate in Bratislava, Budapest, two in Prague, Vienna, Modena, Venice and Stuttgart. SMART Points taking into account cultural and regional specificities, giving young companies (EurActiv 2014)
- **Networking** - linking people in three key areas - technology, business and art, which together form a huge potential and bring unique ideas. Their implementation is possible with the application of proper business practice,
- **Experience** - SMART project takes the form of practical workshops led by experienced instructors and mentors based on their long experience and successful coping solutions to various problems they can knowledgeably advise on how best to proceed with the situation,
- **Skills** – the goal is to budding entrepreneurs acquire the skills that will assist them in resolving any project easily to test their ideas and turn them into reality. It is therefore possible that the approaches can be used not only in business but also in other realm.

The European Commission start-ups performed within the complex business area which today represents an international market, several important functions: (EurActiv, 2014)
- Bring innovation and vitality to the economy,
- Bring new products and services that can be rapidly and flexibly adapted to the conditions of the market,

- Bring new techniques and processes,
- Largely support the creation of new jobs,
- Promote the development of the knowledge economy,
- Connect science, research and innovations with business practice,
- Increase the competitiveness of the economies.

Logically, if we take into account only the previously mentioned reasons; only they evoke the need for their support. This entails creating the right conditions for the development of start-ups, building supporting infrastructure, for example through incubators and accelerators. Incubator presents an activity in the direction of providing the start-up phase, space for work, namely the provision of office space, infrastructure and advice for the first three years for a fee, often in the form of equity. Incubators are mostly affiliated to universities thus helping young scientists to realize their innovative business plans. On the other hand, the accelerator is an organization with extra funding, thus supporting body for realistic representation of innovative business plan for talented young entrepreneurs without a financial background.

As a matter of the project ***i.e.SMART*** implemented in Slovakia as well was created ***SMART Point in Bratislava***, whose main task is to help young entrepreneurs in the conversion of an idea from its creation through implementation phase of the project, to create favorable conditions for sustainable growth of the young company and its competitive position in the constantly intensifying competitive environment. Bratislava SMART Point operating since 2013 is located in the co-working center of Connect in the place of Cvernovka and is mainly aimed at young people studying at universities. "In the autumn 2013 under the action of SMART Point in Bratislava and i.e.SMART project was carried out a series of 6 workshops, attended by nearly 40 students and graduates, mostly from Slovak universities of the UK Faculty of Management, University of Economics in Bratislava, Slovak University of Technology" (EurActiv 2014).

The center of educational program Bratislava SMART Point is its connection with education at certain universities in the capital of Slovakia, in which a select group of students get the chance to try working on their own projects. Very positive of regional SMART point is the presence of SMART trainers who teach new entrepreneurs entrepreneurial thinking, teamwork, the necessary presentation and personal skills. In addition, there is also the linking with international community of SMART trainers and deepening and strengthening of their mutual long-term cooperation. SMART networks enable to simplify the start-up expansion into new foreign markets.

Additional project to support start-ups in penetrating the foreign markets is ***TwinEntrepreneurs*** project organized by the Association of Young Entrepreneurs of Slovakia in cooperation with the Vienna Business Agency and the National Agency for Development of Small and Medium Business. The project aims to support start-innovative companies, which are characterized by a high growth potential. For the first time was started by the initial conference held in 2012 in Bratislava while since then have been implemented several workshops for young entrepreneurs and start-up companies. Program TwinEntrepreneurs bringing practical advice for foreign expansion of start-ups consists of " a series of expert workshops, coaching, networking and other educational activities in which participants have the opportunity to obtain free useful information on interesting topics from the sphere of management, marketing, financing, legislation and other know -how for business of start-ups "(Do business 2013). Aforementioned activities should lead to the promotion of small and medium business, increase of its competitiveness; break through the business environment and not least to identify the specific start-ups with growth potential necessary for successful operation in foreign markets.

National Agency for Development of Small and Medium Business, in addition to the organization of a TwinEntrepreneurs supports start-ups also through the newly established micro-loan program and fund for encouraging start-up projects. The goal of both programs is to promote actively young SMBs and thus contribute to employment growth in all regions of Slovakia as one of the main priorities of the Government of the Slovak Republic. The fund to support innovative technologies is developing start-ups mainly in the field of information technology. Similar projects on the same principles are implemented in many developed economies of the world in a much more fully and intensive screen while they result in successful start-ups emerging worldwide.

Current proposed legislative support for young companies – start-ups in Slovakia, which should facilitate conditions for the implementation of new innovative business ideas is focused on the following measures: (Buchláková, 2014)

- The first two years after its creation should have the start-ups zero tax liability,
- Then they should pay a reduced income tax,
- State should forgive start-ups pay tax licenses
- State wishes to provide start-ups the financial coupons together for 80 million EUR for

mentoring,
- Establish a scholarship program funded by public funds for students, PhD students and university graduates,
- Definition of start-ups should be embedded directly in the law since the legislation till 2014 did not recognize the concept of start-up,
- Allow the establishment of a one-Euro Ltd. and a joint-stock company,
- Establish a state institution dealing with purely start-ups, which should take the agenda of start-ups, since it is nowadays in authority of various ministries and agencies of the Slovak Republic, as an example, the state takes e.g. institutions of The Office of the Chief Scientist in Israel and Tech City in London,
- State wishes to publish a list of available start-ups.

