

WITHIN AND BEYOND  
BOUNDARIES  
OF MANAGEMENT



Edited by *Zbigniew Dworzecki*  
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# WITHIN AND BEYOND BOUNDARIES OF MANAGEMENT



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# Preface

The boundaries of management – their determining, forming, strengthening, but also questioning them, destroying and expanding is a fascinating, important and always present topic of scientific research and discussion. On the one hand, the boundaries delimit the identity of the scientific discipline but on the other hand, they may refrain the discipline from development. The ever present trends in the environment indicate the coming changes, shift towards broadening boundaries, their fuzziness, even tendency to “management without borders or beyond the borders”. Some people assume that ideas do not have limits which gives the basis for forming new paradigms in management sciences.

Traditional management’s concepts of industrial society which designate sharp and clear-cut boundaries fail in turbulent environment of the present time. Simultaneously one can observe a paradigm shift towards the knowledge society resulting in the change of guidelines and conceptions of contemporary management. This trend is strengthened by political, economic, socio-cultural and technological changes. New areas of study, research perspectives and topics emerge inducing a deepen reflection over the management sciences’ boundaries. The boundaries of management are determined by “the spirit of the times” in which they are formulated.

The development of management sciences is a continuous process of deciding about stability and change of management systems or their components, so about the content existing at the specific time and conditions, paradigms, concepts and methods of management. It is a discussion about the underlying value systems, inspirations, visions about the world, organisations themselves, their leaders and managers, changing people as employees and participants of social life and consumers.

Sometimes though, researchers and consultants as well as managers, three main groups directly affecting the management processes go far beyond the existing framework and boundaries. They set new horizons and edges in the visionary way.

This monograph is a result of discussion of the academic society in Poland dealing with management. The monograph includes 25 papers written by 27 authors who present the results of their theoretical and empirical studies concerning this topic. Their texts show how multi-threaded, complex and rich this subject is.

The monograph consists of three parts: “Defining Boundaries of Management”, “Boundaries of Strategic Management” and “General Management Boundaries”. The first part “Defining Boundaries of Management” regards the question about management boundaries, their definitions and determinants, how they intermingle and to what extent they are blurred. The text of Zbigniew Dworzecki, who discusses the idea of a boundary and tries to look at the question of boundaries from different perspectives and at their role and nature, is the introduction to the first part of the book. His considerations are followed by a reflection by Sławomir Winch over the limits of individuals’ actions in the enterprise. He looks mainly at managers governing an organisation what often results in surpassing various limitations. Then Sylwester Gregorczyk sets out the boundaries of management system in a contemporary enterprise describing limitations of some components of this system in virtual and network organisations.

Wioletta Mierzejewska looks at the structure determinants and internal structural boundaries of enterprises illustrating them with the results of the study conducted on a sample of small and medium-sized enterprises. Beata Stępień and Monika Sulimowska-Formowicz try to present different theoretical perceptions on various features of the inter-organisational relations from the point of view of the Transaction Cost Theory and Institutional Theory. Agnieszka Sopińska follows in her research with exemplification of knowledge exchange in network organisation. The first part of the monograph is ended with the text by Katarzyna Bratnicka with an intriguing title “The Elephant in the Room of Firm Boundaries: A Preliminary Outline of the Creativity-Based Theory of the Firm”.

The second part of the monograph “Boundaries of Strategic Management” is dedicated to the area of management that has very strong focus on the future. Such a long-term strategic perspective embracing strategic thinking, strategic planning and strategy implementation is fundamental in the process of shifting the boundaries. In this context appear ideas of anticipation of the future, new visions of products and markets, breakthrough technologies and business models.

The text of Maciej Brzozowski begins the second part of the book. The author concentrates on the boundaries of management thinking, compares design thinking with strategic thinking and concludes that both types are necessary for an efficient business development. Then Przemysław Wołczek presents his research on the evolution of strategic management during the development of companies, identifying firms with stable as well as with chaotic organisation of the strategic management process. He states that the *elements of stable strategic management described in his paper, form a specific boundaries system of a firm*. Ireneusz Janiuk scrutinises organisational boundaries of corporate groups in Poland thus deliberating on one of the basic growth strategies – the diversification strategy. Zbigniew Chyba and Wiesław Grudzewski ponder upon academic entrepreneurship in Poland illustrating the

topic with their research. They try to prove that academic *entrepreneurs' activities go beyond traditional boundaries of management*. Anna Wójcik-Karpacz looks at the supplier-buyer relationships in theory and corporate practice. To conclude the topic of strategic management Joanna Radomska discusses the boundaries of employee participation in this process.

The third part of the monograph "General Management Boundaries" presents immensity and multi-faced character of the problem. The authors of twelve papers in this part strongly emphasise the role of the social potential (Grażyna Bartkowiak), knowledge (Monika Stelmaszczyk as well as Paweł Wyróżebski together with Ewa Pączek) and employee development including talent management (Tomasz Ingram) in shifting boundaries of management. They also consider the question of innovation absorption in organisations' management (Sebastian Bakalarczyk), EU legal frameworks setting up boundaries for the competition of firms (Agnieszka Barcik), or specifically in Poland the opportunity of using bankruptcy and reorganisation law in restructuring of firms (Piotr Dziwiński). Going beyond boundaries of management the problem of brand development is also presented (Magdalena Grębosz). When reflecting upon crossing the boundaries of management the authors look at various types of organisations including Healthcare units (Małgorzata Striker and Szymon Jopkiewicz), authorised car dealers (Jarosław Karpacz) or tax offices (Joanna Papińska-Kacperek),

We believe that the structure and content of this book will let understand better the world of modern management and its paradoxes and show the way towards new horizons of management and "borderless governance".

Zbigniew Dworzecki  
Miroslaw Jarosiński





# **Part I**

## **Defining Boundaries of Management**



# **BOUNDARIES AS A PROBLEM OF CONTEMPORARY MANAGEMENT**

## **1. Introduction**

The question about boundaries in management is one of fundamental significance. It has been a part of scientific discussions since the beginning of the development of this scientific discipline, when the question about its content, scope, nature and relation to other scientific disciplines was asked. One has discussed about boundaries in the context of the identity of management sciences, paradigms, breakthroughs and trends, as well as stability and change. It expressed “the spirit of the times” when it was carried out, but simultaneously it made it possible to indicate and to consider visions of the changing world, and thus changing organisations and people<sup>1</sup>.

Sociologists and cultural anthropologists who formulate and define boundaries indicate that perceiving the boundaries, we ask about our world, about our place and role in it, we evaluate them and make effort to maintain or enhance boundaries existing so far, but also to change them, move them and set new ones<sup>2</sup>. It is an immanent feature of each development process.

If we consider them today, we do it for at least two reasons. The category of boundaries is becoming one of important paradigms of contemporary thinking, and the problem of boundaries is shifting under the influence of changes.

The development of management is also based on the unceasing question about boundaries- their definition, their sense (what for?), types (external and internal), significance (positive and negative), main participants – stakeholders (who sets them?) ways of defining and setting them (evolutionary and revolutionary), factors affecting their formation (political, economic, technological, psychological, social and cultural, organisational and non-organisational), directions of changes (towards management without boundaries?).

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<sup>1</sup> *Przełomy w zarządzaniu – kontekst strategiczny*, (ed.) Z. Dworzecki, B. Nogalski, TNOiK Dom Organizatora, Toruń, 2011.

<sup>2</sup> P. Sztompka, *Socjologia*, Znak, Cracow 2007, p. 474 and next.

Analysis of literature on management and management practice indicates that management sciences have moved from strictly defined organisation boundaries and their management within closed, mechanistic systems (changes within a system) to “management on the edge” (of boundaries existing so far) and “management without boundaries” according to the approach based on open, organic and virtual systems.

These changes are the result of changes in the organisations’ environment, their perception and valuation, the environment’s influence on an organisation, ways of adapting to the changing conditions, but also more popular and strict evaluation of phenomena, long-term trends and the changing “spirit of the times” in which they aroused, developed and were forgotten<sup>3</sup>.

A. Kieser distinguished two types of “spirit of the times” which can affect discussions concerning management boundaries: a scientific type and a sociocultural type<sup>4</sup>.

In the first case, the “spirit of the times” of a certain scientific discipline defines what values, mental models, orientations, concepts, themes are considered to be in force in a given period, and how to examine which methods should be applied. In the second case the point is rather to indicate what approaches, themes, methods are acknowledged and socially supported, what resources are distributed and to whom.

## 2. The Idea of a Boundary or Boundaries

The idea of a boundary, which is so basic for the human perception of the world, could not be omitted in management. It has been referred to in publications and it has also been a subject of articles or entire monographs. It can even be stated that it is difficult to find a contemporary scientific publication that would not refer, directly or indirectly, to the problem of management or organisation boundaries.

The “boundary” term appears in several contexts and is referred to in consideration of various management problems. It has never been however precisely defined. It probably results from the difficulty to define it unequivocally, from the ambiguity of this term and complexity of the problem.

Dictionaries provide four meanings of this term:

- 1) a line enclosing or separating a certain area;
- 2) a line of separation or factors differentiating something;

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<sup>3</sup> A.K. Koźmiński, *Zarządzanie w warunkach niepewności. Podręcznik dla zaawansowanych*, PWN, Warsaw 2004.

<sup>4</sup> A. Kieser, *Entwicklung der Organisationstheorien als Zeitgeistphänomen*. *Zeitschrift fuer betriebswirtschaftliche Forschung*, 59 Jg. September 2007, p. 678–705.

- 3) a limited scope or measure of something permissible;
- 4) the end of physical, mental abilities of a human, but also efficiency of an organisation or management system<sup>5</sup>.

A problem appears already with the first meaning. In order to be able to define management boundaries, the meaning of management should be defined first, as well as the content and area of management<sup>6</sup>. It is not that simple. The term has become imprecise, ambiguous, it relates to numerous institutions, phenomena, processes and events. T. Oleksyn considers that today we manage everything (e.g. the future, health, fear, chaos, diversity)<sup>7</sup>. Ł. Sułkowski enhances this critical view, stating that “contemporary term of management is overused in relation to all social processes and even abstract ideas”<sup>8</sup>.

The lack of precision, ambiguity of the “management” term and implications of this situation for management sciences is well described by S. Sudoł. He calls for intellectual effort to introduce order into this issue, but he also acknowledges that the management term can be defined in various ways, depending on what is considered most important in management in a given time and place<sup>9</sup>. The term is used in various contexts, including social and cultural ones.

Irrespective of whether the “management” term is defined according to institutional approach (management as a group of people that have the right to give commands in an organisation) or according to functional approach (management as undertakings, processes, functions, tasks carried out in an organisation and among organisations), management is “the action of a man directed to other people, although “enterprise (institution) management” or “management at an enterprise” is a common expression. The process in these institutions is always performed through people’s responds to the manager’s decisions”<sup>10</sup>.

A boundary always refers to certain wholeness. Its existence is a “sine qua non” condition of existence of an object (even an abstract or mental one).

According to the second meaning, a boundary is a line of separation or factors differentiating something. With reference to management as a behavioural or social and cultural process, it can be stated, according to G. Simmel, that boundaries are a social and cultural fact. They can be of objective or subjective nature (because they

<sup>5</sup> E. Kubicka, *O pojęciu granicy – raz jeszcze*, “Linguista Copernicana” 2012, vol. 1, no. 7, Nicolaus Copernicus University in Toruń, Toruń 2012, p. 209–227.

<sup>6</sup> The term „definition” includes Latin word „finis” meaning the end or limit. It is indicated by K.P. Liessmann in the book *Das Lob der Grenze*, Zsolnay, Wien 2012.

<sup>7</sup> T. Oleksyn, *Granice zarządzania*, in: *Współczesne paradygmaty nauk o zarządzaniu*, (ed.) W. Kowalczewski, Difin, Warsaw 2008, p. 54.

<sup>8</sup> Ł. Sułkowski, *Epistomologia w naukach o zarządzaniu*, PWE, Warsaw 2005, p. 54.

<sup>9</sup> S. Sudoł, *O podstawowych pojęciach i terminach w naukach o zarządzaniu*, Committee on Organizational and Management Sciences of the Polish Academy of Sciences, Warsaw – Wrocław, February 2014, multiplied typescript.

<sup>10</sup> S. Sudoł, *O podstawowych...*, op. cit. p. 7.

are based on human knowledge, experiences, stereotypes, human perception, assessment and valuation). Boundaries often appear in people's heads.

Several main meanings of this term can be distinguished and interpreted as legal, economic, technological, social and political, psycho-physical, moral, cultural boundaries and boundaries defining the identity of an individual, a group or an organisation. According to the systemic approach these are lines of separation between a supersystem and systems or within a system between various subsystems<sup>11</sup>.

The above observations concerning the meaning of this term make it possible to look at boundaries as a measure or end of something permissible, i.e. the third definition. R. Dahrendorf referred to it in the context of expectations included in norms which can constitute a compulsion, an obligation or a possibility, depending on the significance and strictness of sanctions. Other authors refer to boundaries of professional ethics, organisational roles, conflicts between an individual's personality and his/her organisational role or roles<sup>12</sup>.

Lastly, a boundary can be an edge, an end of functioning and development of an individual, a group, an organisation, a political, economic, social system. Management sciences have examined phenomena of occupational burnout, alienation, group-think, organisation lifecycles, especially their decadent phase, crises and bankruptcies of enterprises or systems<sup>13</sup>. They illustrate such approach to the problem of boundaries.

### 3. What Is the Role of Boundaries? Why Do People Create Them?

They do it to identify opportunities of thinking and acting. We need boundaries as an orientation, reference point, framework for thinking and acting (we cannot live without it). German sociologist G. Simmel stated it already in the 19<sup>th</sup> century. He wrote that boundaries are nothing other than symbolic designations by which existing individuals, groups, organisations create frameworks and noticeably separate themselves from the others. They refer to systems of values, ideologies, common

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<sup>11</sup> It is worth turning our attention to the long tradition and popularity of dichotomous divisions in management, polar models of management systems, character of an organisation, stereotypes of behaviour of people as individuals or members of groups, styles of management. The tendency to simplify the image of management is also visible in more complex management models. See: *Osiągnięcia i perspektywy nauk o zarządzaniu*, (ed.) S. Lachiewicz, B. Nogalski, Oficyna a Wolters Kluwer business, Warsaw 2010.

<sup>12</sup> Z. Dworzecki, *Kierowanie ludźmi*, in: *Podstawy organizacji i zarządzania*, (ed.) M. Romanowska, Difin, Warsaw 2001, p. 35–44.

<sup>13</sup> L.E. Greiner, *Evolution and Revolution as Organizations Grow*, "Harvard Business Review" 1972, vol. 5, no. 4, p. 37–46; *Leksykon zarządzania*, (ed.) M. Romanowska et al., Difin, Warsaw 2004, p. 237; U. Krystek, *Unternehmenskrisen*. Gabler, Wiesbaden 1987; *Upadłości, bankructwa i naprawa przedsiębiorstw*, (ed.) A. Adamska, E. Mączyńska, Oficyna Wydawnicza SGH, Warsaw 2013; N. Roubini, S. Mihm, *Ekonomia kryzysu*, Oficyna a Wolters Kluwer business, Warsaw 2011.

views, principles, norms of social behaviour. They are the basis of regulations as well as legal and organisational systems, a condition of social life.

According to E. Kubicka, boundaries help people to structure their space, distinguish objects, and that is why they are set even where they are not visible. It is easier to perceive a world where ideas have strictly defined boundaries<sup>14</sup>.

Boundaries are signals of inclusion, acceptance, but also exclusion. They promote a world of orderliness, stability, clear and unchanging rules and status quo.

Boundaries integrate people and organisations in which they act; they build and strengthen their identity, they ensure security and stability, they conduce to creating strong organisational culture and unequivocal organisation images.

The awareness of boundaries is one of the conditions of changes and freedom<sup>15</sup>. It is always associated with moving, crossing, eliminating and setting new boundaries.

However boundaries also separate people, ideas, thoughts, culture; they limit thinking, acting, language, projecting and introducing changes. Many boundaries and rules set by conservatism, rigidity and strictness hamper entrepreneurship, efficiency, effectiveness, pace, flexibility of response, building social potential and knowledge management. They are therefore a challenge for management described by K. Koźmiński as “dynamic”<sup>16</sup>.

## 4. Nature of Management Boundaries

Boundaries can be permanent or temporary, clearly or weakly defined, closed or open, strongly or weakly regulated, visible or invisible, strongly or weakly controlled, passable or impassable, general or specific. Such a polar approach to boundaries can be an unambiguous or gradual.

Management boundaries can refer to international community, general society or certain social and professional groups.

Boundaries can be cross-sectoral, sectoral or they can refer to one enterprise or its part (subsystem, function, process, undertaking, structure, and phenomenon). They can be local, regional, international and global.

Many traditional management concepts, which could be described as mechanistic, have adopted approaches that made it possible to set strict management boundaries. They have regarded organisations as relatively closed and isolated systems with relatively limited entrances and exits, developing exclusively according to their own

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<sup>14</sup> E. Kubicka, *O pojęciu...*, op. cit. p. 214.

<sup>15</sup> K. Bleicher, *Grenzen Menschlicher Gestaltbarkeit von Und In Organisationen*, in: *Grenzen menschlichen Denkens*, (ed.) H. Wuettrich, W. Winter, A. Philipp, Gabler/Springer, Wiesbaden 2001.

<sup>16</sup> A.K. Koźmiński, *Zarządzanie w warunkach niepewności*, PWN, Warsaw 2004.

internal rules. This has been conducted by slowly changing and predictable (political, economic, technological, legal, social and cultural) environment of organisations or enterprises, a small scale and scope of action of enterprise organisations themselves, their relatively limited internal differentiation, relatively homogeneous social and cultural environment.

Human behaviour which is conformist in relation to the system has been indicated as model behaviour (of management staff, employees) in an organisation. Such behaviour has been rewarded, other behaviours have been punished.

Nevertheless, even in such conditions attempts have been made to modify the bases of traditional management concepts with strict boundaries, the contents of these concepts, methods and management techniques applied, organisational behaviours. This was caused by the principles of evolution, i.e. a general tendency of social and cultural systems (which are, among others, enterprise organisations) to become more and more complex, organised internally and adaptive to the environment.

As a consequence of such actions boundaries within the management system, between particular subsystems, have weakened. It was visible especially when the management shifted from functional to process or project-related system.

Additionally, the changes of boundaries have also been an expression of nonconformism, dreams and the desire to search for new ideas, concepts and management methods.

This has been conducted by the interdisciplinary nature of management (inspirations and ideas have been taken from other scientific disciplines), increasing diffusion, permeation and interrelation of numerous systems and processes.

Although the changes of boundaries have often been evolutionary, as time passed by the interest in revolutionary management changes was becoming more and more visible. People realised that in radically changed conditions (which were called breakthroughs), previous models and methods of management cannot be continued<sup>17</sup>.

It was highlighted that many crises, enterprise breakdowns resulted from:

- Repeating “proven models”;
- Conservatism in management;
- Tardiness and inadequate adaptation.

The interest in new ideas, concepts and methods of management was therefore growing, and their emergence meant that management boundaries would be changed. Many old boundaries were destroyed or moved and new ones were established.

J. Lichtarski, highlighting the significance of breakthroughs in management, distinguishes changes in management theory and management practice. According to him, a breakthrough in theory would be “not so much emergence, as anchoring

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<sup>17</sup> J. Lichtarski, *Kilka refleksji o konsekwencjach przełomów w zarządzaniu i ich rozpoznawaniu*, “Przegląd Organizacji” 2011, no. 3, p. 12–15.



(dissemination, consolidation) in the scientific environment and results of its activities of new ideas and theories, concepts, methods and instruments of management that stimulate development and significantly change or enrich them. A breakthrough in management practice would be anchoring, to a large extent, of application of new solutions in the field of management and their significant consequences”<sup>18</sup>.

Some ideas and concepts were more fundamental and stable, others were kind of fashion, i.e. periodical, cyclical changes of orientation, concepts and methods of management. The significance of fashions in management is constantly growing. The growing demand for new ideas in management, new approaches, methods and instruments is accompanied by growing supply of various concepts and management instruments. Both affect boundaries in the field of management<sup>19</sup>.

## 5. A Changing Environment as a Condition of Changing Management Boundaries

New concepts and methods of management designating new fields of management and ways of solving (present or future) problems are today most of all a derivative of foundations and images of business environment (both macroenvironment and competitive environment).

As early as in 1960s Roman Reports about limitation and depletion of world natural resources provoked a wide-ranging debate. This thought was addressed and developed by P.F. Drucker in his book “The Frontiers of Management”. The first part covered description of present and predicted changes in the national economy. Similar considerations can be found in 1970s best-sellers by A. and H. Toffler about the future shocks and the “Third Wave”, as well as in more recent books and articles about trends of the 21<sup>st</sup> century<sup>20</sup>. In those publications one can find new processes that were not so visible earlier or were just emerging.

Globalisation is one of them. The economy is becoming worldwide. The process of tightening world connects all aspects of contemporary political, social, economic and cultural life and is becoming more and more evident. Markets and national productions are increasingly interdependent due to the dynamics of goods and services exchange, flow of capital and technology. Barriers in the flow of goods, people and

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<sup>18</sup> J. Lichtarski, *Kilka...*, op. cit. p. 12–13.

<sup>19</sup> Z. Dworzecki, *Mody w zarządzaniu*, in: *Nowoczesne instrumenty zarządzania*, (ed.) S. Marciniak, J. Ostaszewski, SGH, Warsaw 2008, p. 249–258.

<sup>20</sup> *Globale Trends, Fakten, Analysen, Prognosen*, Stiftung Entwicklung Und Frieden, Fischer, Frankfurt a/M, 2003.

capital are disappearing. The world is becoming a “global village”, we are witnessing “the end of history”, that is the triumph of the liberal model of economic system<sup>21</sup>.

In the 1980 people turned their attention to technological changes, especially revolutionary changes relating to technologies, including information (computer and telecommunication) technologies, emergence of information society or network society. Visions of a virtual world, virtual organisations and virtual management quickly became real and were expressed in the concepts of future economy based on new paradigms<sup>22</sup>.

These new technologies along with liberalisation and globalisation of economy, democratisation of societies turned our attention to the emergence of post-industrial society and development of “intellectual technology”, the shaping of knowledge-based society and knowledge-based organisations.<sup>23</sup>

In the beginning of 1980s J. Naisbitt and P. Aburdene presented visions of a changing world in the form of “megatrends” or tendencies leading to fundamental changes of contemporary economies in a 20-years perspective. They distinguished 10 such trends of the changing environment:

- Strong growth impulses as well as recession and crisis phenomena,
- Liberalisation of economies,
- Faster internationalisation and globalisation,
- Increasing competition,
- Enormous technological acceleration,
- Shortening technology and product lifecycles,
- New IT, telecommunication processes, virtual revolution,
- Significant demographic changes,
- New values in the society, change of lifestyle,
- Growth of awareness and significance of ecology<sup>24</sup>.

Many of the distinguished megatrends quickly became real. The pace of changes is very fast, and the idea of distinguishing trends has become so attractive that Harvard Business Review for many years has been publishing a list of world business trends concerning business environment and enterprises with their management staff.

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<sup>21</sup> *Globalizacja. Mechanizmy i wyzwania*, (ed.) B. Liberska, PWE, Warsaw 2002. It is also worth to look at the sceptic evaluation of the globalisation perspectives. See: S. Huntington, *Zderzenie cywilizacji*, Muza SA, Warsaw 2008; J. Norberg, *Spór o globalizację. Kto zyskuje, kto traci, ile i dlaczego?*, www.fijor.com, Warsaw 2006; J.R. Saul, *The Collapse of Globalism and the Reinvention of the World*, Atlantic Books, London 2005.

<sup>22</sup> A.H. Toffler, *Rewolucyjne bogactwo*, Kurpisz, Przeźmierowo 2007; M. Castells, *Spółeczeństwo w sieci*, PWN, Warsaw 2008.

<sup>23</sup> P.F. Drucker, *Spółeczeństwo pokapitalistyczne*, PWN, Warsaw 1999; P. Sztompka, *Socjologia*, op. cit. p. 509–511.

<sup>24</sup> J. Naisbitt, P. Aburdene, *Megatrends 2000. The New Directions for the 1990's*, William Morrow, New York 1990.

## 6. Changing People as the Main Driving Force of Changes of Management Boundaries

So far we have distinguished several groups of factors conditioning maintaining, shifting or disappearing of management boundaries. One of them is such independent variable as time (so called “spirit of the times”), within which management concepts and methods are formulated and implemented, and such dependent variables as external conditions (political, economic, social and cultural, legal, technological), the situation of an enterprise and the shape of its management system. The most important issue, i.e. the people formulating and implementing these management concepts, has not been addressed. It is them, their value systems, visions, aspirations, competences that would shape the needs and opportunities for changes in management boundaries<sup>25</sup>. W. Churchill once said that “we shape our buildings; thereafter they shape us.” These words can also be referred to management and its boundaries.

Aiming at expanding management boundaries, searching for development opportunities, it is worth looking at development processes of individuals (employees and managers), groups and task teams, building a culture of creativity, entrepreneurship, innovation, achievements and effectiveness, organisational culture using the opportunities to learn, to obtain, create and transfer knowledge. Many contemporary management concepts indicate it unambiguously, and the authors of these ideas are not only scientists, but also consultants, managers, employees and more and more often representatives of the society.

Numerous researchers, consultants and managers have taken them into account and they propose changes in management, thus shifting the boundaries.

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<sup>25</sup> J. Collins, J.I. Porras, *Wizjonerskie organizacje. Skuteczne praktyki najlepszych z najlepszych*, MT Biznes, Warsaw 2008; J. Collins, *Od dobrego do wielkiego*, MT Biznes, Warsaw 2010.

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# LIMITS OVER THE LIMITS OF THE INDIVIDUALS' ACTIONS IN AN ENTERPRISE

## 1. Introduction

Many economic organisations would not have a chance to exist if limits of action were unsurpassable. The essence of an enterprise development consists in searching for ways of overcoming boundaries of its actions. Many management concepts are based on the assumption that the environment and people's attitudes to work are constantly changing<sup>26</sup>. One of circumstances differentiating these concepts is, among others, indication of key mechanisms regulating changes occurring in economic organisations. On the one hand, the human driving force is indicated, and on the other hand – the system of interrelated institutions determining processes occurring in enterprises.

The basis of the first approach, in the area of economic sciences, is the concept of A. Smith, according to which individual (self-centred) interests in the conditions of unregulated economy are transformed into common good<sup>27</sup>. In the opinion of this author, individuals are driven in their economic activities by the desire to satisfy their individual needs, while competition among them necessitates the sales of goods on conditions which are attractive for the other people. Thus, benefits are created both for producers of various goods and their consumers. Any integration of an institution (e.g. the state) with the free market limits development of not only the economy, but also the entire society. The liberals' individualistic point of view is also continued in the modern concepts of management<sup>28</sup>.

The key to the institutional approach is the statement that the distribution of goods in the society is executed via institutions and that institutions should be the object of economic analysis. The classic works of M. Keynes should be mentioned

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<sup>26</sup> J. Tidd, J. Bessant, *Managing Innovation: Integrating Technological, Market and Organizational Change*, Willey, New York 2012.

<sup>27</sup> A. Smith, *Badania nad naturą i przyczynami bogactwa narodów*, PWN, Warsaw 1954.

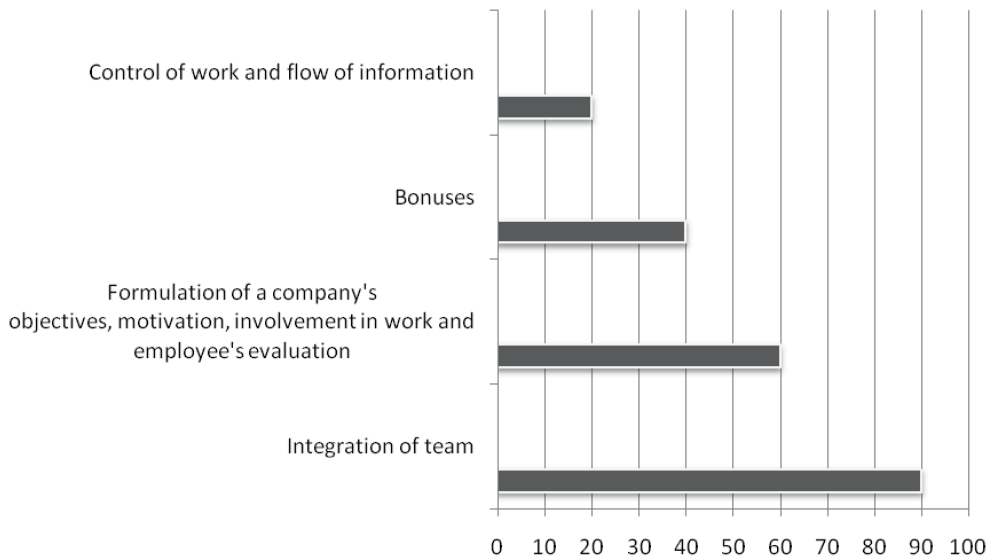
<sup>28</sup> *Zarządzanie kapitałem ludzkim*, (ed.) M. Juchnowicz, PWE, Warsaw 2014.

concerning the state's intervention, which is necessary to solve basic social problems<sup>29</sup>. An analysis of institutional structures and mutual relations between organisations is present in concepts of processes, project, knowledge and network enterprises management<sup>30</sup>.

The boundaries of enterprise activities are set by routine, technology, law, political system, people's attitudes etc. The aim of the presented article is to analyse universal factors: people's emotions (personalities) and organisational culture, which make it possible for individuals to surpass these boundaries. The thesis of the article is that both these factors make it possible to surpass the limits of enterprise's activities and simultaneously they guarantee its persistence.

The results of research carried out by the author of this article are the main reason of focusing on the individuals' actions. One of survey questions was to indicate whether these are people or procedures that influence the basic issues related to managing people. The answers of the respondents prove that in their opinion the driving force of actions in an enterprise are the people employed by it.

**Figure 1. Managerial Factors Influencing People (%)**



Source: Own research.

According to more than 90% of answers, integration of a team and its atmosphere depends on the employees, and over 60% indicated formulation of a company's

<sup>29</sup> J.M. Keynes, *Ogólna teoria zatrudnienia, procentu i pieniądza*, PWN, Warsaw 1985; Compare: T. Veblen, *Teoria klasy próżniaczej*, PWN, Warsaw 1971.

<sup>30</sup> Compare: J. Brilman, *Nowoczesne koncepcje i metody zarządzania*, PWE, Warsaw 2002.



objectives, motivation, involvement in work and the employees' evaluation. Only slightly more than 40% of respondents considered that bonuses influence the people, while about 20% indicated control of work and flow of information<sup>31</sup>. It can be stated that in the examined population shaping human interrelations is the domain of people, while the system of an institution fulfils control functions.

## 2. Surpassing Emotional Boundaries of Individuals

It is said that each person is different, since everybody has an individual way of emotional reaction to certain events. He/she also has his/her own individual attitudes, motivations, aims. In psychology the term "personality" (comprising also emotions) is used to describe a structure of individual features and ways of behaviour affecting ways of an individual's adaptation to his/her environment<sup>32</sup>. Factors shaping personality stem from childhood experiences and emotions related to them. Another area of interests concerns relations between various personality elements: needs, motivation, emotional reactions, resistance to stress etc., and their links.

According to psychologists, childhood experience and the structure of human personality are the basic limit of human actions. It is stated that surpassing this limit is conditioned by understanding the reality surrounding a person and linking it with his/her personality. G. Morgan suggests "looking in the mirror" and finding collision between the emotional state and a given professional situation. A mechanism that contributes to discovering barrier is, among others, a conversation with other people<sup>33</sup>.

Management practice and cultural behaviour patterns strongly highlight the significance of professionalism consisting in control over emotions and their separation from the decision-making process. That is how they become effective and reasonable. Management practice shows that it is impossible to eliminate emotions from work, since they are an inseparable element of human interrelations that cannot be analysed in the light of losses and benefits. This view was the basis of the concept of emotional intelligence popularised by D. Goleman, who defined it as a person's awareness of his or her own skills, attitudes, abilities and competences determining his or her behaviour, reactions, and state of mind and individual style of communica-

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<sup>31</sup> S. Winch, *Substytuty przywództwa*, own research, Warsaw School of Economics 2014. Research has been carried out on a sample of 320 students of postgraduate studies.

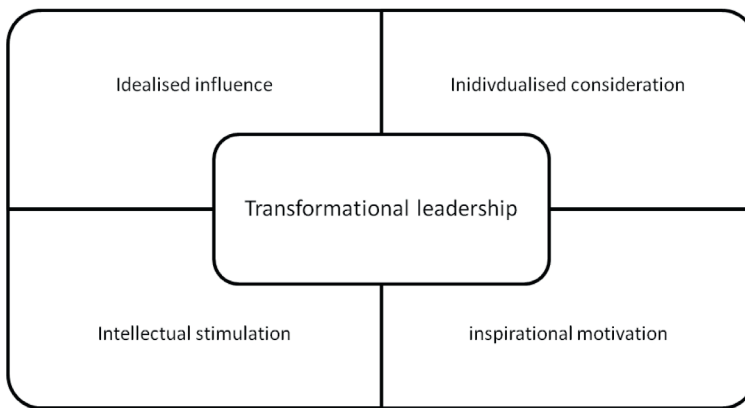
<sup>32</sup> J. Strelau, *Osobowość, zagadnienia ogólne*, in: *Psychologia*, (ed.) T. Tomaszewski, PWN, Warsaw 1977, p. 684.

<sup>33</sup> G. Morgan, *Wyobraźnia organizacyjna*, Wydawnictwo Naukowe PWN, Warsaw 2001, p. 59–61.

tion<sup>34</sup>. Other authors emphasise the ability to monitor one's own and somebody else's feelings and emotions, differentiate them and use this information to shape one's own thinking and actions<sup>35</sup>. Many researchers perceive emotions and their control as the source of a company's competitive advantage<sup>36</sup>.

As a result of focusing on the driving force in the area of overcoming limits with emotions, a concept of transformational leadership has been formulated. It is based on four sets of behaviours that constitute the leaders: idealised influence (also referred to as charisma), individualised consideration, inspirational motivation and intellectual stimulation<sup>37</sup>.

**Figure 2. Behaviour in the Concept of Transformational Leadership**



Source: Own research.

Idealised influence – the leader does not value his or her own personal good more than common good. Charisma comprises emotional relationship between the leader and the employees. According to M. Weber's theory, the term "charisma" means extraordinary feature of a person, due to which he/she is considered as having supernatural, superhuman or virtually unusual forces or characteristics not available to an ordinary man, or as a person sent by God, as an exemplar and thus a leader<sup>38</sup>.

<sup>34</sup> Compare: D. Goleman, *Co czyni Cię przywódcą?*, "Harvard Business Review Polska" February 2004, p. 93–101.

<sup>35</sup> C. Avery, *Przywódstwo w organizacji*, PWE, Warsaw 2009.

<sup>36</sup> D. Hill, *Emocjonika. Wykorzystanie emocji a sukces w biznesie*, Rebis, Poznań 2010.

<sup>37</sup> Compare: G. Avery, *Przywódstwo...*, op. cit., p. 123; J. Furmańczyk, *Autentyczne przywództwo w dobie kryzysu*, „Master of Business Administration” 2011, no. 3, p. 95–101; Compare: S. Winch, *Przywódtwo transformacyjne w przedsiębiorstwie – krytyka podejścia*, „Studia i Prace Kolegium Zarządzania i Finansów” no. 116, SGH, Warsaw 2002, p. 195–205.

<sup>38</sup> M. Weber, *Gospodarka i społeczeństwo*, Wydawnictwo Naukowe PWN, Warsaw 2002, p. 181.

In other words, a leader is an ideal, an example to be followed by the others and simultaneously strong enough to lead an enterprise out of a crisis situation.

Individualised consideration is expressed by praising, supporting, encouraging and teaching the others. Business coaching is strongly emphasised, the main principle of which is to “teach the others how they should learn”. In this context higher grade leadership can also be discussed, which is a process of reaching valuable results with fair, attentive and respectful attitude to all the people involved<sup>39</sup>. Mutual relations between the leader and the employees are emphasised. Interactions result in development of all the organisation members, due to increase in self-awareness and being guided by values that are known to all the employees of a company. This type of leadership is also described as “authentic”<sup>40</sup>.

Inspirational motivation is reached by adopting an attractive vision and using symbols concentrating the employees' efforts. The vision should inspire the employees, since only then it can ensure emotional relations. Moreover, it can guarantee peoples' identification with an enterprise, as it is its unique feature. It has been stated on the basis of research that visions of successful enterprises are characterised by the following features: conciseness, transparency, orientation to future, stability, being a challenge, being rather abstract than specific and inspiring employees<sup>41</sup>. Inspirational motivation carried out this way requires an efficient information circulation and constant dialogue between the employees in an enterprise.

Intellectual stimulation is the process of encouraging employees to look at their problems from a new perspective. Some behaviour in this area is the same as those of individualised consideration, since stimulation is, among others, one of coaching objectives. What is very important is the common system of norms and values which are a basic criterion of choice between what is good and bad for an enterprise. The task of the leaders is also to find a compromise between individual values and organisational culture of an enterprise.

A vision of an enterprise employing transformational leadership can be attractive because of humanisation of work. In this type of companies the point of view of the others is considered, a process of constant mutual communication is carried out, employees feel emotionally tied not only with each other but also with the organisation's vision, they keep finding sense in their work, their involvement is appreciated, and the leader, due to his/her features, gives a sense of security and trust. As a consequence, the focus on current results is disappearing, as they are

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<sup>39</sup> *Przywódtwo wyższego stopnia*, (ed.) K. Blanchard et al., Wydawnictwo Naukowe PWN, Warsaw, 2009, p. 15.

<sup>40</sup> J. Furmańczyk, *Autentyczne...*, op. cit.; Compare: F. Luthans, A.J. Avolio, *Authentic Leadership: A positive Development approach*, in: (ed.) K.S. Cameron, J.E. Dutton, R.E. Quinn, *Positive organizational scholarship*, Barlett-Koehler, San Francisco 2003, p. 241–261.

<sup>41</sup> G. Avery, *Przywódtwo...*, op. cit., p. 127.

not regarded as a failure or success, but stimulation to undertake innovative actions occurs. Research proves that “a good working environment” is a strong motivation to work<sup>42</sup>. The subjective role of the employees, being a foundation of the concept presented herein, makes work attractive for many people, since it makes their existence meaningful.

In management practice emotions are often indicated as the main factor of reaching market success by companies and their leaders. S. Jobs is one of them. According to many of his co-workers, he had the ability to create “reality distortion field”, i.e. play a game with the others according to rules created by him. It consisted in, among others, rejecting facts that were not matching the planned development vision. Paradoxically, it made it possible to inspire team members to create new reality on the basis of information technology. The reasons of S. Jobs’s attitude to the reality surrounding him are found in his emotional states of childhood with step parents<sup>43</sup>.

In the Polish management practice attention should be given to of S. Lachowski who established and developed mBank<sup>44</sup>. The foundation of actions undertaken by him is the system of values and needs of other people who are co-authors in the decision making process. S. Lachowski defines values as “the framework of our thoughts, attitudes and behaviours, making up a coherent system (...) making it possible to reach a success.” In this approach, values are closely related to emotions concerning a given entity and they provide motivation to undertake actions.

Many authors point out to the need of emotional ties among employees, and they consider that empathy is their important component. The example of S. Jobs, as well as many other managers, shows that this is not a necessary condition for surpassing boundaries that surround us. Such a factor can however be authenticity, perceived as “acting in a natural way, consistent with one’s personality, passion for one’s purpose, practising one’s values consistently and being guided by both heart and head”<sup>45</sup>. Discovering one’s authenticity consists of several stages: learning the story of one’s own life, knowing one’s authentic self, practising one’s values and principles, balancing extrinsic and intrinsic motivations, building one’s own support group, empowering people to lead<sup>46</sup>.

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<sup>42</sup> Compare: S. Winch, *Zaufanie a sytuacja finansowa firmy w opinii kadry kierowniczej przedsiębiorstw*, “Studia i Prace Kolegium Zarządzania i Finansów” no. 92, SGH, Warsaw 2009, p. 83–98.

<sup>43</sup> W. Isaacson, *Steve Jobs*, Insignis, Cracow 2011.

<sup>44</sup> S. Lachowski, *Droga ważniejsza niż cel*, Studio Emka, Warsaw 2012.

<sup>45</sup> B. George, P. Sims, A. McLean, D. Mayer, *Przywództwo oparte na autentyczności*, “Harvard Business Review Polska” December 2007, p. 111–120.

<sup>46</sup> Ibidem.

### 3. Surpassing Cultural Boundaries

Analyses carried out in the field of management highlight the significance of organisational culture due to its normative character: it creates a system of norms and values providing a basis of behaviour of members of a given economic entity. It is also considered that organisational culture is an independent variable: it determines the behaviour of employees in an enterprise. Many authors also state that the culture of a given country differentiates actions of managers in economic organisations<sup>47</sup>.

A lot of empirical research has been carried out showing positive relations between organisational culture and effectiveness of enterprise actions. Usually positive impact on innovation of such cultural aspects is stressed, such as: small distance of power, tendency to undertake risk, normative trust<sup>48</sup>. In the context of research results, a question arises about factors helping individuals to surpass boundaries of enterprise actions. One of such factors is the pursuit of liberty. In this perspective liberty is not only a legal category, but also a required state of social relations, making it possible to satisfy interests and reach objectives of individuals.

R. Legutko has considered the idea of liberty<sup>49</sup>. He has distinguished a category of negative liberty. It is reflected by the statement that "people's liberty cannot be limited. People decide on their lives independently". Consequently, each external compulsion is interpreted as a threat to civil liberties, and in the context of economic organisation – as hampering individual initiative. Negative liberty in its essence is egoistic, and becomes a valid ethical attitude. At first sight it seems that this kind of liberty contributes to surpassing limits. For it assumes that everything is possible, boundaries should be surpassed, since they hamper the man's development etc. Moreover, it is underlined that diversity is a chance for an enterprise development. It is worth stressing that what is meant, is not a diversity related to the professional role or social status. Negative liberty also assigns equal significance to various values systems, and tends to relativise behaviours of members of economic organisations. In comparison with enterprises, these processes in the society are more dynamic and relate to many areas of social life. At present economic organisations are still accounted for effectiveness perceived as generating profit. However, also in this area the situation is changing. Apart from economic growth, equality policy, corporate social responsibility is becoming an important criterion of evaluation, from the point of view of e.g. European Union programmes. Negative liberty promotes individualism and conduces to breaking all taboos.

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<sup>47</sup> Compare: G.J. Hofstede, *Kultury i organizacje*, PWE, Warsaw 2007; Ł. Sułkowski, *Kulturowa zmienność organizacji*, PWE, Warsaw 2002.

<sup>48</sup> Compare: S. Winch, *Zaufanie...*, op. cit.

<sup>49</sup> R. Legutko, *Traktat o wolności, słowo/obraz terytoria*, Gdańsk, 2007.

One of the conditions of carrying out economic activity in a reasonable way is predictability of the others' behaviours. It is ensured by, among other, stable legal provisions and mechanisms regulating conflicts inside an enterprise. In their classic publication, *The Seven Cultures of Capitalism*, Ch. Hampden-Turner and A. Trompenaars state that organisational culture is not as important for the enterprise development as mechanisms regulating contradictions between its various dimensions<sup>50</sup>. The consequence of negative liberty is anarchy and concentration of actions on what is going on here and now (orientation to the present). The author of this article has shown in his empirical research the relation between orientation to the present and economic result of an enterprise and the employees' involvement in work<sup>51</sup>.

The opposite of negative liberty is positive liberty – a set of measures making it possible to reach planned objectives. The former assumes egalitarianism and constant extension of the scope of freedom of actions. The consequence of the latter is social inequality, since the distribution of resources and measures is not equal. It refers to the natural diversification of roles and social positions. Positive liberty accepts the existing system of norms and values, but is also a source of limitations for the others. The essence of positive liberty is to set certain boundaries of actions, based on mutual agreements, which are a condition of the system existence. In other words, positive liberty means self-limitation, because it necessitates taking the other party's expectations into account. It also means responsibility for the results of undertaken actions. It seems that this kind of freedom is not conducive to surpassing boundaries of enterprise activities, because it preserves the existing state. It is worth underlining that positive liberty recognises the way of settling conflicts between various groups of interests as durable, as well as the system of values and norms which is its normative basis. At a certain point of his career, S. Jobs left Apple and established a new company called Next. It has not achieved success on the market and Jobs returned to Apple to create a legend in the sector of personal computers. In order to overcome crisis in the Chrysler company L. Iacocca carried out negotiations with banks and Congress of the United States of America<sup>52</sup>. He was determined and creative, but he acted in accordance with the adopted principles of action. S. Lachowski, while building foundations for a new internet bank in Poland, used his knowledge and based it on a system of norms and values created by him. His success in centrally planned economy would be hardly possible, since its game rules were secret, they hampered innovation as actions threatening the existing authority.

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<sup>50</sup> Ch. Hampden-Turner, A. Trompenaars, *Siedem kultur kapitalizmu*, Oficyna Ekonomiczna, Cracow 2003.

<sup>51</sup> S. Winch, *Czas jako wymiar kultury organizacyjnej a efektywność przedsiębiorstwa*, "Organizacja i Kierowanie" 2006, no. 2, p. 51–65.

<sup>52</sup> L. Iacocca, *Autobiografia*, Książka i Wiedza, Warsaw, 1990.

As the examples of managers show, positive liberty legitimises inequalities of roles and social positions. Each of the mentioned businessmen had an extraordinary intuition, but their positions were also built by money (S. Jobs), formal position in the organisation (L. Iacocca) and professional experience (S. Lachowski). All of them had that “something” which the others did not have, and they were convinced that that state of inequality is recognised and legitimised. Positive liberty assumes inequalities among people as a natural state. It does not mean that resources are assigned to individuals for ever. It means that transfer of these resources is carried out according to agreed rules. All the three managers could take their decisions because cultures in which they were functioning guaranteed persistence of their status, and the others recognised their rules of action. Naturally, they took the risk of loss, but it would be a result of incorrect decisions, instead of constantly changing rules of running business. The consequences of undertakings managed by them were uncertain, as well as the scale of possible gains, scope of introduced changes etc. The rules based on a stable system of values were predictable, which is the essence of positive liberty.

Considerations on the types of freedom lead to the conclusions that an individual in his/her actions is also conditioned by the system of relations between institutions and the system of social control. It is necessary, because people constantly solve a dilemma of negative and positive liberty. Examples of cultural objectives and valid institutional norms are of enormous significance for this dilemma. The objectives are a reference for what is important, and they involve emotions and skills of individuals. Institutional norms regulate ways of reaching these objectives. If somebody wants to carry out his or her plans in a way that does not conform with institutional norms (e.g. by fraud), the control system should obstruct such actions.

It seems that there are at least two groups of reasons of why positive liberty is so difficult to implement. The first one lies in peoples' experience. The concept of positive liberty assumes readiness to constant settlement of rules of actions on the basis of the other party's expectations. One of the conditions of reaching agreement is to disclose determinants of the decision making process, one's needs and objectives. People are afraid of consequences of speaking about their interests and plans openly. It is because experience shows that disclosing determinants of decision making brings negative results for the stakeholders. An employee hardly ever discloses his or her plans to change a job to his or her superior. An employee is afraid that he/she will be deprived of bonuses etc. The process of arrangement therefore requires calculation of gains and losses.

Another group of barriers lies in the institutional sphere. One of the basic, personal interests of decision makers is the persistence of the existing system of dependencies. Its formal change is not always possible and requires some resources, which at the moment can be difficult to obtain (e.g. competence in a given area). The dilemma between positive and negative liberty in an enterprise is solved on the basis of rules established by it in the form of scope of professional duties, regulations etc. It is

impossible to regulate all phenomena occurring inside a company or in its environment. Usually life develops differently than it is stipulated by regulations. Decision makers defend the existing arrangements, but the changeable reality creates various areas of uncertainty which cannot be formally regulated because of the lack of procedures. Reduction of uncertainty can be conducted by creation of informal arrangements, which do not have to reflect the existing system of dependencies. Manipulating with uncertainty becomes an instrument of affecting the others. People who cannot influence consequences of their actions start to worry about their career in the organisation. Consequently, they yield to the power of those who are perceived as decision makers in particular cases. Those decision makers are not always the formal management of an enterprise. Quite often those who have real power and who can affect actions of other people are employees at lower decision making levels. It can be stated that the greater control over uncertainty areas (i.e. sources of information, creation of law, external contacts, mastering specific skills), the greater power in an organisation and possibility to reach objectives by certain individuals or interest groups<sup>53</sup>.

This interpretation does not impair the reasonableness of positive liberty. It only shows that designating common fields of group actions in the life of an economic organisation is very difficult due to the fear of violating the existing dependency relations. The level of difficulty increases with the rate of hierarchisation of organisation and centralisation of decisions at the highest levels. In many cases talking about cooperation is not more than declaration and a veil covering actions for the benefit of individuals. Successful collective activity, which is the aim of organisations, is guaranteed by actions carried out in accordance with the adopted rules. Problems of enterprises begin when individuals act against the company or when the company covers their individual actions for their own benefit. One of the symptoms of this phenomenon is bribery, which “can be classified to a broad category of phenomena characterised by the common feature of loss of the ability to shape actions of individuals and groups by formal rules, while this function is taken over by informal external organisations”<sup>54</sup>.

Violation of rules of positive liberty in an organisation should entail certain sanctions. Lack of such sanctions results in a sense of impunity and breaking a system of norms and values and, consequently, the system of legal rules. Depravity of managers causes depravity of other groups of employees, according to the principle that “a fish rots from the head down”. It is worth noticing that the managers referred to in this article were characterised by a coherent system of values translating into organisational culture created by them, enabling to surpass boundaries of enterprise actions and simultaneously to obey existing rules.

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<sup>53</sup> Compare: M. Crozier, E. Friedberg, *Człowiek i system*, PWE, Warsaw 1982.

<sup>54</sup> A. and B. Kamiński, *Korupcja rządów*, TRIO, Warsaw 2004, p. 126.



## 4. Conclusions

A few tens of thousands years ago the man could use only two instruments – stone and wood. Each day the man was surpassing limits, thereby contributing to the development of civilisation. From the point of view of considerations presented in this article, two factors are of particular significance:

1. Orientation to personal development. It means self-awareness allowing for defining a person's professional role, skills and defining the scope of competence necessary for decision making. Emotions are a permanent factor of human actions. They do not have to be eliminated from the professional life, but they should be controlled so that they do not break rules applied in an enterprise;
2. Control over emotions is carried out by the system of norms and values – organisational culture, which is a criterion for distinguishing good and bad. It is necessary to refer to positive liberty, i.e. self-limitation of one's own aspirations on the basis of other people's needs. We are facing a kind of paradox: surpassing the boundaries of enterprise actions is at the same time self-limitation. The paradox is only apparent, as it does not apply to the development of instruments, new ideas, but to the protection of persistence of the system of values in force.

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# **BOUNDARIES OF MANAGEMENT SYSTEM**

## **1. Introduction**

Managing a contemporary enterprise becomes a tremendous challenge to managers. Traditional approach to the management function is no longer sufficient to maintain balance and development of enterprise within its turbulent and complex environment. New concepts of management<sup>55</sup> that spring up continuously provide managers with numerous ideas on how to get by under such complicated conditions; however, they often result in considerable restructuring of processes, structures and business relations of enterprise.

In view of the increasing virtualisation of enterprises, increasing network nature leading to the disappearance of the boundaries of enterprise, one may wonder whether these processes are followed by development of the management system responsible for efficient management, proportionate to changes introduced. Effectiveness of the process may be measured by capability of enterprise to attain objectives and by assurance of long-term, strong strategic position of enterprise.

However, the increasing complexity of economic entities, complicating the management process, requires special kind of knowledge and management rules from managers. Therefore, innovative changes in enterprises not always result in definite improvement of effectiveness of activity because of the defective management system.

It is therefore worth giving some thought to whether there are objective boundaries of enterprise management system development in view of the increasing virtualisation and increasing network nature of enterprises, which may limit the effectiveness of management process to a considerable extent. In order to answer this question, one should first define the term of management system and its components and then examine the development boundaries of these components in view of enterprise virtualisation and establishment of network organisations. The analysis of limits identified will allow forming a model development of effective enterprise management system.

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<sup>55</sup> Lean management, outsourcing, offshoring, Virtual Organisation etc.

## 2. Enterprise Management System

System approach in management sciences has developed intensely since the 1950's and has resulted in numerous concepts describing the system nature of organisation<sup>56</sup>. The aim of organisation as a system was to signify a group of interrelated components of organisation (also sub-systems) functioning as a whole in close relations with the environment (the so-called open systems)<sup>57</sup>. Management practitioners and theoreticians examined organisation from the point of view of the general theory of systems and were able to understand the mechanisms of impact of the environment on organisation and correlation between the respective elements of organisation<sup>58</sup>. Apart from e.g. production, finance and marketing, numerous organisation sub-systems included the management sub-system shaping the environment in which the general organisation functioning policy is established and implemented, simultaneously being superior to the other sub-systems<sup>59</sup>.

Unfortunately, Polish and foreign authors disagree on the scope of the term 'management system'. The term has evolved in time in different directions, focusing on its components (management system sub-systems), management regulators and even organisational architecture or infrastructure<sup>60</sup>. Contemporary English-language literature links the management system directly with the concept of quality management defined as "the framework of processes and procedures used to ensure that an organisation can fulfil all tasks required to achieve its objective"<sup>61</sup>. The ISO 9000 standard gives a similar definition of the system – system to establish policy and objectives and to attain those objectives<sup>62</sup>. Inasmuch as the early versions of the ISO standard placed the main emphasis on quality assurance, since 2000 ISO standards have established a standard fulfilling of the conditions of a system by combining the approach focused on quality assurance with measures aimed at continuous improvement and client satisfaction. Quality management system places great emphasis on

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<sup>56</sup> Compare: F.E. Kast, J.E. Rosenzweig, *General Systems Theory: Applications for Organizations and Management*, "Academy of Management" December 1972, p. 447–465.

<sup>57</sup> Compare: R.W. Griffin, *Podstawy zarządzania organizacjami*, PWN, Warsaw 1996, p. 87.

<sup>58</sup> Compare: H.J. Leavitt, *Applied Organization Change in Industry: Structural, Technical and Human Approaches*, in: *New Perspectives in Organization Research*, (ed.) W.W. Cooper, H.J. Leavitt, J.J. Shelly, John Wiley&Sons, New York 1964.

<sup>59</sup> Compare: A.K. Koźmiński, *Zarządzanie systemowe*, PWE, Warsaw 1971.

<sup>60</sup> Compare: G. Belz, J. Skalik, *Rozumienie systemu zarządzania. Próba definicji*, in: *Kształtowanie i doskonalenie systemu zarządzania w przedsiębiorstwach*, (ed.) J. Skalik, G. Belz, Wydawnictwo UE we Wrocławiu, Wrocław 2011, p. 11–15.

<sup>61</sup> Compare: Ch. Anderson, *How to Build Effective Management Systems*, Bizmanualz, January 26, 2005.

<sup>62</sup> Compare: *Polish Standard PN-EN ISO 9000:2006. Quality management systems. Fundamentals and vocabulary*, PKN, Warsaw, 2009, p. 27.

detailed guidelines on planning, designing, development, operation, maintenance and improvement of processes to be capable of continuously delivering products meeting the client's requirements and provisions in force, on increasing client satisfaction<sup>63</sup>. It is a collection of standards, guidelines and recommendations, whose observance is certified by a relevant document. However, in practice there is considerable divergence between the content of the quality management system documentation and the actuality of enterprises in operation.

Evolution of ISO standards has run along the development of knowledge and research areas of management practitioners and theoreticians. Initially, authors focused on quality maintenance solely within the area of products and services. Later on, the researchers' attention shifted to business processes, relations and people in organisation. Currently, the majority of authors focus on integration of various management systems into one integrated management system to ensure business excellence of organisation<sup>64</sup>.

Polish literature has always considered the management system a key factor to efficiency of organisation, a factor superior to the other sub-systems<sup>65</sup>. The aim of the management system is to adjust the activity of all sub-systems of organisation in order to ensure their high effectiveness, to attain objectives of organisation. The term 'management system' means a collection of cooperating, interrelated components with the aim to attain objectives of enterprise, directly related to management process. The aim of management system is to monitor and analyse the situation in the environment, to set and modify objectives of organisation, establish its strategy, identify directions of current activities, select techniques and technologies, establish the system to manage human resources and control progress of transformation processes. With such definition of the management system, its effectiveness translates directly into excellence of functioning of the enterprise, which means that Polish understanding of the management system complies with the current understanding of the term in world literature.

For the purposes of this paper, 'management system' shall be defined in accordance with G. Belz and J. Skalik for their definition is comprehensive and universal. The above mentioned authors define the management system as "entirety of values

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<sup>63</sup> Ch.G. Cobb, *From Quality to Business Excellence. A System Approach to Management*, ASQ Quality Press, Milwaukee, Wisconsin 2003.

<sup>64</sup> Compare: S. Karapetrovic, *Musings on integrated management systems*, "Measuring Business Excellence" 2003, vol. 7, no. 1, p. 4–13; T.H. Jorgensen, A. Remmen, M.D. Mellado, *Integrated management systems – three different levels of integration*, "Journal of Cleaner Production" 2006, vol. 1, p. 713–722; R. Hafner, *Samoocena i pomiar wyników działalności w systemach zarządzania przedsiębiorstw*, Wydawnictwo Naukowe Uniwersytetu Mikołaja Kopernika, Toruń 2011.

<sup>65</sup> Compare: J. Trzcieniecki, *Projektowanie systemów zarządzania*, PWN, Warsaw 1980; A. Stabryła, *Analiza systemowa procesu zarządzania*, PAN, Zakład Narodowy im. Ossolińskich, Wrocław 1984; L. Krzyżanowski, *Podstawy nauk o organizacji i zarządzaniu*, PWN, Warsaw 1992.

and objectives, regulations and structures, management methods and practices as well as resulting mechanisms regulating interrelations, which entirety determines the way to implement the management process<sup>66</sup>. The model in question covers four interrelated components: values and objectives, structures and regulations, management methods and practices and regulatory mechanisms. Authors define the first three components as 'stabilising' and assign them the role of keeping the organisation in relative balance under specific external and internal conditions. The last component – regulatory mechanisms – determines transformation of the management system in the case of frequent or major changes to the environment or inside the organisation. Further part of the study will provide an analysis of the above mentioned components of management system in terms of limitations resulting from virtualisation and network nature of enterprise.

### **3. Boundaries of Components of Management System resulting from Virtual and Network Nature of Enterprise**

The development of cooperative relations between enterprises and external entities has been noted for many years in world economy<sup>67</sup>. It has gained in force recently because enterprises strive after maximisation of value thus focusing on those areas of enterprise functioning which generate the greatest value for interested parties<sup>68</sup>. Change in the scope of vertical integration and striving after access to the best possible resources leads to virtualisation of enterprises, i.e. they focus their activity solely on key competences, outsourcing the other functions to external entities<sup>69</sup>. Virtual organisation seemingly considered by the environment to be one economic entity is a complex form of cooperation of independent entities providing it with necessary resources. Their number and extent to which they are linked with the leading entity depends on the current market needs and is not always regulated by formal contracts. Contrary to a virtual organisation, network organisation bases on formal contracts binding partners who maintain identity and independence and at the same time network is characteristic of decreased significance of capital and hierarchical relations, simultaneously stressing the significance of market mechanism<sup>70</sup>.

<sup>66</sup> G. Bełz, J. Skalik, *Rozumienie...*, op. cit., p. 16.

<sup>67</sup> Copare: W. Czakon, *Sieci w zarządzaniu strategicznym*, Oficyna a Wolters Kluwer business, Warsaw 2012.

<sup>68</sup> These decisions of enterprises were probably affected by e.g. transaction cost theory, A. Slywotzky's value migration, resource-based view, value based management.

<sup>69</sup> M. Rittenbruch, H. Kahler, A.B. Cremers, *Supporting Cooperation in a Virtual Organization*, Proceedings of ICIS'98, Helsinki 1998, p. 30–38.

<sup>70</sup> J. Brillman, *Nowoczesne koncepcje i metody zarządzania*, PWE, Warsaw 2002.

Whether it is a virtual or network organisation, both forms lead to disintegration and dispersion of enterprise thus resulting in increased complexity of the management process, which involves higher requirements as to the management system. In addition to control resources owned by organisation, the system must be capable of affecting actions of the other network members. Let us focus on the types of limitations to effectiveness of the management system operation in network organisation.

### Values and Objectives

Values of an enterprise cover its economic, social and functional features which make the enterprise stand out within the environment<sup>71</sup>. They might include innovativeness, openness to changes or mutual confidence. Objectives of an enterprise determine its nature and purpose of operation. There is no enterprise and management system without objectives. The common goal of values and objectives is to set the direction of development of an enterprise, to facilitate planning, support the selection of management tools, shape attitudes and motivate people to action, to facilitate evaluation and control of the level of tasks implemented. The greater the level of cohesion of objectives and values of enterprises, the greater the effectiveness of the management system. Both values and objectives result directly from assumptions and aspirations of creators and owners of enterprises; however, as enterprises develop, they become gradually subject to changes resulting from both external and internal factors affecting them<sup>72</sup>. Internal elements cover mainly the size of an organisation, potential of its members and how advanced the technologies used are. External factors affecting objectives and values include markets on which the enterprise operates cultural aspects and impact of interested parties.

Analysis of the network enterprise management system in terms of values and objectives reveals certain boundaries of effective operation of the mentioned system. Firstly, entities forming the network usually come from different cultures, what translates into different sets of values of the respective network members. Differing values hinder the distinctive image of network within the environment, building identity and image on the market. Moreover, varying values determine diverse objectives of entities, frequently contradictory, which are subject to frequent changes initiated by numerous interested parties within the network. Strong position of several entities within the network translates into their aspiration towards imposing certain values and objectives on the other network members thus breaking the cohesion of the network and limiting the possibility of long-term cooperation. With considerable dispersion of values and objectives, intense involvement of network members in

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<sup>71</sup> G. Bełz, J. Skalik, *Rozumienie...*, op.cit. p. 17.

<sup>72</sup> Ł. Wawrzynek, E. Głuszek, *Determinanty wartości i celów w procesie kształtowania systemu zarządzania*, in: *Kształtowanie...*, op. cit., p. 36–59.

attaining common objectives, finding solutions to problems or introducing innovations is difficult. To sum up, increasing complexity of the way an enterprise operates in form of a network organisation limits effectiveness of the management system because it is difficult to maintain cohesion of values and objectives of members of the network.

### **Structures and Regulations**

Structures and resulting regulations define the functioning of an enterprise. They jointly determine the hierarchy, allocation of authority to take decisions, scopes of responsibilities, instructions, organisation ties, standardisation and formalisation level as well as processes and procedures. Structural solutions of effective management systems must take into account numerous determinants, including the size of an enterprise, expectations of interested parties, human potential, and technological solutions, cultural determinants within the organisation and dynamics as well as competitiveness of markets<sup>73</sup>. Effective structure, proportionally to the above mentioned components, should define interpersonal relations resulting from division of work, relations between work means and between staff members and methods as well as procedures applied<sup>74</sup>.

Considering issues discussed above, certain boundaries of effective operation of the network enterprise management system may be indicated. Lack of clearly defined division of work, which specifies roles and tasks of the network members, is among the significant limitations. Commercial contracts and other formal cooperation agreements fail to facilitate precise identification of task, authority and responsibility centres among partners involved in the network. It is extremely difficult to draw up a precise map of business processes of the network to be familiar to all partners and to be able to coordinate and control processes. It seems even more difficult to impose specific working methods and procedures on all the network members. Within equal-partner networks, in which entities are fully independent, it is extremely difficult to introduce general network solutions, approved and applied by all partners. However, ambiguously defined nature and hierarchy of authority within the network is probably the most significant problem of a network organisation. Lack of this component makes other structure-building components insignificant. To sum up this aspect of the discussion, development of an enterprise towards a network organisation may limit effectiveness of the management system because it is difficult to synchronise a number of activities of numerous entities lacking a defined centre of authority.

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<sup>73</sup> J. Kacała, A. Wierzbic, E. Kołaczyk, *Determinanty kształtowania struktur i regulacji w systemie zarządzania*, in: *Kształtowanie...*, op. cit., p. 81–94.

<sup>74</sup> L.A. Załączny, *Projektowanie struktur organizacyjnych przedsiębiorstwa*, Issue 90/98, TNOiK, Bydgoszcz 1998.



## Management Methods and Practices

The way managers fulfil their managerial functions within an enterprise depends on management methods and practices they apply. Effective planning, organisation, motivation and control depend on the level of necessary knowledge of management and ability to apply it in practice in accordance with practices developed. The level at which methods and practices are applied depends e.g. on knowledge and personality of managers, assumed flexibility of organisation, scale and level of diversification of activity and the existing organisational culture<sup>75</sup>. Management practice and theory has brought about a number of philosophies and concepts which were operationalised and became management methods, techniques and practices<sup>76</sup>. Undoubtedly, the number, scope and quality of available management methods and practices had positive impact on effectiveness of the current management of enterprises; however, significant diversity of approaches, frequently contradictory recommendations, may considerably limit effective management of an enterprise operating as a network organisation. Network partners may represent various levels of knowledge and mastery of methods and techniques applied, and most importantly, may base on various, incompatible system solutions (e.g. integrated quality management systems, management by objectives, process management etc.). These elements must also be considered to be barriers to establishment of an effective network enterprise management system.

## Regulatory Mechanisms

Efficient management system requires constant adjustment to changes in organisation and its environment. Regulatory mechanisms lead to invalidation and restructuring of the above mentioned 'stabilising' components thus allowing the organisation to reach a new state of balance. Organisation is improved through three processes: innovation and initiation, transformation and integration, optimisation and standardisation<sup>77</sup>. The first process focuses on detecting signals within the environment and inside the organisation, identified as opportunities and challenges leading to introduction of favourable changes in an organisation. The other one focuses on dynamics of human relations and needs, aspirations and fears they are based on. The third process focuses on bringing order on components of organisation thus aiming at improvement of work efficiency and optimisation of activity costs. A question arises in this context: how can a network organisation have regulatory mechanisms, being, as a rule, temporary? Where is the network's competence to identify opportu-

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<sup>75</sup> E. Głuszek, M. Wąsowicz, *Kluczowe determinanty kształtujące metody i praktyki zarządzania*, in: *Kształtowanie...*, op. cit., p. 115–131.

<sup>76</sup> Compare: K. Zimniewicz, *Współczesne koncepcje i metody zarządzania*, PWE, Warsaw 2009.

<sup>77</sup> G. Belz, *System zarządzania jako regulator odnowy i wzrostu przedsiębiorstw*, Wydawnictwo UE we Wrocławiu, Wrocław 2011, p. 147.

nities and threats posed by the environment and what mechanism is responsible for relations between entities and for the network's organisational order? It seems that boundaries of this component of the network organisation management system pose fundamental challenge for managers of such enterprises. Without this component of the management system it is extremely difficult to reach cohesion between all the enlisted components of the management system, which is an underlying condition of high effectiveness.

#### **4. Model Development of Network Enterprise Management System Components**

The analysis above draws attention to objective boundaries of functioning of network organisation management systems. Consequently, one might ask to what scope managers can reduce their negative impact thus increasing the system's effectiveness? It is extremely difficult to identify universal solutions to be applied to each situation because each network has different problems. This requires individual approach to allow identification of problems, find applicable solutions and implement them in a given network. However, certain general remarks can be made to allow enterprise to establish an efficient management system.

As regards values and objectives, selection of network members of the same culture is a fundamental issue. If entities within a network have a common set of values, i.e. permission to play<sup>78</sup>, it is far easier for the network members to work on unification of new, common values and to persuade others to respect them, simultaneously stressing desires and attractiveness of objectives, whose implementation they shall facilitate. These objectives will, obviously, be elaborated and modified jointly during regular meetings of all network members, devoted to elaboration and improvement of vision and strategic objectives of the network. If unnecessary exclusions are avoided, intense activity and involvement of all the network members may be ensured. Strategic meetings of the network members may lead to elaboration of an effective network structure based on Drucker's model: analyse activities, analyse decisions, analyse references<sup>79</sup>. Network members jointly identify actions necessary to attain the network's objectives thus defining the set of necessary decisions to facilitate the process. Decisions must have a clearly identified decision-maker to assume responsibility for outcomes of decisions. Problem areas of decisions outline the scope of necessary cooperation between centres of responsibility for specific areas of functioning of the network thus defining each centre's input into work of other entities

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<sup>78</sup> P. Lencioni, *Niech wartości naprawdę coś znaczą*, "Harvard Business Review Polska" May 2004.

<sup>79</sup> P.F. Drucker, *Praktyka zarządzania*, Wydawnictwo MT Biznes, Warsaw 2005.

of the network. Activity of the network members in the field of defining objectives and ways to attain them will facilitate also the selection of adequate management methods and practices useful in network functioning. Having thoroughly analysed key management problems encountered by network entities and solutions applied, it is possible to assess potential threats to the network and find reasons behind the potential irregularities. This provides basis for tailoring methods and practices to current needs of the network.

Elaboration of regulatory mechanisms is a major challenge for network managers. Experience shows that the best outcomes in this regard are reached by networks built around a strong integrator. The integrator is responsible for tracking changes in the environment and introducing necessary corrections in the functioning of the network.

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# PERCEPTION OF STRUCTURE DETERMINANTS AND INTERNAL STRUCTURAL BOUNDARIES

## 1. Introduction

The boundaries of an enterprise are defined in various ways in the literature. Some researchers define it as the barriers between the environment and elements of the social sphere that form an enterprise. Others define it as the barriers set by resources owned by a company, and still others as a sphere of influence of an enterprise on environment. Despite the multiplicity of perspectives on the boundaries of a company it is possible to demonstrate that their main characteristic is that they separate a company from its environment and determine the enterprise's zone of impact.

Enterprise boundaries are perceived in external terms, as its relationship with the environment. A look at the boundaries of an enterprise in the light of structure allows to take into account also the dimension of the internal boundaries of an enterprise. This aspect of boundaries appears in some publications. Let us use the publication of S. Cyfert<sup>80</sup>, which examines not only the external organisational boundaries, but also the internal boundaries in the functional model, understood as an organisational structure. The author also indicates the existence of borders in the organisational hierarchy, the hierarchy of processes and projects, as well as the boundaries between particular divisions. M. Williams<sup>81</sup> also shows the existence of boundaries in organisational roles, i.e. functional and hierarchical boundaries. Internal structural boundaries are manifested by worse flow of information, formalisation of processes, high specialisation coupled with a clear division of tasks, as well as a clear hierarchy that indicates the inferiority and the supremacy in the enterprise.

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<sup>80</sup> S. Cyfert, *Granice organizacji*, Wydawnictwo UE w Poznaniu, Poznań 2012, p. 26.

<sup>81</sup> M. Williams, *Mastering Leadership*, Thorogood, London 2006, p. 109–111.

The existence of internal structural boundaries can be defined on the basis of the shape of selected structural features, such as centralisation, formalisation, standardisation, specialisation, or configuration. Each of these features indicates the existence of certain restrictions of people's actions in the company. These restrictions may be more or less intense. In the case of greater intensity a company is inflexible, which results in internal boundaries in its functioning. When a company is a fully flexible it can be stated that it is a company without any borders.

Identifying the existence of internal structural boundaries is a very interesting problem, but what factors affect the organisational structure and whether they contribute to the building or eliminating internal borders is even more interesting question. The author hereof believes that we can not point one or several factors, which clearly and in a unidirectional way affect the shape of the organisational structure. Structural solutions are conditioned by the occurrence of a number of factors, both internal and external, and combinations thereof. Research presented in the literature on the factors determining the structure indicates the existence of different relationships between external and internal factors and the shape of organisational structure. Despite numerous studies in this area there is no consensus as to the direction and strength of influence of individual structure determinants. Perhaps this is related to the human factor and the way managers perceive them. Therefore it is interesting to verify, the assigned by managers, importance of external and internal structure determinants and whether this perception has anything to do with shaping the characteristics of the organisational structure, i.e. the formation of structural internal borders. There are no systematic studies of this problem. Most studies concentrate only on structure determinants without searching the connection between the perception of the determinants with shape of the characteristics of organisational structure.

This article presents the results of research on structure determinants, their perception by managers and their relationship with the existence of company's internal structural boundaries, understood as inflexible shape of features of the organisational structure. An attempt is made to answer the following research questions:

1. Which of the structure determinants are most important in the perception of managers?
2. Is there any relationship between the perception of the importance of structure determinants and the existence of internal structural boundaries?

In the subsequent parts of the article, the research method and sample is described and the results of research are presented.

## 2. Research Method and Sample

An analysis of factors determining the structure was conducted on a sample of companies in the SME sector. It was one of the parts of a research project devoted to the identification of the organisational structure of this group of companies, which was carried out in 2012–2013 under the leadership of W. Jakubowska<sup>82</sup>.

Conducting research involving 380 CATI (*Computer Assisted telephonic Interview*) interviews was commissioned by the company named “Indicator. Centrum Badań Marketingowych”. The respondents in the study were as follows: business owners (104 respondents), a president or a deputy president (109 respondents), a director-general or a deputy director-general (108 respondents), a director or a deputy director of the division or department (58 respondents), a person authorised by the persons listed above or other person playing a key role in the company (1 respondent). The study was conducted in three layers, which are distinguished by the number of employees in the company and which corresponded to the three groups of firms: micro, small and medium enterprises. The micro enterprise category accounted for 33.4% of the sample, the small enterprises accounted for 33.7% of the sample and medium-sized enterprises accounted for 32.9% of the sample. The companies were diversified in terms of revenue: 35% of companies reached income of less than 8 million PLN, 32.9% had income between 8 and 40 million PLN and 30.5% of the companies reached income from 40 to 200 million PLN. Only a small percentage of companies declared income of over 200 million PLN. In respect of the business profile the largest share in the research sample had manufacturing companies (39.7%) and service providers (33.4%). Trading companies had a slightly smaller share (33.4%). The analysed companies were mainly companies with domestic capital (72.4%). Only 15.3% were companies with exclusively foreign capital, and the remaining 12.4% were companies with mixed capital.

## 3. Importance of Structure Determinants in the Perception of Managers

The first stage of the study was to gather the views of respondents on the impact of selected factors on the shape of the organisational structure, its features and dimensions. Factors for the survey were selected on the basis of in-depth review of literature. The review covered both the research conducted by foreign researchers such as: Ch.S. Koberg and

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<sup>82</sup> W. Jakubowska, *Ewolucja struktur organizacyjnych w teorii i praktyce*, Research Report, SGH, Warsaw 2013.

G.R. Ungson<sup>83</sup>; A.D. Chandler<sup>84</sup>; L. Donaldson<sup>85</sup>; M. Crozier<sup>86</sup>; JR Lincoln, M. Hanada and K. McBride<sup>87</sup>; L.I. Bourgeois III, D.W. McAllister and T.R. Mitchell<sup>88</sup>; and Polish researchers, such as: A. Zakrzewska – Bielawska<sup>89</sup>; J. Kraśniak<sup>90</sup>; J.M. Lichtarski<sup>91</sup>; M.Hopej-Kamińska, A. Zgrzywa-Ziemak, M. Hopej and R. Kamiński<sup>92</sup>.

The review of research on structure determinants showed considerable diversification of both their scope and perception. But almost every study resorted to the most classic division of structure determinants, i.e. the division into internal and external factors. Internal factors are those associated with the company, its age and history, size, type of legal entity, organisational culture, as well as the implemented strategy. In contrast, external factors are related to the legal system, the state of the economy, the sector of operation or perception of the environment as more or less variable and turbulent.

The described research also indicated internal factors and external factors in the questionnaire. The list of factors was based on the review of the literature mentioned above. The list of the factors includes both factors associated with the enterprise environment and internal factors. The external factors include: macroeconomic situation, requirements of stakeholders, the dynamics of changes in the industry, financial and legal system. The internal factors covered such parameters as: implemented strategy, company size, age of a company, technology, the competence of managers and employees, organisational culture. The first step of the study was the impact evaluation of these factors on the current shape of the organisational structure according to a scale of 1–5, where 1 meant little influence, and 5 definitely a big influence. The evaluation was made by the survey respondents. The following figure shows the evaluation of the internal factors affecting the organisational structure.

<sup>83</sup> Ch.S. Koberg, G.R. Ungson, *The Effects on Environmental Uncertainty and Dependence of Organizational Structure and Performance: A Comparative Study*, "Journal of Management" 1987, vol. 13, no. 4, p. 725–737.

<sup>84</sup> A.D. Chandler, *Strategy and Structure: Chapters in the History of the American Industrial Enterprises*, MIT Press, Cambridge 1962, p. 383–395; A.D. Chandler, *Strategy and Structure in: Resources Firms and Strategies. A Readers in the Resource-based Perspective*, (ed.) N.J. Foss, Oxford University Press, New York 1997, p. 46–48.

<sup>85</sup> L. Donaldson, *Divisionalization and Diversification: A Longitudinal Study*, "Academy of Management Journal" 1982, vol. 25, no. 4, p. 909–914.

<sup>86</sup> M. Crozier, *The Bureaucratic Phenomenon*, University of Chicago Press, Chicago 1964.

<sup>87</sup> J.R. Lincoln, M. Hanada, K. McBride, *Organizational Structures in Japanese and U.S. Manufacturing*, "Administrative Science Quarterly" 1986, no. 31, p. 338–364.

<sup>88</sup> L.I. Bourgeois III, D.W. McAllister, T.R. Mitchell, *The Effects of Different Organizational Environments upon Decisions about Organizational Structure*, "Academy of Management Journal" 1978, vol. 21, no. 3, p. 508–514.

<sup>89</sup> A. Zakrzewska-Bielawska, *Organizational Design in the Enterprise Development Process*, A series of Monographs, Łódź 2008.

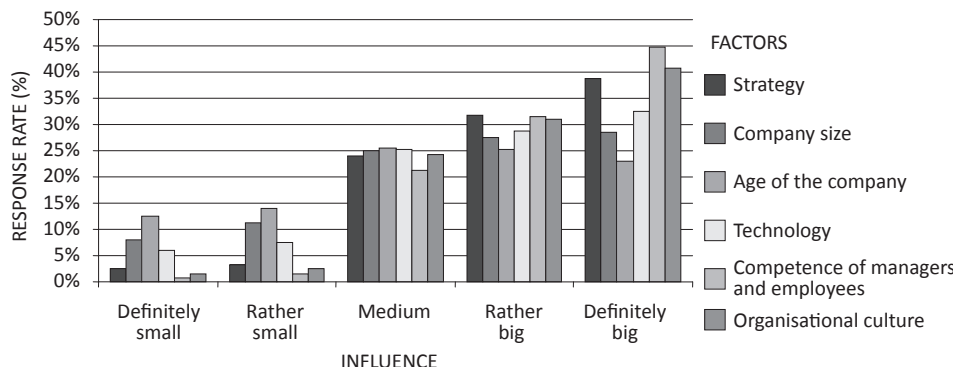
<sup>90</sup> J. Kraśniak, *Zmiany struktur organizacyjnych przedsiębiorstw w procesie internacjonalizacji*, Wydawnictwo UE w Poznaniu, Poznań 2012, p. 90 and next.

<sup>91</sup> J.M. Lichtarski, *Struktury zadaniowe. Składniki, własności i uwarunkowania*, Wydawnictwo UE we Wrocławiu, Wrocław 2011, p. 143 and next.

<sup>92</sup> M. Hopej-Kamińska, A. Zgrzywa-Ziemak, M. Hopej, R. Kamiński, *Myslenie systemowe a prostota struktury organizacyjnej*, "Przegląd Organizacji" 2013, no. 8, p. 19–25.



**Figure 1. Internal Factors Affecting Organisational Structure**

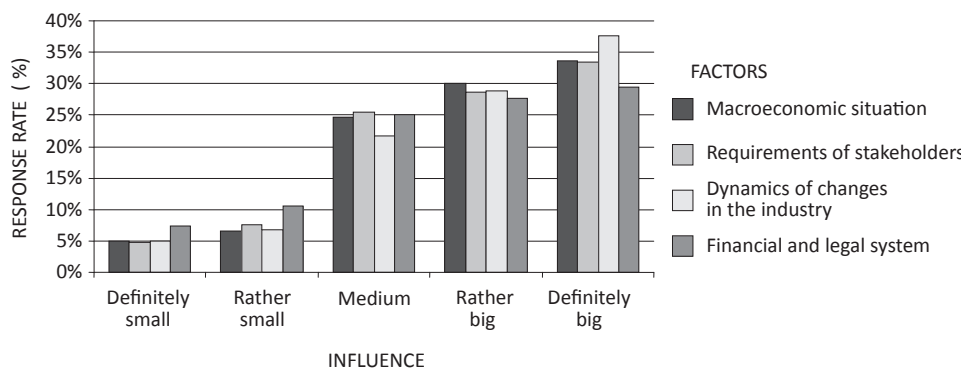


Source: Own research.

As you can see in Figure 1 above most of these internal structure determinants were rated as high or definitely high. Among the internal factors those rated as least important by most managers were: age of the company and its size. The highest impact was attributed to the competence of managers and employees, organisational culture and implemented strategy.

Summary of external factors determining the organisational structure is shown in Figure 2. Also in this case, the managers indicated that all factors have rather big and definitely big influence on the organisational structure. Most of them indicated dynamics of changes in the industry, and the least number indicated financial and legal system.

**Figure 2. External Factors Affecting Organisational Structure**

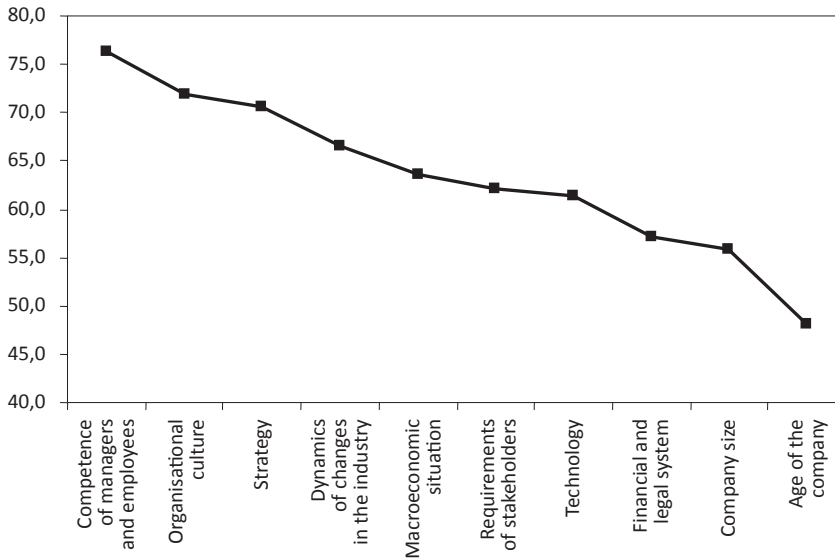


Source: Own research.

Figures 1 and 2, prove that, in the opinion of managers, each of the factors determining the organisational structure has large or very large impact on its shape. The next step was to identify those factors that were indicated most often. In order to present the results of research on internal and external factors determining the

organisational structure better, a rating of most frequently indicated factors with the greatest impact was created. Figure 3 presents the rating in percentage, indicating factors that have the greatest influence on the organisational structure.

**Figure 3. Rating of the Factors with the Greatest Impact on the Shape of the Organisational Structure**



Source: Own research.

It turns out that three factors are most important: competencies of managers and employees, organisational culture and implemented strategy. Therefore, the perception of the factors determining the organisational structure by managers is very interesting. They attribute secondary importance to external factors. However, each of the external factors is considered important. In contrast, internal factors include parameters that are rated as highly significant, as well as other parameters, the importance of which is rated as low. It can therefore be concluded that greater turbulence is associated with the internal part of the company due to the large span in assessing the significance of the whole group of internal factors.

#### **4. Perception of the Importance of the Structure Determinants and the Internal Structural Boundaries**

The next research question posed in this article was whether there is a correlation between the perception of the importance of a structural determinants and the existence of internal structural boundaries? Internal structural boundaries can be

identified by the perspective of how the characteristics of the organisational structure are shaped. The study identified the following characteristics of the organisational structure: centralisation, formalisation, standardisation, specialisation and configuration. The existence of structural internal borders will mean that described characteristics of the organisational structure will be developed as in the case of an ideal mechanistic structure, which will be of a high level of centralisation, formalisation and standardisation, as well as the narrow specialisation and vertical and slender configuration. In this study such perception of the characteristics of the organisational structure received a rating of 5 on a five-point scale. It was therefore possible to check whether there is a relationship between the perception of a very large impact of a factor on the organisational structure (rating of 5 on a five-point scale) and the rigid shaping the organisational structure (rating of 5 on a five-point scale). The study of correlation between the perception of the importance of structure determinants and the shaping of the characteristics of the organisational structure led to very interesting results. They are presented in Table 1.

**Table 1. The Perception of Structure Determinants and Characteristic of the Organisational Structure**

	Centralisation	Formalisation	Standardisation	Specialisation	Configuration
Strategy	-0.008	0.050	0.028	0.045	0.104*
Company size	-0.005	0.056	-0.004	0.015	0.000
Age of the company	-0.035	-0.077	-0.005	-0.040	-0.089
Technology	0.031	0.130*	0.098	-0.037	0.094
The competence of managers and employees	0.025	0.039	0.002	0.031	0.045
Organisational culture	-0.022	0.012	0.021	0.007	0.058
Macroeconomic situation	0.081	0.121*	0.003	0.047	0.120*
Requirements of stakeholders	0.044	-0.036	0.049	-0.022	0.061
Dynamics of changes in the industry	0.024	0.124*	0.069	-0.040	0.061
Financial and legal system	0.162**	0.134**	0.101*	0.087	0.035

rho Spearmana

\*\* Correlation is significant at the .01 level (bilaterally)

\* Correlation is significant at the .05 level (bilaterally)

Source: Own research.

The above study made it possible to draw some conclusions. First of all, only in few cases there is a relationship between the perception of a factor determining the organisational structure and the existence of internal structural boundaries, understood as rigid shaping of the characteristics of organisational structure. Secondly, such relationship is very weak. Thirdly, such relationship was observed mainly between the perception of external factors and selected features of the organisational structure.

In the case of the perception by managers of the macroeconomic situation as an important structure determinant, the companies simultaneously show a high level of formalisation and vertical, slender configuration. Importance of dynamic changes in the industry is linked only with a high level of formalisation of company. In contrast, the perception of the current financial and legal system as a very important structure determinant is bound up with the three characteristics of organisational structure: centralisation, formalisation and standardisation. It can therefore be concluded that there is connection between how managers perceive the current financial and legal system and the formation of internal structural boundaries. The greater perceived significance of financial and legal system as a factor determining organisational structure, the greater the level of centralisation, formalisation and standardisation of the company.

Among the internal factors only relationship between the strategy and configuration, and between technology and formalisation were identified. This means that the more value respondents attribute to the implemented strategy as a factor determining organisational structure, the more organisational structures are characterised by a vertical configuration. In contrast, the perception of technology as a significant factor determining the organisational structure is combined with a high level of formalisation of enterprises.

The above results are extremely interesting against the background of the previously presented perceived importance of individual external and internal factors. While importance of external factors was assessed as medium, their perception is strongly linked to the existence of internal structural boundaries. Ambient turbulence may therefore lead not to more flexible organisation and blurring of these internal boundaries, but to quite opposite responses of enterprises and stiffening of the structure as a defensive reaction.

## 5. Conclusions

Nowadays, there are many factors that influence the change of boundaries of the enterprise, their expansion or stiffening. The development of a company contributes to the growth of the scale, the number and complexity of operations, and thus to the movement of the structural boundaries. Unique works and tasks often require

implementation of more flexible and organic structures with undefined boundaries. Networks also affect the blurring of internal boundaries in an enterprise and influence the external boundaries, which are becoming more fluid. This results in factors that shape the organisational structure of the company and its external and internal borders.

This article examined the perception of structure determinants by managers and how their perception may influence the existence of internal structural boundaries, understood as inflexible form of organisational structure. The study allows us to formulate the final two general conclusions. First of all, it should be noted that managers differently perceive and value the factors determining organisational structure. However, the vast majority indicates the importance of both internal and external factors. The second proposal relates to the fact that despite the high importance attributed to each category of structure determinants, one can not demonstrate that their perception is significantly involved in the creation of internal structural boundaries. Relationships between perception and valuation of structure determinants and the organisational structure characteristics are quite weak. Only few relations were identified.

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*Beata Stępień*  
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# **INTER-ORGANISATIONAL RELATIONS – MANAGERIAL CONSEQUENCES AND BOUNDARIES OF THEIR ECONOMIC PERCEPTION**

## **1. Introduction**

The aim of this article is to show different perceptions of the inter-organisational relations (IORs) in economic theory – their grounds and impact on the way the enterprises are managed. The review of three different economic disciplines: transaction cost theory, institutional analysis of the firm and the theory of power and resource dependency will show various traits of the compound nature of inter-organisational relations underpinnings, together with shedding some light on their theoretical achievements, drawbacks and boundaries of their managerial applicability.

The inter-organisational relations can be described as ties between entities of different nature, length and strength. When using this simple, but far from accurate, definition as the starting point for our discussion, different areas may be mentioned in which inter-organisational relations differ and – in consequence – lead to different outcomes. First of all, it is vital to show how different schools of economic thought determine what kind of ties should be considered as relations between organisations, and then how they perceive and categorise the variety of these relations. As the economic perspective is to be the prominent one here, by presenting different theoretical perceptions on various features of IOR the focus is on looking for the answer to how these different features will affect the enterprise performance and its competitive position and to what extent these relations can be managed effectively.

## 2. Perception of Inter-Organisational Relations from the Transaction Cost Theory Perspective

As the starting point the transaction cost theory (TCT) is taken, because this perspective seems particularly viable when we examine different kinds of ties within or outside organisations and stays applicable even when the focus of this examination changes over time; from the internal core of the organisation into their peripheries and external ties<sup>93</sup>. TCT, broadly speaking, aims at answering the question of what kind of governance structure should be chosen in a particular environmental set in order to optimise economic actions. The two alternative models of governance are taken into account: the firm with its hierarchy system and the market with its price mechanism. However, the most interesting part, at least for the authors of this article, is the so called “swollen middle” – hybrid relations, where the features of both price mechanism and hierarchy system are mixed<sup>94</sup>.

Each model (internal hierarchy, market or hybrid solution) can be chosen by an entity to manage any of its transactions, and the choice of this particular governance structure is the result of an assessment of certain traits in the environment and the nature of economic action. Choosing a model for governing transactions generates a different set of the intra- and inter- organisational relations. The basis for such an analysis is an adequate estimation of the value of a given operation subject to a prospective contract, cooperation or pooling. According to the newest body of knowledge in TCT field, cost calculation should be done using the value chain approach, which views value not in accounting terms but in terms of strategic importance of the operation for the entity and/or the end user of a product or service<sup>95</sup>. The result of this calculation is the certain model of governance with its typical relations:

- when the hierarchy is chosen, one has to bear with the internal coordination costs and provide the set of managing rules which will minimise shirking;

<sup>93</sup> See debate in: *Problemy zarządzania organizacjami w warunkach nieprzewidywalności zmian*, (ed.) J. Rokita, GWSH, Katowice 2010; *Elastyczność organizacji*, (ed.) R. Krupski, Wydawnictwo UE we Wrocławiu, Wrocław 2008; S. Cyfert, *Granice organizacji*, Wydawnictwo UE w Poznaniu, Poznań 2012.

<sup>94</sup> J.-F. Hennart, *Explaining the Swollen Middle: Why Most Transactions are a Mix of Market and Hierarchy*, “Organization Science” 1993, no. 4, p. 529–548.

<sup>95</sup> See: the polemic between Williamson and Hennart, partly reflected in J.-F. Hennart, *Transaction Costs Perspectives on Inter-organizational Relations*, in: *The Oxford Handbook of Inter-Organizational Relations*, (ed.) S. Cropper et al., Oxford University Press, 2010, p. 339–365 or M.G. Jacobides, S. Billinger, *Designing the Boundaries of the Firm: From “Make, Buy or Ally” to the Dynamic Benefits of Vertical Architecture*, “Organization Science” 2005, vol. 17, no. 2, p. 249–261; I. McCarthy, A. Anagnostou, *The Impact of Outsourcing on the Transaction Costs and Boundaries of Manufacturing*, “International Journal of Production Economics” 2004, vol. 88, no. 1, p. 61–71.



- when the market transactions are chosen, relations between the partners are highly formalised by contract rules;
- when the results of calculation opt for hybrid solutions then the contract between the partners is a rather loose set of contract rules accompanied by a mixture of certain managing and coordinating tools.

To sum up, the analysis of TCT work perceives IOR as:

- results of behavioural traits: the assumption is that two basic attributes of human nature are bounded – rationality and opportunism, so IOR may hold the risk of cheating and unethical behaviour and can be at the same time subject to misleading judgement due to information scarcity or misinterpretation;
- a result of choosing and following the certain governance type of economic actions:
  - IOR will have a different length (market type – the shortest, even if repetitive, pooling the longest, hybrid solutions – lengthy),
  - IOR will be characterised by different strengths; from the weakest (those controlled by market institutions and formal contracts) to very strong internal hierarchical ties; the strength of hybrid relations is highly dependent on the value created due to these connections, resources engaged and the length of these relations,
  - IOR will have different nature; it will take the form of formal contract, framework contracts with loose set of basic rules combined with some managerial controlling tools or hierarchical order,
  - IOR will bear different hallmarks;
- in market relations; transaction costs will focus on finding partners and information about them, procuring a contract which will secure partners positions and contract execution costs in a certain environmental set;
- in hybrid relations transaction costs will raise, as higher costs of acquiring information about co-operation partner should be considered, costs related to management, performance of the cooperation subject and cooperative relations (e.g. monitoring, organisation, controlling) and possible difficulties of contract execution (due to its loose framework but complex character);
- in hierarchy/ pooling transactions the main burden of costs will be associated with management.

What TCT does not give is a clear answer on how the relationship should be shaped and how to create the synergy effects among IORs. What is neglected or at least highly underestimated by TCT theorists is the detailed discussion about mutual influence of different types of the governance structures and typical forms of the inter-organisational relations on economic activity of an enterprise and its ability to build powerful competitive position. What was also a big drawback for many years in TCT body of literature, was the fact that the recognition of the impact of institutions

on economic actors activities was too weak. The paradox was that TCT was actually a part of the new institutional economics, which is – broadly speaking – about analysis of institutions and their impact on economic behaviour<sup>96</sup>. TCT analysis does gain a lot in value when supported by institutional theorists' reflections. This is elaborated on later in this paper.

### 3. What Can Institutional Theory Add to IOR Understanding?

It is worth beginning the analysis of mutual impact of institutions and IORs with the definition of what these institutions are. According to D. North, institutions can be treated as formal rules, informal compulsions and ways to impose and enforce them<sup>97</sup>, while e.g. public choice academics describe institutions as “hardened preferences”<sup>98</sup>, “rules, procedures and arrangements”<sup>99</sup>, or “principles which define how one should act and what is forbidden”<sup>100</sup>. According to the new institutionalists of the organisational theory, institutions are macroabstracts of rationalised and depersonified recommendations<sup>101</sup> and they originate from certain scripts of behaviour, categorisations – rules, not necessarily rational but becoming ingrained, and then institutionalised when repeated without any reflection.

Despite the differences in definitions of institutions, all of them emphasise a significant impact of institutions on the functioning of economic entities. Institutions create a tunnel which restricts full rationality of economic actors<sup>102</sup> and influence

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<sup>96</sup> NEI consists of 1) theory of the firm (TCT); 2) new economic history and 3) public choice theories. The analysis of scientific achievements of new institutional economics, however, reveals that the interest in institutions – related problems differ from a limited (TCT) to the most extensive one (in the new economic history). Representatives of TCT define institutions as rules, structures, social systems which allow reducing transaction costs, while we can easily think of many rules persisting in a given environment that actually increase transaction costs (e.g. those connected with the necessity to be protected against opportunism of business partners).

<sup>97</sup> D. North, *The New Institutional Economics*, “Journal of Institutional and Theoretical Economics” 1986, no. 142, p. 230–237.

<sup>98</sup> W.H. Riker, *Implications from the Disequilibrium of Majority Rule for the Study of Institutions*, “American Political Science Review” 1980, vol. 74, p. 432–446.

<sup>99</sup> K. Shepsle, *Studying Institutions, Some Lessons from the Rational Choice Approach*, “Journal of Theoretical Politics” 1989, vol. 1, p. 131–147.

<sup>100</sup> E. Ostrom, *An Agenda for the Study of Institutions*, Public Choice, 1986, vol. 48, p. 3–25.

<sup>101</sup> See: P.J. DiMaggio, W.W. Powell, *Introduction*, in: *The New Institutionalism in Organisational Analysis*, ed. W.W. Powell, P.J. DiMaggio, The University of Chicago Press, Chicago 1991, p. 15.

<sup>102</sup> According to H.A. Simon – the precursor of studies on limited rationality of economic actors, the economic activity takes place in a kind of “tunnel” of restrictions, within which the entity has a freedom of choice. J. Wiśniewski mentions two groups of limitations of an entity's rationality. The first is connected with tendencies in the development of market economy and imperfections of market mechanism (e.g. no access to perfect information, barriers to entry). The second is connected with the features of entities making economic decisions. In both groups institutions play a significant role: legal and administrative regulations, customs, habits, moral code etc. For more on the subject of limited rationality see, among

their effectiveness so it is crucial to study them since they shape the nature of IORs and strongly affect their outcomes. This concerns both the institutions which shape the environment of economic entities and those which emerge within the framework of an organisation.

Institutional perspective analyses IORs through the prism of institutions that strongly influence economic entities and their behaviour, yet there are differences within this body of work, concerning the question if these entities are – and if yes to what extent – capable of shaping independently their actions and behaviours. For example, according to TCT and the theory of public choice, institutions originate from a conscious, rational public choice, whereas according to the new economic history establishment of institutions does not have to be a fully conscious and rational process. Institutions do shape the behaviour and inter-organisational relations, are socially embedded and therefore persistently lengthy, so their effectiveness deteriorates in time, the quicker and more drastic, the more turbulent environment is. From this perspective economic actors are heavily influenced by institutions but, as rational entities, are powerful enough to change and optimise them, so we can perceive IOR as embedded in past institutional set, but shaped in a *homo oeconomicus* rational way<sup>103</sup>. In the public choice trend relations are perceived as a result of both obedience and possible legal (or illegal) avoidance of existing constraints, where economic actors are, despite being somewhat restricted by institutions, self-determined.

To juxtapose, in literature devoted to studying organisations from the institutionalists' perspective an economic actor resembles a passive individual entangled and bound by environment and its regulations. An individual (including an economic entity) strives for environmental legitimisation in his/her desire to adapt to the rules of this environment<sup>104</sup>. Adhering to routines and duplicating patterns, favours institutionalisation but may also be a source of structural inertia<sup>105</sup>, because changes in the behaviour and the way of shaping and managing the IOR occur rarely and

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others: H.A. Simon, *Rationality in Psychology and Economics*, in: *Rational Choice. The Contrast Between Economics and Psychology*, (ed.) M.W. Reder, R.E. Hogarth The University of Chicago Press, Chicago and London 1987. For more on economic rationality of actors, see: B. Stępień, K. Szarzec, *Ewolucja poglądów teorii ekonomii na temat koncepcji człowieka gospodarującego*, "Ekonomista" 2007, no. 1, p. 13–35.

<sup>103</sup> We have to bear in mind that the context for this rationality is also influenced by a set of institutions both past and those still existing.

<sup>104</sup> Inter-organisational relations are thus treated as means to secure legitimacy of different kinds: of ability to conform to prevailing institutional and social norms, of economic efficiency of activities, of political credibility, of legal compliance. For more see: N. Lotia, C. Hardy, *Critical Perspectives on Collaboration*, in: *The Oxford...*, op. cit., p. 370.

<sup>105</sup> Expressing this view, new organisational institutionalists agree with organisational ecologists although the reason for structural inertia is not of institutional but technological character because it relates to the so-called fundamental competence of an enterprise and its material resources. See for example M.T. Hannan, J.H. Freeman, *Structural Inertia and Organizational Change*, „American Journal of Sociology”, 1984, vol. 42, no. 2, p. 149–164; J.M. Podolny, T.E. Stuart, *A Role-Based Ecology of Technological Change*, „American Journal of Sociology” 1995, vol. 100, no. 5, p. 1224–1260.

they are frequently of superficial, incidental character, more creeping than stepping. Revolutionary, fundamental changes in IOR could occur if e.g. an institutional system of a higher order broke down<sup>106</sup>.

The other difference in the perception of the impact of institutions on IORs derives from the category of institutions examined. The literature on the new institutional economics concentrates mostly on formal institutions as well as the character and stability of political and legal-administrative sphere of the economy (e.g. regulations concerning the freedom to conduct economic activity, tax systems). The main focus is on the impact of these elements on how economic entities build their organisational relations and then how effective the relations are. Studies on formal institutions usually embrace the contents, stability and effectiveness in executing the established norms since they influence the volume of transaction costs<sup>107</sup>. Social confidence in the state and in business partners also lowers transaction costs. Perception of business partner, its integrity and future conduct influences the level of transaction costs and thus influences the nature, the strength and the length of IOR.

By comparison, the analyses provided by author connected with the new institutionalism in the organisation theory put emphasis on the understanding of informal institutions and their impact on the behavior of IORs and serve as grounds for firm statements that formal institutions originating from informal set of rules have much bigger chances for social approval and stability, and that effectively working informal institutions (stemming from trust and trustworthiness) together with strong social capital actually reduce the necessity for contractual management and thus minimise transactions costs and temptations to behave in opportunistic manner<sup>108</sup>.

Another important consequence of studying the IOR through the lenses of institutionalists is the ability to foresee potential effectiveness of built interactions, or at least to focus on potential problems stemming from different institutional environments that organisations are embedded in<sup>109</sup>.

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<sup>106</sup> More on this subject see e.g. B. Stępień, *Procesy przystosowawcze przedsiębiorstw postsocjalistycznych do warunków rynkowych*, Wydawnictwo UE w Poznaniu, Poznań, 2001, p. 53–71.

<sup>107</sup> For example, an efficient system of execution eliminates the propensity to cheat and reduces transaction costs because a potential cheat will inevitably bear the consequences of his opportunistic behaviour. See also D. North, *Institutions, Ideology and Economic Performance*, "CATO Journal" 1992, vol. 11, no. 3, p. 477–478.

<sup>108</sup> R. Gulati, *Does Familiarity Breed Trust? The Implications of Repeated Ties for Contractual Choice in Alliances*, "The Academy of Management Journal" 1995, vol. 38, no. 1; R. Gulati, M. Sytch, *Does Familiarity Breed Trust? Revisiting the Antecedents of Trust*, "Managerial and Decision Economics" 2008, no. 29; R. Gulati, H. Singh, *The Architecture of Cooperation: Managing Coordination Costs and Appropriation Concerns in Strategic Alliances*, "Administrative Science Quarterly" 1998, no. 43.

<sup>109</sup> On consequences of embeddedness of different type see e.g. M.S. Granovetter, *Economic Action and Social Structure: the Problem of Embeddedness*, "American Journal of Sociology" 1985, vol. 91; B. Uzzi, *Social Structure and Competition in Interfirm Networks: The Paradox of Embeddedness*, "Administrative Science Quarterly" 1997, no. 42, p. 35–67; P. Kenis, D. Knoke, *How Organizational Field Networks Shape Interorganizational Tie-formation Rates*, "Academy of Management Review" 2002, no. 27; G. Rooks,

To sum up, institutional analysis of IORs may be helpful in better understanding how the environment shapes their content, determines their length and effectiveness, which should be a notion of warning to this group of theoreticians and even a greater number of managers who tend to think that everything can be managed and shaped accordingly to their goals and wishes and that at the end of the day the desired results are only a matter of tools, time and money involved.

#### 4. IOR as the Source of Power or Dependency Tie

Resource dependence theory authors claim the IORs to be forms of organisation's reaction to environmental pressures of positive and negative meaning. Those pressures are concerned to be connected with power of different types available to organisation or coming from outside<sup>110</sup>. Environmental forces may try to limit organisation's autonomy and profitability, differences in power of actors may lead to inconsistencies in demands hard to reconcile, and powerful actors may exert their power on organisations internal processes. IORs are seen as forms of response to power-related problems, taken in order to modify power relationships between organisation and environmental forces<sup>111</sup>. Another stream of analysis concentrates on separately taken effects of power imbalances among organisations and their mutual interdependencies in different forms of IORs and IORs' effectiveness in neutralising environmental constraints<sup>112</sup>. The ability to manage the environment comes from organisational power based on critical resources possessed or controlled, which may be obtained through investment, self-development or participation in IORs<sup>113</sup>.

The IORs are perceived to be valuable source of power to shape enterprise's environmental position for the political perspective representatives, the resource dependence theorists and the resource-based view researchers. All those researchers concentrate on the effects of imbalances in the provision of resources among organisations and on generation and dynamic distribution of power among organisations. „The power over which organisations struggle is generated from three main

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W. Raub, R. Selten, F. Tazelaar, *How Inter-firm Co-operation Depends on Social Embeddedness: a Vignette Study*, "Acta Sociologica" 2000, p. 123–137.

<sup>110</sup> J. Pfeffer, G.R. Salancik, *The External Control of Organizations: A Resource Dependence Perspective*, Stanford Business Books, Stanford California 2003 (first published in 1978).

<sup>111</sup> Ch. Huxham, N. Beech, *Inter-organizational Power*, in: *Oxford...*, op. cit., p. 556–557.

<sup>112</sup> T. Casciaro, M.J. Piskorski, *Power Imbalance, Mutual Dependence and Constraint Absorption: A Closer Look at Resource Dependence Theory*, "Administrative Science Quarterly" 2005, no. 50, p. 167–199.

<sup>113</sup> Critical resources may be e.g.: financing, information, political support, legitimacy and strategically valuable network of IORs. J. Pfeffer, *Managing with Power: Politics and Influence in Organizations*, Harvard Business School Press, Boston 1992, cit. after: D. Knoke, X. Chen, *Political Perspectives on Inter-organizational Networks*, in: *Oxford...*, op. cit., p. 446.

analytic sources: resources, regulations and networks.”<sup>114</sup> IORs are therefore means to gain access to needed resources or they are themselves special kind of resources that combine both material and social capital in a certain (most desirably – optimal) way and can be substantiated in a form of organisational, both internal and external routines.

The value of a given resource depends on its ability to reduce costs within an enterprise and differentiate the portfolio of a company. The competitive power of resources is reflected by their uniqueness (also in terms of the lack of substitutes) and the difficulty to duplicate them by competitors<sup>115</sup>. It is difficult for IORs to measure this competitive power because they are usually created in co-competitive forms of organisation, so even though they become resources of all partners involved, their value and power can be different for each partner, since it depends on the partner’s ability to effectively utilise them<sup>116</sup>.

According to the schools of thought mentioned above, economic entities are open systems, exchanging resources and building different sets of ties in environment. By doing so, they shape their position within the environment and build their competitive power through:

- creating and managing valuable relational competencies that shape outstanding IOR – the source of power comes from the ownership of knowledge and the competence to build and manage such IOR,
- controlling IOR – the source of power comes from the ability to control relations, which were not necessarily created by a given entity,
- having formal authorisation to create the rules of the game within certain environment, and therefore the power to create favourable IOR,
- having informal authorisation to create both the rules of the game and IOR.

When combining this view with the institutional perspective we can also look for sources of power stemming not only from the enterprise interior, but also from the market in which it operates. In this sense the strength of impact of a given market on IOR will depend on its qualities, available resources and recognition of these resources/qualities as attractive minimising the transaction costs<sup>117</sup>.

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<sup>114</sup> Ibidem, p. 443.

<sup>115</sup> P.C. Godfrey, Ch. Hill, *The Problem of Unobservables in Strategic Management Research*, “Strategic Management Journal” 1995, vol. 16, p. 520.

<sup>116</sup> It concerns the notion of relational capabilities, which are described in detail in: M. Sulimowska – Formowicz, B. Stępień, *Składowe i granice w zarządzaniu kompetencjami relacyjnymi w organizacji*, in: *Granice w zarządzaniu kapitałem ludzkim*, (ed.) P. Wachowiak, S. Winch, Oficyna Wydawnicza SGH, Warsaw 2014.

<sup>117</sup> Market attractiveness according to its potential to support building certain types of IOR results from: size of the market; its geographical location and international economic and political significance, resources available on a given market; formal institutions fostering economic entities – the set of those institutional qualities is frequently referred to as economic freedom, legal regulations protecting ownership

## 5. Conclusions

Efficient inter-organisational relations, in many cases being a form of a long-term collaboration between entities, should positively affect not only the level of their income or profit, but also the quality of competitive potential and positions of both partners by improvement of their: products, technological chains or increasing partners' knowledge, competences related to the subject of cooperation and skills in establishing, maintaining, and developing long-term business relations<sup>118</sup>.

All three economic perspectives we have reviewed above do not give complete answers what to do in order to enjoy optimal set of IOR that would create and sustain long – term competitive advantage but indicate what to take into consideration in order to make it more probable. These are:

- careful analysis of transaction costs together with its present and potential value and importance in a technological value chain, what indicates appropriate type of governance structure with its typical set of IOR,
- careful analysis of institutions, which determine the level of transaction costs and probability of successful co-operation together with possible necessity to adjust routines to market and partner's conditions,
- examination of potential probability of successful collaboration by checking similarities/ differences in power positions, especially cohesion or asymmetry/ divergence of goals of partners and possible asymmetry of their potentials.

This quick review shows that the efficiency of IOR depends not only on resources or competent analysis of power differences together with alternative economic solutions, but is as well affected by the institutional and cultural environment in which the entities operate and from which they come.

One must take note of the fact that the selection of a given form of business is also determined by the predominant nature of the economic games played in the environment, and the quality of institutional relations between entities. The quality of institutions on a given market agreements, and the enforcement of law arising from framework contracts is efficient and inescapable. It refers both to the effectiveness of the state apparatus, and to customary observance of the rules of the game by business partners, which favours the growth of trust and the reduction of transaction costs.

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and executing contract law, friendly taxation and its stability, high degree of execution of law reflected in the low level of corruption and stable monetary policy.

<sup>118</sup> In an ideal model of efficient IOR, both types of effects should occur, with static effects being short-term (improving the economic performance of partners only during the cooperation), and dynamic effects being long-term (enhancing the potential and position of the beneficiary long after the cooperation ends) see e.g.: M. Hansen, H. Schaumburg-Mueller, *Introduction and Analytical Framework*, in: *Transnational Corporations and Local Firms in Developing Countries – Linkages and Upgrading*, (ed.) M. Hansen, H. Schaumburg-Mueller, Copenhagen Business School Press, Gylling 2006, p. 12 and next.

What is also very important here, these three economic perspectives show somewhat different approach into the feasibility of effective IOR management. When we take into account the simple rule that we can manage only this what we can have control over, we can put a question about the IOR managerial limits that these economic theories reveal. From this quick review we can see that:

- according to TCT, the level of control (and therefore managerial) of feasibility of IOR is belittled due to the framework contracts and therefore high risk of such relations,
- in institutional analysis the managerial effectiveness of IOR depends heavily on the proper understanding and adjustment to the given set of rules in a certain environment, which is in itself very difficult to control and shape,
- the boundaries of effective management are visible when the power and therefore control over the certain area fades away.