The reason for that model to support start-ups in Slovakia is currently Israel Institute of Development start-ups. It is the fact, that in its 60-year existence, Israel, despite the fact it does not have any natural resources, was able to produce a greater number of new, emerging companies such as Japan, China, South Korea, Canada and Great Britain, Israeli entrepreneurs were highly motivated to overcome adverse conditions, limited resources, constant war conflicts and high degree of uncertainty closely related to them, as evidenced by their unique ability of inventiveness and entrepreneurial success.

3.2 Tales of the most successful start-up companies in Slovakia

Start-upAward Contest 2014 was the fourth year of promulgation of the best and most successful start-ups in Slovakia. Slovak competition scheme is part of Start-upAwards intended for the whole Central Europe. Opinion poll is announced in four different categories; with the final always get the best three candidates - companies with the most innovative business ideas. In 2014, the winner of **Society** category (price for start-ups, whose technology delivers high social effect, benefit in the social sphere) became start-up **CropTek** aimed at protecting plants from wilting respectively thermal drying. This is a smart, fully autonomous, highly scalable and online hydroponic system for households as well as for small and medium-sized companies operating in the field of internal and external plant growing. CropTek promptly responded to the ongoing trend of rapidly growing population, thereby increasing problem and risks relating to access to clean water, soil and healthy food.

For this problem of the near future, provides solutions the company CropTek that through the introduction of large-scale innovations and diagnosis of hydro culture systems performs early detection of their disorder, provides remote monitoring and system of life support and the best conditions for growing plants. It consists of technology solutions, which should promote food security and sustainable agriculture principles by applying innovation in hydro culture system. That start-up was realized in support of the Foundation Tatrabanka 2013 and was funded by a winning grant for eight and a half months, since the beginning of 2014 (croptek.com). **Art & Design** category (category for new technologies bringing creative and innovative solutions in the field of art and design) won start-up **Fosali**, a company that produces beautiful and unique fiber optic lights with a clear focus on design. The ambition of the participants of this start-up is with their know-how and original products to penetrate foreign markets and create there a strong stable position.

Fosali brings design lamps made from fiber and using LED technology. The combination of innovative design in combination with fiber optic and LED technology allows designers to come up with new and modern lighting, exactly meshing with contemporary interior design. Start-up Fosali also provides services in the field of professional lighting interior as well as exterior spaces. Participants of Fosali developed their own LEDs to offer a unique concept of lamps that can bring light for example even within 5 km away from the basic resource (Fosali). In the category of **Science** (category of technology companies whose solutions came from scientific and technical laboratories) was the winner **Research Centre** start-up of the University of Žilina. The winning idea is to store energy and heat in the summer months to underground tank and their subsequent use in the winter. The breakthrough idea of that start-up is the Earth heat accumulator which acts as energy cell for the whole house.

Ecological equipment saves costs of household and the environment. The Earth heat accumulator is also one of the supporting activities aimed at creating an effective and really functioning concept of energy and food self-sufficient town so-called Zero City. Research Center of University of Zilina, which was founded in 2013, is a unique research and development center. Its primary mission is to act as a regional center for applied research, integrating critical research activities and tighten a synergic effect in use and increase of their research potential. The primary objective is to create the environment supporting acceleration and integration of innovation and research activities of the university departments, rapid implementation and commercialization of research results, which directly contributes to improving the competitiveness of the economy of the Zilina region, but also throughout the Slovak Republic and Beskydy Euro region, further to reduce regional disparities, to establish new innovative (high-tech) small and medium businesses of Spinn-off type, creating jobs in research and development for young researchers and postdocs and improving the conditions of the educational process (Research Center of the University of Zilina) **Digital** category is the price for technology start-ups offering innovative solutions in the field of IT, web, mobile devices and media.

The fourth and last category of Digital won start-up **Staffino**, current participant of Prague accelerator Wayra, which allows evaluating staff working in restaurants, but soon should be applied also in terms of hotels, fitness centers and other facilities. Staffino start-up was also the winner of the special prize for 2014 in the amount of 25,000 dollars, which can fulfill a key role in the way of their eventual expansion into the United States. Victory in two categorie moved start-up Staffino also in the position of absolute winner of StartupAwards.SK 2014. Staffino is the Slovak application, which presents a real solution to the problems at hand, and the people of the Agency This is a Locco min: 60 belongs to it. The application solves the problem of not satisfied customers of those operations, and creates space for possible feedback that receive all managers of enterprises, hotels, restaurants, shops and many other operations. The level and quality of services offered in the field of tourism is directly reflected in the overall performance of the economy of the country.