Each of the theories reviewed here show certain limitations of efficient IOR management and by doing so defines its boundaries (understood here as limits of successful control and modification of a certain area in order to achieve rationally set goals). In order to push these boundaries forward and increase the probability of successful IOR management, it is vital to look on relations between enterprises from many theoretical perspectives, as each theory focuses usually on one or few different aspects while overshadowing remaining areas. IOR are complex artefacts and cannot be sufficiently explained only by one, no matter how well developed theory. By the same token successful IOR management requires tools that are built with careful usage of economic, sociological, psychological and antropological theoretic achievements. We also have to remember, that persistence and development of inter-organisational relations blurs the boundaries of organisations involved in such interplay, but it does not necessarily makes the IOR management more difficult. Acquiring experience and building trust together with learning various types of relational boundaries (like economic, political, functional, time, cultural constraints etc.)<sup>119</sup> makes IOR management easier despite the fact that the action takes place on the verge of control.

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<sup>119</sup> For typology of boundaries see e.g.: M. Williams, *Mastering Leadership*, Thorogood, London 2006.



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# EXCHANGE OF KNOWLEDGE IN ORGANISATIONS WITH BROADEN BOUNDARIES

## 1. Introduction

The success of a modern organisation depends on its effective cooperation with its environment, carried out within certain boundaries. Each organisation has its own system of boundaries, which, on the one hand, makes it possible to maintain its identity, and on the other hand – shapes its relations with the environment. The boundaries set by an organisation not only impose conditions of functioning, but also determine the possibilities of its development.

The limited resources which an organisation has at its disposal, more and more often incline it to use external resources. It can be done by entering cooperation arrangements with other subjects and creating network structures with broaden, often intentionally unclear and undefined boundaries.

One of the main reasons of creating network organisations is the possibility to exchange knowledge among its participants. The aim of the article is to present multi-aspect description of knowledge exchange process in network organisations, on the basis of research carried out by the author in 2013 concerning 363 network organisations operating on the Polish market<sup>120</sup>. The detailed scope of the research covered three types of networks: 121 clusters; 121 franchise organisations and 121 so-called virtual organisations.

The presentation of the results is preceded by a short presentation of the essence and the idea of organisational boundaries and characteristic features of a network organisation.

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<sup>120</sup> A. Sopińska, *Znaczenie i uwarunkowania zarządzania wiedzą w organizacjach sieciowych*, in: *Innowacyjność organizacji sieciowych w gospodarce opartej na wiedzy*, (ed.) B. Bojewska, Oficyna Wydawnicza SGH, Warsaw 2014, p. 153–201.

## 2. The Essence and the Idea of Organisational Boundaries

References to the concept of organisational boundaries can be found in numerous management theories<sup>121</sup>, two of which (the transaction costs approach and the resource dependence theory) make it possible to explain comprehensively the essence and the idea of organisational boundaries. The first one, the transaction costs approach, defines situations in which an enterprise prefers internal development options, and situations in which it prefers external development options. According to this approach, the boundaries of an organisation are defined by a choice between production, purchase and cooperation, which in 1990s was replaced by the production, purchase and cooperation conjunction<sup>122</sup>. According to the resource dependence theory, organisational boundaries define the scope in which an organisation controls its resources. Their shape is determined, on the one hand, by the enterprise's aspiration for minimising costs of development of certain resources, and on the other hand – by its aspiration for maximising the value resulting from an adequate configuration of resources at its disposal<sup>123</sup>. The theories listed above are complementary in respect of explaining the essence of organisational limits.

Despite being based on various theories, the concept of organisational boundaries is not defined in an unequivocal manner. On the contrary, numerous approaches can be distinguished, four of which are most popular: approach assuming that boundaries are considered in terms of mechanisms separating an organisation from the environment; approach in which boundaries are considered in terms of mechanisms of interaction between an organisation and its environment; approach in which boundaries are considered in terms of a model of an organisation functioning; and approach considering boundaries in terms of indicator of the area of impact<sup>124</sup>. Table 1 presents chosen definitions of organisational boundaries.

Irrespective of the definition, organisational boundaries are also a mechanism of an organisation's integration with its environment, they define the way of delimiting the organisation from its environment, and they define an organisation's area of impact.

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<sup>121</sup> More information in: Sz. Cyfert, *Granice organizacji*, Wydawnictwo UE w Poznaniu, Poznań 2012, p. 16–22.

<sup>122</sup> M.G. Jacobides, S. Billinger, *Designing the Boundaries of the Firm: From "Make, Buy, or All" to the Dynamic Benefits of Vertical Architecture*, "Organization Science" 2006, vol. 17, no. 2, p. 249–261.

<sup>123</sup> F.M. Santos, K.M. Eisenhardt, *Organizational Boundaries and Theories of Organization*, "Organization Science" 2005, vol. 16, no. 5, p. 491–508.

<sup>124</sup> Sz. Cyfert, *Granice...*, op. cit., p. 19–20.

**Table 1. Chosen Definitions of Organisational Boundaries**

Definition	Author
Model of organisation functioning determining both ways of structuring and mechanisms of organisation's interaction with its environment.	B.E. Ashforth G.E. Kreiner M. Fugate
Space where resources are exchanged between an organisation and its environment.	W. Buckley
Indicator of the area of an organisation's impact, defining the level of organisation's control over its environment.	R. D'Aveni
Delimitation between the domain and the core of business, making it possible to control and secure processes carried out in the core of business against negative impact of the environment.	F. Friedlander
Demarcation lines allowing for identification of resources being the property of an organisation among the resources of the environment.	C.E. Helfat
Areas delimiting the organisation and the environment, relating to four aspects of an organisation functioning: effectiveness, power, competence and identity.	F.M. Santos K.M. Eisenhardt
Mechanism of organisation's integration with the environment, allowing for executing actions aimed at ensuring development, defined by effectiveness, power, competence and organisational culture, defining the scope of organisational impact.	Sz. Cyfert

Source: Own research on: B.E. Ashforth, G.E. Kreiner, M. Fugate, *All in a Day's Work: Boundaries and Micro Role Transitions*, "Academy of Management Review" 2000, vol. 25, no. 3, p. 472–491; W. Buckley, *Sociology and Modern Systems Theory*, Prentice Hall, Englewood Cliffs, New Jersey 1967; R. D'Aveni, *Supremacy: How Industry Leaders Create Growth, Wealth, and Power Through Spheres of Influence*, Doubleday, New York 2001; F. Friedlander, *The Ecology of Work Groups*, in: *Handbook of Organizational Behavior*, (ed.) J. Lorsch, Prentice Hall, Englewood Cliffs, New Jersey 1987, p. 301–314; C.E. Helfat, *Know-how and Asset Complementarity and Dynamic Capability Accumulation: The Case of R&D*, "Strategic Management Journal" 1997, vol. 18, no. 5, p. 339–360; F.M. Santos, K.M. Eisenhardt, *Organizational Boundaries and Theories of Organization*, *Organization Science*, 2005, vol. 16, no. 5, p. 491–508; Sz. Cyfert, *Granice organizacji*, Wydawnictwo UE w Poznaniu, Poznań 2012, p. 21.

### 3. Network Organisations as an Example of Organisations with Broaden Boundaries

Similarly to the issue of organisational boundaries, the essence of a network organisation can also be considered in various contexts: as a modern form of enterprise organisation, a new method of management, or as a new form of organising relations between individual economic entities<sup>125</sup>. A network organisation is defined as: a structure based on mutual cooperative relations of enterprises which are not connected in terms of capital<sup>126</sup>; an organisation, the units of which are interdepen-

<sup>125</sup> A. Sopińska, W. Jakubowska, *Organizacja sieciowa jako przedmiot zainteresowań nauk o zarządzaniu*, in: *Zarządzanie strategiczne. Quo vadis?*, (ed.) R. Krupski, "Prace Naukowe Wałbrzyskiej Wyższej Szkoły Zarządzania i Przedsiębiorczości" 2013, no. 2, Wałbrzych 2013, p. 205–221.

<sup>126</sup> M. Górzyński, W. Pander, P. Koć, *Tworzenie związków kooperacyjnych między MSP oraz MSP i instytucjami otoczenia biznesowego*, PARR, Warsaw 2006, p. 16.

dent on various levels<sup>127</sup>; a relatively stable group of autonomous, specialised units or enterprises participating in the system of mutual cooperation based on market rules<sup>128</sup>; a system of relations among companies, characterised mainly by horizontal connections, allowing for centralised planning and control over network elements<sup>129</sup>; an organisation dependent on the possibility of communication among its entities within the framework of certain constellation and the rate of convergence of objectives to be achieved by both individual network entities and the entire group<sup>130</sup>; an organisational form involving numerous organisations stimulated by instrumental individual or collective objectives, where the network members show co-specialisation and contribute their unique ability to create value, such as knowledge resources or access to a market<sup>131</sup>.

Irrespective of the definition, a network organisation is characterised by specific features. Those features are: transfer of resources between the network entities; differentiation of relations between the network entities; limited scope of integration of entities establishing a network organisation; creating and enhancing information channels within the network<sup>132</sup>, as well as geographical dispersion (except clusters<sup>133</sup>), considerable flexibility, configuration based on network relations, cooperative relations and developed system of communication<sup>134</sup>.

The essence of a network organisation is to reach the effect of synergy. It is only possible when all the network partners apply appropriate coordination mechanisms. Depending on the type of network, it can have one coordinator or it can consist of several equal entities. A network coordinator (or a flagship, broker or network centre) assumes the role of the main controller who organises the flow of material and non-material assets among other independent companies, thereby ensuring that expectations of final clients are effectively satisfied<sup>135</sup>. The function of the network

<sup>127</sup> R. Błażlak, *Struktury sieciowe a innowacyjność przedsiębiorstw*, in: *Klasy w gospodarce regionu* (ed.) K. Owczarek, Monografie Politechniki Łódzkiej, Łódź, 2010, p. 30.

<sup>128</sup> P. Dwojacksi, B. Nogalski, *Tworzenie struktur sieciowych jako wynik restrukturyzacji scentralizowanych przedsiębiorstw*, "Przegląd Organizacji" 1998, no. 4.

<sup>129</sup> W.E. Baker, *The Network Organization in Theory and Practice*, in: *Network Organizations* (ed.) N. Nohria, B. Eccles, Harvard Business School Press, Cambridge 1992, p. 399.

<sup>130</sup> M. Castells, *The Rise of the Network Society*, Blackwell Publishers, Oxford 2000, p. 187.

<sup>131</sup> M.P. Koza, A.Y. Lewin, *The Coevolution of Network Alliances: a Longitudinal Analysis of an International Professional Service Network*, "Organizational Science" 1999, no. 5, after: A. Borczuch, W. Czakon, *Trwałość sieci gospodarczych w świetle teorii gier*, "Przegląd Organizacji" 2005, no. 3.

<sup>132</sup> R. Błażlak, *Struktury sieciowe a innowacyjność przedsiębiorstw*, in: *Klasy w gospodarce regionu*, (ed.) K. Owczarek, Monografie Politechniki Łódzkiej, Łódź 2010, p. 30–31.

<sup>133</sup> Cluster is a special example of a network organisation which is characterised by spatial concentration of participating entities.

<sup>134</sup> S. Kądziała, *Struktura organiczna, organizacja wirtualna a sieciowa struktura organizacyjna – różnice i podobieństwa definicji na podstawie porównawczej analizy pojęciowej*, "Organizacja i Kierowanie" 2007, no. 3.

<sup>135</sup> J.C. Jarillo, *Strategic Networks. Creating the Borderless Organization*, Butterworth-Heinemann, Oxford 1995, p. 6.



coordinator can be performed by a reputable organisation of a given region, an entity with appropriate resources or an organisation performing a specific function in the process implemented by the network. For a network organisation, it seems reasonable to discuss so-called multifarious coordination covering all the three forms of coordination: hierarchical, market-related and social coordination<sup>136</sup>.

The role of hierarchical structures in network organisations is reduced, as they prefer informal relations among specific entities they are composed of. Bilateral contacts can occur not only between the network centre and its other units. Also bilateral contacts between the network entities excluding the centre are possible<sup>137</sup>, whereby the network entities are interdependent, but their relations are unconstrained<sup>138</sup>.

A network organisation is often presented as a transitional form between a hierarchical structure and so called organisations formed by market features<sup>139</sup>. It is highlighted that a network organisation is based on trust, engagement and reputation of internal entities, not on hierarchy and vertical relations of professional nature. Decisions concerning resources in network organisations are taken not only integrally by the transaction parties, but also collectively by cooperating parties, and the flow of resources between cooperating partners is repetitive, not casual<sup>140</sup>.

Other features of a network organisation are: implementation of a common goal with simultaneous struggle to reach autonomous objectives by individual entities; tendency of the entities to specialise within the network; a considerable role of internal communication of so-called information culture ensuring free flow (vertical and horizontal, formal and informal) of knowledge and information; investing in relations<sup>141</sup>.

Although not all networks are created on the basis of voluntary decisions<sup>142</sup>, a potential member always makes a specific analysis of benefits and losses before joining a network. For the condition of becoming a member of a network organisa-

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<sup>136</sup> W. Czakon, *Koordynacja sieci – wieloraka forma organizacji współdziałania*, "Przegląd Organizacji" 2008, no. 9.

<sup>137</sup> J.B. Quinn, *Intelligent Enterprise. A Knowledge and Service – based Paradigm for Industry*, The Free Press, New York 1992, p. 120.

<sup>138</sup> J. Staszewska, *Rozwój przedsiębiorstw sieciowych w Polsce – perspektywy dla klasteringu*, "Przegląd Organizacji" 2007, no. 11.

<sup>139</sup> M. Van Alstyne, *The State of Network Organization: A Survey in Three Frameworks*, "Journal of Organizational Computing" 1997, no. 7, after: *Komunikacja wewnętrzna w organizacjach sieciowych*, (ed.) S. Lachiewicz, Monografie Politechniki Łódzkiej, Łódź 2008, p. 12.

<sup>140</sup> K. Łobos, *Organizacja sieciowa*, in: *Zarządzanie przedsiębiorstwem przyszłości*, (ed.) K. Perechuda, Agencja Wydawnicza "Placet", Warsaw 2000, p. 97.

<sup>141</sup> J. Staszewska: *Rozwój przedsiębiorstw sieciowych w Polsce – perspektywy dla klasteringu*, "Przegląd Organizacji" 2007, no. 11.

<sup>142</sup> It is indicated by, among others: J. Curran, R. Jarvis, R. Blackburn, S. Black, *Networks and Small Firms: Construct, Methodological Strategies and Some Findings*, "International Small Business Journal" 1993, no. 11.

tion is to comply, in each case, with criteria set by the network. These are mostly the criteria of complementarity and compatibility applied in relation to units already operating within the network. The image of the network created so far as well as the reputation of potential candidates is also taken into account in the process of including new entities in an already existing network.

#### 4. Exchange of Knowledge in Network Organisations

This chapter presents one of the parameters describing knowledge management in network organisations, i.e. description of knowledge exchange process<sup>143</sup>. The author has carried out research concerning knowledge management in network organisations as a part of NCN 2013 project no 2011/01/B/HS4/04808<sup>144</sup>. The objective of the research was to present the phenomenon of knowledge management in network organisations and its circumstances as well as finding possible relation between knowledge management and innovation in network organisations. The research method was computer aided personal interview (CAPI)<sup>145</sup>. The research covered 363 enterprises belonging to network organisations, including: 121 franchise networks; 121 clusters and 121 virtual organisations. The selection of the research sample was based on quotas<sup>146</sup> from bases prepared earlier. A vast majority of entities under research are micro-enterprises (59%), service providers (57,6%) and entities being network participants (63,9%). Enterprises belonging to networks comprised: small ones (42,4%), entities at a mature stage of development (45,2%), enterprises with national reach (35%) and regional reach (34,4%). A detailed description of the research sample is given in Table 2. The temporal scope of the research is 2013.

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<sup>143</sup> Other parameters describing knowledge management in network organisations are: a method of obtaining knowledge; a way of using knowledge, an applied strategy of knowledge management; and a rate of advancement of the knowledge management system construction.

<sup>144</sup> TCT 2013 research project no 2011/01/BHS4/04808 entitled "Innovations in network organisations in knowledge-based economy".

<sup>145</sup> The respondents held the following positions: company development manager, network manager, owner, managing/general (or deputy) director, financial director/finance manager.

<sup>146</sup> The quotas (numbers of interviews appropriate for the population structure) were: in the case of franchise organisations – voivodship (province) and category of activities; in the case of clusters – voivodship and the kind of cluster initiator; in the case of virtual organisations – voivodship.

**Table 2. Description of the Research Sample**

Feature of an enterprise	Specific category	Number of respondents	% of respondents
Number of enterprise employees	> 9 people	214	59.0
	10 – 49 people	98	27.0
	50 – 249 people	28	7.7
	< 249 people	12	3.3
	response denied	11	3.0
Type of business activity	production	36	9.9
	trade	85	23.4
	services	209	57.6
	administration, education, culture, local government	28	7.7
	response denied	5	1.4
Type of network	franchise network	121	33.3
	cluster network	121	33.3
	virtual network	121	33.3
The role of the enterprise in the network;	coordinator	131	36.1
	network participant	232	63.9
Number of network participants	> 10	154	42.4
	10 – 20	47	13.0
	20 – 50	59	16.2
	< 50	62	17.1
	response denied	41	11.3
The phase of network development.	creation of network	128	35.3
	maturity	164	45.2
	phasing out cooperation within the network.	20	5.5
	response denied	51	14.0
Reach of the network	local	70	19.3
	regional	125	34.4
	national	127	35.0
	international	33	9.1
	response denied	8	2.2

Source: Own research based on: NCN 2013 research project no. 2011/01/BHS4/04808 entitled “Innovations in network organisations in knowledge-based economy”.

The exchange of knowledge in network organisations can be described in many aspects. The following variables characterising the exchange of knowledge in network organisations were analysed in the research: the scope of knowledge exchange; areas of knowledge exchange; direction of flow of knowledge; the payment for knowledge exchange; the level of formalisation of knowledge exchange; decision-makers of knowledge exchange. Analysis of knowledge exchange in network organisations was carried out considering the following potential determinants: the size of an enterprise (measured by the number of employees); the kind of business; the type of network; the size of network; geographical scope of network; the phase of network development; the role in the network.

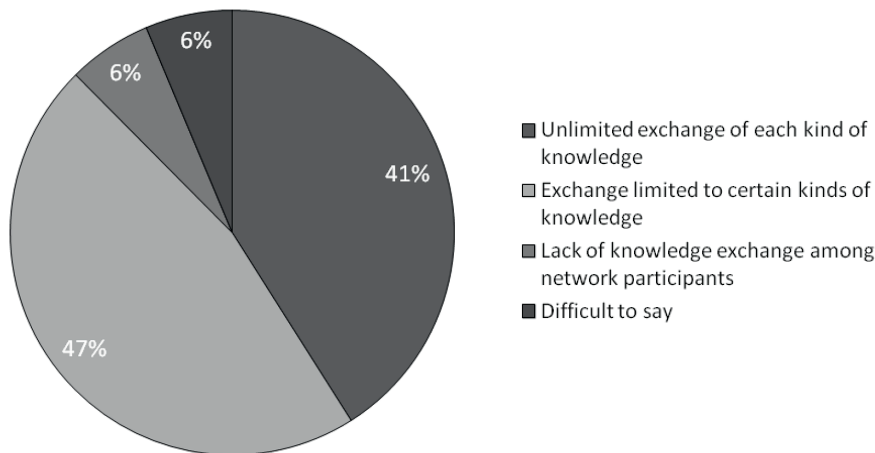
Description of individual variables describing the process of knowledge exchange in the analysed 363 network organisations operating in Poland is presented below.

### The Scope of Knowledge Exchange in Network Organisations

On the basis of the research carried out it can be stated that the exchange of knowledge in the analysed network organisations operating on the Polish market in 2013 was a mass phenomenon – see Figure 1. As much as 88% of all the entities under research acknowledged the fact of knowledge exchange in their network. Among the remaining 12% only 6% did not notice it, and the lack of knowledge exchange in the network was most commonly reported by production enterprises (14%).

Despite the commonness of the knowledge exchange phenomenon, most entities under research considered that the scope of knowledge exchange is limited to selected areas of knowledge (according to 47% of entities). Another 41% of entities stated that the scope of knowledge exchange is unlimited. The unlimited scope of knowledge exchange was relatively most frequently reported by enterprises employing up to 10 people (46%); those with local scope of activities (62%); those being a part of small networks consisting of up to 10 entities (51%).

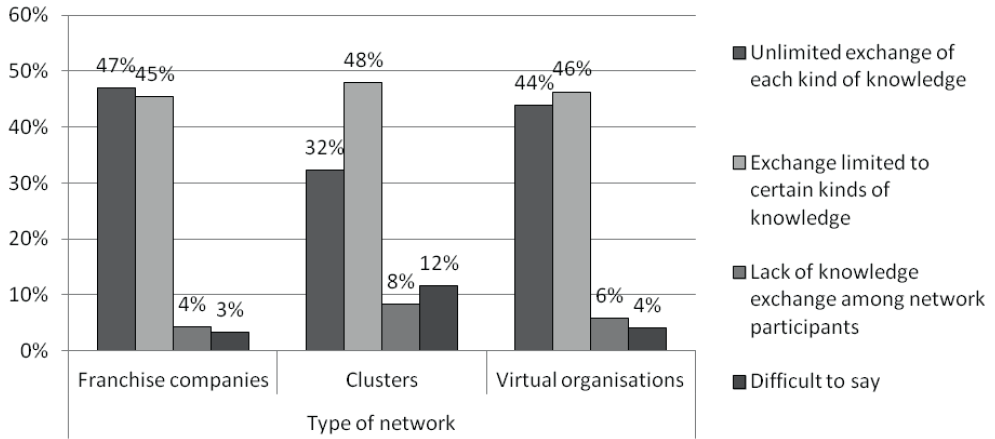
**Figure 1. The Scope of Knowledge Exchange in Network Organisations**



Source: Own research,  $N = 363$ .

The identification of the scope of knowledge exchange in network organisations under research was to a relatively large extent influenced by two determinants: the type of network (Figure 2) and the role in the network (Figure 3). Entities belonging to clusters definitely more frequently identified knowledge exchange as “limited to certain kinds of knowledge” (48%) than as unlimited (32%). Such disproportions were not reported for the two other types of networks: franchise organisations and virtual organisations.

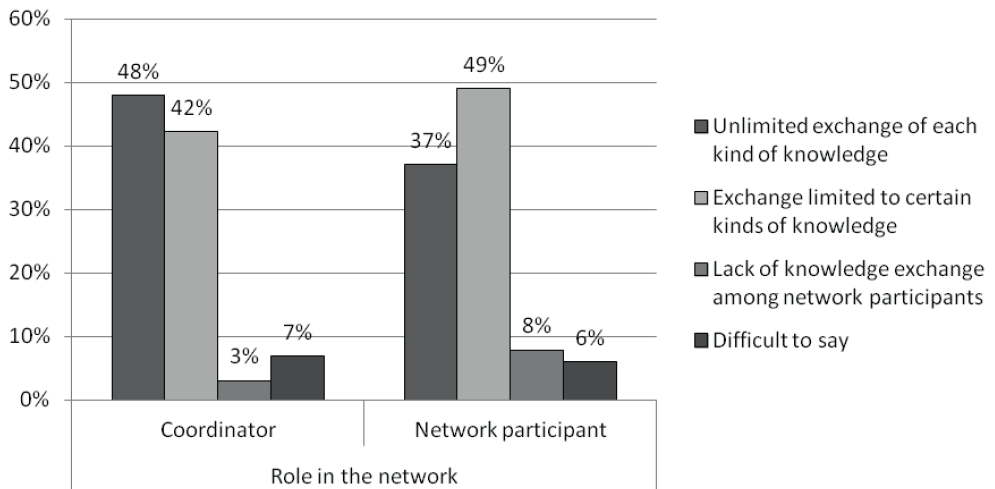
**Figure 2. The Scope of Knowledge Exchange in Network Organisations depending on the Type of Network**



Source: Own research, *N* = 363.

Evaluation of the scope of knowledge exchange depended, to a considerable extent, on the organisation’s role in a network. Coordinators of networks were far more frequently convinced that the scope of knowledge exchange is unlimited (48% of network coordinators stated so), than other network participants (37%).

**Figure 3. The Scope of Knowledge Exchange in Network Organisations depending on the Role fulfilled by an Enterprise in a Network**



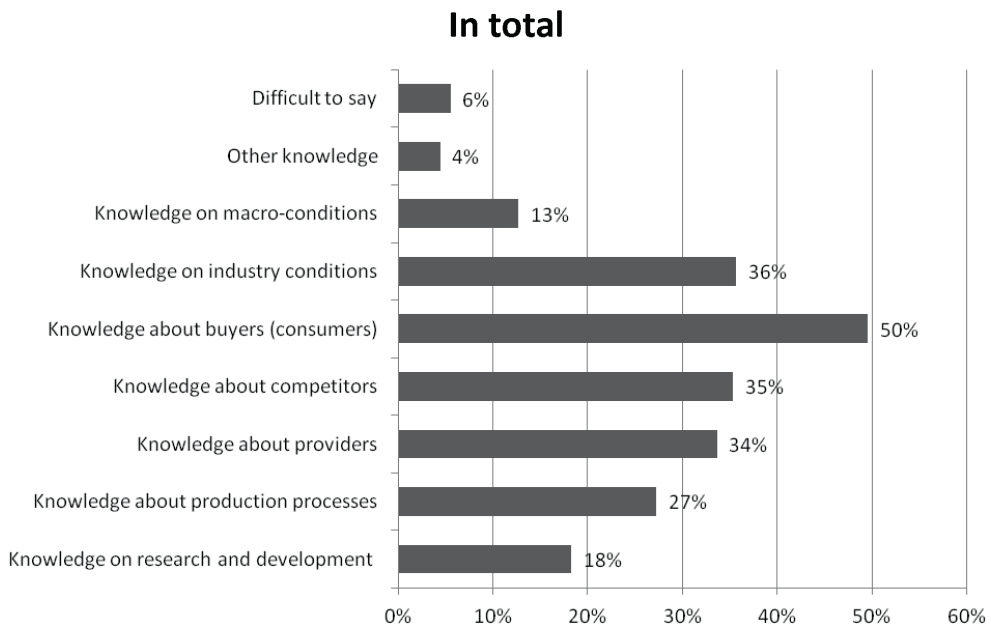
Source: Own research, *N* = 363.

### Areas of Knowledge Exchange in Network Organisations

The exchange of knowledge in network organisations can refer to various fields. In the research the respondents could choose three fields of knowledge exchange from the following categories: knowledge on research and development; knowledge about production processes; knowledge about providers; knowledge about competitors; knowledge about buyers (consumers); knowledge about conditions of the industry sector; and knowledge about macro conditions – see Figure 4.

The object of exchange in network organisations under research was most of all knowledge about buyers (50%). This field of knowledge was relatively more frequently reported by franchise companies (66%) than other entities, and least commonly by production enterprises (16%) and clusters (24%). It was followed by three fields of knowledge: knowledge about the industry sector conditions; knowledge about competitors and knowledge about providers. Knowledge on research and development and knowledge on macro-conditions was practically not exchanged (18% and 13% respectively).

**Figure 4. Fields of Knowledge Exchange in Network Organisations**



Source: Own research,  $N = 363$ .

It should be indicated that knowledge about research and development was more commonly indicated as the field of knowledge exchange by entities operating as a part of cluster-type networks (36%); production enterprises (33%) and enterprises carrying out activities from the “administration, education, culture, local government” category (47%). Exchange of knowledge about research and development was least

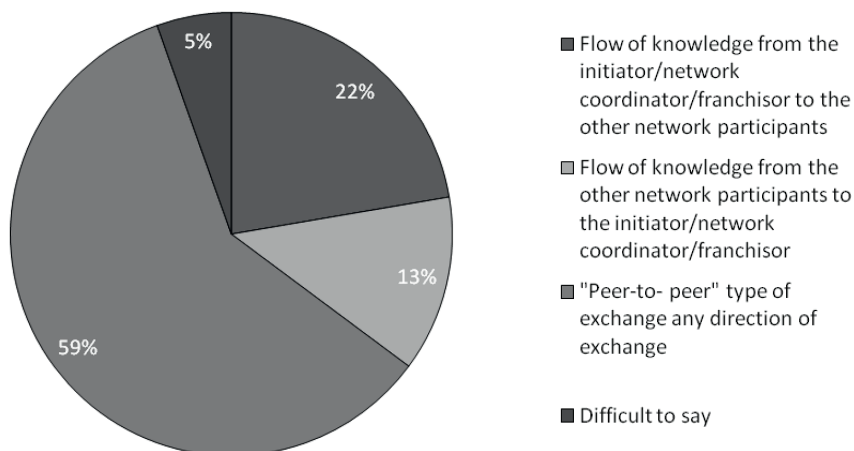
commonly reported by virtual organisations (7%) and trading entities (7%). Exchange of knowledge about macro-conditions was reported mostly by clusters (21%), network coordinators (20%) and entities carrying out activities from the “administration, education, culture, local government” category (32%).

### Direction of Knowledge Flow in Network Organisations

The movement of knowledge in network organisations can be centrifugal (from the coordinator/initiator/franchisor to the other network participants), centripetal (from the other network participants to the coordinator/initiator/franchisor) or can be performed in the “each with each” form (any direction of exchange).

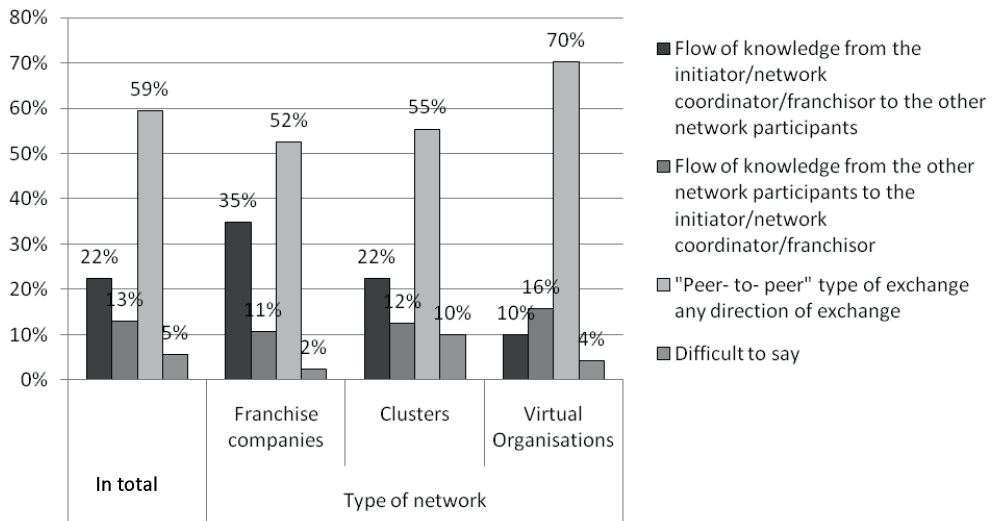
In the analysed network organisations the “peer-to-peer” (P2P) type of knowledge exchange was prevailing, without any specific direction of knowledge movement (59%). Enterprises being a part of virtual organisations and those operating in networks with local reach most commonly opted for free movement of knowledge (70% and 73% respectively). The centrifugal movement of knowledge was chosen by 22% of all the enterprises under research, while centripetal movement was chosen by 13%. The remaining 5% of respondents did not have any view on this issue, and entities which could not answer this question were production enterprises (as much as 14% of entities from this category of enterprises); and enterprises operating within cluster-type networks (10%).

**Figure 5. Direction of Knowledge Exchange in Network Organisations**



Source: Own research,  $N = 363$ .

Direction of knowledge exchange to a large extent depended on the type of network. The “peer-to-peer” type of knowledge exchange was obviously most widespread in network organisations, while centrifugal flow was most common in franchise companies (Figure 6).

**Figure 6. Direction of Knowledge Exchange Depending on the Type of Network**

Source: Own research,  $N = 363$ .

Enterprises belonging to virtual organisations definitely less commonly than others (10%) reported centrifugal direction of flow of knowledge. Additionally, it can be stated the centripetal movement of knowledge was most common in enterprises employing from 50 to 249 people.

### The Level of Payment for Knowledge Exchange in Network Organisations

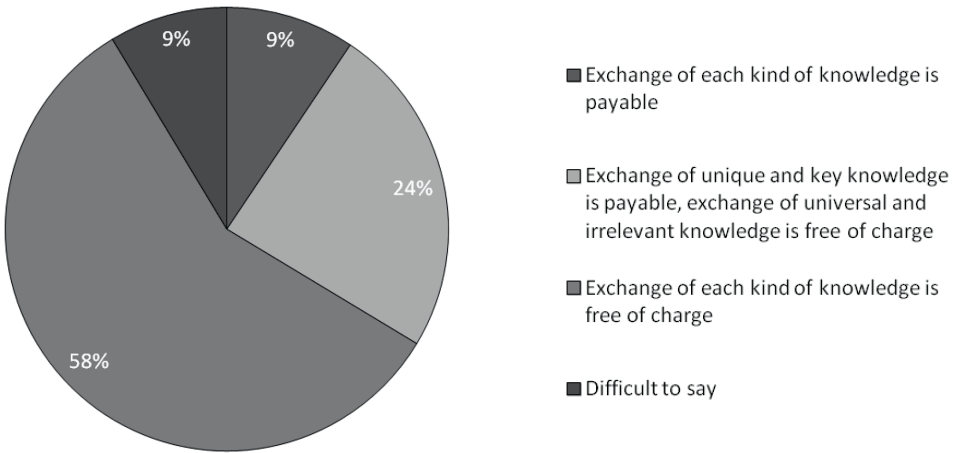
A three-rate scale to measure the level of payment and formalisation was applied in the research, where: 1 – means lack of payment/formalisation; 2 – selective payment/formalisation; 3 – full payment/formalisation (exchange of each kind of knowledge is payable/strictly formalised).

The research proves that in most analysed network organisations the exchange of knowledge is not payable (58%) – see Figure 7.

The biggest enterprises employing 250 people and more chose selective payment for knowledge exchange more commonly than the others (50%), while among enterprises from networks with local reach this choice was relatively least common (only 13%). The latter relatively more commonly stated that the exchange of each kind of knowledge is free of charge (72%).



**Figure 7. The Level of Payment for Knowledge Exchange in Network Organisations**

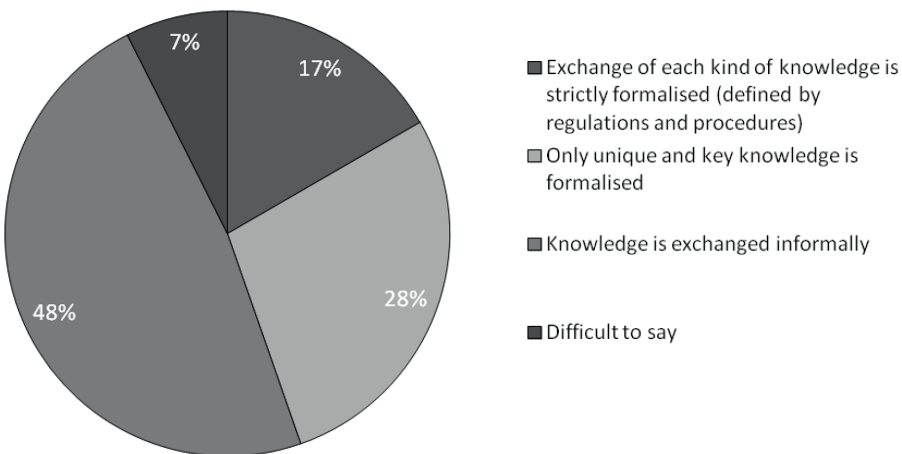


Source: Own research, *N* = 363.

**The Level of Knowledge Formalisation in Network Organisations**

The level of formalisation of knowledge exchange in the entities under research was low. Almost half of the enterprises (48%) described this level as “lack of formalisation”, and next 28% stated that the formalisation of knowledge exchange in their networks is selective. It should be noted that 7% of respondents could not define the rate of formalisation of knowledge exchange in their networks – see Figure 8. A lack of view on the rate of formalisation of the exchange of knowledge at the level of a network was most evident in the answers of production enterprises (17%); those employing 250 people and more (24%), entities being a part of cluster-type networks (12%).

**Figure 8. The Level of Knowledge Exchange Formalisation in Network Organisations**



Source: Own research, *N* = 363.

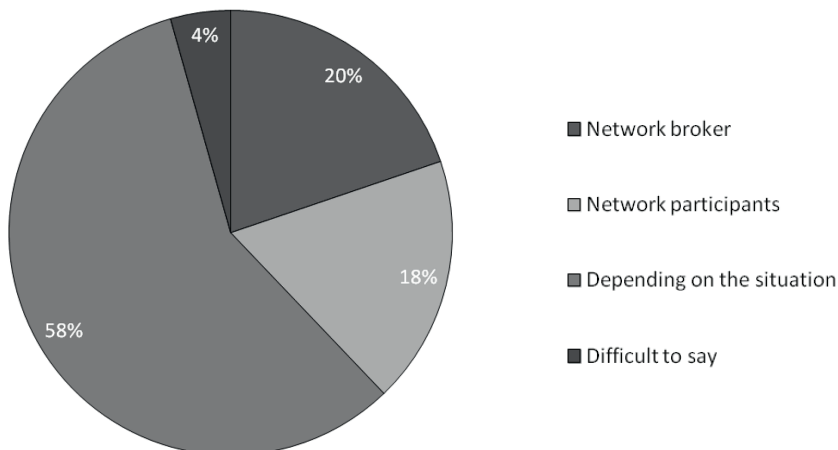
It should be added that enterprises from the largest networks associating over 50 participants, definitely more commonly stated that exchange of each kind of knowledge in their network is strictly formalised (30%), while enterprises from the smallest networks associating up to 10 participants more frequently stated that the exchange of knowledge in their networks is not formalised (60%).

### Decision-maker of Knowledge Exchange in Network Organisations

The last variable describing the process of knowledge exchange in a network was the variable identifying the knowledge exchange decision-maker (Figure 9). The knowledge exchange decision-maker can be: only the network broker (initiator/ network coordinator/ franchisor); each network participant; or, depending on the situation, a chosen entity.

A question about the unit deciding about knowledge exchange in a network provided the following answers: 58% of respondents chose approach depending on the situation; 20% stated that the network broker is the decision maker; while only 18% stated that the network participants themselves are the decision-maker. 4% of respondents did not express any opinion. Similarly to the previous variable describing the process of knowledge exchange, the answer was most difficult for the production enterprises (14%), those employing 250 people and more (16%) and those being a part of a cluster-type network (8%).

**Figure 9. Decision-maker of Knowledge Exchange in Network Organisations**



Source: Own research,  $N = 363$ .

The broker was most commonly indicated as the main knowledge exchange decision-maker in a network by: enterprises being a part of franchise-type networks (30%), entities belonging to networks comprising more than 50 participants (31%) and

entities belonging to networks at their decadent stage. The approach depending on the situation however was most commonly indicated by enterprises belonging to networks with up to 10 participants (as much as 60%). Entities belonging to franchise-type networks were those who indicated network participants as knowledge exchange decision-makers least commonly. Only 10% of entities from this category expressed a view that network participants decide on knowledge exchange on their own.

## 5. Conclusions

The description of individual variables of the knowledge exchange process given above allows for formulation of conclusions on the analysed 363 network organisations operating on the Polish market in 2013. Firstly, knowledge exchange in the analysed network organisations was a mass phenomenon with multiple direction of flow (P2P type), usually free of charge, with low level of formalisation and without any defined knowledge exchange decision maker. Secondly, although most entities under research participated in knowledge exchange, its thematic scope was limited to selected kinds of knowledge. The object of exchange was mostly the knowledge on the buyers (consumers). Other fields of knowledge subject to exchange were those concerning industry conditions; competitors; and providers. Knowledge on research and development was practically not exchanged among network participants. What is interesting, many of the analysed entities (including in particular production enterprises and enterprises from cluster-type networks) had problems with identification of particular variables describing the process of knowledge exchange.

It would be worth continuing the research referred to above in particular industries and to identify their specific determinants of knowledge exchange. It also seems interesting to analyse the influence of macroeconomic conditions (including economic crisis) on the intensity of knowledge exchange between network organisations participants. Additionally, it is worth verifying the results on a greater research sample.

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# THE ELEPHANT IN THE ROOM OF FIRM BOUNDARIES: A PRELIMINARY OUTLINE OF THE CREATIVITY-BASED THEORY OF THE FIRM

## 1. Introduction

Much has been written about firm boundaries. Organisational creativity is one topic which has been missed from this research. It is a weighty and notable subject, yet it has gone unremarked and unexplored, despite its obvious significance for the development of the field. In this respect, it is the ‘elephant in the room’ of research on firm boundaries.

The aspects which previous literature differs from my paper, concern how organisational creativity can help firm to enlarge its boundaries, including two relevant boundary conditions: strategic luck and salient strategic issues. In essence, these boundary conditions represent two mutually exclusive approaches for framing strategic management, each with its own internally consistent logic. My hope is that a better understanding of their roles in shaping firm boundaries may enable a more effective decisions concerning governance mode and that one can find practical implications. In this respect, my paper answers the call for increased theoretical precision in organisational research by reconciling differing conceptual views<sup>147</sup>.

The paper proceeds as follows. Firstly, I introduce the organisational creativity influence on shaping firms boundaries. Then I explain the moderating role of strategic luck and salient strategic issues – an important missing links in strategic conversations. My findings suggest that these elements may be encouraging rather than inhibiting, and may facilitate organisational creativity impact on extending firm boundaries. I conclude by discussing my findings and their implications for theory and future research.

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<sup>147</sup> K. Leavitt, T.M. Mitchell, J. Peterson, *The theory pruning: Strategies to reduce our dense theoretical landscape*, “Organizational Research Methods” 2012, no. 13, p. 644–667.

## 2. Implications of Organisational Creativity for Firm Boundaries

Theories of the firm try to explain the conditions under which a firm should internalise tasks rather than organise them through the market to minimise production and transaction costs<sup>148</sup>. The key determinants of a firm's decision to integrate are contractual hazards and concerns of opportunism associated with transactions in specificity assets context<sup>149</sup>. More recently, transaction cost economics scholars have focused on knowledge as the "most strategically significant resource of the firm"<sup>150</sup> examining whether one should organise knowledge flows, knowledge creation and application within the firm or through a market. Firm from a knowledge based perspective focuses on how knowledge influences transaction costs and thereby affects the suitability of market versus hierarchy for knowledge development and utilisation in general, and generation of new and useful ideas in particular<sup>151</sup>. However, we know little about how organisational creativity affects a firm's cost of organising inside the firm and thus, specifically mode of governance choice for new, creativity-intensive tasks.

Prior research highlights the advantage of hierarchy (versus market) for complex, creative tasks<sup>152</sup>. Task creativity is a major source of transaction costs for knowledge-intensive tasks where the value of physical assets deployed is minimal relative to the value of knowledge. Creative tasks are built on a greater number of specialised knowledge sets and require more interdependence and knowledge exchange between actors for their execution than routine tasks<sup>153</sup>.

I define organisational creativity in two dimensions: The first one refers to creative novelty and the second one concerns creative usefulness<sup>154</sup>. Davidsson and Tonelli define new venture ideas as potential future ventures or, more precisely "the

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<sup>148</sup> R. Gulati., J.A. Nickerson, *Interorganizational trust, governance choice, and exchange performance*, "Organization Science" 2008, no. 19, p. 688–708.

<sup>149</sup> O.E. Williamson, *The economic institutions of capitalism: Firms, markets, relational contracting*, Free Press, New York 1985, p. 15–18.

<sup>150</sup> R.M. Grant, *Toward a knowledge-based theory of the firm*, "Strategic Management Journal" 1996, no. 17 (Special issue), p. 110.

<sup>151</sup> K. Bratnicka, *To really learn about organizational creativity, let's study firm dynamic capabilities*, in: (ed.) S. Antoncic, *Advances in Business-Related Scientific Research Conference*, ABSRC, Rome 2013, p. 1–10.

<sup>152</sup> H.A. Simon, *The architecture of complexity*, "Proceedings of the American Philosophical Society" 1962, no. 106, p. 467–481.

<sup>153</sup> J.T. Macher, *Technological development and the boundaries of the firm: A knowledge-based examination of semiconductor manufacturing*, "Management Science" 2006, no. 52, p. 826–843.

<sup>154</sup> K. Bratnicka, *To really...*, op. cit., p. 4.



evolving, changing and often implicit and incomplete outlines of a future venture that give direction to action in processes of attempted creation of new economic activities<sup>155</sup>. Following their suggestions, I argue that organisational creativity refers to the generation of new and useful ideas which outline evolving and changing firm future and that give direction to strategic action in processes of attempted attaining and maintaining of competitive advantage.

Markets are used for well-structured tasks that can be easily decomposed and completed with minimal ongoing knowledge exchange. Integration (as opposed to outsourcing) is preferred for ill-structured tasks due to a greater need for coordination and knowledge exchange among actors. Integration provides easier adaptation of organisational creativity by avoiding the costs of renegotiation with market agents and detailed contracts and instead of relying on fiats, directives, and internal arbitration<sup>156</sup>. As organisational creativity increases, the cost of negotiating contracts up front to cover every scenario for future adaptation becomes more costly, making integration more efficient.

I suggest that the differences in organisational creativity across firms affect the relative benefits and costs associated with markets and hierarchies, and, thus, I begin to open the 'black box' of mode of governance. In general, markets have higher powered incentives while firms are superior at organisational creativity and at times they deliberately suppress incentives intensity which affects the costs of adaptation within a company. Failing to account for differences of organisational creativity between firms may lead to incorrect predictions about costs at the transaction level. Organisational creativity acts as shift parameter, which effects in decisions for new, knowledge-intensive tasks. In other words, organisational creativity has direct, positive effect on the transaction cost by deriving from internal rather than external resources. Thus, enterprises benefit from organisational creativity when comparing costs of hierarchy against the market.

The above discussion leads to the following proposition:

P1: Greater organisational creativity is positively related to hierarchical mode of governance, and in consequence broadens the firm's boundaries.

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<sup>155</sup> P. Davidsson, M. Tonelli, *Towards an operable entrepreneurship nexus: Conceptualizing venture ideas and their characteristics*, Proceedings of the annual meeting of the Academy of Management, Orlando 2013, p. 5.

<sup>156</sup> K.J. Arrow, *The limits of organization*, Norton, New York 1974, p. 61–70.

### 3. The Moderating Effect of Strategic Luck

Organisational creativity implies innovation and change. Damanpur and Aravind<sup>157</sup> (2012) argue that creativity is a subset of organisational change. Following this distinction, I submit that strategic change influences organisational creativity indirectly, which strengthens its impact on firm boundaries. In contrary, I propose that the scope and depth of strategic change may limit the organisational creativity influence on lowering the transaction costs.

A distinctive failure of much theorising about processes of strategic change is the central role assigned to human agency, choice, and deliberate intention in explaining the conduct of organisations and management<sup>158</sup>. Successful outcomes are casually linked to timely and decisive interventions of identifiable individuals crucially sharpening the course of events and bringing about a desired state of affairs. A converse of this overemphasis on agency and strategic choice is the environmental determinism that emphasises the primacy of natural selection in determining organisational survival and growth. Here is assumed that the fortunes of organisations are based on the fit between certain identifiable attributes of a firm and pre-existing environmental forces.

I argue that both these approaches presuppose the causal efficacy of organisational actors or external environment in determining outcomes. There is little room for theorising the unexpected effects of organisational – environmental interactions and the unintended consequences of deliberate choices that inadvertently contribute to shaping future organisational circumstances. Both approaches miss the fact that responses of agents themselves, rather than pre-existing external environmental conditions, can generate unanticipated consequences that eventually end up facilitating or thwarting organisational aspirations. Such unanticipated consequences are direct result of what Merton called the “imperious immediacy of interest”<sup>159</sup> by which he meant that choices made in dealing with perceived immediate concerns can create long-term ramifications. It was thus organisation’s very act of choosing particular course of action that generated the unintended consequences it subsequently faced. In an interactive process of creative evolution, choice, chance and environmental cir-

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<sup>157</sup> F. Damanpour, D. Aravind, *Organizational structure and innovation revisited: From organic to ambidextrous structure*, in: *Handbook of organizational creativity*, (ed.) M.D. Mumford, Academic Press/Elsevier, London/Waltham/San Diego 2012, p. 483–514.

<sup>158</sup> R.B. MacKay, R. Chia, *Choice, chance and unintended consequences in strategic change: A process understanding of the rise and fall of Northern Automotive*, “Academy of Management Journal” 2013, no. 56, p. 208–230.

<sup>159</sup> R. Merton, *The unanticipated consequences of purposive social action*, “American Sociological Review” 1936, no. 1, p. 901.

cumstances interact to produce both positive and negative unintended consequences that influence organisational outcomes in the most unexpected of ways<sup>160</sup>.

This moderating of strategic choice and environmental selection is central to an appreciation of the primacy of process in organisational theorizing. MacKay and Chia demonstrate that “intended actions interacting with chance environmental circumstances can result in changes that produced unintended consequences that, in turn, can be decisive in shaping the future of an organisation”<sup>161</sup>. Such a view suggests that in any set of circumstances latent possibilities are always present, but these possibilities may have never been accomplished simply because they were never noticed or because of the choices not taken. Managers, as conscious agents, can act purposively, but every choice made and deliberate action taken is necessarily partial and hence brings with them the possibility of unintended consequences occurring in long-term future.

There is no predetermining underlying stable order in the often complex and uncertain organisation-environment nexus. Order can emerge spontaneously; it can be viewed as casual effects of fluxing process beyond control. Outcomes in themselves, whether for organisation or for a population, are thus temporary stabilities located in hindsight in a relentlessly changing reality.

I suggest that strategic chance, as a form of luck, lowers the cost associated with hierarchy related to the market as organisational creativity increases and exchanges hazards grow. Strategic luck has two benefits that may lower the cost of hierarchy: adaptability and incentives. First, having strategic luck, company can more effectively and quickly adopt to changes in the environment, including lost attention that managers could have devoted to strategic change execution. Second, permitting managers to participate in the success creates a stronger positive effect and increases commitment to strategic goals, thereby more directly links managerial efforts to performance outcome. These benefits are especially important for creative endeavours which have less predictable outcomes. In such circumstances, I suggest that the positive aspects of strategic luck – adaptability and incentives – exceed the potential disadvantages (e.g. organisational inertia, risk avoidance). I submit that strategic luck positively moderates the effect of organisational creativity on the integration, given a firm’s adaptability and incentive benefits. Therefore the following proposition is stated in a manner that reflects this dynamic capability:

P2: Strategic luck positively moderates the effect of organisational creativity on the firm boundaries, *ceteris paribus*.

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<sup>160</sup> H. Bergson, *Creative evolution*, Dover, New York 1998, p. 56–60.

<sup>161</sup> R.B. MacKay, R. Chia, *Choice...*, op.cit., p. 10.

## 4. The Moderating Effects of Strategic Issue Salience

The knowledge-based view highlights the central role of knowledge in the creation and exploitation of strategic opportunities that represent new potential sources of revenue<sup>162</sup>. The strategic entrepreneurship researchers argue that creativity is an important driver of opportunity and advantage seeking in order to create value for firm's stakeholders<sup>163</sup>. Recent empirical findings show strong positive correlation between organisational creativity and corporate entrepreneurship<sup>164</sup>. Thus, creativity and knowledge matter in the corporate venturing and strategic renewal embedded in firm's stakeholders' context.

Arrow recognises the 'advantage' of common shared language and identity for knowledge exchange among organisation members<sup>165</sup>. Such perspective suggests that the degree of firm responsiveness influences firm specific investments enhancing the efficiency of knowledge management.

To sum, a key insight from extant research is that differences in governance design may result from knowledge-based interactions with firm's stakeholders supporting or challenging a firm's ability to express its identity to stakeholders – that is, will resonate with and be prioritised by management. A number of stakeholder-, environmental-, and issue- specific characteristics can influence a firm's perception of expressive salience, including the central position of sponsoring stakeholder or issue topics in respects to the firm's identity or the ability of the issue to convey a unique identity within environmental constraints.

Bundy, Shropshire and Buchholtz propose, as a new perspective for understanding firm responsiveness to stakeholder concerns, a strategic cognition of issues which resonates with and is prioritised by management<sup>166</sup>. In other words, firm responsiveness refers to the degree to which firm is willing to provide a thoughtful response to stakeholders. Such approach highlights the heterogeneous nature of stakeholders concerns and idiosyncratic interactions between stakeholders and target companies in regard to multiple, conflicting, complementary or cooperative claims made to

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<sup>162</sup> N.J. Foss, J. Lyngsie., S.A. Zahra, *The role of external knowledge sources and organizational design in the process of opportunity exploitation*, "Strategic Management Journal" 2013, no. 34, p. 1453–1471.

<sup>163</sup> M.A. Hitt, R.D. Ireland, D.G. Sirmon, C.A. Trahms, *Strategic entrepreneurship: creating value for individuals, organizations and society*, "Academy of Management Perspectives" 2011, no. 25, p. 57–75.

<sup>164</sup> K. Bratnicka, A. Kwiotkowska, *Corporate entrepreneurship and firm innovativeness in Polish SMEs*, Oxford 2013, p. 1–12.

<sup>165</sup> K.J. Arrow, *The limits...*, op. cit., p. 31–5.

<sup>166</sup> J. Bundy, C. Shropshire, A. Buchholtz, *Strategic cognition and issue salience: Toward an explanation of firm responsiveness to stakeholders concern*, "Academy of Management Review" 2013, no. 38, p. 352–376.

an organisation – and the process by which managers interpret, balance and respond to these claims.

An important component for understanding responsiveness is manager's interpretation of the issue and its characteristics as salient to the firm and, thus, worthy of a response. The company's responsiveness to stakeholders' issues is action taken against some specific request or demand. The strategic cognition structures of organisational identity and strategic frames are integral and interrelated components of the issue interpretation process.

Organisational identity guides issue interpretation using an expressive logic which is related to how the company defines and displays conceptions of it. Issues are salient to the firm because they are connected with deeper meanings of what defines the company and makes it unique. In consequence, an issue is consistent with an organisation's expressive logic if it is perceived as the one having influence on or being material to the extension of an organisation's core values and beliefs, or is perceived as materially related to the organisational identity.

Each cognitive structure captures unique aspects of issue interpretation and can act independently to influence the salience of a stakeholder concern. Issues perceived as consistent (materially supporting, reinforcing, or confirming) or conflicting (materially challenging or threatening) with the core logic of each structure will have higher salience, whereas issues perceived as unrelated (immaterial to cognitive structures) will have much lower salience. A firm's expected response may be either symbolic or substantive, as well as defensive or accommodative.

Issues interpreted as consistent with both organisational identity and strategic frames are considered true opportunities, whereas issues interpreted as conflicting with both cognitive structures are considered true threats. An issue perceived as true opportunity allows an organisation to express its identity and prompts action that fits its instrumental logic of strategic success – it will elicit substantive accommodative responses from managers. In contrast, an issue representing a true threat conflicts with both a firm's identity and its strategic frame. To minimise the likelihood of harm, the response will be defensive and substantive.

The interaction between saliency of strategic issues and organisational creativity suggests that hierarchy mode of governance decision varies by organisational creativity more for firms with greater salience. The issue salience develops shared understanding, awareness, and common knowledge that create the context of discourse and both coordination among individuals with disparate expertise as well as relative ease of conversation. Given that creative tasks draw from specialised knowledge set, organisational members need to share knowledge in an interactive way to achieve mutual adaptation. I maintain that issues salience positively moderates the effects of organisational creativity on the integration of new, creativity-intensive activities. Issues salience reduces the cost of organisation, as organisational creativity increases

by orienting organisational members toward each other due to shared understanding in terms of strategic cognition structures. I submit that issues salience shifts governance costs downward as organisational creativity increases, meaning knowledge exchange grows more tacit, interdependent, and frequent. The issue salience renders adaptation of more creative tasks more efficiently inside the firm than if one would outsource it. Adding concerns of issues salience to the increased difficulty of organising creative tasks with market agents, coordination costs of markets are likely to outweigh internal costs of organising as organisational creativity increases. Next proposition is drawn from this reasoning:

P3: Issue salience positively moderates the effects of organisational creativity on the firm boundaries, *ceteris paribus*.

## 5. Conclusions

I contribute to the literature on governance choice by examining how organisational creativity, by influencing comparative costs of governance, relates to governance decisions in new activities context. Doing so, I began to open ‘black box’ of firm boundaries shaping, complementing prior work that studied the moderating effect of transaction characteristics— such as technical capabilities<sup>167</sup> or problem complexity<sup>168</sup> in governance decisions – I also propose and find that strategic luck and salient strategic issues act as moderators to affect the link between organisational creativity and governance mode. These two contingencies explain why hierarchy is a superior form of organising creativity.

Since my conceptual model is only in outline form, depth could be added to my findings, with an ultimate goal of providing a fully integrated framework for firm boundaries. This raises questions about the existence of constructs or concepts that could capture contextual realities to improve scholar’s ability to represent the world of managers<sup>169</sup>. Hence, other avenues for future research toward deeper understanding of firm boundaries may concern concept of organisational salience<sup>170</sup>, strategic political management<sup>171</sup> or context of strategic decision-making processes<sup>172</sup>.

<sup>167</sup> K.J. Mayer, R.M. Salomon, *Capabilities, contractual hazards, and governance: Integrating resource-based and transaction cost perspectives*, “Academy of Management Journal” 2006, no. 49, p. 942–959.

<sup>168</sup> J.A. Nickerson, T.R. Zenger, *A knowledge-based theory of the firm: The problem-solving perspective*, “Organization Science” 2004, no. 15, p. 617–632.

<sup>169</sup> J.D. Harris, S.G. Johnson, D. Souder, *Model-theoretic knowledge: The case of agency theory and incentive alignment*, “Academy of Management Review” 2013, no. 38, p. 442–454.

<sup>170</sup> E.W. Morrison, F.J. Milliken, *Organizational Salience: A barrier to change and development in a pluralistic world*, “Academy of Management Review” 2000, no. 25, p. 706–725.

<sup>171</sup> C. Oliver, C. Holzinger, *The effectiveness of strategic political management: A dynamic capability framework*, “Academy of Management Review” 2008, no. 33, p. 496–520.

<sup>172</sup> N.G. Shepherd, J.M. Rudd, *The influence of context on the strategic decision-making process: A review of the literature*, “International Journal of Management Reviews” 2013 (forthcoming).

Moreover, my study has important limitation. I define transactional level factors in terms of organisational creativity, and not according to the more traditional constructs of asset specificity, frequency or uncertainty<sup>173</sup> or physical asset ownership as suggested by property rights theory<sup>174</sup>. Moreover, in my perspective, models of hierarchies and markets are miscast as binary choice while Makadok and Coff argue that these instead represent two ideal types along three dimensions that capture the governance mode choice faced in real organisations: authority, ownership, and incentives<sup>175</sup>.

My theoretical propositions require empirical testing. On the empirical front, the clear implication of my work is that scholars need to take into account the relevant contingencies in their investigation before they can predict and test particular outcomes of shaping firm boundaries. This might involve assessing the level of dynamism, hostility, and complexity in the environment. Focusing only on one type of environment is a little like ‘the blind man and the elephant’, to put a twist on our metaphor. Really understanding the processes shaping firm boundaries requires seeing the complete picture and exploring interaction dynamics of governance mode, organisational creativity, strategic luck, and salient strategic issues – and probably more other elements – as a whole. By examining how a company deals with such complexity, we can move from theories of the firm that primarily address firm boundaries toward the conception of a theory of the firm that describes how a company operates<sup>176</sup>.

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<sup>173</sup> O.E. Williamson, *The economic...*, op. cit., p. 56–60.

<sup>174</sup> J. Kim, J. Mahoney, *Property rights theory, transaction costs theory, and agency theory: An organizational economics approach to strategic management*, “Managerial and Decision Economics” 2005, no. 26, p. 223–242.

<sup>175</sup> R. Makadok, R. Coff, *Both market and hierarchy: An incentive-system theory of hybrid governance forms*, “Academy of Management Review” 2009, no. 34, p. 297–319.

<sup>176</sup> S. Cyfert, *Granice organizacji*, Wydawnictwo UE w Poznaniu, Poznań 2011, p. 78–86.

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## **Part II**

# **Boundaries of Strategic Management**



# THE BOUNDARIES OF MANAGEMENT THINKING: DESIGN THINKING VERSUS STRATEGIC THINKING

## 1. Introduction

Questioning the boundaries of management affects the fundamental matters concerning the nature of the organisation and intellectual abilities of managers. The attempts to define and clarify the boundaries of management can be undertaken in two ways. The first one refers to defining the boundaries of the organisation, as the area of management activities. The second one concerns answering the question about the limits of human thinking about the organisation, especially cognition processes and creation of meaning. This research follows the second way.

Management science offers alternative explanations of the nature of management thinking. Management philosophies and organisational forms change over time to meet new needs and expectations. Some ideas and practices from the past are still relevant and applicable to management today, while others are being forgotten and replaced by new concepts. In recent years the concept of design thinking as a proposal for a new approach to dealing with organisational problems in contemporary enterprises has appeared in the literature of management science. Design is frequently found as the key competence and the instrument of achieving the competitive advantage, additionally, it has received a significant meaning in the academic research on management. The consequence of this interest is popularisation of the term 'design thinking'. The concept of design thinking is at the preliminary stage of development, therefore it embodies limited academic reflection. There have been various approaches and views in the design discourse – starting from the emphasising of the artistic aspects, through technological, and finally the organisational ones – still the reflection synthesis, classificatory order, compound data concerning the implementation and its effectiveness, are being missed<sup>177</sup>.

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<sup>177</sup> M. Brzozowski, *Istota design management*, in: *Skrzynka narzędziowa menedżera*, (ed.) H. Witczak, „Zeszyty Naukowe UE w Poznaniu” 2010, no. 148, p. 13.

The global publications on design thinking are mostly dispersed and incoherent, they contain misinterpretations and statements, which are by no means proved by any scientific results. There has been a shortage of publications, which could present the holistic concept analysis, both at the theoretical and empirical level. As a result, the examined area might be described as a weakly structured, not enough defined, or too blurred. This is why it's fairly easy to notice negative consequences both in the cognitive and application field.

The purpose of this research is to clarify some of the salient issues surrounding the concept of design thinking. It will be achieved by defining design thinking according to design and management literature. The characteristics of design thinking will be compared to characteristics of strategic thinking, to find out whether design thinking and strategic thinking can be placed within the same strategic regime of business development.

## 2. The Nature of Design Thinking

The range of design thinking meanings is significantly broad and different across various disciplines. Underdeveloped nature of design thinking appears to be a consequence of positioning design as a field on the verge of knowledge and practice<sup>178</sup>. The first scientist who raised that issue was the winner of the Noble prize H. Simon who opposed the natural sciences against the science of design. Natural science becomes in his opinion focused on explaining existing effects, while design concentrates on pointing out how the examined processes should be formed<sup>179</sup>. This idea was further developed by L. March who stated that science examines the existing forms while design initiates new ones<sup>180</sup>. This difference results also from the overall goal, which for the science, is to search for objective truth, and for design is to search for a change (implementation)<sup>181</sup>. Ch. Owen draws attention to the fact that design thinking can be somehow opposed to scientific approach – “*scientists sift facts to discover patterns and insights, designers invent new patterns and concepts to address facts and possibilities*”<sup>182</sup>. G. Glegg has developed the idea by comparing the nature of work of a designer and a scientist. In his concept, “*designers and researchers follow*

<sup>178</sup> M. Brzozowski, *Myslenie projektowe w pracy menedzera*, “Zeszyty Naukowe Politechniki Łódzkiej. Organizacja i Zarządzanie” 2013, no. 49, p. 89.

<sup>179</sup> H. Simon, *The Sciences of the Artificial*, MIT Press, Cambridge 1969, p. 5.

<sup>180</sup> L. March, *The Logic of Design*, in: *Development of Design Methodology*, (ed.) N. Cross, J. Wiley, New York 1984, p. 266.

<sup>181</sup> D. Mahdjoubi, *Design Methodology as a Migration from Analytic Methodology*, “Design Management Review” Fall 2007, p. 50.

<sup>182</sup> Ch. Owen, *Design Thinking: Notes on its Nature and Use*, “Design Research Quarterly” 2007, vol. 2, no. 1, Chicago, p. 17.

*the same path but often in the opposite directions – the designer from the abstract to the concrete, and the scientist from the concrete to the abstract*<sup>183</sup>. Ambiguity of design has a direct impact on the way one defines design thinking. Design thinking has been discussed on the basis of the discipline of design for decades, but a new challenge is to apply it to other disciplines, i.e. management<sup>184</sup>.

Discussion primarily concerns the nature of design thinking, its origin and the possibility of using it in an innovative process of business management<sup>185</sup>. The analysis of the literature can identify different ways of defining design thinking. At its core, the term is used to describe designer's cognitive strategies in the process of solving problems<sup>186</sup>. V. Margolin and R. Buchanan stress out that although design thinking must take into account the achievements of many disciplines (i.e. psychology, sociology, anthropology, engineering sciences), ability to conceive, clarify, develop and present new solutions remains the core of design thinking<sup>187</sup>.

In a broader definition the term 'design thinking' refers to the concept of using methods and design culture in areas which go beyond the traditional application of design, such as in business management<sup>188</sup>. One of the most eager supporters of design thinking, T. Brown, describes it as a specific methodology encompassing the entire innovation activities, which makes human being a reference point. Design thinking is a discipline that uses the designer's sensibility and methods to match people's needs with what is technologically feasible and what a viable business strategy can convert into customer value and market opportunity<sup>189</sup>.

Nowadays another approach to design thinking is gaining on popularity, and it defines design thinking as a tool to searching and implementing innovations in organisations<sup>190</sup>. That broader way of defining design thinking is widely used by well-known design consulting companies, such as IDEO or Frog Design. Design

<sup>183</sup> G. Glegg, *The Science of Design*, Cambridge University Press, Cambridge 1973, p. 1.

<sup>184</sup> R. van Zyl, *Buchanan's design thinking matrix: implications for SMMEs*, Proceedings of International DMI Education Conference "Design Thinking: New Challenges for Designers, Managers and Organizations" 14–15 April 2008, Cergy-Pointoise France, p. 2.

<sup>185</sup> J. Gloppen, *Perspectives on Design Leadership and Design Thinking and How They Relate to European Service Industries*, "Design Management Journal" 2009, p. 37.

<sup>186</sup> R. Bousbaci, "Models of Man" in *Design Thinking: The "Bounded Rationality" Episode*, "Design Issues" 2008, vol. 24, no. 4; T. Lindberg, Ch. Noweski, Ch. Meinel, *Evolving discourses on design thinking: how design cognition inspires meta-disciplinary creative collaboration*, Technoetic Arts: "Journal of Speculative Research" 2010, vol. 8, no. 1.

<sup>187</sup> V. Margolin, R. Buchanan, *The Idea of Design*, The MIT Press, Cambridge 1995.

<sup>188</sup> J. Utterback, B. Vedin, E. Alvarez, S. Ekman, *Design-Inspired Innovation*, World Scientific Publishing, London 2006.

<sup>189</sup> T. Brown, *Design Thinking*, "Harvard Business Review" June 2008, p. 91–92.

<sup>190</sup> S. Beckman, M. Barry, *Innovation as a Learning Process: Embedding Design Thinking*, "California Management Review" 2007, vol. 50, no. 1; M. Brzozowski, *Istota...*, op. cit.; T. Lindberg, Ch. Noweski, Ch. Meinel, *Evolving...*, op. cit.; B. Wylant, *Design Thinking and the Experience of Innovation*, "Design Issues" 2008, vol. 24, no. 2.

thinking is being acquainted with such terms as open innovations<sup>191</sup>, user-driven innovations<sup>192</sup> and design-driven innovations<sup>193</sup>.

The most popular definition, which refers to implementing design thinking to management, is the one proposed by R. Martin according to which design thinking is about “*approaching managerial problems as designers approach design problems*”<sup>194</sup>. Although such a simplified, tautology-like definition does not explain exhaustively the core meaning of the term, it identifies two key concepts developed in the literature concerning the specific problems of design and designers’ particular approach to problems<sup>195</sup>.

The first of the mentioned issues concerns classifying problems connected with applying design to so called ‘wicked problems’. Wicked problems cannot be explained easily and objectively, since they are ill-formulated and they can be interpreted in many ways. It also affects possible solutions – there are no ready patterns of solutions to pick up the best ones. The stopping rule does not fit in here either (“if A does not work, try B”), since there is no direct and the final test to the learned solution<sup>196</sup>. The consequence of assuming problems as wicked ones is an assumption that defining and solving such kind of problems belongs first and foremost to creative action<sup>197</sup>.

In order to cope with wicked problems designers worked out a certain type of thinking, which does not remind the conventional (and rational) manager’s thinking and can be discussed in two aspects: interpersonal and attitudinal<sup>198</sup>.

Design thinking in terms of interpersonal aspect makes use of deductive and inductive reasoning, typical for manager’s tasks, but also considers specific for designer’s job abductive reasoning. Abduction was defined by Ch. Peirce as a type of reasoning which aim is to formulate general predictions, which leads from examining facts to formulating theory which could introduce its explanations<sup>199</sup>. Peirce described deduction, induction and abduction as three stages of one research method. According to him, abduction is the preliminary stage and the only logical action which creates new quality. On the basis of abduction, deduction creates predictions, which can be tested by using induction<sup>200</sup>. The most important is that abduction does not guarantee

<sup>191</sup> H. Chesborough, *Open Innovation: The New Imperative for Creating and Profiting from Technology*, Harvard Business School Press, Boston 2003.

<sup>192</sup> E. von Hippel, *The Sources of Innovation*, Oxford University Press, New York 1988.

<sup>193</sup> R. Verganti, *Design-Driven Innovation*, Harvard Business Press, Boston 2009.

<sup>194</sup> D. Dunne, R. Martin, *Design Thinking and How It Will Change Management Education: An Interview and Discussion*, “Academy of Management Learning and Education” 2006, vol. 4, no. 4, p. 512.

<sup>195</sup> A. Rylander, *Design Thinking as Knowledge Work: Epistemological Foundations and Practical Implications*, “Design Management Journal” Fall 2009, p. 10.

<sup>196</sup> T. Ritchey, *Wicked problems. Structuring Social Mess with Morphological Analysis*, Swedish Morphological Society, 2011, www.swemorph.com, 05.02.2013.

<sup>197</sup> B. de Wit, R. Meyer, *Synteza strategii*, PWE, Warsaw 2007, p. 71.

<sup>198</sup> D. Dunne, R. Martin, *Design...*, op. cit.

<sup>199</sup> Ch. Peirce, *Collected Papers*, Harvard University Press, Cambridge 1958.

<sup>200</sup> M. Urbański M., *Rozumowania abdukcyjne. Modele i procedury*, Wydawnictwo Naukowe UAM, Poznań 2009.



the ingeniousness of the generated idea (of the conclusion), merely postulates a state of affair and that is why it is just hypothetical<sup>201</sup>.

The attitudinal aspect of design thinking concentrates on identifying differences between designers and managers in approach to problems. R. Bolland and F. Collopy claim that so called decision-oriented approach, prevailing in management is focused on solving relatively defined problems with many possible alternative solutions, which can be carefully analysed<sup>202</sup>. In design thinking, a problem is not considered to be so clear-cut – its scope is modified, even its basic assumptions are questioned in order to achieve the best solutions (though sometimes they are far from the previous assumptions). Manager identifies existing limitations treating them as undesirable difficulties in achieving goals and takes them into consideration, while designer questions the existing limitations and considers them to be a pretext to finding innovative solutions. Referring to the classical (in the management science) division of alternative means of improving organisational systems – typical managerial activities are in close relation to a diagnostic approach (descriptive and improving) while designers – to the prognostic approach (functional and designing).

### 3. The Nature of Strategic Thinking

Terminology in the field of strategic management is highly contentious with different writers using similar terminology in different ways trying to present their concepts as new and innovative<sup>203</sup>. The introduction of the term ‘strategic thinking’ to the management literature has increased the confusion with an interesting debate on what actually strategic thinking is. Although the concept of strategic thinking has been in the literature for more than three decades, the term is often improperly used interchangeably with other aspects of strategic management, including strategy and strategic planning<sup>204</sup>.

E. Goldman indicates two major origins of the problem with classifying strategic thinking<sup>205</sup>: (1) differences among theorists about how strategy is defined (different schools of thought on strategic management, i.e. planning, learning, positioning

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<sup>201</sup> M. Hoffmann, *Is there a “Logic” of Abduction?* Proceedings of the 6<sup>th</sup> Congress of the IASS-AIS, International Association for Semiotic Studies in Guadalajara, Mexico July 1997, p. 13–18, 1997, <http://user.uni-frankfurt.de/~wirth/texte/hoffmannabdu.htm>, 05.02.2013.

<sup>202</sup> R. Boland, F. Collopy, *Managing as designing*, Stanford University Press, Stanford 2004.

<sup>203</sup> T. O’Shannassy, *Modern Strategic Management: Balancing Strategic Thinking and Strategic Planning for Internal and External Stakeholders*, “Singapore Management Review” 2003, vol. 25, no. 1, p. 54.

<sup>204</sup> I. Bonn, *Developing strategic thinking as a core competency*, “Management Decision” 2001, vol. 39, no. 1, p. 63–71.

<sup>205</sup> E. Goldman, *The Power of Work Experiences: Characteristics Critical to Developing Expertise in Strategic Thinking*, “Human Resources Development Quarterly” 1991, vol. 19, no. 3, p. 219.

and resource-based); and (2) the lack of a clear definition of strategic thinking in the literature.

Most of the writers concentrate on the interrelations between strategic planning and strategic thinking, and the exploration of the literature reveals that there is no agreement on what this relation should be. L. Heracleous identified following views on the relationship between strategic thinking and strategic planning<sup>206</sup>:

1. Strategic planning and strategic thinking are two distinct thinking modes, and strategic thinking should precede strategic planning (view associated with H. Mintzberg<sup>207</sup>). This view emphasises that strategic thinking and strategic planning involve distinct thought processes, where strategic planning is analytical and convergent, whereas strategic thinking is synthetic and divergent;
2. Strategic thinking is (and should be) analytical (view associated mainly with M. Porter<sup>208</sup>). This view claims that strategic thinking is achieved by utilising analytical tools. In this view the term 'strategic thinking' is not being used as a synthetic and divergent thought process, but as a convergent and analytical one; in the same way as other authors would use the term 'strategic planning';
3. The real purpose of strategic planning is to improve strategic thinking (view represented by D. Nadler<sup>209</sup>, P. Wack<sup>210</sup> and A. De Geus<sup>211</sup>). This view recommends to use strategic planning tools (i.e. scenario planning) to aid creative strategic thinking.

Strategic planning has evolved over time into strategic thinking and became less exclusive in its roots and more complex in its methods. This view identifies strategic planning and strategic thinking more with the organisational practices surrounding them rather than thought process involved.

Having considered the different views Heracleous and other authors (i.e. J. Liedtka<sup>212</sup> F. Greatz<sup>213</sup>) suggest that strategic thinking and strategic planning are distinct, but interrelated in a dialectical process, where both are complementary thought processes that must support one another for effective strategic management and each mode on its own is necessary but not sufficient.

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<sup>206</sup> L. Heracleous, *Strategic Thinking or Strategic Planning*, "Long Range Planning" 1998, vol. 3, no. 3, p. 481–487.

<sup>207</sup> H. Mintzberg, *The fall and rise of strategic planning*, "Harvard Business Review" Jan–Feb 1994, p. 107–114.

<sup>208</sup> M. Porter, *Know Your Place*, Inc., Sep. 1, 1991, p. 90–93.

<sup>209</sup> D. Nadler, *Collaborative strategic thinking*, "Planning Review" Sep–Oct 1994, p. 30–31.

<sup>210</sup> P. Wack, *Scenarios: Shooting the rapids*, "Harvard Business Review" Nov–Dec 1985, p. 2–14.

<sup>211</sup> A. De Geus, *Planning as learning*, "Harvard Business Review" Mar–Apr 1988, p. 70–74.

<sup>212</sup> J. Liedtka, *Strategic thinking: Can it be taught?* "Long Range Planning" 1998, vol. 31, no. 1, p. 120–129.

<sup>213</sup> F. Greatz, *Strategic thinking versus strategic planning: towards understanding the complementarities*, "Management Decisions" 2002, vol. 40, no. 5, p. 456–462.

Having reviewed the literature on strategic management it is possible to indicate two possible ways of defining strategic thinking: a 'broad' and a 'narrow'<sup>214</sup>. A narrow definition of strategic thinking highlights generative, creative, synthetic, divergent thought processes and is usually associated with such writers as H. Mintzberg<sup>215</sup> and K. Ohmae<sup>216</sup>. A broad definition of strategic thinking combines generative, creative, synthetic, divergent thought with a rational, analytical, convergent approach to problem solving. Most of the writers prefer a 'broad' definition of strategic thinking. Representative examples of such definitions include:

- Strategic thinking is a boundary-spanning activity that cuts across any discipline that involves decision making. Strategic thinking is a way of thinking about issues, problems, and a wide range of business and nonbusiness activities. Strategic thinking provides a rational component to decision making that balances the use of intuition<sup>217</sup>;
- Strategic thinking is a way in which people in an organisation think about, assess, view, and create the future for themselves and their associates. Strategic thinking is a planning process aiming to create a strategy that is coherent, unifying, integrative framework for decisions, especially about direction of the business and resource allocation. It is conscious, explicit, and proactive and defines competitive domain for corporate strategic advantage over its rivals. Strategic thinking is 'what' and 'why' of the planning process<sup>218</sup>;
- Strategic thinking is a particular way of solving strategic problems at the individual and institutional level combining rational and generative thought processes. In strategic thinking, thought and action can be intertwined or linear or something in between, depending on the strategy context confronting the organisation. There is no single formula to strategic thinking for the individual or organisation and it is evident from the lesson of the evolution of strategy that practicing managers need some flexibility in problem solving style<sup>219</sup>;
- Strategic thinking can be recognised as being (1) conceptual, in that it reflects ideas, models, and hypotheses; (2) systems-oriented, taking into account the interaction of the organisation's parts, as well as their relationship with the external environment; (3) directional, affording a sense of an aimed-for future state that is different

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<sup>214</sup> T. O'Shannassy, *Modern...*, op. cit., p. 54.

<sup>215</sup> H. Mintzberg, *The fall...*, op. cit., p. 107–114.

<sup>216</sup> K. Ohmae, *The Mind of the Strategist*, McGraw-Hill, New York 1982.

<sup>217</sup> I. Kutschera, M. Ryan, *Implications of Intuition for Strategic Thinking: Practical Recommendations for Gut Thinkers*, "SAM Advanced Management Journal" Summer 2009, p. 15.

<sup>218</sup> Q. Baloch, M. Inam, *Strategic Competitiveness: Creating Firm's Future*, "Journal of Management Sciences" 2010, vol. 3, no. 1, p. 91.

<sup>219</sup> T. O'Shannassy, *Modern...*, op.cit., p. 55.

from the present; and (4) opportunistic, taking advantage of the organisation's past achievement and present competitive and environmental conditions<sup>220</sup>.

All of listed definitions remain opened to judgment if certain thinking is strategic or not. They also suggest that there are degrees of how strategic one's thinking can be. J. Liedtka indicated five major attributes which can be used to assess strategic thinking<sup>221</sup>:

- systems perspective – refers to being able to understand implications of strategic actions,
- focus on intent – refers to being more determined and less distractible than competitors,
- thinking in time – refers to being able to hold past, present and future in mind at the same time to create better decision making and speed implementation,
- being hypothesis driven – refers to ensuring that both creative and critical thinking are incorporated into strategy making,
- intelligent opportunism – refers to being responsive to appearing opportunities.

All of those attributes should be provided to achieve the major purpose of strategic thinking, which is to seek innovation and to discover novel, imaginative strategies which can change the rules of the competitive game, and to integrate these back into business.

#### **4. Design Thinking Characteristics versus Strategic Thinking Characteristics**

Having reviewed literature on design thinking and strategic thinking it is possible to compare the characteristics of those two ways of thinking. They've been brought together in Table 1.

Listed characteristics represent contemporary dominant way of defining design thinking and strategic thinking. The comparison has indicated both – common features and differences.

The way of defining both of terms continuously evolves and on this basis it can be concluded that the scope of these concepts is constantly unifying and the gap between them is shrinking.

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<sup>220</sup> E. Goldman, *The Power...*, op.cit., p. 220.

<sup>221</sup> J. Liedtka, *Strategic...*, op.cit., p. 120–129.

**Table 1. Common Characteristics of Design Thinking and Strategic Thinking**

Design thinking	Strategic thinking
<ul style="list-style-type: none"> <li>• Systems perspective</li> <li>• Qualitative</li> <li>• Focus on innovation</li> <li>• Future oriented</li> <li>• Abductive reasoning (idea generation) in addition to the deductive and inductive reasoning</li> <li>• An expectation of wicked problems</li>   <li>• Celebrating creativity</li>   <li>• Using constraints as a source of inspiration</li> <li>• Solution oriented</li> <li>• Practical, reflection-in-action</li> <li>• Intelligent opportunism</li> <li>• Domination of interactive skills, especially collaboration and empathy</li> <li>• Dominant visual sense making mode</li> <li>• Multidimensional</li> <li>• Non-linear</li> <li>• Project and organisation oriented</li> <li>• Risk orientation</li> </ul>	<ul style="list-style-type: none"> <li>• Systems perspective</li> <li>• Qualitative</li> <li>• Focus on intent</li> <li>• Thinking in time</li> <li>• Being hypothesis driven but reliance on deductive and inductive reasoning</li> <li>• An expectation that problems will be recognisable and solvable with precedent methods</li> <li>• Celebrating rationality but also using creativity to aid strategic planning methods</li> <li>• Dealing with constraints</li> <li>• Problem oriented</li> <li>• Intellectual, theory guided</li> <li>• Intelligent opportunism</li> <li>• Domination of self-contained roles</li>   <li>• Dominant verbal sense making mode</li> <li>• Multidimensional</li> <li>• Mainly sequential with non-linear elements</li> <li>• Organisation oriented</li> <li>• Risk awareness</li> </ul>

Source: Own research.

Contemporary meaning of design thinking is far away from its original meaning established on the basis of the discipline of design. The same happened to strategic thinking, which is no longer related only to strategic planning. By comparing the two different perspectives on problem solving, the analysis above exposes gaps where the two ways of thinking could cross-fertilise each other.

## 5. Conclusions

Design thinking and strategic thinking have both evolved from different epistemological roots and research tradition of the fields of design and strategic management but they both terms are being used today to define a way of thinking that produces transformative innovation and business development. They both address the same fundamental challenge: creative solving of strategic problems.

The common characteristics of design thinking and strategic thinking include: system perspective, qualitative and multidimensional approach, intelligent opportunism and creativity. Both of analysed ways of thinking seek similar success factors: the importance of leadership expressed through flexibility and the ability to learn, environments and markets created to fit the organisation, anticipation of client and market needs, extended problem-solving paradigms to find out what might exist,

skill-based organisational structures with no boundaries, availability of information and ongoing dialog, focus on core activities, and contextual evaluation.

Conducted analysis suggests that design thinking and strategic thinking are different sides of the same coin and each one on its own is necessary, but not sufficient for an efficient business development. Therefore, design thinking and strategic thinking must work hand-in-hand in order to improve growth, competitiveness and to achieve maximum benefit.

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# STRATEGIC MANAGEMENT IN POLISH COMPANIES – STABLE OR CHAOTIC?

## 1. Introduction

Contemporary strategic management faces a challenge that has not occurred – on such a scale in the field of management. What we have in mind here is competent coping on an unprecedented scale of turbulence, unpredictability, dynamics, and complexity of the development conditions, under which companies are to operate. The change of the development conditions, in which companies have to operate, from stable to turbulent and discontinuous, causes a problem of changing, mashing and/or pushing the boundaries of companies both in perception, processes and management structures. It should be remembered that properly configured boundaries' system both within the company and its relations with the environment, is one of the key foundations of forming sustainable competitive advantage<sup>222</sup>. It seems that strategic management has important influence on the process of forming the company's boundaries system, which creates specific boundaries associated with the creation and implementation process of strategy. The challenge for present-day companies is such kind of strategic management which, despite the fact that the boundaries between the company and its environment are blurring, will enable the stabilisation of its functioning and development in turbulent environment. Because of the fact that the boundaries between the company and its environment are blurring and there is a growing interdependence of economic phenomena, the number of factors which may affect the company's operations drastically increases. Thus, there arises a question how strategic management of a company looks in such conditions? Is it composed of elements that have a stabilising effect on its functioning, or does it have various deficiencies that could bring chaos to the company's operations and adversely affect its performance?

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<sup>222</sup> S. Cyfert, *Granice organizacji*, Wydawnictwo UE w Poznaniu, Poznań 2012, p. 6.

## 2. Stable Strategic Management

According to the dictionary of the Polish language, the term “stabilisation” can be understood as *a state of stability and sustainability in the course of some processes (...)*<sup>223</sup>. In turn, strategic management can be defined as *a comprehensive, continuous management process directed at the formulation and implementation of effective strategies*<sup>224</sup>. The concept of “strategy” is inseparably associated with strategic management and it can be defined as *a plan of actions defining the long-term direction and scope of operations of the company, which, thanks to the configuration of its resources and competences, gains an advantage in the changing environment in order to meet the expectations of shareholders*<sup>225</sup>. Every company should have a strategy – the main, integrated, and externally oriented concept of how to achieve its objectives<sup>226</sup>. Companies *need business strategies to set a direction and purpose to their operations, allocate resources in the most efficient manner, and coordinate the decisions taken by various units*<sup>227</sup>.

Basing on the considerations above, it is proposed that *stable strategic management* should be understood as the management, under which decisions are made as to the key elements that contribute to the stability and sustainability of the company’s operation in a long-term perspective. This raises the following question: Which elements enter into the composition of stable strategic management? According to the author, the elements, to which the following set of questions refers, should be put into consideration:

- Do we have a clearly defined vision of our future?
- Are our strategic decisions subordinated to the mission?
- Do we have plans to implement the strategy that will lead to the fulfilment of our mission and vision?
- Do our strategic goals have the measures for determining the degree of their implementation?
- Do we regularly control the level of the implementation of strategic objectives?
- Do our employees know what they need to do so that we can achieve our objectives?

Thus, it can be concluded that a company with stable strategic management is characterised by:

<sup>223</sup> <http://sjp.pwn.pl/szukaj/stabilizacja>.

<sup>224</sup> R.W. Griffin, *Podstawy zarządzania organizacjami*, ed. 2, Wydawnictwo Naukowe PWN, Warsaw 2005, p. 245.

<sup>225</sup> G. Johnson, K. Scholes, R. Whittington, *Podstawy strategii*, PWE, Warsaw 2010, p. 21.

<sup>226</sup> D.C. Hambrick, J.W. Fredrickson, *Are you sure you have a strategy?*, “Academy of Management Executive” 2001, vol. 15, no. 4, p. 48–59.

<sup>227</sup> R.M. Grant, *Współczesna analiza strategii*, Oficyna a Wolters Kluwer business, Warsaw 2011, p. 27.

- having a clearly defined vision of the future,
- subordination of strategic decisions to the mission,
- having plans for the implementation of the strategy,
- having measures that allow determining the degree of the implementation of goals,
- regular monitoring of the strategic objectives achievement level,
- educated staff who knows what must be done to allow the company to achieve its strategic objectives.

Below there is an explanation why the above elements are so important for stable strategic management of a company.

## The Role of Vision and Mission

The role of vision and mission in business management has been the subject of dozens, if not hundreds of studies. At this point it is worth noting that due to the need to indicate the direction for development in a long-term perspective, the vision and mission are the starting points for further considerations under company strategic management. There is a subtle difference between these both concepts, while the boundaries between them are often quite fluid and indistinct. The literature of the subject includes definitions of the vision, which say that it is *an image of the future, which the participants in a given entity want to create*<sup>228</sup>, it is *a desired future state of the organisation; it is something, to which the organisation aspires, the target shape of the company or its achievements*<sup>229</sup>. According to Collis and Rukstad, the vision, from the viewpoint of a company, specifies “*What do we want to be*”, while the mission is an answer to the basic question “*Why do we exist*”. In turn, K. Obłój defines the mission as *a precise expression, in a language comprehensible for employees and stakeholders of the company, of far-reaching plans and aspirations of the organisation*<sup>230</sup>.

It can be stated that the vision defines the future image of the company and sets a direction for all activities taken by it. It is a starting point for creation of action plans in a company<sup>231</sup>. Every company should have a vision of the direction to follow. That’s important insofar as *without a transparent vision stimulating all the employees to action, even the most accurately defined strategy will not yield the expected benefits*<sup>232</sup>. That’s why the adoption of a clear declaration of the vision enables the company to

<sup>228</sup> K. Obłój, *Strategia organizacji*, PWE, Warsaw 2007, p. 389; F. Krawiec, *Zarządzanie strategią firmy*, Difin, Warsaw 2011, p. 39, 42.

<sup>229</sup> A. Sigismund Huff, S.W. Floyd, H.D. Sherman, S. Terjesen, *Zarządzanie strategiczne*, Oficyna a Wolters Kluwer business, Warsaw 2011, p. 19; G. Johnson, K. Scholes, R. Whittington, *Podstawy...*, op. cit., p. 28–29.

<sup>230</sup> K. Obłój, *Strategia...*, op. cit., p. 384.

<sup>231</sup> *Strategia*, “Harvard Business Essentials”, MT Biznes, Warsaw 2007, p. 122.

<sup>232</sup> F. Krawiec, *Zarządzanie strategią...*, op. cit., p. 43.

control its own destiny, instead of letting outside forces determine the direction to follow<sup>233</sup>. An entity without a vision of its destiny will aimlessly wander on many available paths. If a company does not know where it is going, how can it measure the progress or make right decisions?<sup>234</sup>

The mission also concerns the future and guides the activities taken in the company, however it is more specific and clearer for stakeholders than the vision. The mission reflects the meaning of the company's existence and its role<sup>235</sup>. All strategic decisions made in the company should be subordinated to the mission. Only such an approach ensures that the entity will not deviate from the chosen path. The behaviour of the managing staff of the Japanese company Komatsu in the 1960s can be given as an example of this. At that time, the president of the company, which was in the doldrums and faced a deadly threat from the world's leading manufacturer of heavy equipment – Caterpillar, formulated a timeless mission (“Maru-Cat” – “defeat Caterpillar”) that aimed at the realisation of a dream vision: to become the world leader in production of heavy equipment. All strategic decisions were subordinated to this mission, starting with four key programs in the areas of technology, quality, costs, the scope of production, and the markets served<sup>236</sup>. Thanks to the consistent implementation of the mission, Komatsu is now one of the largest construction machinery manufacturers in the world.

## Strategy Implementation Plans

The implementation of the strategy should be considered as one of the most critical stages of strategic management<sup>237</sup>. One can find research results, which indicate that nine out of ten companies fail in an attempt to implement the selected strategy<sup>238</sup>. Different factors affect this state of affairs<sup>239</sup>. However, it should be concluded that even the best-planned strategy cannot be implemented without well-designed plans for its implementation. As stated by A. Kaleta, *the decomposition of a strategic concept, which is general and relatively abstract by nature, into pragmatic implementation tasks,*

<sup>233</sup> After Creating Your Mission and Vision Statements: Strategic Planning <http://genesisgrouponline.com/?p=249>

<sup>234</sup> D. Midgett, *Mission and Vision Statements: Your Path To A Successful Business Future*, The GenesisGroup 2004, p. 1.

<sup>235</sup> A. Stabryła, *Zarządzanie strategiczne w teorii i praktyce*, Wydawnictwo Naukowe PWN, Warsaw-Cracow 2002, p. 51.

<sup>236</sup> K. Obłój, *Strategia organizacji...*, op. cit., p. 390–392.

<sup>237</sup> P. Wołczek, *Wdrażanie strategii jednym z najsłabszych ogniw zarządzania strategicznego*, “Studia i Prace Kolegium Zarządzania i Finansów” no. 116, SGH, Warsaw 2012, p. 205–216.

<sup>238</sup> R. Speculand, *The great big strategy challenge*, “Strategic Direction” 2006, vol. 22, no. 3, p. 3–5.

<sup>239</sup> T. Čatera, D. Pučko, *Factors of effective Strategy implementation: Empirical evidence from Slovenian business practice*, “Journal for East European Management Studies” 2010, vol. 15, no. 3, p. 207–236; L.G. Hrebiniak, *Making strategy work*, Pearson Education, Upper Saddle River 2005, p. 17–28.

is a starting point for an effective implementation process<sup>240</sup>. It seems therefore that the work associated with the development of a strategy should also be accompanied by the work aiming at the development of the plans for its implementation. Considering the pace of the changes that take place especially in the company environment, one should never allow a situation, where a strategy is ready, but the implementation must wait, because there are no plans for its implementation. The separation of the stage of developing the strategy from the stage of drafting the plans for its implementation is extremely dangerous. That's because the time and resources dedicated to the development of an appropriate strategy may be wasted, if the company is not able to go smoothly to the implementation of the selected variant of the strategy. Such problems are encountered, when the company did not prepare plans for implementing the strategy. Therefore, an approach, in which the work on the strategy and the plans for its implementation are performed simultaneously, is reasonable.

## Measures of the Implementation of Strategic Goals and Their Monitoring

Strategic objectives can be perceived as milestones, which are arranged on a strategic route leading the company to the implementation of its vision and mission. Therefore it should be stated that strategic objectives are a link between the vision and the mission. When defining strategic objectives, a company specifies the states, which should be achieved in order to implement the adopted development vision<sup>241</sup>. However, the specification of the strategic objectives itself, without taking appropriate measures that offer the opportunity to determine the extent of their implementation, is not enough. An efficient implementation of the strategy must be based on a system of measures assigned to specific strategic objectives. As stated by R. Kaplan and D. Norton – *it is important to measure; if you can't measure it, you can't manage it*<sup>242</sup>. Therefore, if a company had adopted a strategic objective to be implemented, but had not developed an appropriate measure for it, then how it would be able to find whether it had managed to achieve the intended goal? Systematic monitoring of the implementation of strategic objectives is also very important. Only then the company will know whether it is moving in the right direction and at what pace. In turn, this knowledge offers the possibility of modifying the pace and direction.

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<sup>240</sup> A. Kaleta, *Realizacja strategii*, PWE, Warsaw 2013, p. 194.

<sup>241</sup> J. Rokita, *Zarządzanie strategiczne*, PWE 2005, p. 30.

<sup>242</sup> R. Kaplan, D. Norton, *Strategiczna karta wyników. Jak przełożyć strategię na działanie*, Wydawnictwo Naukowe PWN, Warsaw 2002, p. 38.

## Educated Employee

One of the key obstacles on the way to an effective implementation of the strategy is its incompetent communication<sup>243</sup>. It often happens in companies that strategic plans are improperly, vaguely and incompetently communicated, or are not communicated to lower organisational levels at all. Such a situation means that employees do not really know in which direction the company is going, what it wants to achieve through the implementation of the strategy, what their role in this process is, and what is required from them. At this point, it is worth quoting R. Kaplan and D. Norton, who stated that 95% of employees in most organisations do not understand their strategy<sup>244</sup>. These words are confirmed by the results of the research mentioned P. Jones, according to which only 5–8% of employees in companies understand their strategy<sup>245</sup>. Such a small degree of understanding the strategy by employees in the vast majority of companies means serious problems with its implementation. Where does this low level of employee strategic awareness come from? It is safe to say that this is mainly the fault of poor communication of the strategy. An employee, who does not understand the strategy, does not know what actions may contribute to its implementation, and thus the level of the employee's engagement in the implementation of something incomprehensible will be low. However, the ultimate success of a company depends on the involvement of employees in the process of implementing the strategy. That's why it is so important to competently communicate the strategy to employees, so that they understand its meaning and know what actions should be taken by them to allow the company to achieve its long-term objectives.

To sum up the above considerations, it should be stated that a company characterised by stable strategic management is a company that simultaneously has a clear vision of the future, subordinates the actions taken to the mission adopted, develops plans for the implementation of the strategy, assigns measures to strategic objectives, which offer the possibility of assessing the degree of their implementation, regularly monitors the progress in implementing the strategy, and informs the employees about what they should do to enable achievement of company's strategic objectives.

In turn, a company, which lacks one or more aforementioned elements, has a lesser or greater level of chaos, which occurs in its strategic management. The lack of a clear vision of a company's future can cause chaos in its activities because the company did not set a direction for these activities. In turn the lack of subordination of the actions taken by a company to the mission can cause chaos because the company may deviate

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<sup>243</sup> P. Wołczek, *Wdrażanie...*, op. cit., p. 215.

<sup>244</sup> R. Kaplan., D. Norton, *The Office of Strategic Management*, "Harvard Business Review" October 2005, vol. 83, p. 72–80.

<sup>245</sup> P. Jones, *Komunikowanie strategii*, Oficyna a Wolters Kluwer business, Warsaw 2010, p. 18.

from the chosen path. The lack of plans for the implementation of the strategy can cause chaos in company because no one knows how to translate strategic plans into real actions. In turn the lack of measures assigned to strategic goals can cause chaos because a company does not have the possibility of assessing the degree of strategy implementation. Regular monitoring of the progress in implementing the strategy is also important. Without these activities, the company will not know whether it is moving in the right direction. And finally a company can introduce chaos into its strategic management if it does not inform the employees about company's strategy. An employee, who does not know the strategy, may unconsciously take actions that can foul up the process of strategy implementation. Therefore, it can be concluded that the level of chaotic strategic management depends on the amount of missing elements comprising the stable strategic management. The larger the deficiencies, the greater chaos in the company's activities.

### **3. Stable or Chaotic Strategic Management – Results of the Studies**

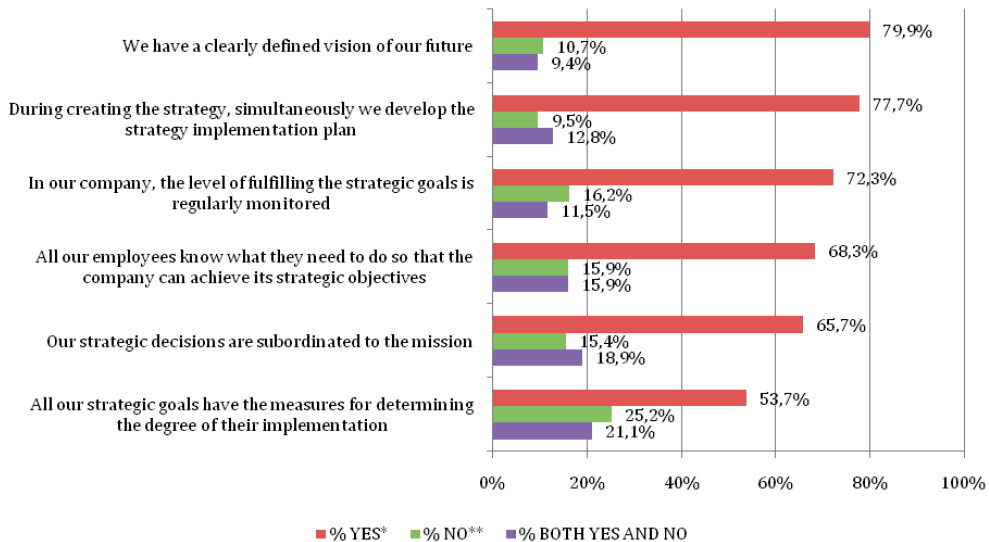
This paper uses the results of the studies conducted under the project entitled "Evolution of strategic management during the development of companies"<sup>246</sup>. The implementation of the project required conducting questionnaire surveys in 150 companies divided in equal proportions into small-, medium- and large-sized enterprises. The group of respondents included unlisted and listed joint-stock companies. The respondent in the survey was the company managing staff, i.e. Executive Director, Strategic Director, Managing Director or Management Board understood as the President and Members of the Management Board. The surveys were conducted over the period from October 2011 to January 2012. This part discusses the findings resulting from the analysis of the answers given by the respondents to six questions from the main part of the questionnaire.

At the beginning of the analysis of research results, one presents the percentage distribution of the answers given by the respondents to individual questions that the author of this paper assigned to stable strategic management (Figure 1).

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<sup>246</sup> The project was financed from funds of the National Science Centre (NCN) as the research project no. N N115 402240.

**Figure 1. Percentage Distribution of the Answers Given to the Questions Referring to Stable Strategic Management**



\* – answer YES is the sum of answers “definitely yes” and “probably yes”

\*\* – answer NO is the sum of answers “definitely not” and “probably not”

Source: Own research based on the results of the survey.

As it turns out, the answers given to individual questions suggest that strategic management is definitely closer to the stable than chaotic form in the majority of the companies surveyed.

Almost 80% of the respondents confirmed that their companies have a clearly defined vision of the future. Only less than 11% of the entities do not have such a vision.

Nearly 78% of the companies have plans to implement the strategy, and only 9.5% of them do not have such plans.

In addition, over 72% of the companies control the strategic objectives on a regular basis. However, there is a lack of such actions in over 16% of the companies surveyed.

A little more than 68% of the respondents admitted that their employees know what they need to do to allow the company to achieve the strategic objectives. Unfortunately, employees in almost 16% of the companies do not have such knowledge.

Strategic decisions are subordinated to the mission in nearly 66% of the companies surveyed. Such a relation has not been maintained in over 15% of the entities.

The situation looks the worst when it comes to the assignment of specific measures to strategic objectives, which inform about the level of their implementation. Only less than 54% of the surveyed companies take such actions. In turn, every fourth



of the companies being analysed admits that it does not assign such measures to strategic objectives.

As previously mentioned, if only the answers to individual questions were taken into account, it could be concluded that a typical company has a clear vision of the future and develops the plans for the implementation of the strategy, which are to bring this vision into being. Such a company tries, on a regular basis, to monitor the progress in the implementation of the strategy and inform employees what they should do to allow the company to achieve its strategic objectives, while its actions are subordinated to the mission adopted. However, it has the biggest problems with the assignment of measures to strategic objectives, which allow assessing the degree of their implementation.

On the other hand, if we refer to the adopted assumption stating that fully stable strategic management occurs only then, when a company has all the six aforementioned elements, it will appear that out of 136 companies that gave answers to all the six questions, only 40 (29.4%) can boast of stable strategic management. However, if we deduct from these 136 companies those that gave ambiguous answers (“yes and no”), only 66 companies gave a positive answer (“definitely yes” and “probably yes”) or a negative answer (“definitely not” and “probably not”). After such a treatment, the percentage of the companies with fully stable strategic management rises to the level of 60.6%. The remaining 39.4% of the companies operate on the basis of more or less chaotic strategic management. Table 1 shows the number of the companies depending on how many elements of stable strategic management they have.

**Table 1. From the Stability to Chaos in Strategic Management**

Elements of the stable strategic management	Number of elements																
	6	5				4				3				1			
Clearly defined vision of the future	x	x	x	x			x		x	x		x	x	x			
Strategic decisions subordinated to the mission	x		x	x	x			x		x							x
Developed plans for the implementation of the strategy	x	x	x	x	x	x	x	x	x	x	x	x	x				x
Strategic objectives have the measures for determining the degree of their implementation	x	x		x	x	x	x	x			x						x
Regular monitoring of the strategic objectives achievement level	x	x	x	x	x	x	x		x		x	x		x			
Employees know what they need to do to enable the achievement of strategic objectives by the company	x	x	x		x	x		x	x					x	x		
NUMBER OF COMPANIES	40	2	3	2	3	1	1	1	3	1	1	1	1	1	2	2	1

Source: Own research based on the results of the survey.

It can be noted that five groups of companies were formed. The largest of them (40 entities) had all six elements of stable strategic management.

The second largest group (10 entities) consists of companies having five elements of stable strategic management. The third group (6 entities) is formed by the companies that have four elements. Another group (5 entities) is formed by the companies with three elements, while the last fifth group (5 entities) includes companies that have only one element. It seems that both in the companies, in which one element is missing, e.g. a clearly defined vision of the future, and in the companies that base only on a single element, e.g. have plans for implementing the strategy, a greater or lesser level of chaos in strategic management will occur, which may adversely affect the operations of these companies.

This raises the question whether more stable strategic management has any impact on the company's performance. Table 2 presents answers of the respondents to the questions concerning the financial result and the average revenue growth.

**Table 2. The Financial Result and Average Revenue Growth – Data for 2011**

	Stable strategic management (SSM) (number of companies)	Chaotic strategic management (CSM) (number of companies)	SSM %	CSM %
<b>Financial result</b>				
Profit	31	15	77.5	57.7
Loss	4	1	10.0	3.8
Refusal to answer	5	10	12.5	38.5
<b>Average growth</b>				
Dynamic growth (over 10%)	9	8	22.5	30.8
Moderate growth (4% – 10%)	15	5	37.5	19.2
Stagnation (–3% – 3%)	11	2	27.5	7.7
Moderate decrease (–4% – –10%)	1	3	2.5	11.5
Significant decrease (–10% or more)		–		–
Refusal to answer	4	8	10.0	30.8

Source: Own research based on the results of the survey.

Out of 40 companies with stable strategic management, 31 (77.5%) had a profit in 2011. On the other hand, from among the 26 companies with a varying degree of chaos in strategic management, only 15 (57.7%) could boast of the same result. Considering the fact that only 5 (12.5%) of the companies from the SSM group and even 10 (38.5%) companies from the CSM group refused to answer this question, it may be presumed that this second group achieved significantly worse financial results, since such a large percentage of the companies, which refused to answer this question, suggested that they could not boast of profit, while admitting to a loss is nothing to be proud of.

When analysing the answers concerning the average revenue growth in 2011, it can be noted that 60% of the companies in the SSM group could boast of the dynamics at the level from 4% to over 10%. In the CSM group, the percentage of such companies accounted for exactly 50%. Stagnation (–3% to 3%) was reported by 27.5% of the companies in the SSM group and only by 7.7% of the companies in the CSM group. In contrast, a moderate decrease (–4% to –10%) in the revenue growth affected one company from the SSM group and three companies from the CSM group. However, considering the fact that only 4 (10%) companies from the SSM group and even 8 (30.8%) from the CSM group refused to answer the question also this time, it may be presumed that the second group obtained a significantly worse average revenue growth in 2011.

At the end, a question was asked whether it can be stated that stable strategic management is specific to companies of a particular size. The analysis of the research results revealed that the SSM group included 45% of large companies. Small- and medium-sized enterprises accounted for 27.5% of this group. In turn, the CSM group included 46.1% of medium-sized enterprises, 30.8% of large-sized enterprises, and 23.1% of small businesses. Therefore, it can be concluded that stable strategic management is met more often in large-sized enterprises, while medium-sized enterprises are more often “sick” with chaotic strategic management.

## 4. Conclusions

A present-day company, in order to “sail safely through rough seas of the surrounding reality”, should be based on strategic management, which consists of the elements stabilising its “course”. This type of stable strategic management, which includes: a clear vision of the future, the subordination of strategic decisions to the mission, plans for implementing the strategy, measures that allow determining the degree of the implementation of strategic objectives, regular monitoring of the level of achievement of these objectives, and the managing staff who knows what must be done so that the company achieves its goals, contributes to the stability and sustainability of the company’s operations in a long-term perspective.

The analysis of the research results revealed that among the 66 companies that gave a positive or negative answer to the six questions, 40 (60.6%) operated on the basis of stable strategic management. It turned out that a greater percentage of the companies from this group than the companies from the group with chaotic strategic management obtained profits on their operations (77.5% as compared with 57.7%), and can boast of a revenue growth at a level from 4% to over 10% (60% vs. 50%). With a high degree of caution (due to the fact that a significant percentage of the companies with chaotic strategic management did not answer to the questions

regarding the financial result and the revenue growth, which makes it difficult to draw conclusions) it can be stated that stable strategic management has a positive impact on the performance of a company, which should contribute to the stability and sustainability of its operations in a long-term perspective.

The elements of stable strategic management described in this paper, form a specific boundaries system of a company. The clear vision and mission statement defines the boundary of company's "journey", indicates a desired future state of the organisation. In order to reach this desired future state of the organisation all strategic decisions should be subordinate to the company's mission. The plans for implementing the strategy set the boundaries within which are situated the actions and resources needed to effectively implement the strategy. The measures assigned to strategic goals define the boundaries that have to be achieved or exceeded if company wants to announce that it successfully implemented the strategy. If the company wants to know whether it achieves or exceeds the boundaries determined by the measures of strategic goals, it has to regularly control the level of achievement of these goals. And finally the managers should inform the employees about company's strategy and strategic goals. It is very important, because only an employee, who knows and understands the strategy, is ready to take actions that contribute to its implementation.

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# ORGANISATIONAL BOUNDARIES AND THE IMPORTANCE OF POLISH CORPORATE GROUPS

## 1. Introduction

Enterprises' operations are not always limited to a single entity. The inability to fulfil growing requirements of the environment necessitates establishing organisational boundaries. Corporate groups (*grupy kapitałowe*) are a relatively new phenomenon in Poland. The first ones were created at the beginning of the 1990s. Notwithstanding the reasons of their creation, corporate groups are an element of the socio-economic life. Their economic importance is already considerable and still growing. Corporate groups frequently play important roles in many industries and dominate various rankings. Thus, investigating this phenomenon is important from both the cognitive and the practical perspective. The state of research on corporate groups in Poland is not correspondent to their role in the economy. This insufficiency of literature and research regards in particular their importance. The aim of this paper is to analyse selected issues concerning the boundaries of management and to attempt to assess the importance of Polish corporate groups.

Functioning in the form of a corporate group involves establishing organisational boundaries. This leads to changes in the structure of economic activity. Firstly, literature on management served as a basis for defining the notion of organisational boundaries. Corporate group is presented here as a tool used to shape them. The paper also characterises typical corporate groups and lists their strengths and weaknesses. Own research was conducted on the basis of the ranking of the largest companies in Poland (*Lista 500. Największe firmy Rzeczpospolitej*) drawn up by the newspaper *Rzeczpospolita*. The research identified economic organisations operating as corporate groups. This made it possible to present all largest corporate groups in Poland. What is more, changes in the ranking positions of the groupings included in *Lista 500* are shown here as well. The corporate groups studied here exemplify phenomena connected with modifying organisational boundaries. A presentation of selected data

concerning the biggest groups resulted in a preliminary attempt to estimate the importance of corporate groups in Poland. Theoretical analyses and the author's own research findings described here are an attempt to fill in the existing cognitive gap. The final part of the paper contains general conclusions and presents perspectives of the development of corporate groups. For technical reasons, some issues were only signalled here and require more comprehensive research and analysis.