The application of system should streamline the provision of these services, improve the quality and ensure the monitoring and continuous control. Staffino uses foursquare to obtain geolocation of individual operations. These are displayed on the basis of the distance from the position of the user. After selection of a particular device a list of people who are employed in the operation will display. On this basis, the customer can express their satisfaction or dissatisfaction on the other hand, with certain used services or behavior of staff. This application allows the user except the simple evaluating describes the problem, to which the owner or establishment of the facility can respond in the real-time flexibility. In case of operation management interest rating is 100% guaranteed possibility of feedback, i.e. interactive communication and an innovative solution offered hereby. In the initial phase the application allowed to share all the negative reviews every participant of website, but the authors of a project later realized that the application was created for our customers, who are neither users nor consumers, but individual operations of tourism. The aim of the application is to improve the quality of their services and not reduce attendance on the basis of the bad experiences releasing. Staffino offers its customers their own business account (business account) to respond to the complaint, or specific compensate dissatisfied customers by providing discounts or certain bonus. The application is also a strong element of motivation for employees of specific facilities who may be motivated and rewarded on the basis of the obtained feedback (Staffino).

Fig. 2: Finalisti StartupAwards.sk 2014

Source: Startupers 2014, Toto sú víťazi StartupAwards.SK za rok 2014!. Available from: <http://www.asx.com.au/professionals/market_information/index.htm>. [22 January 2015].

The most famous example of a successful Slovak start-up is IT Company ***ESET***, which operates in foreign markets through their branches or research and development centers. Antivirus program, which initially a small group of computer enthusiasts worked for, over time changed to the security solution considered to be one of the fastest and most efficient in the world, which is now used by tens of millions of customers worldwide. The success of the company is conditioned by the quality of the software itself, but also of related marketing and sales activities. Global success of antivirus ESET Company is determined by the development and application of advanced technologies achieved in research and development centers. "The main core of development is taking place at the company headquarters in Bratislava, where there is ThreatSense technology with advanced heuristics, which pushes the ESET security solution for the first place in the proactive detection of malware" (The business portal of Innovation 2011). In order ESET to hold the competitive position in the market for anti-virus solutions, where are very strong and well-known companies such as Symantec, Microsoft or McAfee, it must constantly keep up with the advanced technological progress and thus develop increasingly effective protection against cyber threats propagated.

Among the most successful Slovak start-ups is clearly the company ***Sygic***, which ranks among the world leaders in the development of navigation in mobile phones. The navigation system of a fast growing IT company is currently used by more than 50 million people worldwide. Vision of Sygic Company that sells its products in Europe, Russia and the US, is to achieve the progressive navigation around the world. The biggest advantage of cutting-edge GPS navigation at the beginning of its operation was its installation in the iPhone and Android devices. The company gradually expanded its portfolio of applications and customers can now use the navigation systems not only for cars but also for trucks and taxis. Successful and very popular application among drivers has become Speedometer application which highlights the radar and police patrols on the road. Success of the Sygic Company lies in its rapid response to new and ever changing market conditions and the ability to stay one step ahead of the competition. They are constantly developing new versions of navigation systems, because the innovative navigations in mobile devices are still perspective product. Currently one of the best-selling offline applications classified Sygic Company as the world leader in software companies.

4 CONCLUSION

Applications of innovations are necessary for the development of Slovakia at present and for the future as well. Start-ups are classified to essential expression of using the innovative and breakthrough business ideas into practice. If Slovak companies want to be prosperous and relevant partners, they must be competitive, thereby contributing to the development of the Slovak economy based on knowledge. Innovations conditioned by support of research and development activities represent an attractive business and investment environment. The key pillars of research and development in Slovakia and thus innovations, we consider just the universities, wherein the basis for the high quality of education that is relevant to the labor market is international cooperation, international exchange programs, but also close cooperation between the public and private sector. The system of support for innovation development should be based on three fundamental pillars that would include support, not only financial as basic research as well as education and also create the conditions for support of innovation environment infrastructure.

Representatives of the government and state institutions in Slovakia have long declared commitment to support those activities, yet it is not a process very cumbersome and slow. The initial step that establishes priorities in the development of science and research and innovations as well, adopted by the Slovak Government is Strategy 2010. At the Cabinet meeting in November 2013 was adopted research and innovation strategy for smart specialization of SR, which is focused on sustainable economic growth and increase of employment in Slovakia through targeted support of research and innovations. The significant factor in increasing the competitiveness of the Slovak economy undoubtedly can be also included programs to support start-ups and young creative ideas of starting entrepreneurs in their attempts to apply the innovative ideas into practice. For several examples of successful Slovak start-up companies, we pointed out that in Slovakia there is scope for their development and support, and also their application in a hard competitive international environment. The current global trends strongly influence the Slovak business scene, which is forced to constantly increase its innovative potential, emphasize on innovative types of business and motivate young starting entrepreneurs in efforts of successful performance in domestic and international markets.

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