## 2. Corporate Group as a Tool Used to Shape Organisational Boundaries

Traditional approach to managing economic activity which focuses on adjusting the structure of an enterprise to the requirements of its environment has become insufficient. More and more often it is necessary to expand the boundaries of an organisation over new areas. In the literature on this subject organisational boundaries are defined in different ways. Friedlander for instance indicates that *organisational boundaries are a border between the domain and the core of a business. The boundaries make it possible to control and protect processes taking place in the core of a business against the negative influence of its environment*<sup>247</sup>. Ashforth et al. claims that *organisational boundaries describe the model of functioning of an organisation which determines the ways of structuring as well as the mechanisms of cooperation of an organisation with its environment*<sup>248</sup>. Mosakowski in turn, believes that *organisational boundaries demarcate which actions are carried out within a given organisation and which ones are carried out in its environment by third parties*<sup>249</sup>.

The definitions quoted above illustrate the relation between an organisation and its environment. They delimit the scope of influence of an organisation. The issue of organisational boundaries is also discussed in Polish literature. In the context of decisions concerning establishing organisational boundaries see Cyfert or Krupski. The scholars stress that striving to maintain balance forces the adjustment of organisational boundaries to the changes taking place in both, the environment and the inside of an organisation. This is caused by the evolution of various industries and by rapid changes and innovations as well.

More and more often the adjustment of the organisational structure of a company to the requirements of the environment is not sufficient. The inability to fulfil

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<sup>247</sup> F. Friedlander, *The Ecology of Work Group*, in: *Handbook of Organizational Behavior*, (ed.) J. Lorsch, Prentice Hall, Englewood Cliffs, New Jersey 1987, p. 301–314.

<sup>248</sup> B.E. Ashforth, G.E. Kreiner, M. Fugate, *All in Day's Work: Boundaries and Micro Role Transitions*, "Academy of Management Review" 2000, vol. 25, no. 3, p. 472–491.

<sup>249</sup> E. Mosakowski, *Organizational Boundaries and Economic Performance: an Empirical Study of Entrepreneurial Computer Firms*, "Strategic Management Journal" 1999, vol. 12, p. 115–133.



the requirements within the structure of a single business compels cooperation of many entities regarding their scope of economic activity. The new approach to management involves abandoning the narrowly defined organisational structures of an enterprise. This means setting up economic activity structures that go beyond the organisational structure and include its environment as well. In order to adapt to the changing conditions, organisations must fulfil increasing demands of their environment. This strengthens the need to gain control over the environment in order to use it in achieving the organisation's economic goals. Carefully selected entities joined by proper relations of subordination and influence form economic activity structure. In this way, they define the *business architecture*, i.e. the way of choosing the entities to cooperate with during the process of achieving previously set economic goals. Designing *business architecture* becomes a starting point for detailed solutions in the area of management of an economic organisation. The solutions originate in various structures: organisational, capital and contractual. Their optimal configuration should ensure maximum effectiveness.<sup>250</sup>

One of the forms of economic cooperation is a corporate group. It ought to be understood as *a grouping of companies based primarily on corporate connections. This type of grouping is created to achieve common business goals. It comprises legally independent business entities operating as capital companies (limited liability companies or joint-stock companies). Individual companies are permanently joined by corporate connections and possibly also by other types of connections (corporate grouping). Entities belonging to a group have the possibility of achieving common goals, which results from the type and intensity of the connections creating the group*<sup>251</sup>. Corporate groups defined in this way constitute a significant part of corporate economic groupings. They are also quite uniform so it is possible to draw common conclusions for them. In this paper the term 'corporate group' shall be used in accordance with the above definition.

There are various motives for the creation of corporate groups. They stem from the evolution of the environment, diversification of activity and the resources possessed. *The Economist*<sup>252</sup> presents an opinion that one of the reasons for the creation of economic groupings and the development of large companies is the increasing awareness of the risk associated with subcontracting. Unreliable suppliers may quite often disrupt the production cycle of large concerns. In order not to lose their

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<sup>250</sup> More on the basic forms of economic activity in M. Trocki, *Architektura biznesu – nowe struktury działalności gospodarczej*, in: (ed.) *Przedsiębiorstwo partnerskie*, (ed.) M. Romanowska, M. Trocki, Difin, Warsaw 2002a, p. 45–50 and M. Trocki, *Integracja i dezintegracja działalności gospodarczej – tendencje i kierunki*, in: *Nowe kierunki w zarządzaniu przedsiębiorstwem. Integracja i dezintegracja*, (ed.) H. Jagoda, J. Lichtarski, "Prace Naukowe Akademii Ekonomicznej we Wrocławiu", 2002b, no. 928, p. 313–315.

<sup>251</sup> M. Trocki, *Grupy kapitałowe. Tworzenie i funkcjonowanie*, Wydawnictwo Naukowe PWN, Warsaw 2004, p. 40–41.

<sup>252</sup> *Big is back*, "The Economist" 29 August 2009, p. 9.

established brands and reputation, big companies must concentrate on their core competencies. Instead of passing individual fields of operation over to external organisations, they capture subsequent links in the chain of value. They usually restructure through mergers and acquisitions and modify existing organisational boundaries by incorporating entities believed to be indispensable in their concepts of development into their own structures. Purchasing a whole organisation or its part becomes an alternative to organic development. Another reason is the fact that large organisations must be innovative. In some situations they may as well be better off minimising the cost associated with a complex management structure. Their strengths also come from their presence on many markets.

In the context of establishing organisational boundaries a corporate grouping is always characterised by integration of an economic entity with other entities. The system of managing economic activity is created through subordination of entities necessary in the process of achieving economic goals and by means of creating pressure mechanisms in order to fulfil these goals. All the collaborating units in a corporate group are linked by capital dependence and ownership supervision. Capital dependence is a consequence of the fact that a superior entity possesses shares in subordinate units. This gives grounds for ownership supervision. Entities included in a larger group are dependent on uniform management.

### **3. Characteristics of Typical Corporate Groups (Theoretical Approach)**

As a form of economic activity, a corporate group is a tool used for establishing organisational boundaries. Management theory lists three typical types of corporate groups: *operational*, *managerial* and *financial*. A characteristic of these fundamental corporate groups as well as their strengths and weaknesses are presented in Table 1.

Functioning as a corporate group involves the necessity to manage larger and larger organisations. The types of corporate groups are different from each other. The difference lies in the forms of interdependency between the connected units. Operational corporate groups are founded on concentric interdependency. Managerial corporate groups are based on sequential and reciprocal interdependency, while financial corporate groups have pooled interdependency at its base. The variability refers also to the creation and operation of a group. It causes the difference between the role of the superior unit and the subsidiaries in achieving the goals of a group. In individual types of corporate groups this concerns the scope of functions fulfilled by the members of the group. On the basis of these differences arise unique competencies on which the groups build their competitive advantage (see Table 1).

**Table 1. Characteristics of Typical Corporate Groups**

Characteristics	Types of corporate groups		
	Operational	Managerial (strategic)	Financial
The goals of a group	<ul style="list-style-type: none"> <li>Strengthening the competitive position and the attractiveness of the parent company within its core operational activity by daughter companies</li> </ul>	<ul style="list-style-type: none"> <li>Securing and strengthening of the strategic market attractiveness and competitive position of a group</li> <li>Creating and discounting the synergistic effect as a result of the daughter companies' activity</li> </ul>	<ul style="list-style-type: none"> <li>Securing and strengthening of the strategic investment attractiveness of the group</li> <li>Maximising investment benefits of the parent company</li> <li>Limiting investment risk</li> </ul>
Tasks of parent company (superior unit)	<ul style="list-style-type: none"> <li>Dominant role</li> <li>Conducting core operational activity</li> <li>Managing the development of a group and its shares</li> </ul>	<ul style="list-style-type: none"> <li>No strong dominance</li> <li>No operational activity</li> <li>Managing the development of the group and the shares in daughter companies</li> </ul>	<ul style="list-style-type: none"> <li>Parent company does not conduct any operational activity</li> <li>Activity focuses on managing shares in dependent companies</li> </ul>
Tasks of daughter companies	<ul style="list-style-type: none"> <li>They support and complement the operational activity of the parent company</li> </ul>	<ul style="list-style-type: none"> <li>Conducting complementary operational activity</li> </ul>	<ul style="list-style-type: none"> <li>Conducting and managing diversified operational activity</li> <li>Managing ongoing tasks</li> </ul>
Weaknesses	<ul style="list-style-type: none"> <li>Limited innovation potential</li> <li>Weak motivation</li> <li>Limitations to external cooperation</li> <li>Not very flexible structure</li> </ul>	<ul style="list-style-type: none"> <li>Difficulties in achieving strategic goals and the synergistic effect</li> <li>Limited strategic potential</li> <li>Limited internal cooperation</li> <li>Decentralist tendencies</li> </ul>	<ul style="list-style-type: none"> <li>Weak integration</li> <li>No operational synergy</li> <li>Strong decentralist tendencies</li> </ul>
Strengths	<ul style="list-style-type: none"> <li>Strong synergic potential and many possibilities of internal cooperation</li> <li>Concentration and specialization</li> <li>No decentralist trends</li> <li>Strong integration of a group</li> </ul>	<ul style="list-style-type: none"> <li>Large potential for innovation</li> <li>Operational synergistic effect</li> <li>Big possibilities of external cooperation</li> <li>High motivation</li> <li>Very flexible structure</li> </ul>	<ul style="list-style-type: none"> <li>Large potential for innovation</li> <li>Possibility of financial support</li> <li>High motivation</li> <li>Clear and flexible structure</li> </ul>
Management	Operational	Synergic	Portfolio

Source: M. Trocki, *Grupy kapitałowe. Tworzenie i funkcjonowanie*, PWN, Warsaw 2004, p. 72–73; M. Romanowska, M. Trocki, B. Wawrzyniak, *Grupy kapitałowe w Polsce*, Difin, Warsaw 2000, p. 137–138.

In an *operational* corporate group the superior unit is the main element of the whole structure. It holds the dominant position and conducts operational activity crucial to the whole group. It produces goods or provides services for outside customers. The principal task of the superior unit is the strategic management of the group and the shares in subsidiaries. They conduct activity related in terms of technology, distribution channels, offered products and covered markets. Operational corporate group is created to strengthen the competitive advantage of the superior unit by subsidiaries in the area of its operational activity.

The essential element of an operational corporate group is the integration of units around the core business of the superior unit. Subsidiaries are entities which possess complementary resources. They operate in areas linked with the current

activity profile of the dominant unit. The cooperation of entities is founded on concentric interdependency. This suggests that subsidiaries are entirely dependent on the activity of the superior organisation. The role of the subsidiaries is to support competitive position of the superior business. Their activity is directed at complementing and supporting core competencies of the superior unit. One of the features of an operational corporate group is intensive connections between the superior unit and subordinate ones. As a result, they require equally intense coordination of operational connections between subsidiaries, which is managed by the superior company (see Table 1).

As a consequence of concentration on the core operational activity, a specialisation of the members of the group takes place. This is conducive to the limitation of the industry risk. It makes it possible to lower the costs and contributes to the streamlining of the superior unit's activity. Strong integration of units contributes to the appearance of strategic, tactical and operating coordination. There are no decentralist tendencies. A large proportion of management problems and concentration on the core skills of the incorporated units result in the lack of flexibility of the structure. Centralisation of the decision-making process on the level of the superior unit limits the autonomy of the members of the group; it also undermines their motivation (see Table 1 above).

Cooperation and strong integration of the units enables them to benefit from the connection of their businesses in the area of complementary goods. Activities of an operational corporate group are not very diversified. They usually take the form of limited vertical diversification. The process of managing a group is dominated by the problems of coordination of activities of individual members. The superior unit runs core operational activity. It exerts active influence on the management of subsidiaries. The activity of the superior unit concentrates on streamlining operational results and influencing the value of the group.

In the *managerial (strategic)* corporate group subsidiaries become the main element of its structure. They specialise in operational activity, which is complementary. The activity of subsidiaries usually involves subsequent phases of the process of creating the value of a given product or a group of products. This may be a source of operational connections. A managerial corporate group aims at creating and discounting the synergistic effect arising as a result of collaboration of subsidiaries. Operational connections existing in a managerial group are different from those in operational groups. The difference lies in the fact that there are no operational connections between the superior unit and its subsidiaries. They only involve subsidiaries. Therefore, operational connections existing between subsidiaries are the essence of the functioning of a managerial corporate group. While managing their activity, the subsidiaries must take into account the activity conducted by the remaining participants of the group. In this form of corporate grouping, the parent company

does not run its own operational activity. It is concerned with managing the group as well as its shares or stocks<sup>253</sup>.

The operations of a managerial corporate group are founded on the integration of its members in order to streamline the core activity of the superior company. The cooperation is a result of reciprocal and sequential interdependency. That is why in the cases of both horizontal and vertical integration, a managerial corporate group is characterised by strong operational connections between its subsidiaries. This necessitates taking into consideration existing operational connections. Efficient and effective cooperation requires intensive coordination of operational collaboration on a higher level. During the process of attaining common business goals, the function of a coordinator belongs to the superior organisation. It is an entity described as a parent, strategic or managing company. The structure of this type of a group is highly flexible. One of its features is industrial diversification, usually horizontal. Decentralisation of the decision-making process results in considerable autonomy of subsidiaries and high motivation. Diversified intensity of integration carries the risk of decentralist tendencies. Difficulties managing synergistic effects may also become a danger (see Table 1).

From the economic perspective, cost reduction or increase of revenues, achieved thanks to integration, can become sources of synergistic effects. They may be achieved as a consequence of elimination of repeated actions, improvement of the know-how and increase of the number of technological capabilities<sup>254</sup>.

Integration of business activity contributes to a more effective capital management, improvement of knowledge and experience, and to a better use of the company's potential. As a result of integration, a managerial corporate group boosts its skills and competencies. By exploiting the economies of scale it also strengthens its competitive position on the market.

A *financial* corporate group is a grouping whose aim is to maximise investment benefits of the superior company and to limit its investment risk. The structure of a financial group takes the form of a typical conglomerate. This means that the incorporated units operate on completely different fields and conduct their businesses in different industries. They run diversified operational activity which is not connected with other units. Conglomerate connections are the core element of a financial corporate group. The main aim of a financial corporate group is to ensure that shareholders and stockowners get proper investment benefits. In the process of achieving this goal the superior unit performs the function of a professional financial institution. It does not conduct operational activity and is concerned solely with

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<sup>253</sup> I. Janiuk, *Rodzaje powiązań międzyorganizacyjnych w rozwoju grupy kapitałowej Graal S.A.*, "Studia i Prace Kolegium Zarządzania i Finansów" no. 98, SGH, Warsaw 2010, p. 101.

<sup>254</sup> For more information on synergistic effects being a result of integration of activity in managerial corporate groups see: M. Trocki, *Grupy...*, op. cit. p. 80–81.

managing its shares and stocks in subsidiaries. It also concentrates on providing effective support by means of financial instruments. In a financial corporate group we can observe pooled interdependency. It signifies consolidation of the resources owned by its members and engaging into undertakings in areas not related to the current profile of the parent company. The investments are based on expected benefits connected with the new field. The expansion of the scope of activity takes the form of joining links of various chains of value. As a result, inorganic groups and conglomerates are formed<sup>255</sup>.

In a financial corporate group subsidiaries conduct diversified operational activity. They retain considerable independence in their respective fields. They manage their development and current operations. Integration is weak and there are no operational synergistic effects or coordination of operational activity of subsidiaries. In this case, the scope of coordination is clearly limited. However, incorporated entities possess large potential for innovation. Achieving benefits in different industries and limitation of the risk are also possible here. This facilitates greater flexibility of the organisation's structure. Significant decentralisation of the decision-making process together with considerable autonomy of the units boosts motivation. Strong decentralisation is vulnerable to decentralist tendencies. The core activity of a superior company is to hold majority stakes in other units and to impose its will on them. As a financial institution, the superior unit permanently manages shares and stocks. It strives to maximise shareholders' benefits. The type of management existing in a financial group is described as portfolio management (see Table 1).

In the context of establishing organisational boundaries it should be stressed that the typology of basic corporate groupings presented here is a model. It includes the most important features of corporate groups and basic rules of their operations. In business practice we can see a great variety of solutions. It is caused by particular conditions of functioning of particular cases. Many corporate groups are of eclectic character i.e. they possess characteristics of a few typical kinds. It is particularly true for groups which are still in the early stages of development.

#### **4. Results of Some Research Concerning the Development of Corporate Groups in Poland**

Notwithstanding the reasons for the creation of organisational boundaries, corporate groups have become an important tool dynamising management in many firms. With respect to corporate groups typology presented earlier in this paper it

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<sup>255</sup> Ibidem.

should be emphasised that so far in Poland there has been a lack of detailed research on the structure of corporate groups from the perspective of the forms they take. On the basis of general observations and analyses quoted in the literature on the subject<sup>256</sup> it can be assumed that operational groups are the dominant type among Polish corporate groupings (about 90% of Polish corporate groups). Managerial corporate groups make up around 8% of Polish corporate groups, while financial ones are rare and constitute less than 2% of total corporate groups. This structure originated from the history of creation of corporate groups and from the relatively short time of their operation<sup>257</sup>.

Corporate groups in Poland are an object of interest to strategic management researchers<sup>258</sup>. They analyse the conditions for the creation and functioning of corporate groups for instance in the ship-building and construction industry. They also discuss issues concerning the creation, operation and expansion of corporate groups in specific Polish economic, legal and political conditions.

In the context of establishing organisational boundaries and the development of corporate structures, interesting information on the strategies of Polish corporate groups is also offered by Romanowska<sup>259</sup>. The quoted studies look into the formation of corporate structures as a reaction of companies to the changes in their environment. A direction dominant in the development of corporate groups is industrial diversification of various characters. This means that corporate groups functioning in Poland differ from each other in the degree of diversification, the way in which they were created and also in their activity in building the group and choosing the direction of development (mergers and acquisitions, alliances, creating branches of their own companies).

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<sup>256</sup> M. Trocki, *Grupy...*, op. cit. p. 74.

<sup>257</sup> Diversified representation of particular types of corporate groups in their total is confirmed by the studies of corporate structures functioning in developed countries. The largest share belongs to operational groups which make up about 60% of corporate groupings. Managerial groups constitute 30%, while financial ones not more than 10%. The research on the profitability of particular types of groups shows that operational groups are the most profitable ones (13.5%). Financial ones display profitability amounting to 11.4% while managerial groups obtain 7.4%. For more information on particular types of corporate groups and the specific character of managing their different types see (M. Trocki, *Grupy...*, op. cit., p. 73–74).

<sup>258</sup> See: B. Nogalski, R. Ronkowski, *Zarządzanie holdingiem*, Instytut Organizacji i Zarządzania w Przemśle, Warsaw 1996; B. Nogalski, *Grupy kapitałowe*. in: *Strategiczna transformacja polskich przedsiębiorstw*, (ed.) M. Romanowska, Oficyna Wydawnicza SGH, Warsaw 2004, p. 139–153; B. Nogalski, *Od przedsiębiorstwa wielozakładowego do organizacji wielopodmiotowego, czyli grup kapitałowych*, in: *Kierunki i dylematy rozwoju nauki i praktyki zarządzania przedsiębiorstwem*, (ed.), H. Jagoda, J. Lich-tarski, Wydawnictwo UE we Wrocławiu, Wrocław 2010.

<sup>259</sup> M. Romanowska, *Aspiracje rozwojowe polskich przedsiębiorstw*, in: *Strategiczna transformacja polskich przedsiębiorstw*, (ed.) M. Romanowska, Oficyna Wydawnicza SGH, Warsaw 2004, p. 35–36; *Grupy kapitałowe w Polsce. Strategie i struktury*, (ed.) M. Romanowska, PWE, Warsaw 2011, p. 28–29.

Out of the studies conducted in Poland it is worth mentioning the research of Trocki (2001). The researcher points to the directions of creation and stages of development of corporate groups. Wawrzyniak in turn presents the findings of the analysis of corporate groups listed on Warsaw Stock Exchange<sup>260</sup>. The quoted analysis concerns the ways of creation, structure, shareholder structure, type of control, industrial strategies and ways of managing a corporate group.

Also the research by Aluchna concerns WSE listed corporate groups. The study presents the strategies of Polish corporate groups<sup>261</sup>. The analysis conducted in the course of this research points to possible development directions in the international context.

As far as the importance of corporate groups in Poland is concerned, it is worth mentioning the research conducted by Central Statistical Office (*GUS*)<sup>262</sup>. The analyses provide interesting information on the number, scope of operations and types of corporate groups in Poland, interorganisational connections existing between them as well as on the enterprises' financial results. The study distinguishes types of corporate groups with regard to their scope of operations: 1) all-resident enterprise group composed only of enterprises that are all residents in the same country; 2) multinational enterprise group composed of at least two enterprises located in different countries; 3) truncated enterprise group as a part of a multinational group, located in Poland – a truncated group can be domestically or foreign controlled.

According to the data of Central Statistical Office, in 2011 there were 1951 enterprise groups operating in Poland, 792 (40.6%) of which were all-resident and 1159 (59.4%) truncated, i.e. parts of multinational groups, located in Poland<sup>263</sup>. For the majority of the total enterprises (1951) operating in Poland in 2011 the basic kinds of activity were manufacturing (29%), trade and repair of motor vehicles (20.6%). The economic power of corporate groups from these areas is confirmed by the fact that the manufacturing enterprises employed the total of 25.5% of persons employed in the enterprise groups at the end of 2011. Groups operating in the industries of trade and repair of motor vehicles employed 18.8% of the total number of persons employed in enterprise groups. The equity of the whole population (1951) amounted to the total of 585.6 bn PLN out of which 44.2% belonged to foreign controlled truncated groups, 36.7% to domestically controlled truncated groups and 19.1% to all-resident groups. In order to estimate the effectiveness of operations of the identified (1951)

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<sup>260</sup> B. Wawrzyniak, *Polskie grupy kapitałowe. Perspektywa Europejska*, Wydawnictwo Wyższej Szkoły Przedsiębiorczości i Zarządzania im. L. Koźmińskiego, Warsaw 2002, p. 175 and next.

<sup>261</sup> M. Aluchna, *Kierunki rozwoju polskich grup kapitałowych. Perspektywa międzynarodowa*, Oficyna Wydawnicza SGH, Warsaw 2010, p. 288 and next.

<sup>262</sup> *Grupy przedsiębiorstw w Polsce w 2011 roku*, Informacje i opracowania statystyczne, GUS, Warsaw 2013, p. 8–9.

<sup>263</sup> *Ibidem*, p. 26, 28, 32, 33, 35, 40.



enterprise groups the research presented here based on the return on assets (ROA), return on equity (ROE), return on sales (ROS) and return on investment (ROI) indicators. Compared with the previous year, the aforementioned indicators in 2011 for the total of the group reached a higher level and amounted to 5.5%, 11.8%, 6.1%, and 8.0% respectively (in 2010 4.7%, 9.6%, 3.4% and 7.1%).

Shaping organisational boundaries is more and more frequently linked with the functioning of corporate groups. The research quoted above makes an obvious contribution to the knowledge of issues related to the creation and functioning of corporate groups in Poland. However, it does not investigate the importance of corporate groups in Poland deeply enough.

## 5. The Importance of Corporate Groups in Poland – Own Survey Research

The importance of corporate groups is based not on their number but on their economic power. Using the available research results, own survey research concerning the importance of corporate groups in Poland was conducted. The survey research was done through observation of corporate groups present on *Lista 500. Największe firmy Rzeczpospolitej* (The biggest companies of Poland). Preliminary analysis made it possible to identify 158 corporate groups in 2011. Their annual sales varied between 496.1 m to almost 107 bn PLN. The next step was a comparison of the shares of corporate groups in the revenues of all companies included in *Lista 500* (see Table 2).

**Table 2. Revenues of Enterprises included in *Lista 500* in 2011**

Enterprises present on <i>Lista 500</i>	Sales revenues (in m PLN)	Shares in %
Corporate groups	638 416.0	48.8
Other enterprises	669 136.3	51.2
All enterprises	1 307 552.3	100.0

Source: Own research based on *Lista 500. Największe firmy Rzeczpospolitej*, "Rzeczpospolita" 2012.

In 2011 the companies included in *Lista 500* achieved sales revenues amounting to 1,307,552.3 m PLN. Organisations operating as corporate groups generated 638 416 m PLN, while other companies achieved 669,136.3 m PLN. As the table shows, the share of 158 corporate groups in the revenues of all companies from *Lista 500* is 48.8%. Taking into account the number of groups which were identified, it should be noted that their share in the revenues of the companies from *Lista 500* is important. Corporate groups generate almost a half of the revenues of all companies from *Lista 500* (see Table 2).

In the context of the importance of corporate groups, a more detailed analysis of sales revenues seems justifiable. It involved distinguishing leading corporate groups and putting them under careful observation. Among all the identified corporate groups, 12 were singled out whose 2011 revenues exceeded 10 bn PLN (see Table 3).

**Table 3. Ranking of the Largest Corporate Groups in Poland in 2011**

No.	Corporate group	Industrial sector	Sales revenues (in m PLN)	Growth rate 2011/2010 (%)
1.	Polski Koncern Naftowy Orlen SA GK, Płock*	Oil and gas	106 973.1	28.0
2.	Grupa Lotos SA GK, Gdańsk*	Oil and gas	29 258.5	48.8
3.	PGE Polska Grupa Energetyczna SA GK, Warsaw*	Energy	28 571.0	36.5
4.	PGNiG SA GK, Warsaw*	Oil and gas	23 003.5	8.1
5.	KGHM Polska Miedź SA GK, Lublin*	Natural resources	22 107.2	31.9
6.	Tauron Polska Energia SA GK, Katowice*	Energy	20 755.2	34.5
7.	PZU SA GK, Warsaw*	Insurance	18 623.0	-1.4
8.	PKO BP SA GK, Warsaw*	Banking	16 164.1	10.3
9.	Telekomunikacja Polska SA GK, Warsaw*	Telecommunications	14 922.0	-5.0
10.	Kompania Węglowa SA GK, Katowice	Natural resources	11 920.0	17.7
11.	Bank Pekao SA GK, Warsaw*	Banking	10 996.2	9.7
12.	Energa SA GK, Gdańsk	Energy	10 173.1	11.6

\* WSE listed company.

Source: Own research based on *Lista 500. Największe firmy Rzeczypospolitej*, "Rzeczpospolita" 2012.

All corporate groups placed on *Lista 500* earned 638,416 m PLN, while total revenues of the 12 largest groups amounts to 313,466.9 m PLN. This makes 49.1% of revenues of all corporate groups present on *Lista 500*. It is also worth stressing here that a majority of corporate groups sustain positive growth rate. Five out of the largest corporate groups maintain growth at the level of over 25%. In these cases also their turnover rises quickly. This emphasises the importance and economic power of such groups as *PKN Orlen*, *Lotos*, *PGE*, *KGHM* and *Tauron* (see Table 3 above).

The largest revenues are generated by oil and gas companies. *PKN Orlen* holds the first position in the ranking. By achieving the increase in revenues by 28% it generates 106,973.1 m PLN. Thus, *PKN Orlen* clearly outruns the other economic groups. Even the four following groups do not gain similar revenues. Second position belongs to *Grupa Lotos*. In comparison to 2010 its revenues increased by 48.8% and at the end of 2011 totalled 29,258.5 m PLN. Third place is taken by *PGE* with 36.5% growth and 28,571 m PLN revenue. Fourth position belongs to *PGNiG*. In 2011 the company increased its revenues by 8.1% and generated 23,003.5 m PLN revenue. Nevertheless, in comparison with the groups holding higher positions it is a modest

result. On the fifth place we can see *KGHM Polska Miedź*. Increasing its growth by 31.9% the company generated 22,107.2 m PLN. The sixth position in the ranking is held by *Tauron*. In 2011 the group recorded an increase of 34.5% and achieved 20,755.2 m PLN (see Table 3).

The seventh position in the ranking belongs to *PZU*. Despite negative growth the company generates 18,623 m PLN. The eighth rank is held by *PKO BP*. Growth by 10.3% let the company gain 16,164.1 m PLN. *Telekomunikacja Polska* ranks as ninth. It recorded a decline in revenue by 5% and generated 14,922 m PLN. The tenth place in the ranking is occupied by *Kompania Węglowa SA Katowice* with 17.7% growth and revenues of the group amounting to 11,920 m PLN. The eleventh place belongs to *Bank Pekao SA*. 9.7% increase in revenue allowed it to generate 10,996.2 m PLN. The twelfth position in terms of revenue is taken by *Energa SA*. Its growth by 11.6% allowed the group to generate 10,173.1 m PLN (see Table 3).

With respect to the generated revenues, other corporate groups placed on *Lista 500* include: *Eurocash*, *Enea*, *Jastrzębska Sp. Węglowa*, *Polkomtel*, *Getin Holding*, *BRE Bank*, *Budimex*, *Boryszew*, *Żywiec* and *Mostostal Warszawa*. Their annual revenues exceed 10 bn PLN. It is far less than the revenues of the largest groups and places them on further positions on *Lista 500*.

Observation of the groupings identified above confirms the results of research on corporate groups' development strategies quoted before. The analysis of 158 corporate groups shows that they operate in different fields of the economy. In their concepts of development they express interest in industrial diversification. They also form entities linked with capital connections in areas providing opportunities of further development. Corporate groups function as industrial groups, e.g. coal, construction, oil and gas, energy, insurance, banking, telecommunications, pharmaceutical and others.

When discussing the development of corporate groups in Poland it is worth engaging into more detailed analysis of corporate groupings. This paper points out the revenues obtained from sales as well as the changes of positions of particular corporate groups in the ranking *Lista 500*. The analysis involving 158 groupings shows that, comparing with 2010, 87 organisations (55.1%) are corporate groups which improved their position. The greatest successes were achieved by *Trakcja-Tiltra*, *Alchemia* and *PERN Przyjaźń*. These groups skipped even 100 positions upwards. The improvement by over 50 positions was noted in the cases of *Work Service*, *Cyfrowy Polsat*, *Bowim*, *Energa Elektrownie Ostrołęka*, *Grupa Polska Stal*. At this point it is worth emphasising that among other groups advancing in the ranking, 44 groupings improved their positions by being ranked from 10 to 40 positions higher. These groups include: *Erbud SA.*, *Asseco Poland*, *Action*, *Anwim*, *Boryszew*, *AB SA.*, *Konsorcjum Stali*, *Pflederer Grajewo*, *Mostostal Warszawa*, *Amica Wronki*, *ABC Data*, and *SM Mlekovita*. Out of 158 corporate groups, 56 organisations (35.4%)

are companies which were ranked lower than before. Those which recorded the biggest decline are: *TVN SA*, *Orbis*, *Bank BPH* and *Bank Handlowy*. 10 out of all corporate groups (6.3%) are companies new on *Lista 500*. The remaining 5 groupings (3.2%) kept their positions stable as compared to those in 2010.

The analysis of changes in ranking positions of corporate groups allows us to notice that the organisations connected with oil and gas industry, natural resources, energy and construction increase their revenues more quickly and thus, go up *Lista 500*. Corporate groups operating in the financial sector (banking and insurance companies) and telecommunications strengthen their positions much more slowly.

During a discussion of the importance of corporate groups in Poland some interesting insights are offered by the study of the creation of new jobs (see Table 4).

**Table 4. Persons Employed in Companies Included in *Lista 500* in 2011**

Companies included in <i>Lista 500</i>	Employment (number of jobs)	Shares in %
Corporate groups	725 078	51.6
Other enterprises	680 840	48.4
All enterprises	1 405 918	100.0

Source: Own research based on *Lista 500. Największe firmy Rzeczypospolitej*, "Rzeczpospolita" 2012.

As can be seen in the table, the firms ranked in *Lista 500*, in 2011 employed 1,405,918 persons. Taking into account the available data, the groups identified here employed 725,078 persons. This means that among all companies included in *Lista 500*, corporate groupings generate 51.6% of total jobs. The rest of the enterprises employ 680,840 people. This makes up 48.4% of the positions in companies included in *Lista 500*. Considering the employment in all enterprises, corporate groups generate over a half of all positions.

When discussing corporate groups in Poland it should be noticed that out of 158 groupings, 107 (68%) are listed on the stock market. This means that a considerable majority of corporate groups are publicly traded companies. In the case of the previously analysed 12 largest corporate groups, shares of 10 of them are traded on the Warsaw Stock Exchange (see Table 3). When analysing the importance of corporate groups it is worth paying attention to those companies which are included in the index of the largest and the most liquid stocks. All the companies belonging to WIG-20 (Warsaw Stock Exchange Top 20 Index) operate as corporate groups.

The survey research performed for the purposes of this paper involved observation of 158 corporate groups included on *Lista 500*. The results presented here relate primarily to the revenue, growth rate and the companies' share in providing employment. The changes in revenues of corporate groups as well as their shares in employment were contrasted with the information on other enterprises included in *Lista 500*.

## 6. Conclusions

The inability to fulfil the requirements within the structure of a single enterprise creates the need to modify organisational boundaries. The essence of the new approach involves abandoning the narrowly defined organisational structures of an enterprise. It means establishing the structure of economic activity that goes far beyond the structure of an enterprise and encompasses also its environment. More and more often establishing organisational boundaries means expanding them. This enables enterprises to operate on new areas and provides access to new resources. The management solution chosen in such situations is the creation of complex economic organisms. One of the forms of economic cooperation is a corporate group. Organisations functioning as corporate groups cross the established organisational boundaries. They strengthen their positions on the domestic and international market.

The observations and analyses conducted for the purposes of this paper confirm the importance of corporate groups in Poland. In spite of a small number of corporate groups (in a group of 500 companies), the identified organisations are relatively strong and important. It is impossible to imagine contemporary economic processes without corporate groups. They frequently play a leading role in key areas of economy. On the basis of the observations and analyses it is possible to present general conclusions concerning corporate groups:

The largest economic organisations in Poland operate as corporate groups. In many cases they sustain positive growth rate and generate numerous jobs. What is more, they enjoy an established position on the domestic market as well as abroad. They are usually publicly traded companies. Thanks to being listed on the stock exchange they gain easier access to resources needed to finance their development. This is particularly important from the perspective of establishing organisational boundaries. Enterprises in modern economy are created and grow ever more frequently thanks to acquisitions of other entities. Their growth opportunities are connected with functioning on a corporate market.

The concepts of development of corporate groups are dominated by industrial diversification of various types. In the case of typical corporate groups one might suppose that these types include managerial and operational groups. From the perspective of organisational boundaries, the awareness of the present and future type of the group is needed to properly shape its development. The knowledge of the assets and weaknesses of particular kinds of corporate groups facilitates the cooperation of its members and the proper choice of management instruments.

Notwithstanding the directions of creation and development of corporate groups in Poland, none of them can be compared with an average European corporate

group – this is due to the fact that Polish corporate groups have relatively short history. Large organisations in developed countries are built on decades of capital accumulation and improving their operations. The average age of the largest companies in the world is estimated to be 50 years. This implies that what is needed to build a strong corporate group is time and the ability to invest capital.

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# **ACADEMIC ENTREPRENEURSHIP IN POLAND: CREATING COMPETITIVE ADVANTAGE OF UNIVERSITY ENTERPRISES**

## **1. Introduction**

Academic entrepreneurship in Poland is still new and not well known part of management, particularly the management of innovative small and medium enterprises. It is a special kind of intellectual entrepreneurship which goes beyond boundaries of management. Polish academic firms operate in law and political environment, which sometimes is difficult and very complicated. There are a lot of law aspects of spin-offs' formation and developing, outgoing beyond boundaries and problems of management.

The mentioned entrepreneurship uses knowledge of many kinds of science, both economical and technical. This kind of entrepreneurship shows the way from science to market and how to commercialise discoveries, new technologies and products. That's why academic entrepreneurs should possess the wide knowledge of technology, economy, management and marketing. In the case of academic firms intellectual resources such as knowledge, skills and core competencies play very important role.

The creation of academic firms, especially spin-offs and spin-outs is one of technology transfer methods, which builds the connection between science and economy. Academic enterprises, which want to sustain and consequently develop in global market, should create the competitive advantage, at least in some aspects of their activities.

Competitive advantage has absolutely fundamental importance for the growth and success of enterprise, especially in global market. It is the first condition for enterprises to exist and survive in a competitive game. There are a lot of factors of competitive advantage. Nowadays knowledge of workers and core competencies have key importance in gaining and sustaining competitive advantage. According to

Michael E. Porter advanced technology, in particular, is one of the most important factors. Changes in technologies, especially in high-technology industries cause essential differences in the market situation of the mentioned firms. Competitive advantage is defined as the strategic advantage one business entity has over its rival entities within its competitive industry. Achieving competitive advantage strengthens and positions a business better within the business environment. Competitive advantage is based on theory which was proposed by Michael Porter<sup>264</sup>. Competitive advantage is a key determinant of superior performance and it will ensure survival and prominent placing in the market.

The phenomenon of academic entrepreneurship in Poland was showed in early 90's of twentieth century as a result of economic transformation in 1989–1990. Polish scientists understood that there was a new chance for commercialisation of advanced technologies and products. The biggest dynamics of academic enterprises development occurred in the first several years after the mentioned transformation. Most of these enterprises operated in high-technology sector, particularly in IT, electronics and biotechnology. 90% of Polish academic firms are small and medium enterprises. There are only few academic firms in Poland. However they are the most innovative enterprises which create their competitive advantage in global market, especially in specific areas of high-technology products. In modern world the importance of knowledge, as a main economic resource of the companies, increases. One of the basic spheres of knowledge management is its transfer, carried out by many ways. In this article the characterisation of small innovative firms, mainly university spin-offs, has been presented. Discussed enterprises create their competitive advantage basing on their knowledge or advanced technological processes. The phenomenon of academic entrepreneurship has influence on the competitive growth of small business and consequently their competitive advantage in global economy.

The importance of advanced technologies for the growth of competitiveness and competitive advantage of small and medium enterprises (SMEs) has been shown. Spin-offs are one of the most innovative small enterprises. University spin-offs play a very important role in the process of technology transfer from universities to innovative firms. One has carried out case studies of selected spin-off firms and the classification of technologies taking into account their impact for the competitiveness of enterprises. University spin-offs are the results of academic entrepreneurship and are often established by scientists and PhD students. The creation of spin-offs is special kind of technology transfer from science to market. This is a long term and difficult way to commercialisation but a very effective one, taking into account the growth of

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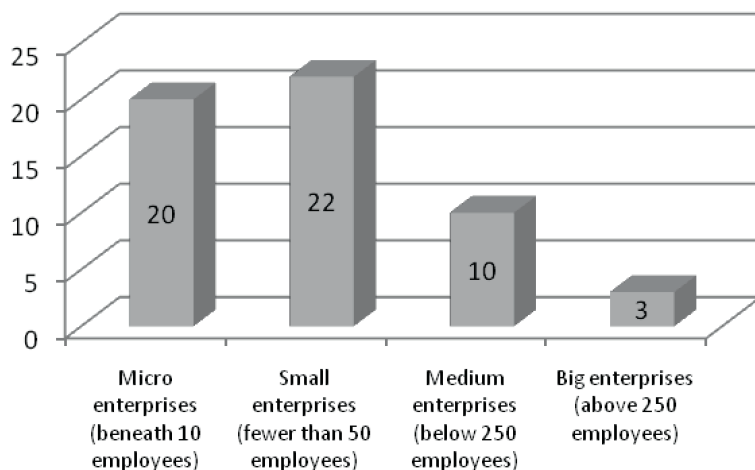
<sup>264</sup> M. Porter, *Przewaga konkurencyjna. Osiąganie i utrzymywanie lepszych wyników*, Helion, Gliwice 2006, p. 15.

competitiveness and market position of academic firms in the international market, in particular in the case of high technology of small and medium enterprises.

## 2. Research Area

Academic enterprises in Poland, particularly university spin-offs are very rare. 55 university firms have been identified. Among them, 55% (30 units) took part in the presented research. Figure 1 shows the characteristics of mentioned firms, taking into account their size.

**Figure 1. The Characteristics of Academic Firms based on the Size**

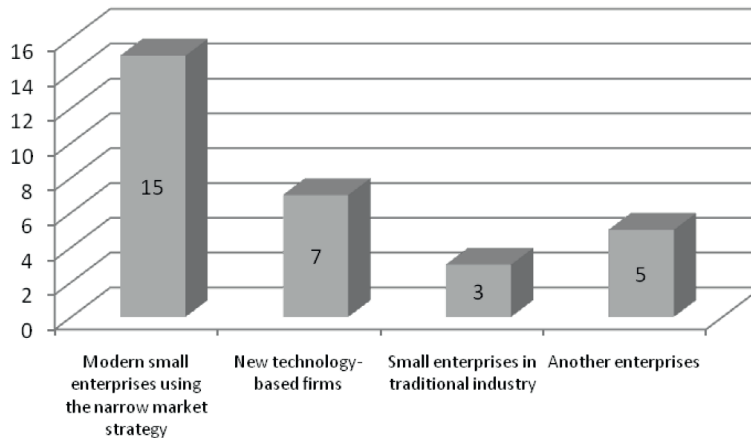


Source: Own research, compare: Z. Chyba, W. Grudzewski, *Przedsiębiorczość akademicka w Polsce. Osiągnięcie przewagi konkurencyjnej w wyniku komercjalizacji technologii*, Wyższa Szkoła Zarządzania i Prawa im. Heleny Chodkowskiej, Warsaw 2011, p. 150.

Among the identified enterprises, small firms, which employ between 10 and 50 employees (22 enterprises, 40% of total number of units), are the biggest group. They are the most agile and flexible. Small academic enterprises are similar to the model of sustainable enterprise. Micro enterprises, which employ fewer than 10 employees, are a big group (20 units) of the mentioned firms. In this case the chance of survival in global market is smaller because of little resources, both human and financial. Medium academic enterprises are characterised by a long life cycle in a market, which is the result of their core competencies and well known brand. In Poland 10 such units have been identified. Big academic enterprises are very rare. In this paper only 3 big spin-offs are mentioned. Generally, more than 90% of university spin-offs are micro, small and medium enterprises, which first of all concentrate

on specific branch, narrow aspect of activity. The next criterion of this classification is the category of innovative activity. Figure 2 presents this kind of classification.

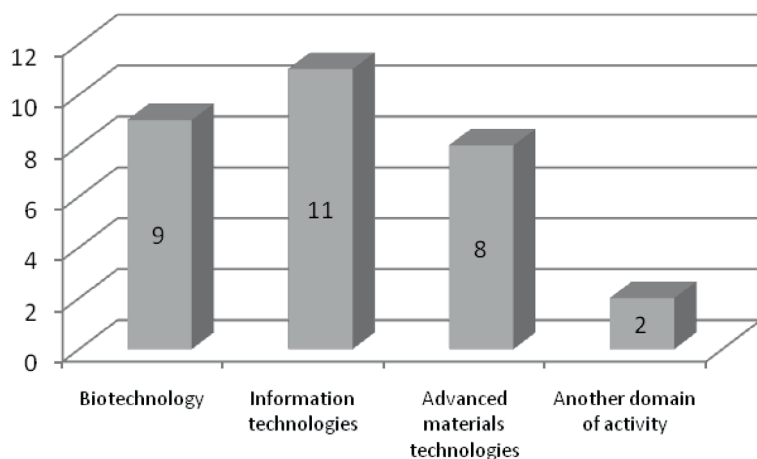
**Figure 2. The Characteristics of Academic Firms based on the Character of Activity**



Source: Own research, compare: Z. Chyba, W. Grudzewski, *Przedsiębiorczość akademicka w Polsce. Osiągnięcie przewagi konkurencyjnej w wyniku komercjalizacji technologii*, Wyższa Szkoła Zarządzania i Prawa im. Heleny Chodkowskiej, Warsaw 2011, p. 153.

In the above table, the classification of innovative enterprises by Rothwell and Zegveld<sup>265</sup> was used. Modern small enterprises, using the narrow market strategy are the most numerous group in this classification (15 enterprises, 50% of total number of units). They operate mainly in high-technology sectors. Their activity is very specific, and concentrates on characteristic needs of a selected group of clients. Among the academic enterprises, about 23% (7 units) of firms are new technology-based ones. These kinds of enterprises offer their clients smart materials and products which use the most modern technologies. Enterprises, which belong to this group, are mainly micro and small units using core competencies and unique knowledge. Enterprises in traditional industry (3 firms, only 10% of analysed units) are the least numerous group.. Scientists and entrepreneurs do not find this type of activity interesting and very profitable. The representatives of the five firms weren't able to define their kind of activity according to Rothwell and Zegveld classification. The third criterion of academic enterprises' classification is their membership in the domain of activity. The results of mentioned characteristics are presented in Figure 3.

<sup>265</sup> Compare: R. Rothwell, W. Zegveld, *Reindustrialization and Technology*, Longman, London 1985.

**Figure 3. The Membership of Academic Enterprises in the Domain of Activity**

Source: Own research, compare: Z. Chyba, W. Grudzewski, *Przedsiębiorczość akademicka w Polsce. Osiągnięcie przewagi konkurencyjnej w wyniku komercjalizacji technologii*, Wyższa Szkoła Zarządzania i Prawa im. Heleny Chodkowskiej, Warsaw 2011, p. 154.

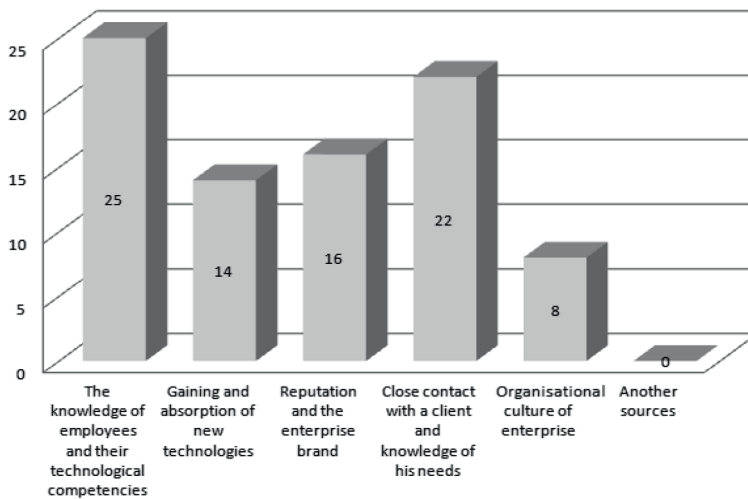
According to the presented results of research, information technology is the most common area of activity. The progress of IT is very quick and stimulated by the needs of clients. Nowadays the role of information technology in the world is absolutely fundamental and essential. So more than one third of analysed enterprises (11 units, about 37%) concentrate their activity on information technology. The life cycle of advanced technologies is becoming increasingly shorter.

30% (9 enterprises) of the characterised firms act in biotechnology (including pharmacy, cosmetics and selected areas of chemistry). The progress of these kinds of technologies is enforced by the most fundamental needs of people, connected with health and good appearance. This reason determines the growth in the number and quality of chemicals and innovative pharmaceutical products. The progress of the current world depends on new smart materials which makes the life of people more comfortable and pleasant. Because of it enterprises operating in advanced materials technologies are the important group of academic firms in Poland. 27% of the discussed enterprises (8 units) belong to this domain of activity. Only 2 enterprises choose the option of traditional industry (another domain of activity, compare Figure 3). Generally, more than 90% of the discussed enterprises run their activity in modern, advanced technologies in order to commercialise or transfer new ones.

### 3. Results and Discussion

Below the results of academic enterprises' research were discussed. In this paper we have concentrated on a few aspects of this units' activity (creating and sustaining competitive advantage, the main sources of competitive advantage, the relationship between gaining technology and competitiveness of enterprises and barriers blocking academic entrepreneurship in Poland).

**Figure 4. The Main Sources of Academic Enterprises' Competitive Advantage**

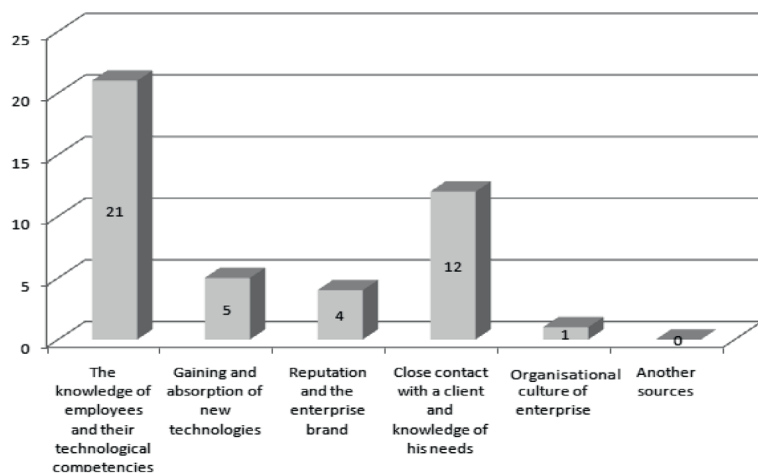


Source: Own research, compare: Z. Chyba, W. Grudzewski, *Przedsiębiorczość akademicka w Polsce. Osiągnięcie przewagi konkurencyjnej w wyniku komercjalizacji technologii*, Wyższa Szkoła Zarządzania i Prawa im. Heleny Chodkowskiej, Warsaw 2011, p. 156.

Figure 4 shows the results of a discussion concerning the main sources of competitive advantage. According to academic entrepreneurs, nowadays knowledge of employees and their technological competencies are the most essential sources of competitive advantage. This opinion has been expressed by 83% of respondents (25 units). Important sources were: knowledge of clients' needs (22 respondents, 73%), reputation and the brand of enterprise (53%, 16 units) and gaining new innovative technologies (47% of academic enterprises, 14 units). In scientists opinion organisational culture is the least important factor. Academic entrepreneurs do not appreciate this type of factors. In their opinion there is immaterial relationship between organisational culture and the competitiveness of enterprises.

Figure 5 presents the key factors of academic firms' competitive advantage. Knowledge (core technological competencies) and close contact with client are the most essential factors. The client and his needs are a fundamental aim and sense of business activities, especially in these days of global economy.

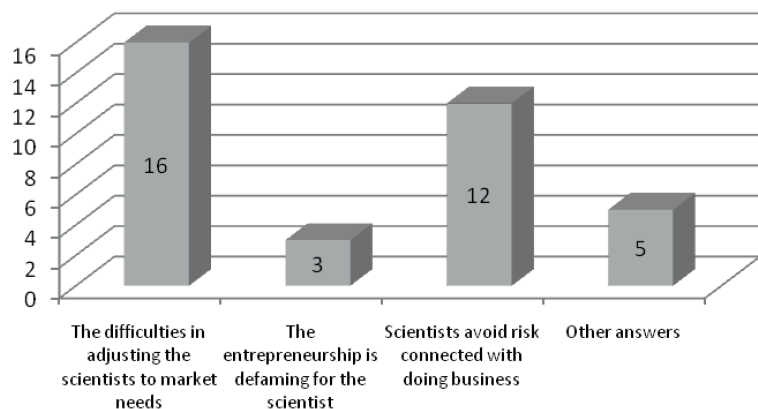
**Figure 5. Key Factors of Academic Enterprises' Competitive Advantage**



Source: Own research, compare: Z. Chyba, W. Grudzewski, *Przedsiębiorczość akademicka w Polsce. Osiągnięcie przewagi konkurencyjnej w wyniku komercjalizacji technologii*, Wyższa Szkoła Zarządzania i Prawa im. Heleny Chodkowskiej, Warsaw 2011, p. 157.

The progress of academic entrepreneurship is a very difficult process. It depends on many factors which make this process slow. Psychological factors play an important role in this process. Scientists are afraid of conducting business activities because of an uncertain situation in law and the political environment. Another reason is the difficulty in adjusting scientists to the market needs and nonsufficient knowledge of economy and entrepreneurship. Scientists prefer safe work at universities than doing business in uncertain conditions. Some scientists scorn the business saying that the entrepreneurship is defaming for them (see Figure 6).

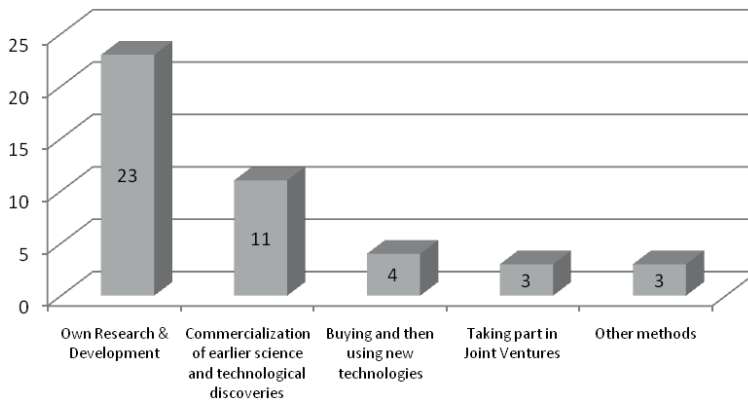
**Figure 6. Barriers to Academic Entrepreneurship in Poland**



Source: Own research, compare: Z. Chyba, W. Grudzewski, *Przedsiębiorczość akademicka w Polsce. Osiągnięcie przewagi konkurencyjnej w wyniku komercjalizacji technologii*, Wyższa Szkoła Zarządzania i Prawa im. Heleny Chodkowskiej, Warsaw 2011, p. 160.

There are a lot of methods of gaining technology (internal, external, combined etc.). The internal methods of gaining technology can create and sustain long term competitive advantage. The most common internal methods are: using one's own Research & Development (77% answers of respondents or 23 units) or the commercialisation of one's own earlier science and technological discoveries (37% of answers, 11 respondents) (see Figure 7).

**Figure 7. Key Methods of Gaining Technology by Academic Enterprises in Poland**



Source: Own research, compare: Z. Chyba, W. Grudzewski, *Przedsiębiorczość akademicka w Polsce. Osiągnięcie przewagi konkurencyjnej w wyniku komercjalizacji technologii*, Wyższa Szkoła Zarządzania i Prawa im. Heleny Chodkowskiej, Warsaw 2011, p. 174.

The external methods of gaining technology include buying technologies, taking part in joint ventures and buying enterprises with their technologies. By using this method one can achieve a short term technological advantage but not competitive advantage in long term perspective. Only few representatives of academic enterprises paid attention to these methods (compare Figure 7).

## 4. Conclusions

Taking into account the presented characteristics and research results, the following conclusions can be drawn:

- Academic enterprises in Poland are rare and not well known,
- Most of the mentioned firms operate in high-technology sectors, based on advanced technologies and smart products,
- More than 90% of academic enterprises are micro, small and medium ones which operate in narrow markets,



- University spin-offs are a fundamental and the most essential group of academic enterprises,
- Knowledge and core competencies of employees are the most important factors of academic enterprises' competitive advantage,
- Gaining technologies from internal sources is more effective and can cause a long term competitive advantage in global market,
- There are a lot of barriers, both mental and institutional, to the development of academic enterprises in Poland. Taking into account the above barriers, academic firms are difficult to establish and evaluate,
- The dynamics of university firms' progress is slow because of limited resources and global crisis in the environment.

In the context of the contemporary crisis we should realise that small and medium enterprises, also university ones, are in a very difficult situation because of their limited human and financial resources. Only high specialised university spin-offs, which operate in narrow specialised markets, are able to survive and progress in global market.

In conclusion, we can say that academic enterprises, whose economic and entrepreneurs' activities go out beyond the traditional boundaries of management, are the connection between science, research and development. The performing of this activity requires the wide knowledge from many kinds of science, core competencies and skills in strategic management of technology and innovation. Scientists from universities and institutes find establishing spin-offs very difficult because of many problems particularly law and mental barriers.

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# ASSET SPECIFICITY IN THE SUPPLIER-BUYER RELATIONSHIPS IN LITERATURE AND CORPORATE PRACTICE

## 1. Introduction

Organisational boundaries are a central phenomenon that has been viewed with multiple theoretical lenses. For some, boundaries are the demarcation of the social structure that constitutes an organisation. As such, activities operate under a specific logic of identity that shapes how things are done in the organisation and sets the rules for inclusion. For others, boundaries determine the sphere of organisational influence, including its degree of industry control and its power over external forces<sup>266</sup>.

In the paper, the boundaries are the demarcation of the resources possessed by the firm, thus shaping organisational growth trajectories. Boundaries determine the sphere of organisational influence, including its degree of industry control and its power over external forces<sup>267</sup>. Organisations, it is argued, increasingly need to open up their boundaries towards the environment<sup>268</sup>. They need to collaborate with organisations in order to obtain competitive advantage.

Researchers dealing with the relational competitive advantage are particularly interested in specific assets dedicated to the supplier-buyer relationships. Such kind of relationship has been under a series of investigations<sup>269</sup>. The important impact of specific asset investments is multiple.

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<sup>266</sup> F.M. Santos, K.M. Eisenhardt, *Organizational boundaries and theories of organization*, "Organization Science" 2005, vol. 16, p. 491–508.

<sup>267</sup> Ibidem.

<sup>268</sup> J. Blomberg, J. Löwstedt, A. Werr, *Boundary constructions in interorganizational knowledge relations*, Proceedings of Academy of Management Annual Meeting, Philadelphia 2007, p. 1–6.

<sup>269</sup> A. Cox, J. Sanderson, G. Watson, *Supply chains and power regimes: Toward an analytic framework for managing extended networks of buyer and supplier relationships*, "Journal of Supply Chain Management" 2001, vol. 37, p. 28–35; J.B. Heide, G. John, *The role of dependence balancing in safeguarding transaction-specific assets in conventional channels*, "Journal of Marketing" 1988, vol. 52, p. 20–35; C. Moorman, R. Deshpande, G. Zaltman, *Factors affecting trust in market research relationships*, "Journal of Marketing" 1993, vol. 57, p. 81–101.

Firstly, the specific asset investments in the supplier-buyer relationship can determine the extent of this relationship. Secondly, the specific asset investments at the buyer's side increase the supplier's switching costs, decrease the supplier's intention to terminate the relationship with the buyer, and thus, create mutual dependence between the buyer and the supplier. Finally, the asset specificity can increase the safeguard effect of inter-organisational governance mechanisms in the supplier-buyer relationships<sup>270</sup>.

Based on the level of asset specificity, firms select an appropriate governance structure, with the inter-organisational relationship performance expected to be maximised when opportunistic behaviour incentivised by asset specificity is reduced<sup>271</sup>. Therefore, specific asset investments exert significant impact on the dyadic supplier-buyer relationships<sup>272</sup>, and that is why they attract researchers' attention.

In this light, the measurement of their specificity comes up as the current and important methodological problem. Hence, the aim of this paper is to overview conceptualisations of the construct 'relation-specific assets' and to analyse the specificity of assets dedicated to the relationship with the key supplier in the distribution channel of one of the car companies operating in Poland. This research has been conducted at an authorised car dealer under his acceptance.

The realisation of this aim requires a review of the literature related to strategic management and marketing for the conceptual and operational definitions of the construct 'relation-specific assets'. This will allow us to recognise how researchers successively understood this construct. Such a procedure is justified if we consider that research projects should be undertaken to achieve certain goals, and their results should be used as a reference point for the next research projects.

In this case, the literature studies show that attempts were made to measure specific assets investments in the industrial supplier-buyer relationships<sup>273</sup>. However, they have not exhausted the subject. Detailed studies are still ongoing. They measure, *inter alia*, the commitment in specific asset investment that is required in relationships of participants at different levels of the distribution channel in the automotive industry.

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<sup>270</sup> L.F. Mesquita, T.H. Brush, *Untangling safeguard and production coordination effects in long-term buyer-supplier relationships*, "Academy of Management Journal" 2008, vol. 51, p. 785–807.

<sup>271</sup> R.J. David, S.K. Han, *A systematic assessment of the empirical support for transaction cost economics*, "Strategic Management Journal" 2004, vol. 25, p. 39–58; S.S. Lui, Y.-Y. Wong, W. Liu, *Asset specificity roles in inter-firm cooperation: Reducing opportunistic behaviour or increasing cooperative behaviour?*, "Journal of Business Research" 2009, vol. 62, p. 1214–1219.

<sup>272</sup> Y.H. Xie, T. Suh, I-W.G. Kwon, *Do the magnitude and asymmetry of specific asset investments matter in the supplier-buyer relationship?*, "Journal of Marketing Management" 2010, vol. 26, no. 9–10, p. 858–877.

<sup>273</sup> A.W. Joshi, R.L. Stump, *The contingent effect of specific asset investments on joint action in manufacturer-supplier relationships: An empirical test of the moderating role of reciprocal asset investments, uncertainty, and trust*, "Journal of the Academy of Marketing Science" 1999, vol. 27, p. 291–305.

Therefore, the problem discussed in this paper, regarding identification of the specificity of assets dedicated to the relationship with the key supplier, it will serve as an example of this type of phenomena recognised in the management sciences. Such effort should facilitate both the systematic advancement of knowledge and the development of theory.

## 2. Selected Types of Inter-Organisational Relationships – Theoretical Approach

In business practice, there are two basic types of relationships of the enterprise – those with suppliers and those with buyers. For this reason, one of the dilemmas faced by entrepreneurs is the question whether the exchange with these entities should be made through incidental (regular) commercial transactions or through privileged relationship, meaning *de facto* interaction with them. Answering this question should be preceded by the recognition of the substance of these two types of inter-organisational relationships, as it is presented in Table 1.

The enterprise may use relationships as a way of shaping competitive advantage (identified with relational rent), because it can co-create value that could not be generated by each partner separately. The relational rent is an additional outcome generated jointly by the participants of the cooperation, which could not be achieved by any of the parties alone and that is based on common expenditures incurred by the parties inherent to this relationship<sup>274</sup>.

In many studies, the relational rent is treated as the expression of superiority of cooperation over the other forms of organised activities. In the organisation theory, the effect of teamwork is linked not with the formal boundaries of the enterprise, but with the interaction of certain ‘productive bodies’. On that basis, the relational rent is seen as the inter-organisational synergistic effect. It differs, however, from the classical synergistic effect (i.e. organisational effect) – cooperating partners not only work, but also invest in resources specific to a relationship<sup>275</sup>.

For this purpose, it is necessary to establish durable relationships with market partners. This durability refers to the existence of relationships between enterprises as participants of the cooperative system in a relatively long time intervals in which changes occur normally both in the environment and within the relationship.

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<sup>274</sup> E. Stańczyk-Hugiet, *Paradygmat relacji – czy to nowa jakość w zarządzaniu?*, Oficyna Wydawnicza SGH, Warsaw 2012, p. 168.

<sup>275</sup> J. Niemczyk, *Wyróżniki. Budowa i zachowania strategiczne układów outsourcingowych*, Wydawnictwo Akademii Ekonomicznej we Wrocławiu, Wrocław 2006, p. 76.

From the perspective of mechanisms governing transactional processes, P.S. Ring and A.H. Van de Ven proved the existence of four types of exchange governance (transactions)<sup>276</sup>: the market and relational one (see Table 1).

**Table 1. Distinguishing Characteristics of Transaction Types**

Forms Distinguish- ing characteristics	Discrete market transactions	Relational contracting transactions
Nature of exchange	One-time transfer of property rights	Sustained production and transfer of property rights
Terms of exchange	Clear, complete and monetised, sharp in by agreement, sharp out by pay and performance	Uncertain, open and incomplete; plans for bilateral learning safeguards and conflict resolution
Transaction-specific Investment	Nonspecific	Mixed and idiosyncratic
Temporal duration of the transaction	Simultaneous exchange	Moderate to long term
Status of the parties	Limited, non-unique relation between legally equal and free parties	Extensive, unique social-embedded relation between legally equal and free parties
Mechanisms for dispute resolution	External market norms and societal legal system	Endogenous designed by the parties and based on trust
Relevant contract law and governance structure	Classical contract market governance	Relational contracts bilateral governance

Source: Own research based on: P.S. Ring, A.H. Van de Ven, *Structuring Cooperative Relationships between Organizations*, "Strategic Management Journal" 1992, vol. 13, no. 7, p. 486.

Market-based transactions can be simply characterised as discrete contracts: relatively short-term, bargaining relationships between highly autonomous suppliers and buyers designed to facilitate an economically effective transfer of property rights<sup>277</sup>.

Relationships of cooperation vary by nature from individual market transactions.

While the latter) is characterised by a very limited communication (content) and disregards the party identity, the former reveals this aspect at the time of each transaction, considered both from a historical perspective and in the future context<sup>278</sup>.

Relevant features of isolated activities carried out by the enterprises not united in the relationships of cooperation by formal, legal and organisational dependencies, may be the benchmark allowing us to search for the sources of competitive

<sup>276</sup> P.S. Ring, A.H. Van de Ven, *Structuring Cooperative Relationships between Organizations*, "Strategic Management Journal" 1992, vol. 13, no. 7, p. 486.

<sup>277</sup> P.S. Ring, A.H. Van de Ven, *Structuring...*, op. cit., p. 483–498.

<sup>278</sup> P.S. Aulakh, F.E. Gençtürk, *Contract formalization and governance of exporter-importer relationships*, "Journal of Management Studies" 2008, vol. 45, p. 457–479.

advantage. Thus, they can be called arm's-length market relationships<sup>279</sup>. They are characterised by:

- lack of asset specific investments,
- minimum information exchange – exchange of all the information relevant for buyers and suppliers, necessary to carry out purchase and sales transactions,
- low level of interdependence – separate technological and functional systems in each enterprise,
- low transaction costs and minimal investments in governance mechanisms,
- exchange carried out in the open market in a discontinuous and short-term manner<sup>280</sup>.

On the other hand, the relationships of cooperation are defined in terms of time, place, and two-way relation of information and energy flow<sup>281</sup>.

The distinguishing mark of the relationships of cooperation, relatively to the other types of inter-organisational relationships, is the commitment manifested by the allocation of resources specific for a particular relationship<sup>282</sup>. As a consequence, the enterprise's dependence on specific suppliers and/or buyers increases<sup>283</sup>. The asset specificity can be also used as one of the criteria for distinguishing between types of inter-organisational relationships.

Enterprises build cooperation because they remain in the relationships of exchange with market partners and seek to improve its conditions, particularly, as far as the key suppliers and buyers are concerned<sup>284</sup>. Relationships with these external partners are no longer arm's-length market relationships because they do not fall within the rules of free competition. Therefore, the economic exchange between cooperating enterprises takes place on preferential terms established by its participants.

This indicates that competitive advantage can be achieved by acting alone and through collaboration with external partners. It reflects the belief of the need for the instrumental use of relationships, so as they can serve to achieve corporate goals.

Thus, in the case when an enterprise adopts a relational model of competitive advantage, it is desirable to analyse factors favouring achievement and maintenance of

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<sup>279</sup> J.H. Dyer, H. Singh, *The relational view: Cooperative strategy and sources of interorganizational competitive advantage*, "Academy of Management Review" 1998, vol. 23, p. 660–679.

<sup>280</sup> R. Gulati, P.R. Lawrence, P. Puranam, *Adaptation in vertical relationships: beyond incentive conflict*, „Strategic Management Journal” 2005, vol. 26, p. 415–440; P.S. Ring, A. Van de Ven, *Developmental processes of cooperative interorganizational relationships*, "Academy of Management Review" 1994, vol. 19, no. 1, p. 90–119.

<sup>281</sup> W. Czakon, *Istota relacji sieciowych przedsiębiorstwa*, "Przegląd Organizacji" 2005, no. 9, p. 10–13.

<sup>282</sup> Ibidem, p. 10–13.

<sup>283</sup> G. Lorenzoni, A. Lipparini, *The leveraging of inter-firm relationships as a distinct organization capability*, "Strategic Management Journal" 1999, vol. 20, p. 317–338.

<sup>284</sup> J. Podolny, *Market uncertainty and social character of economic exchange*, "Administrative Science Quarterly" 1994, vol. 39, p. 458–483.

this advantage. They undoubtedly include the relation-specific assets<sup>285</sup>. In particular, asset specificity has become the key construct in the research of the make-or-buy decisions<sup>286</sup> and the performance of the supplier-buyer relationships<sup>287</sup>.

### 3. Review of the Conceptualisations of Relation-Specific Assets

In this case, the review of conceptualisations was necessary due to the purpose of the research process. Selected definitions of the construct 'relation-specific assets' are presented in Table 2. These definitions should be considered as an open set.

**Table 2. Review of the Selected Conceptualisations of Relation-Specific Assets**

Authors	Definition
Walker and Weber (1984)	Assets are specific to a transaction when they are highly specialised and thus, have little or no general purpose outside the buyer-supplier relationship.
Anderson and Schmittlein (1984)	Asset specificity arises when durable assets become customised to the user.
Williamson (1985)	Asset specificity refers to durable investments that are undertaken in support of particular transactions, the opportunity costs of which investments is much lower in best alternative uses or by alternative users should the original transaction be prematurely terminated.
Heide and John (1990)	Specific investments are investments made by a firm that are of considerably less value outside the focal relationship.
Joshi and Stump (1999)	Asset specificity refers to investments in physical or human assets that are dedicated to a particular supplier and whose redeployment entails considerable switching costs.
Buvik and Anderson (2002)	Asset specificity describes investments made by the buyer in physical assets, production facilities, tools, and knowledge that are tailored to a specific purchasing relationship.
Brouthers and Brouthers (2003)	Specific assets are investments made that have little value outside the specific transactional relationship.

Source: G. de Vita, A. Tekaya, C.L. Wang, *The many faces of asset specificity: A critical Review of key theoretical perspectives*, "International Journal of Management Reviews" 2011, vol. 13, p. 331; A.W. Joshi, R.L. Stump, *The contingent effect of specific asset investments on joint action in manufacturer-supplier relationships: An empirical test of the moderating role of reciprocal asset investments, uncertainty, and trust*, "Journal of the Academy of Marketing Science" 1999, vol. 27, p. 293.

<sup>285</sup> J.H. Dyer, H. Singh, *The relational...*, op.cit., p. 663.

<sup>286</sup> T.F. Espino-Rodríguez, P.-C. Lai, T. Baum, *Asset specificity in make or buy decisions for service operations: an empirical application in the Scottish hotel sector*, "International Journal of Service Industry Management" 2008, vol. 19, p. 111–133.

<sup>287</sup> S.S. Lui, Y.-Y. Wong, W. Liu, *Asset specificity roles in inter-firm cooperation: reducing opportunistic behaviour or increasing cooperative behaviour?*, "Journal of Business Research" 2009, vol. 62, p. 1214–1219.



The literature study indicates that this construct is defined in many ways. The existing conceptualisations show the diversity of the asset specificity forms. These include property, whose value is specific to a particular side, customised physical assets and human capital, as well as processes and products tailored to a particular application.

Specificity of relation-specific assets is related to the extent to which they enforce particular relationship and it can be used alternatively without compromising their usability<sup>288</sup>. It is referred to as “the degree to which an asset can be redeployed to alternative uses by alternative users without sacrifice of productive value”<sup>289</sup>. Since it measures how easily assets can be redeployed outside a particular dyadic exchange relationship, it also serves as a measure of the degree of bilateral dependence<sup>290</sup>.

In particular, the concept of asset specificity has been criticised for being loosely defined, which explains the absence of a commonly agreed operationalisation of this construct<sup>291</sup>. Therefore, there is a need to develop the definitions and measurement of assets specificity. On this ground one reviews the conceptualisation of the “specific assets” construct made on the basis of selected passages of literature.

By definition, assets specific to inter-organisational relationships are idiosyncratic investments<sup>292</sup>. In an organisation, the accumulation of specific assets forces the enterprise to make a trade-off between degree of their specificity – a necessary condition for profitability – and robustness, i.e. the capacity to be profitable in different future scenarios.

Under this distinction, the asset specificity can come in two forms: assets of limited use, and assets of unique use<sup>293</sup>. Limited use involves a certain loss in profitability if certain factors – ultimately dependent on the competitive environment – change. Second group of assets may be uniquely used due to unusual historical circumstances or due to differences in expectations as to their performance that makes them difficult to imitate by anyone. Unlike in the case for assets of limited use, if these circumstances change, then there will be a drastic drop in profitability. Based on this distinction, and in the context of the resources pooled by the parties for the sake of their transactions, all specialist assets are necessarily of limited use.

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<sup>288</sup> O.E. Williamson, *Comparative economic organization: the analysis of discrete structural alternatives*, “Administrative Science Quarterly” 1991, vol. 36, p. 269–296.

<sup>289</sup> O.E. Williamson, *The Economic Institutions of Capitalism*, Free Press, New York 1985, p. 55.

<sup>290</sup> R.J. David, S.K. Han, *A systematic...*, op. cit.; I. Geyskens, J.-B.E.M. Steenkamp, N. Kumar, *Make, buy, or ally: a transaction cost theory meta-analysis*, “Academy of Management Journal” 2006, vol. 49, p. 519–543.

<sup>291</sup> R. Lohtia, C.M. Brooks, R.E. Krapfel, *What constitutes a transaction-specific asset: an examination of the dimensions and types*, “Journal of Business Research” 1994, vol. 30, p. 261–270.

<sup>292</sup> J. Charterina, J. Landeta, *Effects of knowledge-sharing routines and dyad-based investments on company innovation and performance: An empirical study of Spanish manufacturing companies*, “International Journal of Management” 2013, vol. 30, p. 20–31; J. Charterina, J. Landeta, *Effects of knowledge-sharing routines and dyad-based investments on company innovation and performance: An empirical study of Spanish manufacturing companies*, “International Journal of Management” 2013, vol. 30, no. 1, p. 197–216.

<sup>293</sup> R. Amit, P. Schoemaker, *Strategic assets and organizational rent*, “Strategic Management Journal” 1993, vol. 14, p. 33–46.

#### 4. Study of Specificity of Assets Dedicated to the Relationship with the Key Supplier

In the supplier-buyer relationship in the distribution channel, each participant has a double role: once as a supplier, and once as a buyer of the goods. Entering into such relationships requires recognition of the interdependence of participants in achieving selected goals, accurately defining the participants' roles and functions as well as the resulting rights and obligations, including involvement of the participants of the cooperative system. This is the example of how the organisation meets the requirements of the environment and of the participants, achieving in return the necessary supply from the environment<sup>294</sup>.

The authorised dealer is the distributor established within the distribution system created by the supplier of motor vehicles. First of all, he is obliged by the channel creator to take action to sell at the authorised area of functioning and in a specific period, the minimum number of vehicles covered by the agreement and determined by the parties.

The authorised dealer's investment commitment may take the form of: equipping rooms and technical facilities for receiving, storage, sale and repair of motor vehicles covered by the agreement, professional and technical staff training, as well as advertising and elements related to corporate identity.

In this empirical study, as it was said before, the asset specificity of a transaction refers to the degree to which the assets that support the transaction can be redeployed to "alternative uses and alternative users without sacrifice of productive value"<sup>295</sup>. To define asset specificity, proven measurement concepts have been adopted from the other studies<sup>296</sup>. In this case, a 5-item scale was used, measuring the degree to which human assets, physical assets and organisational processes are specific to the considered transaction. The ability to move assets to the other exchange relation determines the measure of the relationship between partners<sup>297</sup>. Details were shown in Table 3.

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<sup>294</sup> J. Lichtarski, *Równowaga i nierównowaga w paradygmatach funkcjonowania i rozwoju przedsiębiorstwa*, in: R. Krupski, *Zarządzanie strategiczne. Podstawowe problemy*, Wałbrzyska Wyższa Szkoła Zarządzania i Przedsiębiorczości, Wałbrzych 2008, p. 91–92.

<sup>295</sup> O.E. Williamson, *Comparative...*, op. cit., p. 282.

<sup>296</sup> J.B. Heide, G. John, *Do norms matter in marketing relationships?*, "Journal of Marketing" 1992, vol. 56, p. 32–44; J.W. Coles, W.S. Hesterly, *The impact of firm-specific assets and the interaction of uncertainty: An examination of make-or-buy decisions in public and private hospitals*, "Journal of Economic Behavior and Organization" 1998, vol. 36, p. 383–409; A.W. Joshi, R.L. Stump, *The contingent...*, op.cit.

<sup>297</sup> R.J. David, S.K. Han, *A systematic...*, op. cit.; I. Geyskens, J.B.E.M. Steenkamp, N. Kumar, *Make...*, op. cit.

**Table 3. Identification of the Level of Specificity of Assets Dedicated to the Relationship with the Key Supplier**

		Respondent answers in the following years			
		2010	2011	2012	2013
Specificity of assets	Cooperation with the partner requires transaction-specific buildings, devices and tools	2	2	2	2
	Cooperation with the partner requires transaction-specific expertise and know-how	7	7	7	7
	Cooperation with the partner requires investment in transaction-specific training for our staff	5	5	5	5
	Cooperation with the partner requires a transaction-specific adaptation of our trade, service and logistics processes	4	4	4	4
	Changing the cooperation partner for this transaction requires investment in time and money for us	4	4	4	4
		4	4	4	4
		4	4	4	4

Scale: 1 – fully disagree, 7 – fully agree

Source: Own research.

Adaptation to standards imposed by the supplier includes investments in both tangible and intangible assets. The cooperation with the general importer requires investments into relation-specific employee trainings. They are organised by the key supplier and addressed to mechanics, sellers, buyer advisors and managers.

The participation in this channel requires adaptation of reselling and service activity to the requirements and is reflected by the corporate identity that helps to build the brand of a car producer on the market. If the general importer changed, this would require reinvesting time and financial resources to adapt to new standards.

Investments in car saloons with the necessary service facilities equipped with high quality specialised machines, tools as well as devices adjusted to car manufacturers' standards carried out in the recent few years by the authorised dealer, in respondents' opinion, make him dependant on key supplier (general importer).

The relationship of cooperation between the general importer and the authorised dealer is the example of the relation whose duration is associated with the continuous, high level commitment to specific asset investment. Therefore, the authorised dealer perceives these relationships as the tool for achieving strategic goals.

## 5. Conclusions

Organisational adaptation and environmental selection eliminate non-optimal choices and misaligned organisations, leading to an efficient equilibrium in which organisational boundaries reflect the underlying costs of governing activities.

The efficiency conception implicitly assumes an established structure of economic activity, which translates into regular and recurrent transactions. Because transaction attributes (i.e. behavioural uncertainty, information asymmetry, interdependence, and asset specificity) are likely to be fixed transactions, they can be readily aligned with the optimal governance mechanism to minimise cost<sup>298</sup>.

In the literature, the asset specificity is discussed from many different perspectives<sup>299</sup>, which influences the variety of its forms. They include property, whose value is specific to a particular side, customised physical assets and human capital, as well as processes and products tailored to a particular application.

The case study provided the arguments that the use of relationships in the car distribution channel requires maintaining strong investment commitment. The presented supplier-buyer relationships demonstrate how the former dedicated asset specificity creates conditions that make subsequent specialised investments economically viable. There is a cumulative (snowball) effect that is due to the interconnectedness of the current dedicated asset specificity with the previous dedicated asset specificity.

From the strategic viewpoint, it is extremely important also to distinguish specific and non-specific assets<sup>300</sup>. Investment in specific assets would expose an exchange party to the potential opportunistic behaviour by the other party<sup>301</sup>. This hazard is present because firm-specific investments are of less value when used alternatively. Exchange partners have 'hold-up' or 'opportunism' incentives to expropriate returns from these specialised investments using *ex post* bargaining or threats of termination<sup>302</sup>. Under this circumstance, economic exchange requires a formal contract. As a formal contract states the terms and conditions for some set of future transactions *ex ante*, the contract provides a mechanism for guarding against *ex post* opportunistic problems.

This example also shows that the supplier-buyer relationships in the car distribution channels highly depend on contextual factors<sup>303</sup>. The extent of the authorised dealer's investment commitment is delimited by the provisions of the dealership

<sup>298</sup> F.M. Santos, K.M. Eisenhardt, *Organizational boundaries and theories of organization*, "Organization Science" 2005, vol. 16, p. 491–508.

<sup>299</sup> G. de Vita, A. Tekaya, C.L. Wang, *The Many Faces of Asset Specificity: A Critical Review of Key Theoretical Perspectives*, "International Journal of Management Reviews" 2011, vol. 13, p. 329–348.

<sup>300</sup> R. Krupski, *Orientacja zasobowa w badaniach empirycznych. Identyfikacja horyzontu planowania rynkowych i zasobowych wielkości strategicznych*, Prace Naukowe Wałbrzyskiej Wyższej Szkoły Zarządzania i Przedsiębiorczości, Wałbrzych 2011, p. 20.

<sup>301</sup> S.J. Carson, A. Madhok, T. Wu, *Uncertainty, opportunism, and governance: the effects of volatility and ambiguity on formal and relational contract*, "Academy Management Journal" 2006, vol. 49, p. 1058–1077; S. Ganesan, *Determinants of long-term orientation in buyer-seller relationships*, "Journal of Marketing" 1994, vol. 58, p. 1–19.

<sup>302</sup> S.S. Lui, Y-y Wong, W. Liu, *Asset...*, op. cit.

<sup>303</sup> M. Bratnicki, *Przedsiębiorczość organizacyjna: Orientacja, dynamiczna zdolność i kontekst*, in: *Rozwój szkoły zasobowej zarządzania strategicznego*, (ed.) R. Krupski, Wałbrzyska Wyższa Szkoła Zarządzania i Przedsiębiorczości, Wałbrzych 2011, p. 139.

agreement. In this case, the freedom of action of the buyer who wants to retain his status is limited, since he cannot change the key supplier.

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# **PARTICIPATION OF EMPLOYEES AS ONE OF THE BOUNDARIES OF STRATEGIC MANAGEMENT – CONDITIONS, IMPLICATIONS, RESULTS**

## **1. Introduction**

Many researchers and managers indicate that there is a still unsatisfactory level of the strategy implementation. One of the factors affecting this situation is the involvement of employees who are direct implementers of the developed concepts. In this respect, the fact that only 29% of employees declare a strong commitment to the implementation of the designated strategic objectives seems to be quite significant<sup>304</sup>. It can be considered as one of the boundaries of management. Therefore, many researchers still call to deepen the studies on the participation of employees in the strategic management process as the element that can support organisations in achievement of desired effects. Hence, the purpose of this paper is to present the conditions, implications and results associated with engaging the employees in the work on the strategy and to examine their mutual correlations.

## **2. Conditions, Implications and Results Associated with the Participation of Employees in the Strategic Management Process – Review of Literature**

As indicated by the study results, a vast majority (as many as 73%) of employees consider actions of managers as one of the main reasons for a low level of their engagement and strategic awareness<sup>305</sup>. This probably results from the fact that they display

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<sup>304</sup> K. Esty, M. Gewirtz, *Creating a culture of employee engagement*, Northeast Human Resources Association, 23 June 2008.

<sup>305</sup> Compare: "European employees increasingly dissatisfied with their work experience", Towers Perrin Report, 2004.

tardiness in engaging the employees in the work on the development concept, being afraid that this will adversely affect their authority, power and hard-earned position in the organisation. Then a peculiar paradox occurs – a manager, being aware of the need for greater engagement of the employees in strategic actions, at the same time does not create the conditions that would enable this. Consequently, it turns out that what is in the interest of the company is not always beneficial from the point of view of managers<sup>306</sup>. That's because it is certain that the participation changes the balance of force and the process of creating the influence in the organisation.<sup>307</sup> Although there is no consensus among researchers as to the extent to which members of an organisation should get involved in the work on the strategy, almost everyone agrees that a lack of participation leads to strategies which are not always thought-out well<sup>308</sup>, dissatisfaction among those who are excluded from them<sup>309</sup>, as well as problems with effective implementation<sup>310</sup>. It results from the fact that there is no association between the actions engaging the employees in the implementation work and the actions that include the creation of the strategy. Thus the literature of the subject emphasises the need to integrate these activities and it should serve the development of a systematic approach to the participation of groups, composed of employees at different levels, in the creation, acceptance and implementation of development concepts<sup>311</sup>. It should help to overcome the identified boundaries of strategic management connected with employee's engagement.

As indicated by the results of the studies, the hegemony of managers, which manifests in a lack of involvement of employees in the work on the creation of the strategy, has a significant impact on its effects<sup>312</sup>. Therefore, many researchers draw attention to the fact that the strategy should not be developed only by top-level managers, but it should be an undertaking in which other participants play also an important role. This is due to the fact that the ideas and observations of lower-level managers may be crucial for the process of creating the knowledge in the organisation<sup>313</sup>. Moreover, due to the better knowledge of the operational aspects, they contribute to

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<sup>306</sup> R. Pech, *Delegating and devolving power: a case study of engaged employees*, "Journal of Business Strategy" 2009, no. 1, p. 27–28.

<sup>307</sup> T. Steger, R. Hartz, *The Power of Participation? Power Relations and Processes in Employee-owned Companies*, "German Journal of Human Resource Research" 2008, vol. 22, no. 2, p. 153.

<sup>308</sup> S. Floyd, B. Wooldridge, *Building Strategy From the Middle*, Sage, London 2000, p. 134.

<sup>309</sup> F. Westley, *Middle managers and strategy: Microdynamics of inclusion*, "Strategic Management Journal" 1990, no. 11, p. 338.

<sup>310</sup> Compare: H. Mintzberg, *The Rise and Fall of Strategic Planning*, Free Press, New York 1994.

<sup>311</sup> R. Lovett, *How employees make company strategy*, "The Journal of Business Communication", no. 13, p. 36.

<sup>312</sup> P. Laine, E. Vaara, *Struggling over subjectivity: A discursive analysis of strategic development in an engineering group*, "Human Relations" 2007, no. 60, p. 30.

<sup>313</sup> S. Floyd, P. Lane, *Strategizing throughout the organization: Managing role of conflict in strategic renewal*, "Academy of Management Review" 2000, no. 25, p. 156.

better adaptation of the strategy to the changing market conditions<sup>314</sup>. Besides, it is indicated that the participation has a positive influence on the implementation of strategic plans by increasing the engagement<sup>315</sup> and integrating the objectives<sup>316</sup>. Still it has not been indicated what conditions and operating environment are essential to promote the participation. Definitely, this is more likely under the conditions of a changing environment than in the case of a stable environment, often with a strongly hierarchical administrative structure<sup>317</sup>. The influence of managerial tactics in the scope of strategy implementation<sup>318</sup> and the interactions occurring between managers and other employees should also be taken into account<sup>319</sup>. As indicated by Mantere and Vaar, clear and transparent rules, indicators and procedures play a supportive role. This applies also to incentive schemes, the association of which with the results of the strategy implementation should be clear and transparent<sup>320</sup>. Moreover, they emphasise that the work on the strategy should be carried out at the micro level (departments of the company or even employee groups) in the form of dedicated workshops and should be the result of the ongoing negotiation process integrating the internal and external stakeholders<sup>321</sup>. It is therefore in line with the trends in the literature of the subject, where it is postulated that strategic workshops, during which the strategy is translated into the level of the individual and team objectives, should be conducted<sup>322</sup>.

As indicated by the studies conducted, the participation in the strategic decision-making process, and thus the joint responsibility for its results<sup>323</sup>, increases the level of acceptance for the changes being introduced, while inefficient communication affects it in an adverse way<sup>324</sup>. The issue of trust is perceived similarly – providing the information on the current progress in the implementation of the strategy promotes the growth of the involvement in strategic activities, while excessive control

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<sup>314</sup> B. Lovas, S. Ghoshal, *Strategy as guided evolution*, "Strategic Management Journal" 2000, no. 21, p. 875–896.

<sup>315</sup> W. Kim, R. Mauborgne, *Procedural justice, strategic decision making and the knowledge economy*, "Strategic Management Journal" 1998, no. 19, p. 323–339.

<sup>316</sup> M. Ketokivi, X. Castaner, *Strategic planning as an integrative device*, "Administrative Science Quarterly" 2004, no. 93, p. 338.

<sup>317</sup> S. Floyd, P. Lane, *Strategizing...*, op. cit., p. 160.

<sup>318</sup> P. Nutt, *Selecting tactics to implement strategic plans*, "Strategic Management Journal" 1989, no. 8, p. 147.

<sup>319</sup> F. Westley, *Middle...*, op. cit., p. 342.

<sup>320</sup> S. Mantere, E. Vaara, *On the Problem of Participation in Strategy: A Critical Discursive Perspective*, "Organization Science" 2008, vol. 19, no. 2, p. 346.

<sup>321</sup> Ibidem, p. 354.

<sup>322</sup> Compare: R. Niermeyer, N. Postall, *Zarządzanie ludźmi. Jak kierować firmą zgodnie z najnowszymi trendami?*, C.H. Beck, Warsaw 2009, p. 148.

<sup>323</sup> P. Bordia, E. Hobman, E. Jones, C. Gallois, V. Callan, *Uncertainty during organizational change: Types, consequences and management strategies*, "Journal of Business and Psychology" 2004, no. 18, p. 510.

<sup>324</sup> C. Wittig, *Employees' Reaction to Organizational Change*, "OD Practitioner" 2012, vol. 44, no. 2, p. 27.

causes a negative feedback that impedes the development of the organisation<sup>325</sup>. Therefore, two types of the participation climate in the organisation can be distinguished: one that is based on communication and information sharing, and another one based on the joint participation in the process of making decisions concerning various aspects, including also strategic issues<sup>326</sup>. Both such approaches are aimed at overcoming the resistance against the changes to be introduced<sup>327</sup>. First of them is certainly less absorbing and easier to implement, but it is a passive and unidirectional process that often does not include the content that is crucial from the viewpoint of the managing staff<sup>328</sup>. The climate based on the joint decision-making, which offers more opportunities for interaction, the transparency of the motives for specific strategic actions and understanding of the direction of further development, is more durable, although more difficult to implement<sup>329</sup>. It can be stated that the engagement of employees and their willingness to participate in the strategic management process are affected by the factors at the micro level, such as individual willingness to assume the joint responsibility for the fate of the organisation, the perception of the role of the managing staff and the current feedback informing about the progress in the implementation of the strategy. Whereas at the macro level such factors include the leadership style, honest and open communication and promotion of the conviction that it is possible to achieve joint success<sup>330</sup>. They are certainly affected by adequately built incentive and communication schemes.

### 3. Hypotheses and Research Method

The discussed results are a part of broader studies on strategic management practices evolving along with the development of enterprises<sup>331</sup>. A quantitative study was carried out using the method of a direct scenario interview based on collecting

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<sup>325</sup> J. Myrna, *How Hands-On Management Can Hold Your Company Back*, "Employment Relations Today" Fall 2012, p. 18.

<sup>326</sup> E. Cabrera, J. Ortega, A. Cabrera, *An exploration of the factors that influence employee participation in Europe*, "Journal of World Business" 2003, no. 38, p. 44.

<sup>327</sup> J. Wagner, C. Leana, E. Locke, D. Schweiger, *Cognitive and motivational framework in U.S. research on participation: A meta-analysis of primary effects*, "Journal of Organizational Behaviour" 1997, no. 18, p. 44.

<sup>328</sup> M. Brown, C. Cregan, *Organizational change cynicism: the role of employee involvement*, "Human Resource Management" Winter 2008, vol. 47, no. 4, p. 671.

<sup>329</sup> *Ibidem*, p. 681.

<sup>330</sup> P. Mastrangelo, *Will Employee Engagement Be Hijacked or Reengineered?*, "OD Practitioner" 2009, vol. 41, no. 2, p. 15.

<sup>331</sup> The project was financed with the funds of the National Science Centre NCN as a research project no. NN 115402240.

the data in an open (overt) and standardised way. The test sample included 150 subjects divided according to the size criterion into 3 equal subgroups. The respondents were company managers. For the needs of the studies that are the subject of this paper, the correlation between the selected questions in individual research areas was measured in order to obtain the information on the relationships between the employee engagement in the work on the creation of strategies and the individual conditions, implications and associated results. The following research hypotheses divided according to the categories in questions were verified.

Conditions:

H1: In order to ensure the participation, it is necessary to record the basic elements of the strategy.

H2: The more regular the work on the strategy, the higher the level of the employee participation in its course.

H3: Participation in the strategic management process requires a precise set of strategic objectives and corresponding measures.

H4: In order to ensure the implementation of the idea of participation, the strategy should take into account not only the interests of the owners, but also of other stakeholders.

Implications:

H5: Employee participation requires that the remuneration of employees should depend on the implementation of strategic objectives.

H6: Employee participation requires that the remuneration of the managing staff should depend on the implementation of strategic objectives.

H7: The implementation of the concept of participation requires that the current information on the progress in the implementation of the strategy should be provided to employees.

H8: The participation of employees in the strategy implementation process means that their decision-making powers in the scope of ways of implementing the developed concept should be increased.

Results:

H9: The engagement of employees in the process of creating the strategy gives the knowledge of the well-defined vision of the development.

H10: The participation of employees in the work on the strategy affects the compliance of their actions with the company's values.

H11: The participation of employees in creating the development concepts increases the innovativeness of the organisation.

H12: The participation of employees in the process of creating the strategy increases the level of acceptance for it.

## 4. Research Results and Discussion

An ordinal scale was used in the studies and therefore the Kendall's tau-b test was employed to measure the correlation of the variables examined. The results obtained are presented in Table 1.

**Table 1. Tau-b Kendall's Correlations**

	Hypothesis	Correlation	p
Conditions	H1	0,289	0,01
	H2	0,337	0,01
	H3	0,265	0,01
	H4	0,136	0,05
Implications	H5	0,36	0,01
	H6	0,388	0,01
	H7	0,444	0,01
	H8	0,292	0,01
Results	H9	0,321	0,01
	H10	0,328	0,01
	H11	0,31	0,01
	H12	0,299	0,01

Source: Own research.

As it appears from the presented results of the studies, all the hypotheses are statistically significant, so generalised conclusions can be drawn from them. The results obtained for the first hypothesis indicate the existence of a weak positive relationship between the employee engagement and the need to record the basic elements of the strategy. Therefore, it can be concluded that this is one of supporting factors, mainly due to the fact that it significantly affects the transparency and clarity of the development vision being implemented. It should be noted that it is quite important to pay attention to the quality of the transferred information of a strategic character and to keeping the consistent openness in this regard, and therefore the developed strategies must be properly communicated.

The results for the second hypothesis indicate a positive relationship on an average level, which means that the participation in the work on the strategy is growing along with the increase in its regularity. Undoubtedly, the participation in meetings, during which it is possible to establish a multi-directional dialogue, is conducive to the willingness to jointly participate in activities aimed at the implementation of the strategy. Their special and recurring character causes that is perceived as an activity other than the standard duties.

The results of the studies aimed at the verification of the third hypothesis confirm the existence of a positive relationship, although its strength is weak in this case. However, it may be stated that along with a more precise specification of strategic objectives and the measures dedicated to them, the level of participation in the strategic management keeps increasing. It happens like that because employees appreciate the clarity and transparency of the designated milestones on the way to the implementation of the development concept, as well as have the opportunity to verify the level of achievement and to make appropriate adjustments and revisions. The better the strategic objectives and the methods of their measurement are communicated, the greater the chance of obtaining the support from employees in implementing them.

The fourth hypothesis was verified positively, although the level of the correlation obtained indicates that the level of dependence is very weak. So it cannot be unequivocally stated that the inclusion of the benefits for various groups of interest in the concept of the strategy translates into increased employee participation. It seems that this is a favourable factor, however it cannot be unequivocally included in the category of the conditions determining the engagement of employees in the strategic management process.

As regards the implications associated with the idea of engaging the employees, the results of the studies verified positively all the four research hypotheses. Thus, it has been demonstrated that there is a positive correlation for H5 and H6 at a level of 0.36 and 0.388 respectively, which can be described as average. So it can be stated that the more visible and conscious the association between the remuneration systems and the implementation of strategic objectives, the greater the level of the participation in the strategic management. This applies both to the managing staff and other employees. It can therefore be concluded that a consequence of the inclusion of employees in strategic activities is the need to formulate appropriate incentive schemes based on clearly defined strategic objectives and their implementation. Thus, this is associated with the assumption of the hypothesis 3, while the results unequivocally indicate an important role of strategic objectives and the measures assigned to them, which after the inclusion in the incentive scheme enable a more comprehensive implementation of the idea of participation in the strategic management. The results of the verification of the hypothesis 7 (0.444) showed a slightly higher level of correlation. This means that open communication, which is characterised by the regularity and the necessary level of detail regarding the progress in the implementation of the strategy, is also a desirable element of the activity of an organisation that engages employees in the work on the strategy. So, the consequences associated with this fact mean that the role of employees is not limited only to the participation in the conceptual work: in order to keep the consistency of the activities conducted it is required to provide ongoing feedback and the information on the progress in implementing the strategy,

potential changes and revisions, and the related implications. Therefore, it could be stated that this requires inclusion of employees in the strategic controlling by granting them access to a sufficiently detailed and current scope of necessary information.

The results of the studies for the hypothesis 8 showed a slightly lower level of correlation. Thus, it seems that increasing the decision-making powers in the scope of the methods of implementing the strategy is not a factor which unambiguously determines the engagement of employees. It may result from a high level of responsibility which is associated with this stage of the strategic management process. Too much freedom may translate into the reluctance to take actions, a long period of their implementation, and conflicts in the decision-making process. The engagement of employees in the stage of strategy implementation certainly complements the concept of employee participation in all aspects of strategic actions, but it is not a necessary condition.

As regards the outcomes, the obtained results also positively verify the research hypotheses put forward. For H9, a correlation at a level of 0.321 was obtained, which means that there is a relationship between the engagement of employees in the strategy development process and their knowledge of the precisely defined vision of development. Undoubtedly, this makes it easier for the managing staff to communicate the decisions taken, as the employees understand their motives better. This also sets a more uniform direction for the actions and has a motivating effect by creating a desired image of the future. A higher level of compliance of the employee activities with the company's values is the second result (0.328) of the studies. Thanks to the participation in the work on the strategy they have an opportunity to learn, understand and perhaps accept these underlying values. Thanks to that the process of implementing the strategy becomes more credible, while the resistance to changes decreases. A similar level of correlation (0.31) was obtained for H11. It can be concluded that the participation of employees translates into a higher level of the innovativeness of the company. Thus it is unquestionable that there is an increase in the level of creativity of the entire organisation, as well as in the innovativeness of the solutions adopted. Measures aimed at an active search for new fields of activity are also taken. The relatively lowest level of correlation (still positive, but weaker) was obtained for H12. It seems that the participation increases the acceptance of employees for the strategy, but this is not a strong dependence. Perhaps this is due to the fact that it is difficult to clearly define the concept of acceptance. That's because the implementation of the strategy itself is identified, to some extent, with its acceptance. This point here is rather to have the enthusiasm and zeal for taking implementation actions, which are certainly at a higher level in an organisation using the participation than in an organisation in which an autocratic culture prevails. It cannot be stated explicitly that this phenomenon is of a very strong character.



## 5. Conclusions

To sum up, the results obtained indicate the existence of positive correlations between the participation of employees in the strategic management process and the benefits that it brings to the organisation. This is certainly a way of overcoming the boundaries of strategic management associated with the resistance of employees. However, the use of this approach requires the existence of several conditions supporting the realisation of the idea of joint participation. It also brings some implications that seem to be an important indication for the managing staff. This has been summarised in Table 2:

**Table 2. Summary of the Studies Conducted**

	Significant factors	Additional/complementary factors
Conditions	Regularity of work on the strategy	Recording the basic elements of the strategy
		A specified set of strategic objectives and the corresponding measures
Implications	Dependence of incentive systems on the implementation of strategic objectives	Increasing the decision-making powers with respect to the methods of implementing the developed concept
	Providing the current information on the progress in the implementation of the strategy	
Results	Knowledge of the precisely defined vision of the development	Greater acceptance for the strategy
	Compliance of employees' actions with the company's values	
	Greater innovativeness of the company	

Source: Own research.

The conditions, implications and results presented in this paper certainly do not exhaust the set of all possibilities. Therefore, further studies complementing the selected areas should be carried out and it also should be checked whether the elements described vary depending on the company size. It would be interesting to seek answers to the following research questions: are companies of various sizes characterised by different conditions necessary for the realisation of the idea of participation? Does it yield different implications depending on the company size? And finally, do the results of the employees' inclusion in the management process in companies of different sizes vary? The answers to the research questions would contribute to a better understanding of this multi-dimensional and multi-threaded issue.

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## **Part III**

# **General Management Boundaries**



# TALENT MANAGEMENT: BETWEEN THEORY AND PRACTICE

## 1. Introduction

Researchers continuously tend to theorise talent management as a sub-discipline of human resources management<sup>332</sup>. While significant knowledge about talent management as a part of human resources management has been gathered within recent 15 years<sup>333</sup>, so far researchers were not able to produce any output worth publication in most prestigious international journals. And most likely it is not due to the lack of attempts of publishing such works. Journal rejections are differently argued however one reason remains unchanged – a failure to produce an output that will pass the test of time, which means that an article offers a poor theory<sup>334</sup>. In the paper organisational talent management is presented as a theoretical approach grounded in organisational practice. On the basis of a brief literature review (which comprises an introduction to grounded theory based research results), employing dialectical approach recommendations<sup>335</sup>, organisational talent management is conceptualised as a dyadic, contradictive strategic choices (policies). These contradictions, according to dialectical approach, if consciously reconciled by key organisational decision makers, are supposed to lead to increased organisational performance in the long term. In the end of the paper theoretical implications and future research in the field of organisational talent management are formulated.

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<sup>332</sup> P. Khatri, S. Gupta, K. Gulati, Ch. Santosh, *Talent management in HR*, “Journal of Management and Strategy” 2010, vol. 1, no. 1, p. 39–46.

<sup>333</sup> D.G. Collings, K. Mellahi, *Strategic talent management: A review and research agenda*, “Human Resource Management Review” 2009, vol. 19, no. 4, p. 304–313.

<sup>334</sup> K.E. Weick, *What theory is not, theorizing is*, “Administrative Science Quarterly” 1995, vol. 40, no. 3, p. 385–390.

<sup>335</sup> M. Bratnicki, *Dylematy i pułapki współczesnego zarządzania*, Wydawnictwo Gnome, Katowice 2001.

## 2. In Search of Organisational Talent Management Theory

Talent management has been increasingly studied during recent 15 years<sup>336</sup>. Organisational talent management is placed between theory and practice which locates it in the boundaries of management science. Although the number of studies is growing rapidly, researchers continue to criticise their theoretical impetus<sup>337</sup>.

Talent management is continuously related to the management of the most important assets of contemporary organisations – competencies of talented employees. In every organisation there is a talent pool<sup>338</sup>, from which talents are selected. Talents, in the literature, are understood in terms of individual characteristics, actions performed, and the target of individual endeavors<sup>339</sup>. Talents are also distinguished from high-performers or high-potential employees. Talent management programs are aiming at the development of individual competencies<sup>340</sup> and they are composed of different organisational activities performed at a certain, usually carefully defined time (talent management programs are organised as projects, according to project management methodology, by specially selected teams). Teams shape talent management programs, however there are different, emphasised by researchers, contingencies, usually divided into external and internal from the perspective of an organisation<sup>341</sup>. Strategy, structure, policy, financial issues are among others internal contingencies. Labour market conditions, legal regulations, competition on the market etc. are understood as external. There are three main perspectives of talent management explicit in the literature. Some authors claim for an individual perspective<sup>342</sup>, more argue for organisational point of view, however economy level is also clearly distinguished<sup>343</sup>. There are also numerous attempts of characterising talent management as a tool for obtaining strategic competitive advantage<sup>344</sup>. Some even claim, that talent manage-

<sup>336</sup> M.D. Ensley, J.W. Carland, R.L. Ensley, J.C. Carland, *The theoretical basis and dimensionality of the talent management system*, "Academy of Strategic Management Journal" 2011, vol. 10, no. 1, p. 81–114.

<sup>337</sup> T.N. Garavan, R. Carbery, A. Rock, *Mapping talent development: Definition, scope and architecture*, "European Journal of Training and Development" 2011, vol. 36, no. 1, p. 5–24.

<sup>338</sup> See: D.G. Collings, *Strategic...*, op. cit.

<sup>339</sup> T. Ingram, *Zarządzanie talentami: Teoria dla praktyki zarządzania zasobami ludzkimi*, PWE, Warsaw 2011, p. 23.

<sup>340</sup> Y. Downs, S. Swailes, *A capability approach to organizational talent management*, "Human Resource Development International" 2013, vol. 16, no. 3, p. 267–281.

<sup>341</sup> A. Poczowski, *Zarządzanie talentami w organizacji*, Oficyna a Wolters Kluwer business, Warsaw 2008.

<sup>342</sup> H. Bieniok, *Zarządzanie talentami jako strategiczna szansa budowania przewagi konkurencyjnej organizacji*, in: *Zarządzanie w warunkach nieprzewidywalności zmian*, (ed.) J. Rokita, GWSH, Katowice, 2009.

<sup>343</sup> R.S. Schuler, S.E. Jackson, I. Tarique, *Global talent management and global talent challenges: Strategic opportunities for IHRM*, "Journal of World Business" 2011, vol. 46, no. 4, p. 506–516.

<sup>344</sup> J.S. Heinen, C. O'Neill, *Managing talent to maximize performance*, "Employment Relations Today" 2004, vol. 31, no. 2, p. 67–82.



ment is for human resource management what marketing is for sales and finance is for accountancy<sup>345</sup>. There are also various other research directions, like decision making regarding talent management<sup>346</sup> or psychological<sup>347</sup>.

Numerous publications have led to diverse approaches and so far none of them have gained worldwide acceptance. There are several reasons why researchers failed to gain acceptance, and one of them is that the theory created by them was poor in terms of theory evaluation criteria. In the next part of the paper criteria for evaluating theory created in management science are briefly discussed.

### 3. Theory Evaluation Criteria

It is customary conviction that writing a good theoretical paper (without an empirical research results) and getting it published in prestigious journal is nearly impossible. On the other hand, most influential journals continue to call for theoretical papers, and even prominent authors and chief in editors encourage writing strong theory claiming that management needs it. Despite these calls the conclusion is as Weick<sup>348</sup> states: “it’s conceivable that journals are suffering from a rash of submissions with half-baked pretensions to theory (...)”. In the meantime there are explicit criteria for evaluating theories. They may also serve as guidelines for theory development. They are as follows: theory should select and carefully define constructs; theory should detail and describe relationships between constructs; theory should explain why pivotal constructs were chosen and why are they related to each other; theory should denote boundaries (conditions, under which the propositions posed will foothold)<sup>349</sup>.

Alvesson and Sandberg<sup>350</sup> argue that what makes a good theory is not only an attempt to fill in the gap in the existing knowledge. Good theories enlarge understanding of reality by challenging status quo. Therefore, most commonly used methods of generating research problems – by looking for holes in body of knowledge can hardly lead to anything better than average. In the meantime, in order to create a new

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<sup>345</sup> E.E. Lawler III, *Make human capital a source of competitive advantage*, “Organizational Dynamics” 2009, vol. 38, no. 1, p. 1–7.

<sup>346</sup> V. Vaiman, H. Scullion, D. Collings, *Talent management decision making*, “Management Decision” 2012, vol. 50, no. 5, p. 925–941.

<sup>347</sup> M. Hoglund, *Quid pro quo? Examining talent management through the lens of psychological contracts*, “Personnel Review” 2012, vol. 41, no. 2, p. 126–142.

<sup>348</sup> K.E. Weick, *What theory ...*, op. cit.

<sup>349</sup> J.R. Edwards, *Person-environment fit in organizations: An assessment of theoretical progress*, “The Academy of Management Annals” 2008, vol. 2, no. 1, p. 167–203.

<sup>350</sup> M. Alvesson, J. Sandberg, *Generating research questions through problematization*, “Academy of Management Review” 2011, vol. 36, no. 2.

theoretical school theory needs to differ strongly from existing literature<sup>351</sup>. It may not be achieved by extending, filling gaps, broadening topic or paying attention to issues that other researchers have not paid earlier<sup>352</sup>. All these led to conclusion that management research has lost its impetus and it serves as confirmation of value of well-known theories. The chance for researchers to produce an output of a high value (acceptable by best journals) arises from, among others, searching for topics lying on the boundaries between theory and practice<sup>353</sup>. Talent management constitutes such a topic – for recent 15 years it has remained “underdefined” and “practical”. Therefore, it has the potential to create space for scientific research and comprises a promise of valuable output.

Theory arises in the process of theorising, and theorising is dependent upon researchers' actions. Weick<sup>354</sup> describes it as disciplined imagination, and that grasps the nature of theory creation process. In the next part, on the basis of empirical research results, the paper focuses attention on organisational talent management in particular addressing the issue of: construct definition; describing relationships between the construct (organisational talent management) and organisational performance; explaining why relationships exist; indicating future research directions. At this stage the boundaries of the theory created are not denoted – quantitative research results would be needed to do so, and links between organisational talent management and other internal and external contingencies are not presented as well.

## 4. Research Design

In order to meet the aim of the paper empirical research results are used on the basis of the study carried out between September 2011 and November 2012 in three companies located in Poland (2 headquarters were located in Warsaw, 1 in Tychy)<sup>355</sup>. Grounded theory approach was used as suggested and described by Glaser and Strauss<sup>356</sup> with the modifications proposed by Charmaz<sup>357</sup>. Only large companies were

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<sup>351</sup> W. McKinley, M.A. Mone, G. Moon, *Determinants and development of schools in organization theory*, “Academy of Management Review” 1999, vol. 24, p. 634–648.

<sup>352</sup> M. Alvesson, *Generating ...*, op. cit.

<sup>353</sup> Ibidem.

<sup>354</sup> K.E. Weick, *Theory construction as disciplined imagination*, “Academy of Management Review” 1989, vol. 14, no. 4, p. 516–531.

<sup>355</sup> The research project was financed from the sources of Polish National Science Centre (NCN) on the basis of decision number DEC-2012/05/D/HS4/01521.

<sup>356</sup> B.G. Glaser, A.L. Strauss, *Odkrywanie teorii ugruntowanej. Strategie badania jakościowego*, Nomos, Cracow 2010.

<sup>357</sup> K. Charmaz, *Teoria Ugruntowana. Praktyczny przewodnik po analizie jakościowej*, PWN, Warsaw 2009.

studied, since talent management programs occur and function mainly in such conditions. The only criterion of differentiation of the companies was if the company has the talent management program (or not) and at what “stage” the program is. Three companies willing to participate in the program were located, among which one was preparing for the introduction of the talent management program (case 1), one had introduced program and it was functioning during the research project (case 2), one had just decided to close the program (1 year before interviews) (case 3).

People responsible for talent management programs, high-level human resource managers as well as talent management program participants (if available – still working in the organisation) were initially chosen as sources of information (additional information were gathered within the process of company documents analysis). In the companies that had the program (case 2 & 3) respondents were talented management managers (and talent management teams’ members) and in a company that was preparing for the introduction of the program it was HRM Director and members of the HRM department. Data were gathered during interviews, documentation analysis, phone calls and e-mail correspondence (open-ended questions were asked to gain better understanding of what organisational talent management actually is). Each interview lasted for 1.5–2 hours. Then interviews were transcribed and coded. When the first step of research was finished additional questions arose, and next meetings, focused on problematic issues, were set (and then the procedure of transcriptions and coding was repeated). In total, over 200 pages of transcripts were gathered and became a background for the theory development.

For the purpose of the theory development in this study the dialectical approach was used. It assumes that organisations (as social phenomena) are composed of different opposing forces, contradictions, dilemmas, tensions and dialectics. Despite being interesting and having potential to lead to uncommon, intriguing results, dialectical approach remains on the borderline of management approaches. It is due to the fact that it is considered to be superficial and it is believed to possess limited explaining potential. Various methods of dealing with these tensions can be identified within the literature. One of these comprises of an idea of the dialectical approach that lays in conscious reconciliation of the contradictions that aim at creating a new order<sup>358</sup>. The recommendations created by Bratnicki<sup>359</sup> were employed and research results were analysed (by the lens of organisational dialectics). Because of space limitations only part of the research results is presented in order to focus the attention on the part reflecting contradictory forces underlying organisational talent management and their relationships with organisational performance.

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<sup>358</sup> M. de Rond, H. Bouchikhi, *On the dialectics of strategic alliances*, “Organization Science” 2004, vol. 15, p. 56–69.

<sup>359</sup> M. Bratnicki, *Dylematy...*, op. cit.

## 5. Empirical Research Results – Contradictions Enclosed in the Organisational Talent Management

The analysis of interviews revealed sixteen contradictory orientations (policies) that reflect organisational talent management<sup>360</sup>. They were related to four aspects: strategic, societal, structural and cultural. Strategic contradictions are related to the process of talent identification. They are as follows: orientation on previous individual achievements versus orientation on individual potential of employees as a criterion for inclusion to the program as well as orientation on internal versus external talent pool. Societal contradictions referred to egalitarian versus elitist nature of the program and individual versus organisation goals that are to be obtained with the use of the talent management. Structural contradictions address differentiation versus unification of a program for different types of employees and formalisation versus flexibility – it directly reflects the elements of organisational talent management. Cultural contradictions are linked to individualisation versus collectivisation of the elements of talent management (whether it focuses on development of individuals or teams) as well as regionalisation versus globalisation, which are dependent upon strength of national and organisational cultures. These contradictions are presented in Table 1.

**Table 1. Dialectical Contradictions Enclosed in Organisational Talent Management**

Construct name	Dimension	Contradictions (policies)	
Organisational talent management	Strategic	Previous individual achievements	Individual potential
		Internal talent pool	External talent pool
	Societal	Egalitarian	Elitist
		Individual goals	Organisation goals
	Structural	Differentiation	Unification
		Formalisation	Flexibility
	Cultural	Individualisation	Collectivisation
		Regionalisation	Globalisation

Source: Own research.

Contradictions (policies) presented above were identified as main measures that reflected the shape (understood as: structure – elements, features, processes, aims, timing, talent pool) of organisational talent management. Therefore, the following propositions arise:

<sup>360</sup> Because of space limitations they are not illustrated with respondents' statements.

P1: Numerous contradictive orientations (policies) of key decision-makers, related to strategic, structural, cultural and societal aspects, reflect organisational talent management.

Research results do not allow the statement that the lists of 16 contradictive orientations (policies) that describe the organisational talent management are exhaustive. There are other orientations that reflect organisational talent management, however, these contradictions were revealed as the result of data analysis and, according to participants, they are reflecting the final shape of a program. The change of the main construct (organisational talent management) leads to the change of its measures (orientations/policies), these are interrelated, and if organisation is characterised by capability to reconcile contradictions, it will be reflected in these measures. Thus, orientations (policies) reflect the latent variable – organisational talent management. Therefore, on the basis of research results subsequent proposition is formulated:

P2: Organisational talent management, represented by the reconciliation of contradictive policies, is a reflective construct.

While organisational talent management, represented by organisational capability to reconcile contradictive policies is composed of four dimensions, and these dimensions are measured with two contradictions each (therefore, contradictions – policies – reflect the dimension)<sup>361</sup>, it leads to following propositions 3a and 3b:

P3a: Organisational talent management is described in four dimensions, and they are: strategic, structural, cultural and societal aspects, and therefore it is multidimensional construct with reflective dimensions;

P3b: Organisational talent management dimensions (strategic, structural, cultural and societal aspects) have reflective measures.

## **6. Organisational Talent Management and Performance Measures: Conceptualisation of Relationships**

It is widely stressed and researchers share the idea that organisational phenomena, to which organisational talent management accounts to, affects different facets of organisational efficiency. During interviews respondents underlined the relationship of talent management and organisational and individual performance measures. Research results reveal that talent management influences individual motivation to work, increases competencies or willingness to stay within the organisation. Respondent 1 (representing case 1) illustrates it in following words: “I believe the program

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<sup>361</sup> C.B. Jarvis, S.B. MacKenzie, P.M. Podsakoff, *A critical review of construct indicators and measurement model misspecification in marketing and consumer research*, “Journal of Consumer Research” 2003, vol. 30, p. 199–218.

itself has changed a lot. I saw lots of people changing and these changes were real. Employees became different people, they had an opportunity to make a “huge jump”, and they made it”.

On the other hand organisational talent management has also affected organisational level performance measures, while the same respondent, speaking about the closure of the program, argues that: “*the reasons of talent management program closure are not evident, but I believe they were financial reasons that led to that decision*” (about the closure of the program). On the basis of abovementioned relationships I formulate subsequent proposition:

P4a: Organisational talent management is mutually related to organisational and individual performance measures, although the nature of these relationships is ambiguous and most likely bilateral.

Heinen and O’Neill as well as Lawler III<sup>362</sup> also emphasise the role of talent management for organisational performance. Building on the research results and using the dialectical approach proposition 4b is formulated, which directly relates organisational talent management to organisational performance measures. This leads to the following proposition:

P4b: The higher the ability to reconcile contradictions enclosed in organisational talent management the higher organisational performance measures.

## 7. Conclusions

Studies on organisational talent management are consequently placed in the boundaries between management theory and practice. The topic has become a very popular recently, but its theoretical impetus is still considered to be limited. It is partly because, the idea is located between theory and practice, and therefore it is perceived as having moderately strong theoretical influence. The paper contains a basic, initial, theoretical framework of organisational talent management using the dialectical approach – it constitutes an attempt to theorise what is undertheorised. Due to the grounded theory methodology used to gather and analyse data they are deeply rooted in organisational practice. In this particular case following the grounded theory methodology is justified because organisational practice preceded the theory that started to appear just 15 years ago. Future research on talent management, due to increasing number of pathways identifiable in the literature and growing number of research carried out in different parts of the world should focus on creating generalisations, and that can be achieved by quantitative studies. The logical following step for this research is operationalisation of a construct (creation of the questionnaire),

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<sup>362</sup> See: J.S. Heinen, *Managing...*, op. cit.

creation of the configurational research model, including moderating variables and testing it in practice.

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# THE POWER OF SOCIAL MOTIVATION AS A BOUNDARY OF KNOWLEDGE SHARING IN AN ENGINEERING CONSTRUCTION FIRM

## 1. Introduction

Knowledge sharing<sup>363</sup> gives the possibility of mutual learning, which in turn leads to improving work efficiency<sup>364</sup>. In a company, there is a need for people willing to share their knowledge<sup>365</sup>. The exchange of this category of resources may be particularly significant in a situation when there is a risk of qualified workers leaving the firm or high costs of maintaining them<sup>366</sup>.

In construction firms the development of subsequent projects is based primarily on the experience gained in the past<sup>367</sup>. Therefore, to increase the effectiveness of undertaken tasks, workers need to cooperate, and cooperation requires sharing ideas, experiences and observations i.e. knowledge sharing.

Many studies refer to barriers in knowledge sharing<sup>368</sup>. Their identification allows to define the factors hampering the development of the process. Recognition of

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<sup>363</sup> G. Probst, S. Raub, K. Romhart, *Zarządzanie wiedzą w organizacji*, Oficyna Ekonomiczna, Cracow 2000, p. 177.

<sup>364</sup> M. Reinholt, T. Pedersen, *Why a central network position isn't enough: the role of motivation and ability for knowledge sharing in employee networks*, "Academy of Management Journal" 2011, vol. 54, no. 6, p. 1277.

<sup>365</sup> M. Bratnicki, *Kompetencje przedsiębiorstwa. Od określenia kompetencji do zbudowania strategii*, Agencja Wydawnicza Placet, Warsaw 2000, p. 15–16.

<sup>366</sup> N.J. Foss, D.B. Minbaeva, T. Pedersen, M. Reinholt, *Encouraging knowledge sharing among employees: how job design matters*, "Human Resource Management" 2009, vol. 48, no. 6, p. 871.

<sup>367</sup> K.M. Alhaji, R. Amiruddin, F. Abdullah, *Project knowledge management in civil engineering construction firms in Nigeria*, "Australian Journal of Basic and Applied Sciences" 2013, vol. 7, no. 2, p. 55.

<sup>368</sup> B.P. Sharma, M.D. Singh, Neha, *Knowledge sharing barriers: an approach of interpretive structural modeling*, "Journal of Knowledge Management" 2012, vol. 10, no. 3, p. 35–52; V.R. Santos, A.L. Soares, J.A. Carvalho, *Knowledge sharing barriers in complex research and development projects: an exploratory study on the perceptions of project managers*, "Knowledge & Process Management" 2012, vol. 19, no. 1, p. 27–38; Bertoni M., Larsson A., *Engineering 2.0: an approach to support cross-functional teams in*

limitations definitely helps to eliminate them. Reducing barriers creates a possibility to get involved in knowledge sharing, but a worker needs motivation and ability to take advantage of the possible opportunities. The lack of motivation for knowledge sharing constitutes a kind of a boundary of managing the resources. Thus the author's purpose is to recognise what motivates workers of a construction firm to share their knowledge. The following paper will answer the question in what way a subject of the study may encourage workers to share that type of resources. Suggested solutions of the identified problem will allow to cross the boundary marked by existing limitations.

## 2. The Role of Motivation for Knowledge Sharing in Engineering Construction Firms

Knowledge sharing is an important element in building a competitive advantage. Developing a project, construction companies generate knowledge which should be reused and co-used by the same organisation to improve the results of the future projects<sup>369</sup>. However, as it often happens, it is not shared and reused by the staff<sup>370</sup>, but wasted, which in turn increases the possibility that the problems and mistakes which appeared while developing one project will be repeated in other investments.

Sharing knowledge gained while developing one project may influence the results of subsequent projects, increasing the effectiveness of work performance and decreasing the risk of failure. Sharing knowledge with other workers of the company consolidates construction processes, shortens their time and reduces the costs resulting from solving the same or similar problems.

Success or failure of another construction concept depends on the staff's willingness to share their knowledge acquired in previous tasks. Therefore, it is especially important to encourage the employees to share their knowledge by using different types of motivations.

Sharing knowledge which takes place among individual workers<sup>371</sup> is very important. It may influence the effectiveness of work, individual activity, commitment, persistence, readiness to take risk etc. For it to take place, a stimulating power is

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*overcoming knowledge-sharing barriers in PSS design*, "International Journal of Product Development" 2012, vol. 16, no. 1, p. 115–134.

<sup>369</sup> Carrillo P., Chinowsky P., *Exploiting knowledge management: the engineering and construction perspective*, "Journal of Management in Engineering" 2006, vol. 22, no. 1(2), p. 3–9.

<sup>370</sup> K.M. Alhaji, R. Amiruddin, F. Abdullah, *Project...*, op. cit., 54.

<sup>371</sup> N.J. Foss, D.B. Minbaeva, T. Pedersen, M. Reinholdt, *Encouraging...*, op. cit., p. 872.

required, and such power is efficient motivation. It activates and controls human behaviour. It is a regulating process which determines reaching specified aims<sup>372</sup>. The lack of such power constitutes a boundary for the realisation of the knowledge sharing process in a firm.

The specified aim sets a work direction. To achieve it, the worker must be willing to take steps towards it and be interested in reaching the objective. Motivation makes it possible. It may stimulate workers' behaviour towards encouraging them to share their knowledge with others. It may regulate the activities of the employees and help to organise them so that they can head to achieve the intended result i.e. increased commitment in knowledge sharing. In other words, it is a boundary in sharing the resources.

There are two types of knowledge sharing motivations in construction companies. The results of the studies prove that particular categories of motivation are not equally efficient in promoting behaviour favouring knowledge sharing<sup>373</sup>. Therefore, it is necessary to examine different types of knowledge sharing motivations in construction firms.

### 3. Types of Knowledge Sharing Motivations in Engineering Construction Firms

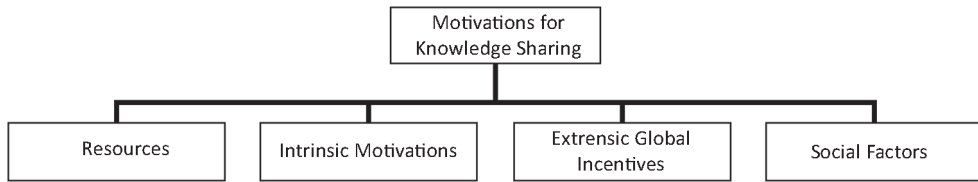
In construction firms four basic factors motivating to knowledge sharing can be distinguished: resources, intrinsic motivations, extrinsic global incentives and social factors. They are presented in Figure 1. Within resources, time must be given special attention. The lack of time, though considered to be one of the barriers, can also be a motivation for knowledge sharing in a company. The staff are often too occupied with daily duties to invest their time in sharing the knowledge with others. Frequently, the reason for such behaviour is not reluctance, but the limitations resulting from the obligation to perform too many tasks within a certain period. They simply never have time to do it. In most construction firms, there is no time appointed for knowledge sharing and acquisition<sup>374</sup>. The staff are expected to do so while performing other duties, which becomes an additional part of their daily work routine.

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<sup>372</sup> M. Gagne, *A model of knowledge-sharing motivation*, "Human Resource Management" 2009, vol. 48, no. 4, p. 571–582.

<sup>373</sup> A. Javernick-Will, A.M. Asce, *Motivating knowledge sharing in engineering and construction organizations: power of social motivations*, "Journal of Management in Engineering" 2012, vol. 28, no. 2, p. 195–196.

<sup>374</sup> *Ibidem*.

**Figure 1. Knowledge Sharing Motivations in Engineering Construction Firms**

Source: A. Javernick-Will, A.M. Asce, *Motivating. Knowledge sharing in engineering and construction organizations: power of social motivations*, "Journal of Management and Engineering" 2012, vol. 28, no. 2, p. 196.

Many construction firms are unable to reserve additional time exclusively for knowledge sharing. However, the employers should avoid excessive burdening their staff, otherwise they will have no time or energy to help their colleagues carry out certain projects.

Another factor is intrinsic motivation. It stimulates a worker's attitude which results from his/her values, intrinsic needs and personal interests<sup>375</sup>. An employee does not intend to gain external rewards. A certain activity is not an aim in itself. The intrinsic need of realisation is an asset noticed at work and in a professional environment. Intrinsic motivation to get involved in knowledge sharing might be, for example, the intention to create positive interpersonal relations with other workers, satisfaction with work or a successfully completed difficult task<sup>376</sup>. The staff of a construction company may feel the intrinsic motivation in the following situations:

- when they get involved in the process of knowledge sharing being their own initiative;
- when they realise what might be gained from knowledge sharing for themselves or people they work with.

External factors such as acknowledgment, bonus payments, praise or other rewards may influence knowledge sharing motivation. However, satisfaction coming from knowledge sharing will decrease when the workers' effort is not appreciated and properly rewarded. Such situations create doubts whether it is worth devoting time and energy to work. It is clear that external incentives may influence employees' intrinsic motivation. However, they must be internally modified, i.e. must be accepted by an employee. The acceptance will result from a competent connection of intrinsic motivation with properly matched external incentives<sup>377</sup>. The lack of connection

<sup>375</sup> C. Achakul, M. Yolles, *Intrinsic and extrinsic motivation in personality: assessing knowledge profiling and the work preference inventory in a Thai population*, "Journal of Organisational Transformation & Social Change" 2013, vol. 10, no. 3, p. 197–214; T. Yidong, L. Xinxin, *How ethical leadership influence employees' innovative work behavior: a perspective of intrinsic motivation*, "Journal of Business Ethics" 2013, vol. 116, no. 2, p. 444.

<sup>376</sup> N.J. Foss, D.B. Minbaeva, T. Pedersen, M. Reinholdt, *Encouraging...*, op. cit., p. 875, 886.

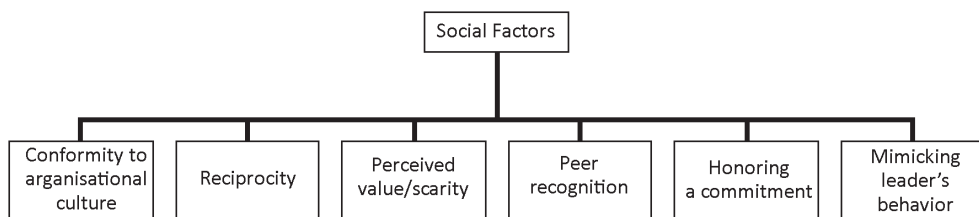
<sup>377</sup> G. Fabrice, *Intrinsic-extrinsic motivations and knowledge sharing in French firms*, "Journal of Knowledge Management" 2008, vol. 6, no. 1, p. 58–61.

will lead to a reward which does not motivate to knowledge sharing in the long perspective. The employees will share their knowledge until they get the reward and, subsequently, their efforts will weaken. Thus, to stimulate workers with knowledge sharing motivations, it is necessary to help them find the connection between the intrinsic motivation, which prompts to satisfying their own needs, and the ability to convert it into the willingness to share their knowledge. When the staff notice they can reach their own aims and benefit from it, they will proceed.

The studies prove construction companies fail to use external motivation directly connected with knowledge sharing. That type of encouragement in the form of external incentives comes from a motivational system referring to general results of an organisation<sup>378</sup>. Thus, being rewarded for a well-performed task, an employee is additionally rewarded for the willingness to knowledge sharing. Therefore, among the factors influencing knowledge sharing motivation in construction companies, a category “extrinsic global incentives” instead of “external motivation” has been distinguished.

In construction companies, socially-related motivations play the leading role in the process of knowledge sharing. They are as important, if not even more, as financial rewards<sup>379</sup>. Because of their importance, the analysis will concern exclusively that category of incentives which constitute a boundary in knowledge sharing. For better understanding of social motivations, the group has been extended with the following subcategories: conformity to corporate culture, reciprocity, perceived value/scarcity, peer recognition, honouring a commitment and mimicking leader’s behaviour. They are presented in Figure 2.

**Figure 2. Knowledge Sharing Motivations with Social Motivation Subcategories in Engineering Construction Firms**



Source: The author’s study based on the following: A. Javernick-Will, A.M. Asce, *Motivating. Knowledge sharing in engineering and construction organizations: power of social motivations*, “Journal of Management and Engineering” 2012, vol. 28, no. 2, p. 196, 198.

The further analysis aims to answer the question to what extent the distinguished social factors motivate the employees of a company under study to knowledge sharing.

<sup>378</sup> A. Javernick-Will, A.M. Asce, *Motivating...*, op. cit., p. 197.

<sup>379</sup> Ibidem.

## 4. Social Motivations for Knowledge Sharing in Engineering Construction Firm – Case Study

The object of the study is a small construction firm operating in the Świętokrzyskie Region. The construction industry has been selected as it is an important sector of local economy. It is one of the sectors regarded as business opportunity in Świętokrzyskie Voivodeship, just after metallurgy and rest and recuperation health services<sup>380</sup>.

The company offers services in the following areas:

- investor's supervision,
- repair and construction works,
- cost estimation,
- technical inspection of buildings.

The study was carried out on the owner of the firm, being the inspector of construction supervision in the building process, and his 23 employees. Partially structured interview was used to gather information. It took place in the company office in December 2013 in the form of a two-hour talk with every respondent. The period of four years, which is the maximum time for the conclusion of a contract<sup>381</sup>, was analysed.

As it was mentioned above, within the category of social motivations identified with a boundaries in knowledge sharing the following subcategories can be distinguished: conformity to organisational culture, reciprocity, perceived value/scarcity, peer recognition, honoring a commitment and mimicking leader's behavior (Table 1). Reciprocity is one of the strongest and most common social factors. It refers to social norms which oblige workers to the following:

- a) treating others in the same way as they are treated,
- b) giving others as much as they have received.

People feel obliged to provide something in return. For instance, an employee may smile at another person only if the person smiles at him/her.

In the studied firm, a strong norm of reciprocity was observed in the context of knowledge sharing. The employees suggested the reciprocity could be identified with gratitude, trust or various obligations. The respondents claimed they were willing to share their knowledge primarily with a person who had helped them before. They felt obliged to provide knowledge in return. On the other hand, they realise they might need knowledge from others one day. They are encouraged to share their knowledge at present, because they might need the same favour in the future.

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<sup>380</sup> [swietokrzyskie.coie.gov.pl/pl/for\\_investors/html](http://swietokrzyskie.coie.gov.pl/pl/for_investors/html) (dated 10.01.2014).

<sup>381</sup> Art.142.1 Law of 29 January 2004. Public Procurement Law, Journal of Laws 2010. no. 113, item 759.

**Table 1. Frequency of Responses Regarding Knowledge Sharing Motivations with Social Motivation Subcategories.**

Social Motivation Subcategories	Percentage share
Conformity to organisational culture	38,26
Reciprocity	31,92
Perceived value/scarcity	9,34
Peer recognition	7,46
Honoring a commitment	6,78
Mimicking leader's behavior	6,24

Source: Own research.

Another social factor is conformity to corporate culture i.e. regarding knowledge sharing as a norm. It refers to the change of behaviour under the influence of other workers, compliance with ideas, norms and values of a company. The change results from the fact that a member of a group initially behaved differently, but subsequently changed his/her behaviour according to the expectations of the group.

In the analysed construction firm, the employees consciously or subconsciously strived to assimilate with the group. They copied other workers' behaviours which referred to the quality and quantity of the knowledge shared. In other words, they accepted group norms concerning willingness or unwillingness to share. That kind of action was intended to gain acceptance of other workers.

The category of conformity to organisational culture had the highest frequency of answers (38,26%). It might be assumed it has the most significant influence on the willingness to share knowledge. Therefore, it is important for the studied firm to promote those workers who are willing to share their knowledge. It will show others that knowledge sharing is needed in the firm and necessary for its further development.

Mimicking the leader's behaviour constituted 6,24% of the given answers. Those respondents who noticed the significance of the above-mentioned category of social factors pointed out that if a leader is popular, respected and involved in knowledge sharing, others will mimic his behaviour.

Another motivational factor results from the fact that employees feel esteemed when their effort is appreciated. It turned out that in the studied firm, peer recognition was even more motivating, which means it is a good way of promoting knowledge sharing behaviour. However, the frequency of answers was on a relatively low level of 7,46%.

The frequency of answers referring to other factors i.e. perceived value (scarcity) of knowledge and honouring knowledge sharing commitments (connected with spoken or written declaration to undertake certain activities) amounts to 9,34% and 6,78% accordingly.

In the firm under study, social motivations create an important boundary in knowledge sharing among workers. Varied degrees of the analysed factors' intensity limit or encourage the realisation of the process. One of the actions which allows for crossing the boundaries more easily is paying attention to insufficient analysis of mistakes made while applying and using particular categories of social motivations. On the basis of frequency of responses, one can assume which of the factors analysed have been marginalised. Insufficient analysis of mistakes, which among others could be underestimating the effort put into the job done, inhibits crossing the boundaries in knowledge sharing.

Making that type of mistakes, the staff of the studied firm learn primarily how to make them subsequently. Even a single failure increases the probability of its occurrence in similar circumstances. If a certain mistake has been repeated several times, the probability of its occurrence in other situations increases. Before the owner/worker recognises the mistakes or insufficiency of his/her actions, and the failure has been repeated many times, it will have turned into an involuntary habit. Elimination of consolidated habits is not only difficult and time-consuming but also not fully reversible. Thorough elimination of what has once been remembered is not possible. Besides, habits tend to occur involuntarily and unintentionally. Thus, they can appear in situations in which we are aware of their inaccuracy.

## 5. Conclusions

Every day devoted to the realisation of a project in engineering construction firms bring new problems and solutions. They are rarely documented, and valuable conclusions that usually remain in the minds of those who came to them. Newly-generated knowledge is often wasted, or used only by those engineers and specialists who have taken part in a particular construction process<sup>382</sup>. Therefore, steps to encourage workers to knowledge sharing should be taken.

In the studied firm, a special attention was paid to social factors being a boundary in knowledge sharing, among which conformity to organisational culture and reciprocity were characterised by the highest frequency of the given answers. To increase social motivation for knowledge sharing, the behaviour which enhances those motivational factors should be promoted. The desirable course of action would be: strengthening interpersonal communication to underline success and achievements, organising trainings and programs during which employees would be obliged to co-operate and give advice; organising meetings concerning the techniques of knowledge sharing in a company, showing the benefits of the project; creating the

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<sup>382</sup> K.M. Alhaji, R. Amiruddin, F. Abdullah, *Project...*, op.cit., p. 60–61.



environment in which members of the studied firm, being experienced engineers and experts, will train and educate other workers, sharing their knowledge; and analysis of failures which directly or indirectly decrease the efficiency of social factors motivating knowledge sharing.

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[swietokrzyskie.coie.gov.pl/pl/for investors/](http://swietokrzyskie.coie.gov.pl/pl/for_investors/) html.

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# EMPIRICAL STUDY ON KNOWLEDGE SOURCES IN PROJECT-INTENSIVE ORGANISATIONS

## 1. Introduction

In today's globalised world, knowledge management is becoming increasingly important. Although the history of knowledge management dates back to ancient Greece and Rome<sup>383</sup>, it was only in the 90's of the XXth century when the concept of Knowledge Economy emerged. According to the OECD definition, KE is the economy based on the production, distribution and use of knowledge and information<sup>384</sup>. As the importance of tangible assets declines, the business success is increasingly determined by the degree of effectiveness of the use of knowledge and innovation<sup>385</sup>.

According to the current state of theory and practice knowledge is seen as an effective use of information in action<sup>386</sup>, as a mean to resolve problems and issues<sup>387</sup>, a thorough cognition of a phenomenon through experience, education, observation or research<sup>388</sup>.

Study by M. Polanyi presents knowledge that can be tacit (unwritten, unspoken, based on one's emotions, experiences, intuition, insights observations, integral to the entirety of a person's consciousness) or explicit (structured, written and stored in form of documents, procedures and knowledge systems)<sup>389</sup>. According to I. Nonaka

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<sup>383</sup> A. Jashapara, *Zarządzanie wiedzą*, PWE, Warsaw 2006, p. 38.

<sup>384</sup> OECD, *The Knowledge-Based Economy*, Paris 1996.

<sup>385</sup> I. Brinkley, *Defining the Knowledge Economy*, The Work Foundation, London 2006.

<sup>386</sup> P. Drucker, *Spółczeństwo pokapitalistyczne*, PWN, Warsaw 1999, p. 43.

<sup>387</sup> W. Applehans, A. Globe, G. Laugero, *Managing Knowledge. A practical web-based approach*, Addison-Wesley 1999, p. 18.

<sup>388</sup> Project Management Institute, *A Guide to the Project Management Body of Knowledge*, 5<sup>th</sup> edition, PMI 2013.

<sup>389</sup> M. Polanyi, *The Tacit Dimension*, Routledge & Kegan Paul, London 1966.

knowledge develops by constant transformation from one kind to another in process of socialisation, combination, externalisation and internalisation<sup>390</sup>.

Knowledge as a new kind of organisation resource has particular features: is not subject to wear, multiplies if shared<sup>391</sup>, its value rises when used<sup>392</sup>. Organisation knowledge assets form its intellectual capital, which is reflected in business model, the organisational procedures and documentation, in the design of the main and auxiliary business processes, in employees, managers at every level, cooperating experts, information systems and planning and many more<sup>393</sup>. Knowledge and knowledge management mechanisms have become unquestionably a source of competitive advantage of the organisation<sup>394</sup>.

Special interests in knowledge, both scientific and business, led to the development of knowledge management systems combined from best practices, solutions related to organisational culture<sup>395</sup>, defined roles and organisational structures<sup>396</sup>, IT systems<sup>397</sup> and established processes and tools<sup>398</sup>.

<sup>390</sup> I. Nonaka, *A Dynamic theory of organizational knowledge creation*, "Organization Science" 1994, vol. 1, no. 5, p. 19.

<sup>391</sup> J.J. Brdulak, *Zarządzanie wiedzą, a proces innowacji produktu*, Oficyna Wydawnicza SGH, Warsaw 2005, p. 14.

<sup>392</sup> A. Kowalczyk, B. Nogalski, *Zarządzanie wiedzą – koncepcja i narzędzia*, Diffin, Warsaw 2007, p. 30.

<sup>393</sup> A. Sopińska, *Wiedza jako strategiczny zasób przedsiębiorstwa Analiza i pomiar kapitału intelektualnego przedsiębiorstwa*, Oficyna Wydawnicza SGH, Warsaw 2010.

<sup>394</sup> R. Amit, P.J.H. Schoemaker, *The competitive Dynamics of capabilities: Developing strategic assets for multiple features*, in: *Wharton on Dynamics competitive strategy*, (ed.) G.S. Day, D.J. Reibstein, R.E. Gunther, John Wiley & Sons Inc, New York 1997, p. 372–376; A. Jashapara, *Zarządzanie wiedzą*, PWE, Warsaw 2006, p. 106; J.B. Barney, *Firm Resources and Sustained Competitive Advantage*, "Journal of Management" 1991, vol. 7, no. 17.

<sup>395</sup> L. Ba, *Knowledge management and organizational culture: A social action perspective*, The George Washington University, 2004; R.K. Rai, *Knowledge management and organizational culture: a theoretical integrative framework*, "Journal of Knowledge Management" 2011, vol. 15, no. 5, p. 779–801.

<sup>396</sup> K. Moore, J. Birkinshaw, *Managing knowledge in global service firms: Centers of excellence*, "The Academy of Management Executive", November 1998, vol. 12, no. 4, p. 83; T. Beckman, *The Current State of Knowledge Management in: Knowledge Management Handbook*, (ed.) J. Liebowitz, CRC Press, BocaRaton 1999; G. Gierszewska, *Zarządzanie wiedzą w przedsiębiorstwie*, Oficyna Wydawnicza Politechniki Warszawskiej, Warsaw 2011, p. 169; I. Nonaka, H. Takeuchi, *The Knowledge Creating Company. How Japanese Companies Create the Dynamics of Innovation*, Oxford University Press, New York 1995.

<sup>397</sup> G. Green, L. Liu, B. Qi, *Knowledge-based Management Information Systems for the Effective Business Performance of SMEs*, "Journal of International Technology and Information Management" 2009, vol. 18, no. 2, p. 201–222; B. Iyer, G. Shankaranarayanan, G. Wyner, *Process coordination requirements: implications for the design of knowledge management systems*, "The Journal of Computer Information Systems" 2006, vol. 46, no. 5, p. 1–13; J.S. Edwards, D. Shaw, P.M. Collier, *Knowledge management systems: finding a way with technology*, "Journal of Knowledge Management" 2005, vol. 9, no. 1, p. 113–125.

<sup>398</sup> B. Mikuła, *Zadania organizacji w zakresie zarządzania wiedzą, "e-Mentor"*, vol. 5, no. 17, p. 40–41; M. Sagsan, *A new life cycle model for processing of knowledge management*, www.knowledgeboard.com.; M. Alavi, D. Leidner, *Knowledge management and knowledge management systems: conceptual foundations and research issues*, "MIS Quarterly", vol. 25, no. 1, p. 107–136; B. Lent, *Zarządzanie procesami prowadzenia projektów*, Difin, Warsaw 2005, p. 4; A. Kowalczyk, B. Nogalski, *Zarządzanie...*, op. cit., p. 80; J.J. Brdulak, *Zarządzanie...*, op. cit., p. 20; G. Probst, S. Raub, K. Romhardt, *Zarządzanie wiedzą w organizacji*, Oficyna Wydawnicza, Cracow 2004, p. 42.

Projects stand for a particular subset of activities of organisation. Projects are temporary, complex endeavours undertaken to deliver unique products or services. Uniqueness of their goal and conditions, as well as a temporary nature of project organisation hinder organisation learning processes, gathering lessons learned and development of organisational, project knowledge. In result new knowledge is kept from application in projects, project teams reinvent the wheel and keep making same mistakes. Proper use of knowledge management practices allows to lower project risk level, improves quality of planning, as well as allows saving project costs<sup>399</sup>.

As knowledge has been recognised as a valuable resource, a company tries to leverage it by transferring the existing knowledge within the company itself as well as from external sources<sup>400</sup>. This implies an issue of reaching for useful knowledge from within and outside management boundaries of organisations. Project knowledge has been a subject to many scientific studies and papers<sup>401</sup>. However just a few of them have raised an issue of sources of project knowledge and their value in the eyes of project management specialists.<sup>402</sup>The aim of this paper is to fill the gap and present the recent findings of the research on preferences of project teams towards use of project knowledge management sources.

## 2. Research Methodology

The study adopted survey method for data collection and examined hypotheses by applying statistical tests to evaluate the significance of differences between sample groups. Questionnaires were distributed among postgraduate students of the Warsaw School of Economics and members of PMI Poland Chapter. The survey sample consisted of 631 people –project management specialists of diverse business sectors

<sup>399</sup> J. Schwaab, *Knowledge Management for Project Managers and other Decision-makers: Learning from experience*, Deutsche Gesellschaft für Technische Zusammenarbeit, Eschborn 2009, p. 2.

<sup>400</sup> T. Pacharapha, V. VathanophasRactham, *Knowledge acquisition: the roles of perceived value of knowledge content and source*, "Journal of Knowledge Management" 2012, vol. 16, no. 5, p. 724–739.

<sup>401</sup> P. Wyrozębski, *Praktyki zarządzania wiedzą projektową w polskich organizacjach – wyniki badań*, „E-mentor” 2011, no. 5(42); J. Schwaab, *Knowledge management for project managers and other decision-makers – Learning from experience*, Deutsche Gesellschaft für Technische Zusammenarbeit, Eschborn 2009; M. Haddad, V. Ribiere, *The use of knowledge management in software acquisition*, "The Journal of Information and Knowledge Management" 2007, vol. 37 no. 3, 2007, p. 295–313; K.G. Cooper, J.N. Lyneis, *Learning to learn from past to future*, "International Journal of Project Management" 2002, vol. 20, no. 3, p. 213–219; B. Horner Reich, S. Yong Wee, *Searching for knowledge in the PMBoK Guide*, "Project Management Journal" 2006, vol. 37, no. 2, p. 11; S. Faraj, L. Sproull, *Coordination expertise in software development teams*, "Management Science" 2000, vol. 46, no. 12, p. 1554–1568; A. Tiwana, A. Bharadwaj, V. Sambamurthy, *Antecedents of IS capability*, Proceedings of 24<sup>th</sup>. International Conference on IT Systems, Seattle 2003, p. 246–258; T. Kotnour, *A learning Framework for Knowledge Management*, "Project Management Journal" 1999, vol. 30, no. 2, p. 23–38.

<sup>402</sup> M. Almashari, M. Zairi, A. Alathari, *An empirical study of the impact of knowledge management on organizational performance*, "The Journal of Computer Information Systems" 2002, p. 74–82.

and positions. The sample included representatives of the major areas traditionally pursuing their activities in the form of projects. The most numerous were: construction industry, the development and implementation of software, followed by a public administration, manufacturing and technology and finance (Table 1).

**Table 1. Sectors Represented by the Survey Participants**

	Responses		Percent of people surveyed
	N	%	
Construction	100	13,9%	18,0%
IT (software)	89	12,4%	16,0%
Public administration	70	9,7%	12,6%
Production/technology	64	8,9%	11,5%
Finance and banking	59	8,2%	10,6%
Telecommunications	49	6,8%	8,8%
Power engineering	36	5,0%	6,5%
Advisory/ consulting	35	4,9%	6,3%
Media/ advertising	34	4,7%	6,1%
IT (infrastructure)	30	4,2%	5,4%
Commerce	28	3,9%	5,0%
Insurance	22	3,1%	4,0%
Logistics	16	2,2%	2,9%
Education	13	1,8%	2,3%
NGO	11	1,5%	2,0%
Tourist services and sports	5	,7%	,9%
Agriculture	2	,3%	,4%
Municipal services	2	,3%	,4%
Other	53	7,4%	9,5%
Total	718	100,0%	129,1%

Source: Own research.

The working position of people surveyed ranged from top executives to staff in various functional areas. The most of research sample were project managers (161/29.4%). The second most numerous groups were project team members (156/28.5% of respondents). Every fifth respondent (19.9%) was a member of the project management team, and almost one out of 10 (9.5%) worked on projects in an informal way. Twenty-one respondents were employed in the project management offices (PMO), which represents 3.8% of the sample. The category of “other” positions occupied by the respondents (8/1.5%) included i.e.: the head of the portfolio of projects, HR manager and business analyst. Position of 84 respondents (13.3%) was not declared.

In the survey respondents answered the question “Which source of knowledge would you recommend to the other project manager in one’s organisation? Respondents were given the choice of seventeen sources of knowledge identified in the course of preliminary research. Multiple answers were possible.

Project archives. Analysis of project documentation enables the assessment of the project in terms of fulfilment of initial requirements and compliance with project plans. Information and experience contained in project plans, logs and reports are an important source of knowledge for subsequent projects<sup>403</sup>.

Corporate project management methodology. Project management methodology is a set of rules and guidelines that describe the project management process and tools agreed to use in a particular organisation. Development of a corporate methodology typically involves adapting one of the universal or industry methodologies to the specific requirements of organisation. The employment of such methods is limited to the organisation in which they were created.

Contact with PMO. Project management office (PMO) is a separate, permanent unit within the organisation devoted to advancement of project management capabilities within organisation. PMO staff provides a standardisation of project management processes, leading to an increase in their quality and efficiency. One of the key tasks of the PMO is a project knowledge management. This is done through the collection, preservation and transfer of information and experience gained in the implementation of previous projects. Consultants are also involved in carrying out further training and raising qualifications of project personnel<sup>404</sup>.

Contact with other project managers inside (or outside) the organisation. The experience of other project managers gives a great opportunity for acquisition of rare and valuable tacit project knowledge. Contacting the PM within the organisation allows obtaining useful knowledge in line with the corporate practices, whereas contact with managers from outside the organisation gives a chance to look at the problem from a new perspective.

Internal training. Training programs provide the opportunity for gaining skills, knowledge and other competencies in process of teaching and learning. Training is primarily concerned with the acquisition of competences that relates to the specific requirements of a post held by an employee. Internal training is usually conducted by a supervisor or other employees. Increasingly, organisations are also creating special training platforms through which employees can take e-learning courses.

Participation in the project summary meetings. Meetings summarising the project (lessons learned meetings) is a method to analyse the work on the project

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<sup>403</sup> M. Wirkus, H. Roszkowski, E. Dostatni, W. Gierulski, *Zarządzanie Projektem*, ZIP, Warsaw 2014, p. 176–181.

<sup>404</sup> P. Wyróżębski, *Biuro Projektów*, Biblioteka Project Managera, Warsaw 2009, p. 8–19.

through the prism of experience of the project team. The first step in this technique is the preparation for the meeting, which involves the selection of meeting facilitator and conducting preliminary analysis of project documentation. The second step is to hold the meeting. The third phase is the preparation of the summary and project lessons learned report<sup>405</sup>.

The organisational knowledge base. One of the operational goals of knowledge management is the collection, selection and preservation of information. Individual experience of the employees and knowledge artefacts are codified and stored in the organisational knowledge bases. Different types of information are stored in structured way and are subject to regular review in order to eliminate the unusable knowledge<sup>406</sup>.

The internal coaching program. Coaching is an interactive process which helps people or organisations in accelerating their professional development and achieving better performance<sup>407</sup>. Manager works with a coach (internal or external) to solve the problems associated with the results achieved, as well as to develop individual abilities, skills in organisation and acquisition of knowledge<sup>408</sup>. The benefits of individual development programs are manifold: improved performance, increased employee satisfaction, improved relationships, greater commitment to the company. B. Redshaw also indicates an increase the capability of learning and knowledge acquisition by employees<sup>409</sup>.

Internal publications and guides. The most of organisations issue publications, brochures or manuals for the internal use by their employees. Information contained therein is the form of codified knowledge. It may relate to current events, articles on business topics or manuals and guides to organisational processes. These brochures can be printed or transmitted electronically in the form of a newsletter.

Membership in project management associations. The leading, global non-profit organisations whose purpose is to develop and promote project management include Project Management Institute, and International Project Management Association. Membership in these organisations provides access to society of professionals, varied knowledge resources, communities of practice, expertise, career development as well as people networking opportunities.

Books and magazines. Since Gutenberg books and magazines have been traditionally used as a prime source of codified knowledge. The catalogue of the Polish

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<sup>405</sup> P. Wyróżębski, *Zarządzanie wiedzą projektową – techniki gromadzenia doświadczeń projektowych*, "E-mentor" 2008, no. 3(25).

<sup>406</sup> B. Mikuła, *Zadania organizacji w zakresie zarządzania wiedzą*, "E-mentor" 2006, no. 5(17).

<sup>407</sup> International Coach Federation, Poland Chapter, [www.icf.org.pl](http://www.icf.org.pl).

<sup>408</sup> M. Sook Choi, *A case study of an action learning program: Can action learning be an approach to enhance a manager's coaching skills?*, The George Washington University, 2005, p. 24.

<sup>409</sup> B. Redshaw, *Do we really understand coaching? How can we make it work better?* "Industrial and Commercial Training" 2000, vol. 32, no. 3, p. 106–108.



National Library consists of 301 items under the keyword of “project management”, whereas Amazon.com – 86, 857. The last number shows the massive amount of knowledge held in form of paper and e-books.

Internet portals, blogs and discussion forums. The Internet has become a great tool for knowledge sharing and acquisition. It helps finding info on any kind of knowledge just by typing a key word in search engine and clicking the right link. The Internet is a source of countless specialist sites where one can speak to the experts in their fields. It allows access to wikis, specialist journals, books, expert blogs, videos, social media and many more. Access to the Internet resources is usually free and if fee is required, the materials are made available immediately after the payment. Immense amount of knowledge and information stored in the Internet requires ability to assess its credibility, usefulness and quality of the information provided.

Postgraduate programs. Postgraduate studies in project management are offered by many Polish universities. Their goal is to provide theoretical and practical knowledge in the field of project management. In contrast to training, postgraduate communicate knowledge in a comprehensive manner. Frequently employers, who want to increase the skills of their employees, provide funds for covering their participation fee.

External training. External training is provided by independent training companies and usually takes place outside the workplace. Such training may take the form of seminars, conferences, case studies, lectures or simulation games. The main advantage of external training is the ability to contact experts from outside of the organisation and therefore gives the opportunity to acquire completely new knowledge, take a fresh look at the matter. On the other hand, the disadvantage of such training is the risk of a mismatch of content to the needs of the organisation.

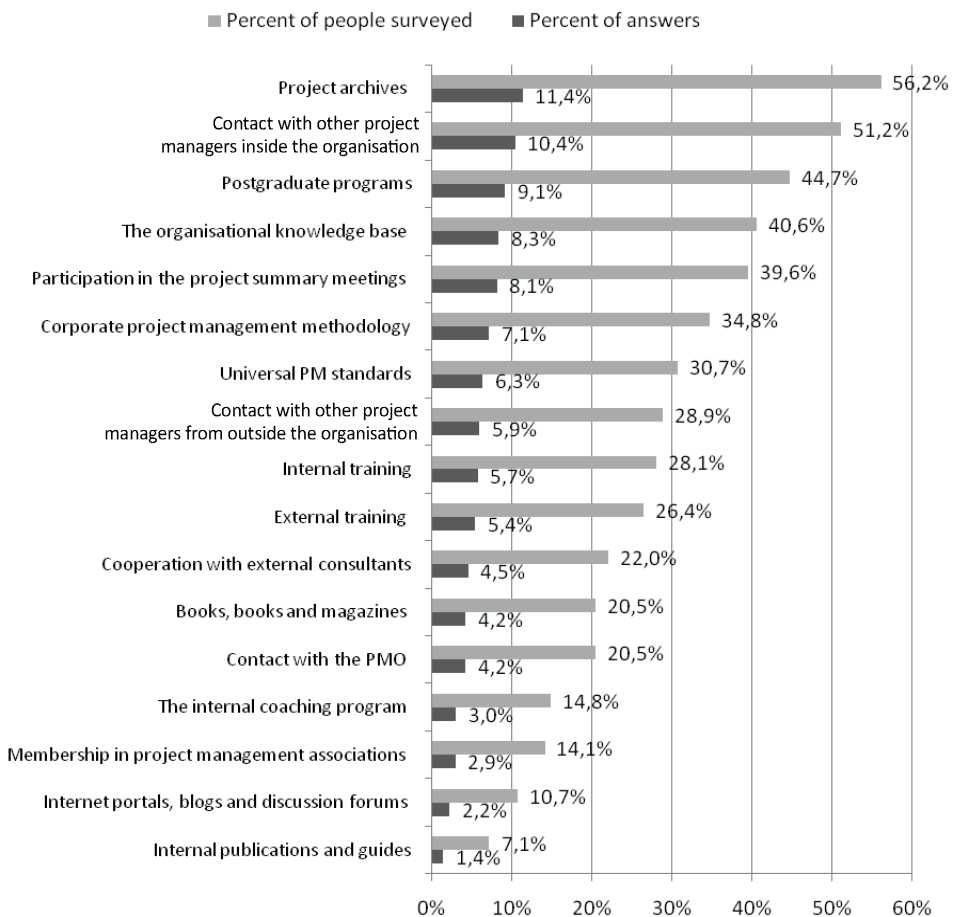
Universal PM standards. Project management standards consist of bodies of knowledge, methodologies, competency baselines and norms published by leading project management organisations. They provide common language and set of recognised best practices, methods and processes. Their universal nature means that standards are applicable to most of projects, most of time and most of industries, however generality of recommendations requires their careful tailoring and implementation into the particular organisation.

Cooperation with external consultants. Currently on the market there are many consulting firms that offer broad consulting and advisory services. Consultants, or people engaged in professional consulting are highly qualified to offer a wide range of services. The consultants support companies at various stages of managing the project like planning, managing risk and controlling the project progress.

### 3. Results

The survey showed that the most frequently recommended source of project knowledge were project archives, chosen by 56.2% of respondents. Contact with other project managers inside the organisation ranked second (51.2%). Postgraduate studies were chosen by 44.7% of people surveyed, followed by participation in the project summary meetings (39.6%), and corporate project management methodology (34.8%). It's clear that except for post-graduate studies the ranking lead consists of internal sources of knowledge, both codified (documentation) and personalised (other project managers). The most recommended sources of knowledge are therefore closely linked to the specifics of project work done in the organisation and are meant to resolve that kind of problems – see Figure 1.

**Figure 1. Sources of Project Knowledge Recommended by Project Personnel**



Source: Own research.

Internal and external training are recommended respectively, by the third and every fourth respondent. Cooperation with external consultants, books and other publications, as well as contact with the PMO are an important source of knowledge for every fifth interviewee. The least popular sources were recommended by less than every seventh respondent and were: internal coaching programs, membership in professional associations, portals and discussion forums, and, interestingly, internal publications and guides.

In order to identify the specific preferences of subsets of sample the further analysis was to verify the hypotheses concerning the differentiation of these preferences with respect to the distinguished characteristics of the respondents and the organisations they represent.

H1: Preferences of sources of project knowledge vary depending on the business of the sector.

Partial hypotheses concerned diversity of preferences with respect to each sector (15 sectors, due to the insufficient quantity omitted: agriculture, municipal services, travel services and other), and each category of sources of project knowledge (17 types of sources). The test statistics used Pearson Chi2 for 2x2 and the phi coefficient, with  $p < 0.05$ . Summarised results of the analysis are presented in Table 2.

The analysis revealed relatively weak ( $\phi < |0.2|$ ) relationships between variables. IT infrastructure companies were more likely than others to ask PMO staff for help. Similarly, a strong preference in favour of the PMO characterises the representatives of finance and banking as well as insurance, telecommunications and education. The construction industry, on the contrary, rarely recommended contact with this unit.

Another interesting observation concerns the preference for online sources of knowledge (portals, blogs and discussion forums). While its cored last but one rank in the overall ranking, it was relatively more frequently recommended by representatives of companies involved in software development and implementation. Representatives of IT companies were also relatively more likely to recommended membership in professional associations.

Quite interesting results appear to the public administration sector, as its representatives relatively more often than others recommended external sources of knowledge, especially cooperation with external consultants, external training and contact with project managers from outside their organisations.

The opposite trend applies to the telecommunications, which recommended less frequently cooperation with external consultants and external project managers. On the other hand, telecommunications more often pointed to the value that comes from the company's project management methodology, contact with the PMO and other managers within the organisation, as well as participation in internal trainings.

H2: Preferences of sources of project knowledge vary depending on the importance (intensity) of projects in the organisation.

Table 2. Differences between Represented Sectors on Recommended Sources of Project Knowledge

	Sector														
	Public administration	Construction	Advisory/consulting	Power engineering	Finance and banking	Commerce	IT (infrastructure)	IT (software)	Media/advertising	NGO	Production/technology	Logistics	Insurance	Telecommunications	Education
M – more likely L – less likely (xxx) – phi coefficient p < 0.05															
Project archives															
Corporate project management methodology					M (0,083)		M (0,097)							M (0,082)	
Contact with PMO		L (-0,150)			M (0,154)		M (0,188)						M (0,079)	M (0,093)	M (0,096)
Contact with other project managers from inside the organization								M (0,100)	M (0,087)				M (0,106)	M (0,080)	
Internal training										M (0,082)				M (0,090)	M (0,087)
Participation in the project summary meetings		M (0,079)													
The organisational knowledge base															
The internal coaching program					M (0,103)								M (0,120)		
Internal publications and guides				M (0,123)					M (0,103)						
Membership in project management associations							M (0,128)	M (0,104)							
Contact with other project managers from outside the organisation	M (0,095)													L (-0,088)	
Books, books and magazines															
Internet portals, blogs and discussion forums															
Postgraduate programs															
External training	M (0,106)														
Universal standards for PM		L (-0,082)			M (0,090)										
Cooperation with external consultants	M (0,125)													L (-0,078)	

Source: Own research.

The next hypothesis investigated significant differences in the recommended sources of knowledge between organisations that implement projects occasionally, and those for which it is the primary area of business. The test statistics used Mann-Whitney U test (also known as Wilcoxon Mann-Whitney test). The following figure shows the summary of results of a series of tests with level of significance at  $p < 0.05$ .

The results show that organisations with lower intensity of project activities are not able or had not yet produced their own internal sources of knowledge, therefore, tend to rely on external sources- hence the postgraduate studies and contacts with external experts. That is the opposite to the project oriented organisations, which have already accumulated significant amount of proprietary project knowledge produced independently or acquired previously from the environment. Their knowledge resources are stored in the form of professional publications, documentation of the processes and procedures, staff experience and formal training programs. Such organisations do not have to seek out for external knowledge – see Figure 2.

**Figure 2. Ranking of Recommended Sources of Project Knowledge with respect to the Importance (Intensity) of Projects in the Organisation**

Sources of knowledge recommended in organisations with a higher project intensity level	Internal publications and guides*		72,19
	Corporate project management methodology*		55,49
	Contact with other project managers inside the organisation*		40,55
	Internal training*		31,88
	The internal coaching program		27,65
	The organisational knowledge base		10,5
	External training		3,62
	Participation in the project summary meetings		2,83
Sources of knowledge recommended in organisations with a lower project intensity level	Contact with the PMO		-2,65
	Universal standards for PM		-10,98
	Internet portals, blogs and discussion forums		-14,19
	Project archives		-14,42
	Books, books and magazines		-23,84
	Contact with other project managers from outside the organisation		-24,32
	Postgraduate programs*		-30,73
	Membership in project management associations		-31,94
	Cooperation with external consultants*		-44,23

\* significant at  $p < 0.05$

Source: Own research.

H3: Preferences of sources of project knowledge vary depending on size of the organisation.

The last hypothesis concerned the diversity of recommended sources of knowledge due to the size of the organisation (measured by the number of employee). Do large organisations differ from small ones in terms of recommended sources of knowledge project? The test statistics used Mann-Whitney U test. Figure 3 shows the summary of results of a series of tests with level of significance at  $p < 0.05$ .

**Figure 3. Ranking of Recommended Sources of Project Knowledge with respect to the size of the organisation**

Sources of knowledge recommended in large organisations	Contact with other project managers inside the organisation*		55,02
	Corporate project management methodology*		43,72
	The internal coaching program*		37,57
	Internal publications and guides		32,94
	Contact with the PMO		25,01
	The organisational knowledge base		20,66
	External training		18,48
	Universal PM standards		12,1
	Internal training		5,64
	Participation in the project summary meetings		1,18
Sources of knowledge recommended in small organisations	Books, books and magazines		-4,48
	Postgraduate programs		-14,82
	Membership in project management associations		-15,64
	Cooperation with external consultants		-17,93
	Project archives		-20,38
	Contact with other project managers from outside the organisation		-21,79
	Internet portals, blogs and discussion forums		-32,57

\* significant at  $p < 0.05$

Source: Own research.

In this case, only three sources of project knowledge significantly differentiate organisations in terms of their size. They are: contact with other project managers within the organisation, corporate project management methodology and an internal coaching program. These three sources were selected by representatives of organisations with significantly greater number of employees. In other cases, diversity, even if

occurred, cannot be regarded as statistically significant. Still, it is worth noting that Internet sources of knowledge were generally chosen by small organisations.

### 4. Conclusions

This study advances current state of knowledge by highlighting perceived value of different knowledge sources for project managers and other members of project personnel. It fills the gap which results from lack of research concerning this issue.

Empirical results gave the opportunity to create overall ranking of project knowledge sources with regard to the origin of knowledge (internal and external sources), and the way of storing it (codified source, personalised and mixed) – see Table 3.

**Table 3. Ranking of Project Knowledge Sources**

		How is it stored?					
		codified		mixed		personalised	
Where does it come from?	internal	Project archives	1	Internal training	9	Contact with other project managers inside the organisation	2
		The organisational knowledge base	4			Participation in the projects summary meetings	5
		Corporate project management methodology	6			Contact with PMO	12
		Internal publications and guides	17			The internal coaching program	14
	external	Universal PM standards	7	Postgraduate programs	3	Contact with other project managers outside the organisation	8
		Books, books and magazines	12	External training	10	Cooperation with external consultants	11
		Internet portals, blogs and discussion forums	16			Membership in project management associations	15

Source: Own research.

The ranking demonstrates the need for development and sustaining internal knowledge sources. Project oriented organisations should pay special attention to project archives which should be properly collected, stored and shared. If to treat the management as a range of organisational structures<sup>410</sup>, the organisations eager to make best use of knowledge must reach both the knowledge of an internal nature, lying within its boundaries, as well as the external knowledge-beyond them. The results showed that the most project organisations acquire internal knowledge-rarely reach-

<sup>410</sup> D.B. Van, *Redrawing boundaries*, “Executive Excellence” February 1999, vol. 16, no. 2, p. 3–4.

ing beyond its borders. According to T. Allen people are five times more willing to acquire knowledge from their colleagues than from other knowledge sources (data base, archives etc.)<sup>411</sup>. This study seems to confirm his findings, as contact with other project managers within organisation ranked second in the overall list.

The results of this study also indicate that the perceived value of knowledge sources is different for those organisations which are project intense and those which undertake projects occasionally. The differences can be also observed in terms of size of the companies.

Those differences should be followed up by the management, which should use different tactics to enhance knowledge acquisition according to the characteristics of a company. This should be considered as starting point for the future research.

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<sup>411</sup> T. Allen, *Managing the Flow of Technology*, Cambridge, MA: MIT Press, 1977.



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*Małgorzata Striker*

# **THE CONSEQUENCES OF ENHANCED MANAGEMENT IN HEALTHCARE SYSTEM**

## **1. Introduction**

Significant changes in functioning of healthcare system are being observed in most developed countries of the world as well as in Poland. Growing demands for providing health services and thereby growing expenditures of healthcare sector, together with public pressure are directing introduced changes to focus on management improvements in order to boost productivity and effectiveness of this segment. Business strategies are being implemented into healthcare environment. Polish healthcare system is also introducing modifications influenced by methods developed in Western European countries and the United States of America. Amongst them are: standardisation of medical treatment, pharmacoeconomics, DRG-based hospital financing, privatisation of public hospitals, free market economy etc. On the one hand, this results in quite an emotional public discourse and on the other hand, it engenders new challenges for science.

A key purpose of the article is an attempt to answer the question what are the consequences of extending limits of management in public healthcare system. This research applies an analysis of context relevant literature and particularly wide scope of empirical research results published in Poland and worldwide. This study presents main directions of managing the public healthcare system with special consideration of an economic calculation (efficiency) growing priority and transformation of responsibilities of medical professionals and managers.

## **2. Increasing Role of Management in Healthcare – Managerialism**

Since the 1980s there has been reshaping of previously public in most countries, medical civil services, through privatisation and managerialism of medical institution activities.

Professional literature concerning public administration has long been considering new paradigm of medical sector management – New Public Management (NPM), which includes inter alia: introduction of professional management by implementing business strategies into healthcare fields, standardisation of medical activities, injection of free market principles; pragmatic approach to value with margin improvements, enhancement of discipline, rationality, responsibility for results of treatment and return on investment by focusing on throughput; decentralisation of establishment; quality of performance improvement; contracting public services. The concept of managerialism is concentrated mainly on decentralisation of public sector, inauguration of deregulating instruments, privatisation, free market trade and economisation<sup>412</sup>.

The World Health Organisation<sup>413</sup> is also stressing increasing role of management in effective functioning of healthcare institutions, and emphasises the most important challenge is getting the balance in four main grounds: providing sufficient number of managers, strengthening their capacity in health sector (policy and strategy development), initiating pillar systems in major domains such as finance management, workforce administration, logistics, designing information and consulting systems, creating proper work environment for frontline staff by elaborating autonomy norms for managers unified on a national level, clear regulations defining their responsibilities, commercial and non-commercial means of encouragement.

M. Noordegraaf and M. van Der Meulen<sup>414</sup> underline two approaches towards professionalisation of management in healthcare; business school and critical school. Business tactics presumes healthcare is a regular business sector and hospital administration requires same approach as managing any other enterprise, particularly in setting goals and applying administrative procedures. Thus it employs business models and a commercial approach. Critical school on the other hand, indicates healthcare is a distinctive sector and its administration requires different methods than those applicable to business environment. Specificity of this sector does not allow plain transfer of business strategies. Furthermore, professionalisation of managers in healthcare is determined by political circumstances, thus cannot be perceived as an objective procedure.

Public hospitals in Poland have been modified repeatedly over the past twenty years<sup>415</sup>. Subsequent changes brought our local system closer to the NPM solutions,

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<sup>412</sup> J. Boston, *Basic NPM Ideas and their Development*, in: T. Christensen, P. Laegreid, *The Ashgate Research Companion to New Public Management*, Ashgate Publishing, Ltd., 2011.

<sup>413</sup> World Health Organization, *Building leadership and management capacity in health*, <http://www.who.int/management/FrameworkBrochure.pdf>, 20.10.2013.

<sup>414</sup> M. Noordegraaf, M. Van Der Meulen, *Professional Power Play: Organizing Management in Health Care*, "Public Administration" 2008, vol. 86, no. 4, p. 1067–1068.

<sup>415</sup> M. Striker, *Ordynator czy koordynator. Przekształcenia publicznych szpitali a role i zadania kierownika oddziału*, "Zarządzanie Zasobami Ludzkimi" 2011, vol. 2 no. 79, p. 106–108.

as well as influenced role and task transition of frontline personnel on managerial and directorial level of all hospital units. Initially, responsibilities of leaders directing some groups of physicians were limited to administrating individual persons and following procedures established on a central level. Organisational structure was characterised by rigidity, and defined by general regulations and superiorly elaborated patterns. Autonomy, introduced to public hospitals, did not bring about major changes to their performance. The executives did not obtain enough time to enforce thorough analysis of scope and character of operation, and potentiality of functioning individually<sup>416</sup>. Only after implementation of national insurance system, directors of healthcare centres could have evolved from passive administrators to active leaders operating professional managerial tools<sup>417</sup>.

It is common conviction that Polish healthcare system is becoming more and more parallel to economic activity and is eagerly acquiring experience from business. Private-owned clinics or hospitals oriented on an economic efficiency have emerged. Similar stipulations have been imposed on public hospitals since 2011. Thus, many business strategies and administration procedures like outsourcing, lean management, budgeting, robust performance tracking are now applied in hospitals. Many managing posts have been occupied by employees with non-medical education or background, like lawyers, economists or engineers. This tendency has been increasing over the past ten years<sup>418</sup>.

### 3. Economisation of Public Healthcare System

New Public Management is implying shift in emphasis from process accountability to accountability for results (for example, quantifiable output or outcome measures and performance targets)<sup>419</sup>. Defining output (outlay) and outcome (result, profit) is quite a perplexing task in healthcare domain. Output can be calculated in natural units of measurement (number of beds, quantity of medical personnel) or business measures (level of costs, commercial sources). Outcome, or result, can be evaluated by long term efficiency (treatment results, e.g. extending the quality of life

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<sup>416</sup> M. Striker, *Decentralizacja zarządzania jako sposób restrukturyzacji publicznych szpitali w Polsce*, in: *Społeczne aspekty przeobrażeń organizacyjnych*, (ed.) A. Pocztowski, Difin, Warsaw 2007, p. 316.

<sup>417</sup> A. Austen-Tynda, A. Frączkiewicz-Wronka, *Zwiększenie skuteczności działań jednostki ochrony zdrowia jako konsekwencja świadomego przywództwa – raport z badań*, in: *Przywództwo w ochronie zdrowia: idee i instrumenty*, (ed.) A. Austen-Tynda, A. Frączkiewicz-Wronka, Oficyna a Wolters Kluwer business, Warsaw 2009, p. 213.

<sup>418</sup> P. Karniej, *Środowisko medyczne i jego otoczenie*, in: *Postawy personelu medycznego wobec zarządzania szpitalem*, (ed.) Z. Nęcki, M. Kęsy, Wydawnictwo Uniwersytetu Jagiellońskiego, Cracow 2013, p. 40.

<sup>419</sup> J. Boston, *Basic...*, op. cit.

and life span, balancing access to medical services) or short term efficiency (number of patients under treatment, number of consultations for patients). Performance or management by performance should be delivered on four levels: treatment process of an individual patient, treatment process provided by a specific employee, treatment process delivered in a separate department (ward, clinic) treatment process delivered in a distinctive subject (entire hospital, entire health centre)<sup>420</sup>.

Essential undertake initiated in public healthcare system, aiming to boost productivity of medical institutions, is to base financial structure on diagnosis related groups (DRG) and privatisation. In the 2000's DRG became main channel for regulating competition between service providers<sup>421</sup>. Nevertheless before, there had been major problems with implementing this instrument, which leaves a scar on the ideal model of NPM, originally assuming financial transparency and low-cost budgeting in healthcare. H. Herwartz and Ch. Strumann<sup>422</sup> emphasise, even though the intention of introducing DRG financing system in Germany was reduction of time spent in hospitals and increase in number of cases under treatment, in practice, it has not always resulted in efficiency growth. In application, hospitals were more likely to treat cases with higher reimbursement rate and lower level of complication. This effected in relatively less consumption of resources in comparison to cases of the same diagnosis, but higher level of elaboration, for instance patients from the groups of higher risks. Hospitals successfully obtaining low-cost patients could have presented higher efficiency.

Research results in France showed major polarity in potential of attracting such "cherry-pick" patients by private hospitals. Because of expectations to fulfil social obligations public healthcare was dealing with much more complicated cases and those of higher costs, very often exceeding amounts of standardised insurance refund. This model did not prove correct because of lack of possibility to standardise healthcare services<sup>423</sup>.

The second type of intervention, which is privatisation of hospitals, cannot be judged correspondingly positive. Research results in Germany<sup>424</sup> concerning influence of privatisation on efficiency and sustainment of margins showed privatised hospitals kept long-term (carried for at least four years period) productivity boost.

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<sup>420</sup> M. Lubicz, *Efektywność i inne miary konsekwencji działań w sektorze ochrony zdrowia*, in: *Efektywność – rozważania nad istotą i pomiarem*, (ed.) T. Dudycz, G. Osbert-Pociecha, Wydawnictwo UE we Wrocławiu, Wrocław 2010.

<sup>421</sup> D. Simonet, *New public management and the reform of French public hospitals*, "Journal of Public Affairs" 2013, vol. 13, no. 3, p. 263.

<sup>422</sup> H. Herwartz, Ch. Strumann, *On the effect of prospective payment on local hospital competition in Germany*, "Health Care Management Science" 2012, no.15, p. 48.

<sup>423</sup> D. Simonet, *New...*, op. cit., p. 263.

<sup>424</sup> O. Tiemann, J. Schreyögg, *Changes in hospital efficiency after privatization*, "Health Care Management Science" 2012, vol. 15, no. 4, p. 324.

Workforce productivity and operations improvement were achieved by reduction of number of employees (not executed on medical and administration personnel). Nevertheless, for full interpretation of achieved results, all the limitations of performed methods should be taken into consideration. Evaluated factors concerned only magnitudes, like profit, income of sale, level of investment, or death rate. There were some variable factors not included in the estimation, like the level of clinician satisfaction of patients and retention, type of delivered services, proportion of local society medical needs fulfilment.

#### 4. Alteration of Responsibilities of Medical Professionals

Rules of liberal, free-market economy introduced in healthcare system impose necessity of rising to the market demands. On the other hand, health issue is often used as a trump card in political strife. Therefore economic efficiency, the basic paradigm for functionality of the organisation, is not always achievable. This brings up doubts about traditionally interpreted roles of managers in healthcare. Results of research in the field of healthcare administration are confirming this thesis<sup>425</sup>.

In Sweden, introduction of expert managing systems changed perception of medical profession in general, and divided medical circle in two groups: supporters of bringing managing systems into healthcare institutions, and conservatives, defending independence of medical professions. Since the 1980s different innovative solutions raising effectiveness of management, concerning accountancy or client oriented attitude have been introduced. Until recently, the autonomy of medical professions and complete control over clinical sphere of services provided, have been left to medical institutions. However recent changes are aimed to suppress previously agreed equilibrium. Launching healthcare quality metrics originated in distinct fields can be observed. Physicians can no longer control and set their collective (of the whole medical environment) aims, competences and faculties. They become employees comparable to other qualified occupational groups, such as engineers or merchants. Professional system, until recently holding unquestionable control over medical activities, is being slowly taken over by managing system<sup>426</sup>.

Competences of the lowest ranked medical directors in Great Britain have been similarly changed over the past few decades. Medical practitioners have taken over huge responsibilities in management sector, particularly in human resources, financial management (cost and income of medical services) and implementation of quality

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<sup>425</sup> A. Frączkiewicz-Wronka, *Zarządzanie publiczne w teorii i praktyce ochrony zdrowia*, Oficyna a Wolters Kluwer business, Warsaw 2009.

<sup>426</sup> E. Bejerot, H. Hasselblad, *Professional Autonomy and Pastoral Power: the Transformation of Quality Registers in Swedish Health Care*, "Public Administration" 2011, vol. 89, no. 4, p. 1604–1621.

control procedures. Close analysis showed that budget management, throughput and supply management, directing the strategy of patient's recovery process, as well as wide scope of duties in human resources, were attached to standard clinical responsibilities for medical staff. Nevertheless, assurance that medical labor of unit directors should be and is dominating in their clinical practice, is established as a common conviction<sup>427</sup>.

D. Simonet<sup>428</sup> drew similar conclusions from examining process of changes in healthcare system in France. Quantity effectiveness metric system compulsion, DRG system introduction, brought about changes in perception of medical profession. The usage of mainly economic efficiency oriented assessments resulted in diminishing importance of physicians' social and ethical mantle. Unfavorable consequences of managerialism in healthcare system are indicated: rising inequalities amongst patients in terms of medical service accessibility, bureaucracy rise, lack of transparency and reliability previously presumed by NPM. Main difficulties for hospitals are caused first of all by operating in highly unpredictable environment, especially according to difficulties in anticipation of patients' treatment results.

Modification of tasks and responsibilities for directors of hospitals brought about changes in requirements for heads of wards, also in Poland. Since the late 1990s there has been a discussion concerning changes in management structure of hospital wards. Traditionally, a head of ward was also a supervisor of unit who was first of all accountable for process of treatment. Amongst his responsibilities were: supervision of recovery process, diagnostic procedures, healing and therapeutic procedures. Medical abilities – theoretical and clinical knowledge, were the most important factors of this position. Along with introduction of contracts and rising significance of the economic efficiency of hospitals, a medical personnel is more frequently incorporated in hospital management structure. Not everyone agrees with handing over administrative responsibilities to a head of ward, claiming he should first of all cure patients according to his best knowledge, regardless of expenses. Assuming hospital ward is a medical activity cell, we can assert concentrating administrative and economical functions on the level of individual unit does not have to be obligatory, and head of ward should not carry responsibility for financial scope of the unit, and economical results of essentially medical decisions. This approach reinforces setting exclusively professional related requirements (expert medical knowledge and clinical work experience) for heads of hospital wards<sup>429</sup>.

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<sup>427</sup> S. Hutchinson, J. Purcell, *Managing ward managers for roles in HRM in the NHS: overworked and under-resourced*, "Human Resource Management Journal" 2010, vol. 20, no. 4, p. 1617–1618.

<sup>428</sup> D. Simonet, *New...*, op. cit., p. 263.

<sup>429</sup> M. Striker, *Ordynator...*, op. cit., p. 109.



## 5. Conclusions

Highly developed countries of the world, especially in Europe and North America, have been running debates considering best approach to hospital administration and healthcare system in general. Gradually launched solutions have been originated in private sector, but conclusions of this implementation seem highly unpredictable. The results of analytical research concerning consequences of extending the limits of management in healthcare structure are indicating two main areas of consideration. First of all paying more attention to economical outcome; introduction of DRG financing system and privatisation are admittedly raising profit rates, but it results in declining other stated duties of healthcare sector, like inequalities in medical service accessibility. Medical institutions are not competing for all kinds of patients, but are fishing for low-cost cases, lower than level of DRG assessments. Only better priced medical domains are developing. Undervaluing of some medical services is effecting in withdrawal of some subjects (especially private ones) from servicing in particular disciplines. Secondly, pressure for increasing effectiveness and productivity of operation is impacting managers and other medical personnel. Therefore, demands for all levels of management, starting with directors of out-patients departments and stationary clinics, through medium level directors, finishing with lowest ranks – heads of wards and ward nurses<sup>430</sup>. There is a significant change in performing medical professions. Former relatively independent workers now become subject to rules, regulations, and universal standards. Decision concerning treatment methods based on an economical outcome rather than medical professional knowledge, is not always patients' best interest.

The results of scientific research examining administration indicate difficulties in assessing consequences of extending limits of management in healthcare structure. Although productivity and economic efficiency became valid paradigm for operation of healthcare system institutions (hospitals, community health centres, rescue parties), the science has not yet worked out fully effective methods for quantification and assessment of consequences indwelling in changes applied in healthcare service entities. Thus far published scientific research is dominated by quantity approach, based on analysing financial indicators (profits, margins, return on investments). This is caused by relatively easy access to data leading to bottom-line statistics. Many scientists suggest necessity of research supplementation by quality approach, which will first of all take into consideration specific context of management position development in healthcare, and its combination with traditional medical

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<sup>430</sup> K. Townsend, A. Wilkinson, *Managing under pressure: HRM in hospitals*, "Human Resource Management Journal" 2010, vol. 20, no. 4, p. 332–338.

duties, especially in public sector of medical service. Designated consequences of managerialism in healthcare system are resulting in obligation to find methods for going beyond financial indicators, and thus examine relation between social, public aim accomplishment and financial stability assurance. The maintenance of balance between providing proper medical service, as well as efficient and effective expend of means, is a key issue in healthcare institutions.

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# THE BOUNDARIES OF ECONOMISATION AND MANAGEMENT OF MARKETING IN HEALTHCARE SYSTEM – THE PROBLEM OF SATISFACTION

## 1. Introduction

Healthcare systems introduced in the countries of the EU have been considerably modified, diverging from theoretical models. Despite many differences, they are commonly characterised by the need of constant modification and increasing effectiveness. It is impossible to disagree with the statement of the Regional World Health Assembly: “Many problems such as the reduction of costs, the involvement of the government and the quality of care belong to the common problems in the majority of healthcare reforms”<sup>431</sup>.

Polish system of healthcare can, therefore, derive from experiences of other countries, both theoretically and practically. However, the task of reaching beyond the selection of a particular model of health care or its adaptation to the specific economy is, undoubtedly, the problem of financing and the amount of funds assigned for healthcare. Therefore, from the perspective of economic sciences of management the question can be posed: are there limits of economisation for the healthcare system understood as marketing process? The ideas mentioned in the following paper refer to economisation and limits of the use of marketing instruments in the management of the health sector.

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<sup>431</sup> L. Epstein, *The Role of Government in the Promotion of Quality in Health Care*, in: *Governments and Health Systems Implications of Differing Involvements*, (ed.) D. Chinitz J. Cohen, John Wiley & Sons, New York 1998, p. 413–423.

## 2. Economisation of Healthcare System in Poland

Following the system transformation in Poland, healthcare system has undergone significant changes. It has been accompanied by controversies and perpetual debate between providers, the government administration and tax payers. The subsequent governments represented different views on healthcare reforms in Poland. Moreover, the authorities unanimously treated health issues as the most important problems to solve.

Although their declarations seemed to be serious, the problem of healthcare in Poland remains unresolved until 2014.

One of the most important causes of failures in the initial period of implementation was the lack of precision in defining the objectives of the project undertaken<sup>432</sup>. One of the observers of the changes noted: “in the reform there is no specified vision of the system, what is worse, there is not even a rough description of it”<sup>433</sup>.

Therefore, the beginning of transformation was not only difficult but also devoid of a specified vision. However, on 1<sup>st</sup> January 1999 significant changes known as ‘the reform of healthcare system’ were introduced. Initially, the law introduced some basic concepts: separating the functions of payers and providers, a contract as the foundation for building internal bonds. The developing model was based on the concept of internal market, which connected the rules of public responsibility with the market mechanics: choice and competition. Private and public providers, public centres led by authorised administrators were supposed to compete. Patients had the right to choose their preferred providers, but their decision had only an indirect impact on the money flow, according to the rules of the internal market, despite the slogan “money follows the patient”. That model was unable to make financial means follow a patient, but according to many groups the aim of the reform was to create a market, and the awareness of differences between an internal market and an open market was scarce, which could be justified by statements referring to the beginning of “a free market of medical services”<sup>434</sup>.

The emphasis on the market in presented model rules was closely connected with decentralisation. The reform was one of the stages of the whole process. It enabled different entities to create healthcare units, which led to the liquidation of a unified state-governed institution, with providers being a part of it. Certain groups of medical

<sup>432</sup> C. Włodarczyk, *Cele reformy opieki zdrowotnej*, in: *Cele reformy. Od koncepcji do realizacji*, (ed.) L. Kolaraska-Bobińska, Instytut Spraw Publicznych, Warsaw 2000, p. 145. Also in: *Koncepcja. Oceny wpływu na zdrowie i jej wykorzystywanie w Unii Europejskiej. Perspektywa sektora prywatnego*, “Zeszyty Naukowe Ochrony Zdrowia. Zdrowie Publiczne i Zarządzanie”, 2010, vol. 8, no. 1, p. 79–94.

<sup>433</sup> J.L. Kurkowski, *Osamotnieni i przed rachunkiem sumienia*, “Gazeta Lekarska” 1999, no. 6.

<sup>434</sup> C. Włodarczyk, *Reforma opieki zdrowotnej w Polsce*, Cracow 1998, p. 183.

occupations became independent as far as self-organisation, self-employment and creating compulsory professional agencies were concerned. Finally, new obligations were imposed on local governments on the level of a powiat (county) and voivodeship. The reform put an emphasis on decentralisation, which helped the government to stop being directly involved in the management of the system. Opposition towards control and government intervention should have been regarded not as a recreation of the atmosphere of decision making of that time, but as a rule which allowed to interpret different solutions introduced<sup>435</sup>.

To sum up, changes in the healthcare system were a real foundation to improve the healthcare system by a transition to market-oriented economy. Abolition of zoning and the possibility to compete for the providers were especially important. In the perspective, those actions can be considered to have led to the improvement of the services offered by the healthcare system. The changes created a market and were the basis of competing for the patient and using marketing of relations. Transition to market-oriented economy in health care can be interpreted as an increase in the significance of the market and its rules in allocation, share and consumption of health services. When it comes to relations between the participants of healthcare sector, it is important to apply marketing rules and consider the relations in economic terms<sup>436</sup>. Following regulations were the basis for the changes<sup>437</sup>: the Law of 30<sup>th</sup> August 1991 on Healthcare Institutions (Journal of Laws, No. 91 item 408, as amended), the Law of 5<sup>th</sup> December 1996 on Medical Profession (Journal of Laws from 1997, No. 28 item 152, as amended), and introduced on 1<sup>st</sup> January 1999 the Law of 6<sup>th</sup> February 1997 on General Health Insurance (Journal of Laws, No. 28 item 53, as amended).

The above-mentioned legal framework allowed for units so far dependent on government administration to be transformed into service companies.

The process of transition into a market-oriented economy is a way of rationalising this sector of public economy. It is connected with the tendency referred to as new public management. It aims to increase the effectiveness of healthcare sector, adjusting services to social needs and the improvement of rules of managing limited resources. In public economy economic mechanics should be liberated, public character of healthcare system should be connected with the elements of the market and competition. In this way, the new manner of operating in the healthcare system cannot be identified with increasing the effectiveness only, but also with improving the quality of living<sup>438</sup>.

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<sup>435</sup> Ibidem, p. 182–183.

<sup>436</sup> J. Suhecka, *Ekonomika ochrony zdrowia*, Absolwent, Łódź, 1998, p. 42–43.

<sup>437</sup> B. Nowatorska-Romaniak, *Marketing usług zdrowotnych, Koncepcja i stosowanie*, Oficyna a Wolters Kluwer business, Warsaw 2008, p. 7.

<sup>438</sup> S. Golinowska, *Pożądanie kierunki systemu ochrony zdrowia w Polsce. Między racjonalizacją a racjonalizacją*, Centrum Analiz Społeczno-Ekonomicznych CASE, Warsaw 2004, p. 13. Also in: *Oplaty*

For that reason, the evaluation of the transition to a market-oriented economy is difficult and tends to look for economic and social criteria<sup>439</sup>.

In professional literature the notion of a transition to a market-oriented economy is used interchangeably with the term commercialisation. It means selling goods and services on the market terms, i.e. “economic approach to goods and services according to the rules of the market”<sup>440</sup>. The real commercialisation means the share of goods by applying a market mechanism, i.e. subordinating a social sphere to a sphere of economic activity. There is also a tendency to regard the price as a mean of evaluating achievements and benefits, but its application does not have to be equal to the distribution of goods according to the market price balancing the supply and demand. In this context, the payment for the service, even if it does not cover the cost of the service, can be regarded as commercialisation. Such ‘partial’ commercialisation is a compromise between the rules of the market and the demands of social policy. It does not have to lead to a property transfer. Transition to a market-oriented economy in public sector involves keeping the property rights in the hands of the state<sup>441</sup>.

The activity of the state in the public sector can be seen both in the regulation sphere and real national economy, interfering in the market to some extent. In health-care, both directions are possible. The first one refers to the regulating role of the state, the latter to its organisational and financial functions<sup>442</sup>.

The role of the state in healthcare cannot be limited to control, administration and legal regulations, but should be extended to regulating the price of medical services, establishing an institution of the third party whose aim will be the distribution of means gathered to cover the costs of medical treatment. It may be public-oriented or non-public oriented, depending on the national system. The role of the third party institution is to cover the costs of medical treatment. This way of operating reduces the risk, but distorts the function of the price, which thus fails to be an important indicator of the services value or the cost of resources used. Therefore, it becomes essential for the payer to behave rationally, verifying the price of contracts, so that the choice could be a compromise between controlling costs and efforts to raise the quality of health services. In practice, it is difficult to achieve, as the payer would

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*nieformalne w ochronie zdrowia. Perspektywa i doświadczenia polskie*, “Zeszyty Naukowe Ochrony Zdrowia. Zdrowie Publiczne i Zarządzanie” 2010, vol. 8, no.1, p. 12–28.

<sup>439</sup> J. Stacewicz, *Racjonalność gospodarowania a współczesne wyzwania rozwojowe*, PWE, Warsaw, 1988, p. 13.

<sup>440</sup> A. Bogus, W. Kwiatkowski, A. Szablewski, *Komercjalizacja usług społecznych w opinii ludności*. “Polityka Społeczna” 1985, no. 8, p. 15.

<sup>441</sup> S. Golinowska, *Ład instytucjonalny w sferze społecznej*, “Working Papers” no. 20, Instytut Nauk Ekonomicznych PAN, Warsaw 2000, p. 19.

<sup>442</sup> E. Ehrlich, *Wstęp do nauki o państwie i prawie*, PWN, Warsaw 1979, p. 67.



need to get information about the costs and arbitrary decide whether a particular service is essential to fulfil social needs<sup>443</sup>.

In Poland this task is tackled by the Law on General Health Insurance in National Health Fund<sup>444</sup> (NFZ), introduced in 2003, which constitutes a legal basis defining the rules of its regional branches operating. The fund disposes of financial means to cover the costs of patients' treatment, being their advocate at the same time. In the period from January 1999 to March 2003, the function of the third party payer was performed by the public purse of General Health Insurance<sup>445</sup>.

Managing the sector of healthcare needs separating the function of a purchaser from the function of a provider of health services. The third party, de facto the role of an indirect administrator of public means, is performed by regional branches of NFZ. The function of a provider of services is fulfilled by public and non-public healthcare units (ZOZ and NZOZ) and private medical doctors and nurses services (referring to groups or individuals). Separating the functions requires two internal markets, therefore, to simplify the problem, this system is often referred to as internal market<sup>446</sup>. Because of its structure, it is possible for the supply party to compete, which one can notice in the competition to access public financial means and, in consequence, the competition to gain patients<sup>447</sup>.

According to I. Rudawska, the competition mechanism on the supply side of a patient – provider relation is twofold, triggering certain behaviour of healthcare entities towards the administrators of financial means (regional branches of NFZ) and ultimate beneficiaries of healthcare services (patients). Creating an institution of the so-called third party means that health care units need to negotiate the contracts referring to providing services. The decisions of NFZ branches determine which services and to what extent will be paid from the general health insurance. It means healthcare units receive a certain amount of financial means. Contracting services with the branches of NFZ can be considered as a mechanism triggering competitive behaviour<sup>448</sup>.

Competition in the health sector becomes a powerful determinant of marketing development, as J. Otto noticed referring to a key role of competition in creating

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<sup>443</sup> I. Rudawska, *Ekonomizacja relacji pacjent – usługodawca w opiece zdrowotnej*, Wydawnictwo US, Szczecin 2006, p. 50–51.

<sup>444</sup> The Law of 23<sup>rd</sup> January 2003 on General Health Insurance in National Health Fund, Journal of Laws of 2003, no. 45, item 339.

<sup>445</sup> The Law of 6<sup>th</sup> February 1997 on General Health Insurance (Journal of Laws of 1997, no. 2 item 153).

<sup>446</sup> M.M. Smoleń, *Mechanizmy rynkowe a samodzielność zakładów opieki zdrowotnej*, "Antidotum" 1997, no. 2, p. 5 and next.

<sup>447</sup> I. Rudawska, *Marketing w nowoczesnej opiece zdrowotnej*, Wydawnictwo US, Szczecin 2005, p. 36.

<sup>448</sup> Ibidem, p. 36.

marketing<sup>449</sup>. It must be emphasised that market competition is not an unequivocal concept. It is doubtful whether market competition automatically means price competition. Current experiences in a transition of health services to market-oriented economy are insufficient, especially when it comes to the areas of internal market functioning in Poland and the use of marketing within it. The evaluation of the functions of institutions like NFZ is essential for the proper functioning of health services. What is more, political willingness is needed for the internal market in health sector to operate properly.

Nowadays, professional literature often relates to economic analysis being useful in rational management of healthcare means. On the one hand economic analysis in healthcare allows to make rational and transparent decisions, and additionally creates the system of rewarding based on results and justifying the costs incurred. On the other hand, collecting data and the complexity of the analysis can be difficult, which may result with wrong decisions<sup>450</sup>.

### 3. Marketing Management in the System of Healthcare

The process of transition to a market-oriented economy and growing competition allowed to introduce marketing instruments into the healthcare sector. The development of marketing services is regarded as a new concept in marketing studies, as opposed to the studies and output of product marketing.

The key to effective marketing management should be the appropriate concept of relationship marketing and internal marketing, i.e. the activities concerning the staff. Considering the specific character of health sector and the leading role of human factor, relationship marketing is predestined, as it is defined by creating and maintaining interactions with partners. A healthcare company may become a source of potential competitive advantage and, at the same time, strengthen its position on the market, bringing satisfaction for its clients. It is undeniable that mutually satisfying relationship with a patient brings many positive effects not only in medical categories, but also economic ones<sup>451</sup>. An important argument favouring relationship marketing in health services is the increasing role of pricing, which can be seen in many forms of the patient's participation in the costs of services. Satisfaction of the

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<sup>449</sup> J. Otto, *Marketing relacji. Koncepcja i stosowanie*, Wydawnictwo C.H. Beck, Warsaw 2004, p. 277.

<sup>450</sup> J. Lis, *Analiza ekonomiczna w ochronie zdrowia – ograniczenie kosztów czy zwiększenie opłacalności?*, "Problemy Zarządzania" 2004, p. 97.

<sup>451</sup> I. Rudawska, *Marketing...*, op. cit. p. 87.

services refers not only to quality, but also relates to monetary and non-monetary costs incurred<sup>452</sup>.

Marketing management in healthcare sector does not have to be connected with creating a special department or unit, but paying attention to relations between a patient and the staff and the continuous examination<sup>453</sup>. Although the need of interpersonal contact expressed in the doctor – patient relationship results from the fundamental needs of a human being, its full understanding and application with the use of marketing tools can be problematic in the area of medical services. Advertising health services is considered unprofessional in many cultures including Polish. It results from a special status of freelance professions, which can be confirmed in internal regulations and codes of conduct such as medical deontology, and eliminates all forms of competition and advertising from professional activity<sup>454</sup>. Undoubtedly, solving the dilemma of the scope of marketing management is not easy and relevant, because transferring a classic concept of marketing activities applied in companies into the area of healthcare would be a failure. The key to efficient marketing in healthcare sector is the activity based on relationships between a doctor (provider) and patient (customer).

The measure of satisfaction, especially in literature concerning consumer behaviour, is a basic method of assessing post-shopping experiences. Moreover, considering the fact that satisfaction is a transitory emotion, changeable sensation, its importance in relationship marketing must be considered in the context of bonds between the service provider and consumer<sup>455</sup>. According to K. Rogoziński, thanks to personal relations and dialogue more permanent bonds and correlations can be created, which is the purpose of the relationship marketing<sup>456</sup>.

## 4. Materials and Methods

The basic empirical technique for the verification of theoretical assumptions was a fully structured questionnaire addressed to the patients of public and private facilities of primary healthcare, conducted in the Świętokrzyskie Voivodeship in 2010. In total,

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<sup>452</sup> I. Rudawska, *Ekonomizacja...*, op. cit., p. 141.

<sup>453</sup> Ibidem, p. 6.

<sup>454</sup> I. Rudawska, *Marketing...*, op. cit., p. 70.

<sup>455</sup> I. Rudawska, *Ekonomizacja...*, op. cit., p. 196. Compare: I. Rudawska, *Więzi relacyjne w związku pacjent – usługodawca opieki zdrowotnej*, in: *Opieka zdrowotna. Zagadnienia ekonomiczne*, (ed.) I. Rudawska, E. Urbańczyk, Difin, Warsaw 2012, p. 552.

<sup>456</sup> K. Rogoziński, *Wprowadzenie do marketingowego zarządzania organizacją świadczącą usługi medyczne*, in: *Podstawy zarządzania zakładem opieki zdrowotnej*, (ed.) K. Rogoziński, M. Dobska, Wydawnictwo Naukowe PWN, Warsaw 2008, p. 228.

using a questionnaire survey, 279 people living in the area of Świętokrzyskie Voivodeship were examined, of which 195, or 70.14%, were women respondents, and 94 were males, which accounted for nearly 30%. Nearly half of the surveyed population were the inhabitants of small and large cities (above 100 thousand inhabitants). While the residents of rural areas constituted a little more than a half of the study population. The study group was also varied by the structure of education. People with higher education accounted for 13.6%, and 64.1% had secondary education. A little more than 22% were persons with basic and vocational education. Women with secondary education were the largest group in the study (131 respondents), while men with the same education constituted 48 respondents. The age structure of the study group was varied, but the majority were people aged between 50–59 (243 people, or 87.1% of the total respondents), of which 170 were women and 73 were men.

For a more complete analysis of the problem of marketing management in the context of satisfaction results of the study were referred to the Communication of Research CBOS No. BS/34/2012 “Opinions on the functioning of the health care system”, conducted on a group of 999 people from across Poland.

## 5. The Results of the Study

Empirical studies confirmed the theoretical assumptions that marketing management in the health sector requires a skilful use of relationship marketing identified with the sphere of economisation in the context of studies of satisfaction with the services offered. Therefore, the health sector institutions which want to improve the quality of services offered and manage the institutions effectively should examine the degree of satisfaction with the services (Table 1).

**Table 1. The Level of Patient Satisfaction with the Service Provided by a Medical Doctor.**

Question	Opinion	Answers total for NZOZ and SPZOZ
Were you satisfied with the service provided by a doctor?	Completely dissatisfied	1,08%
	Dissatisfied	4,66%
	Contented	13,98%
	Very satisfied	70,97%
	Absolutely satisfied	9,32%
	Σ	100%

Source: Own research.

Although the respondents in the study were a diverse group of beneficiaries, in terms of age, education and place of residence, they declared a high degree of satisfaction with the level of service received, which in the context of generally

prevailing dissatisfaction with the functioning of the healthcare system seems to be debatable, but it proves there is a need for extensive research in this area. CBOS research reveals that older respondents – aged over 54 (and also held by the author in the study group) and having lower education, express a positive opinion about the healthcare system. Pensioners (65%) and retirees (63%) assess healthcare in the most positive way. In contrast, disappointment with the functioning of healthcare is more common among respondents relatively better educated, urban residents, especially from larger towns, (84%) working population and students (85%) and respondents aged 35–44 years (88%)<sup>457</sup>.

Moreover, in the era of economisation there is a necessity of finding out the reasons for this phenomenon, as it is likely that most of health benefits offered on the market, particularly received in direct service interactions meet the expectations of the patients, whereas the management of institutions and the distribution of funds are disappointing. CBOS<sup>458</sup> draws similar conclusions, indicating that respondents positively assess the quality of treatment, which – apart from the availability of primary healthcare services and medical equipment modernity – is seen as one of the strongest sides of state health services. At the same time, it indicates that impediments to access the advice of specialists and diagnostic tests, which arise from the long period of waiting for the visit and the very small number of facilities providing such services, are one of the biggest problems. Moreover, among those respondents surveyed by CBOS<sup>459</sup> many claim that very modest budget of health service is responsible for an unsatisfactory quality and availability of health benefits (53%) – they assume that the improvement of the system requires better management of public money.

## 6. Conclusions

Considering the issue of healthcare management in Poland from the pragmatic perspective, the spheres which require further improvement are clearly visible. Previous experiences of reforms point to the possibility of difficulties and conflicts in the future, because past problems have not been overcome. Social reception of the Polish healthcare system is still negative. Perhaps the way forward would be partial privatisation for which certain political circles are aiming. Presently, private healthcare has a significant role in financing the entire system. It can be expected that the further economisation of health services will contribute to improving the quality of services, which will positively change its social reception. Furthermore, the use

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<sup>457</sup> N. Hipsz, *Opinie o funkcjonowaniu systemu opieki zdrowotnej*, Research report, Wydawnictwo Fundacja Centrum Badań Społecznej, Warsaw 2012.

<sup>458</sup> Ibidem.

<sup>459</sup> Ibidem.

of effective marketing tools will help to broaden the spectrum of management and remove yet another limit in the development of new instruments for the sector, which will significantly affect the quality of life of the system beneficiaries.

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*Sebastian Bakalarczyk*

# **BOUNDARIES OF INNOVATION ABSORPTION IN ORGANISATIONS' MANAGEMENT**

## **1. Introduction**

The increasing importance of innovation and its boundaries result from the fact that in the today's ever more interconnected and ever diminishing world the competition increases and the products life cycle gets shorter. Therefore, already at the moment when some of the products are still successful at the market we need to work on the innovation that will replace them. It is necessary to realise that an innovation is deemed successful only after the introduction (absorption) of a new product or process to the market. Its goal is to modify the economic and/or social environment, change the behaviour of people as consumers or producers. Rather than new knowledge innovation forms, new values or new possibilities should be implemented. It's worth remembering that the mentioned process is limited. Limits come from the various customers and producers behaviours. In this case process of absorption can be threatened.

Successful entrepreneurs, regardless of their motivation – money, power, curiosity, longing for fame and acknowledgement – try to create values. Improving or modification of existing things is often not enough for organisations. They want to create new values, new needs, and form new, more effective combinations from the existing resources. The opportunity for something new, different is always based on change. Innovation takes root in the focused identification of changes and in the systemic analysis of economic or social innovations based on these changes. Innovators do not view any change as a threat but as an opportunity.

Innovation and innovativeness, both, play extremely important role in business organisation management. Theoretical innovation and its implementation limit overview with a special attention to absorption processes and paradigm of enterprise of the future inspired to the investigation in this heterogeneous scientific area. The main aim of the chapter is to present the ways of absorbing (implementing) innovation

with special attention to its boundaries as the crucial part of knowledge management in business organisations. Literature overview, research analysis, scientific discussion and conclusions are presented below.

## 2. Theoretical Background of Innovation

There is no uniform definition of range of innovation or technology. There are main views over this topic that depict innovation as a result or a process. The first depiction claims that innovation is a change in the sphere of production, which leads in consequence to new products. Second depiction says that every creative process is innovation<sup>460</sup>. The OECD methodology expands the concept of innovation into area of organisation and marketing, and determines relationship with other companies in the course of the innovation process. This methodology constitutes the basis for current studies on innovation<sup>461</sup>.

Taking into consideration the mentioned concepts, innovation is a process enclosing all actions connected with new idea creation, forming of invention and then implementation of invention – new product, process. In the innovation's interpretation there are two approaches that dominate, namely, innovation understood as a result and as a process.

Innovation can be classified differently, depending on their origin, but we can diversify them into four essential groups: functional innovation – created to satisfy social needs that have yet not been revealed, in other words they serve new functions, e.g. introducing iPhone; process innovation – the point of such innovation is to implement new manufacturing methods, which improve production, make it cheaper or improve conditions and environment of work; subject innovation – introduces new objects such as machines, tools, products etc. to replace these used so far, with the ones that better perform tasks for which they have been created; and organisational innovation – improves organisation of work and production, health and safety conditions and makes it easier for employees to perform their tasks.

Innovation can be divided into several groups, which then can be further divided into smaller sub-groups. It is impossible to point all of them. Each of the group is mutually dependent from others and because of this cannot be analysed separately. When it comes to more in-depth analysis of innovation, it can be also diversified according to the originality of changes, thus we can distinguish<sup>462</sup>: original (creative) innovation – this group of innovation contains inventions, discoveries, products

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<sup>460</sup> J. Tidd, J. Bessant, *Zarządzanie Innowacjami*, Oficyna a Wolters Kulwer business, Warsaw 2011, p. 39–44.

<sup>461</sup> A. Pomykałski, *Innovative Organizations*, Technical University of Lodz, Łódź 2008, p. 6–7; A. Pomykałski, *Innowacje*, Politechnika Łódzka, Łódź 2001, p. 11–21.

<sup>462</sup> S. Marciniak, *Innowacyjność i konkurencyjność gospodarki*, C.H. Beck, Warsaw 2010, p. 36–38.

manufactured by a given individual or a group, both creation and first, pioneer usage of this innovation; and derivative (adopted) innovation – relies on imitation and reproduction or original changes, dissemination of original achievements, which can yield particular economic benefits. Inside this group we can also distinguish imitative innovation and reproductive innovation. This second takes place when an individual creates an innovation on his/her own but such solution was known earlier, independently created by someone else.

Research has shown that limits of original innovation are very rare, whereas derivative innovation constitutes basic innovation flux. Another more specific limit of innovation can be determined due to a size of an innovation. Thus we can distinguish 'big' and 'small' innovation. First group can be also called strategic innovations and they concern long-term projects of a great meaning for an organisation and for a county. Such innovations favour realisation of strategic economic purposes, they essentially influence organisation's development and in most cases consume large financial expenditures. Second group, also called tactical innovations, concern current changes in production technology or management methods, which can increase effectiveness and with help from better quality and new products better satisfy market needs<sup>463</sup>. This division shows the absorption boundaries.

Actually, it is very hard to define the border between these two groups. This division is mostly done according to intuition, as the most obvious criterion – financial expenditures are not fully correct. This results from the fact that there is no strict correlation between expenditures and economic effects.

Next division of innovation can be done according to the source of an innovation. Thus we can distinguish<sup>464</sup>: foreign innovation – adopted from abroad, by this we can understand all innovations bought in the form of licenses, know – how and based on imitation; national innovation – a national source of such innovation can be an organisation, that is why we can also determine innovation suggested by own R&D department and innovation suggested by personnel employed outside of R&D department. The continuation of that division is innovation by stimulation mechanism: demand and supply. In recent years, the concept is gaining on importance. Demand innovation is the result of stimulation from the market. Pure desire of scientists and inventors to discover or create something new is a first impulse of this innovation. Supply-side innovations are the result of discoveries, inventions and ideas – they arise because market signals motivated/stimulated inventors, artists to work on the issue.

We can also look on innovation from a degree of complexity. This diversification is analysed according to the complexity of a process and number of creators. That is why we can determine coupled and non-coupled innovation. First is understood

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<sup>463</sup> J. Szpon, E. Pawlak, A. Owczarek, J. Stańczuk, K. Sosnowska, M. Nosal, *Innowacje jako źródło konkurencyjności nowoczesnego przedsiębiorstwa*, Economicus, Szczecin 2009, p. 26–30.

<sup>464</sup> J. Tidd, J. Bessant, *Zarządzanie...*, op. cit., p. 313–314.

as an effect of a mutual effort of many people, institutions or research teams. It is characteristic for this group to necessarily determine actions of all participants and stakeholders. This type is the most common for the economy, because of fast technology development and increase of worker's skills. Whereas the second group is understood as an effect of both creative and imitative activity, performed beyond professional activity by an individual.

Very important group of innovation is technological innovation, which can be understood as the new products and processes or meaningful improvement of production or delivery methods. Both product and process innovation is usually connected, as product innovation would not be possible without process innovation and changes in work organisation. The main difference between them is the fact that product innovation is more sensitive for market factors. Process innovation can be divided into several types of development projects: derivative projects – their aim is to improve a given product or process; plane projects – create project and parts, which are common for product and process changes, industrial projects – establish new central products and processes, which vary significantly from previous generations; and R&D – create know-how and know-why of new materials and technologies<sup>465</sup>.

Significance of product innovation for market economy is much more important than those of process innovation. That is because market competition is mostly connected with introduction of new products. Definition of new product is not unique and depends on a point of reference. That is why we can distinguish three main groups of new products for the market or for the company<sup>466</sup>: new product on a new market (10% of innovation); new product on an existing market – product which supplements line offered on a market, new for the company but already known for clients (about 80% of innovation); and improvement of already existing product – replacement by more efficient product, or similar product, but having lower costs (about 10% of innovation). Differences that result from the level of novelties have significant meaning for innovation management. Minimal changes, which occur every day, deserve different approach than crucial changes of a product or process.

The synthesis of a typology of innovative development strategies is based on specific criteria. Included in the types of innovation, strategies do not exist in isolation and are in fact the defined relationships between them. Economic entity (sector) formulates and implements specific innovation strategy by indicating a key factor in its implementation. The other elements are subordinate to the central elements of strategy. The most important characteristics of innovation strategy can be adopted to formulate the portfolio of innovation correlated with long-term strategy of the

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<sup>465</sup> J. Bogdanienko, M. Haffer, W. Popławski, *Innowacyjność przedsiębiorstw*, Wydawnictwo UMK, Toruń 2004, p. 16–18.

<sup>466</sup> P. Trott, *Innovation management and new product development*, Financial Times, Essex 2011.

entity, taking into account the strategic area, adjusting the portfolio of research projects (licensing, continuing education) to the market, the integration of strategy and business development, as well as the solid partnership between staff research, production and business in an organisation<sup>467</sup>.

Last approach to innovation is quite different as it is the market point of view, which can be also understood as consumer's point of view. According to this approach we can diversify: continuous innovations – they have small influence over consumption patterns, because they mostly depend on minor change in already existing products. They do not require continuous learning of new behaviour; dynamically continuous innovation – implementation of such innovation requires only minor changes in behaviour; and discontinuous innovation – completely new products, their implementation to the market requires teaching consumers entirely new consumption patterns.

Every organisation is working on innovation portfolio, which can be either in a form of small changes in already existing product/process or in a form of radical changes. For effective innovation management it is essential to reach proper ratio in such innovation portfolio and match innovation with a level of competitiveness of an organisation and its technological and market possibilities. Every new idea (innovation) before its materialisation, in the form of product or service, must undergo a specific series of activities called the process innovation. The existence of a process approach is a condition for taking action in the management of innovation<sup>468</sup>.

### 3. Absorption of Innovation and Its Boundaries – Research Analysis

Absorption of innovation is understood as a very crucial and important part of managing a modern organisation. Mentioned above implementation in the process of building competitive advantage could be unique for organisation's success. It is necessary to stress that this action is extremely complicated and very complex. Management theory emphasises the significant and growing role of the implementation of innovation for the organisation. Results of the research are presented in this part of the chapter. Investigation is based on: absorption (implementation) theoretical background overview, data from the external institutions and its analysis and contribution to international projects.

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<sup>467</sup> W. Janasz, *Strategie organizacji innowacyjnych*, "Studia i Prace Wydziału Nauk Ekonomicznych i Zarządzania", no. 21, Uniwersytet Szczeciński, Szczecin 2011, p. 57–58.

<sup>468</sup> M. Prudzienica, *Podejście procesowe w zarządzaniu innowacjami* in: *Podejście procesowe w organizacjach*, (ed.) S. Nowosielski, "Prace Naukowe Uniwersytetu Ekonomicznego we Wrocławiu" 2009, no. 52, p. 90–96.

## 4. Absorption Overview

In recent decades, economists have begun to identify progress, or more generally, knowledge creation, as the major determinant of economic growth. Until the 1970s, the analysis of economic growth was typically based on neoclassical models that explain growth with the accumulation of labour, capital, and other production factors with diminishing returns of scale. In these models, the economy converges to steady equilibrium state where the level of income per capita is determined by savings and investments, depreciation, and population growth, but there is no permanent income growth. Any observed income per capita growth occurs because the economy is still converging towards its steady state, or because it is in transition from one steady state to another. The policies needed to achieve growth and developments in the framework of these models are therefore straightforward: increases in savings and investments and reductions in the population growth rate shift the economy to a higher steady state of income level. From the point of view of developing countries, however, these policies are difficult to implement. Low income and development levels are not only consequences but also causes of low savings and high population growth rates.

Modern growth theory (in management part) is largely built on models with constant or increasing returns to reproducible factors as a result of the accumulation of knowledge. Knowledge is to some extent a public good and R&D, education, training, and other investments in knowledge creation may generate impulses that prevent diminishing of returns of scale for labour and physical capital.

The theory of adoption and diffusion of innovation could be a useful systemic framework to describe absorption of innovation<sup>469</sup>. Diffusion occurs progressively within one market, as a system of users, when information and opinions about innovation are shared among potential users through communication channels. In this way, users acquire a personal knowledge about it. Knowledge is the first step of the five-stage process of adoption. The other four steps are as follows: persuasion, decision (to adopt or to reject new technology), implementation and confirmation. Accepting this framework, adoption can be explained as the final outcome of an individual process of absorption that failed. The great number of conditions (e.g. personal limits of the potential user) and/or external obstacles (e.g. ineffective communication channels) may inhibit the success of the adoption process. Naturally, the study of which factors can lead innovation absorption to success or to failure is wide and multidisciplinary. It is also important to note that research examining

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<sup>469</sup> A. Leszczyńska, *Absorbcja innowacji w przedsiębiorstwie*, Wydawnictwo UMCS, Lublin 2011, p. 160–190; W. Janasz, K. Kozioł-Nadolna, *Innowacje w organizacji*, PWE, Warsaw 2011, p. 92–151; A. Jasiński, *Model procesowy innowacji: ramy teoretyczne*, "Prace Naukowe UE we Wrocławiu" 2013, no. 300.

the determinants of successful innovation diffusion is both relatively common and, for the most part, internally consistent.

## 5. Research Investigation

In this part, previously presented, theoretical concept of innovation absorption into organisations will be verified by empirical investigation. The verification will be accomplished by testing and data analysis.

Concept of analysis. The concept of innovation systems will be used to analyse the absorptive and adaptive capacities of organisations, which form the basis for innovation and knowledge creation. The concept deals with the ability to innovate, even though it has a very broad definition at this stage, and it is used to compare industries in different countries. The innovation system derives from the concepts of national and regional systems of innovation. This innovation system related to the sub-regional level is very similar to the sub-national system of innovation, but it is related to the EU concepts.

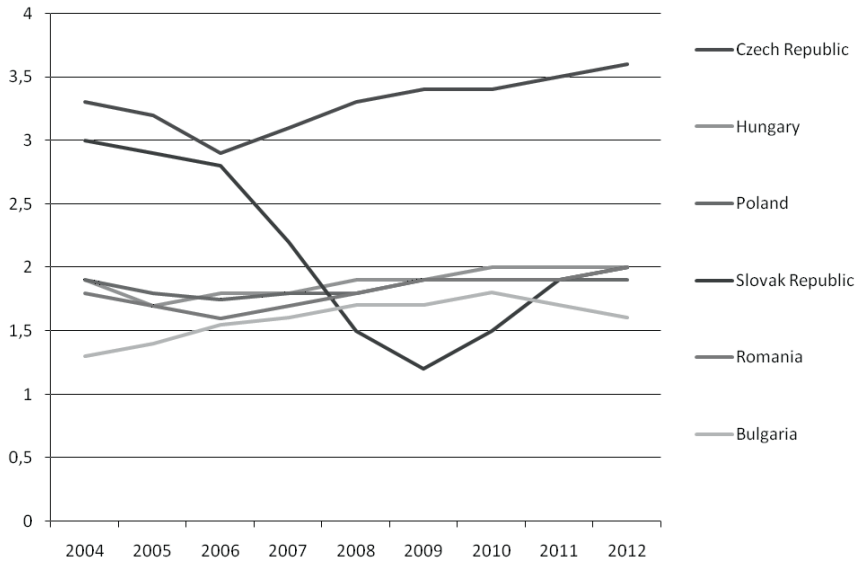
Research methodology and resolutions. The test methods are based on qualitative and quantitative research. To define the reality, deduction method was used in the process of the investigation. However, utilised data sources, described in current part of the chapter, could be classified both primary, and secondary. The data research was conducted during the last decade. The trends include the facts of the last twenty years. In general meaning, currently verified problems are only the portion of the research interests.

Data description. The analysis captures existing developmental dynamics and projects long-term trends in innovation and R&D spending in Polish enterprises. It engages the Europe 2020 Report by exploring the public-private sector nexus in an attempt to shed more light on the role that public financing may have on innovation efforts pursued by Polish companies. Research presents a brief overview of existing innovation- and R&D-related efforts in Polish enterprises with a special focus on the structure of expenditures and absorption of innovation.

This chapter is a study of on-going innovation and R&D activities in Poland from a regional perspective. The statistical analysis relies on publicly accessible datasets (including Eurostat, Community Innovation Surveys (CIS)) and the Science and Technology indicators of the OECD, among others. The analysis of the role of public support in private innovation sector applies the theoretical model of the innovation development process. The model defined by A. Pomykalski, W. Janasz, J. Penc, and J. Bogdanienko breaks the innovation process into five notional phases: research, concept/ invention, early-stage technology development, product development and commercialisation.

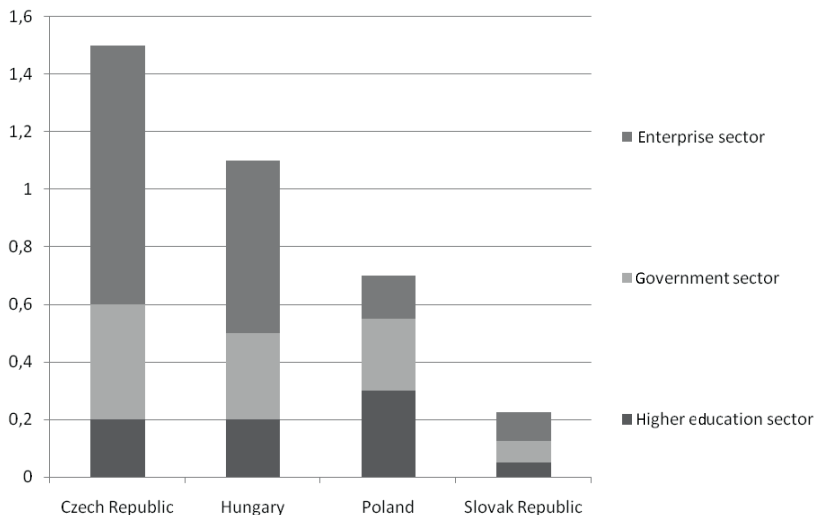
Analysis. Poland’s current levels of innovation expenditures are on par with those common in less developed parts of Central and Eastern Europe (CEE) – see Figure 1. The spending on innovation activities, as defined in the EU’s Community Innovation Survey (CIS), amounted to just 1.91% of GDP in 2012.

**Figure 1. Poland Innovation Expenditures (2004–2012)**



Source: Own research based on OECD data, Eurostat, and World Bank 2013.

**Figure 2. Poland Trails Behind CEE in R&D Expenditures (2012)**



Source: Own research based on OECD data, Eurostat, and World Bank 2013.

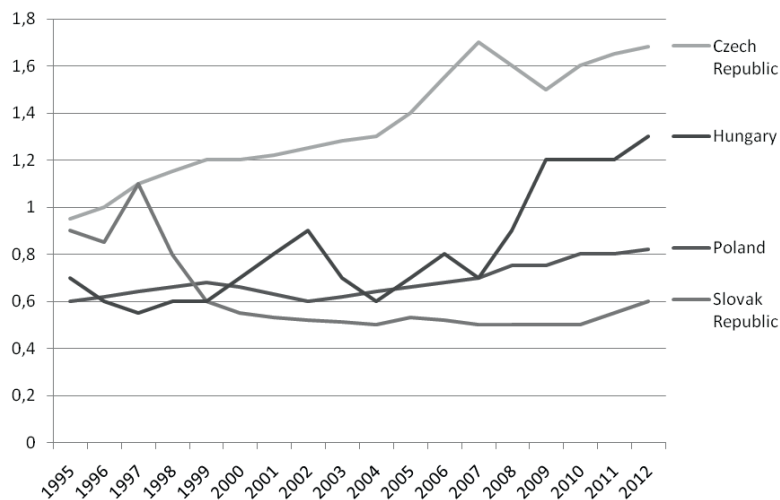


In relative terms, Poland's R&D expenditures remain modest. In 2012, they amounted to only 0.7% of GDP. The Czech Republic and Hungary spent about twice as much (1.52% and 1.19%) in the same year. Poland's 2012 expenditures, at 0.71% of GDP, are still very far from the target 3% of GDP that the Europe 2020 Strategy has set for R&D spending (Figure 2).

Private sector expenditures on R&D, which in developed economies tend to have much higher returns than public R&D spending, are in Poland particularly low, amounting to 0.19% of GDP. In comparison, Hungarian and Czech enterprises spent 0.69% and 0.91% of GDP.

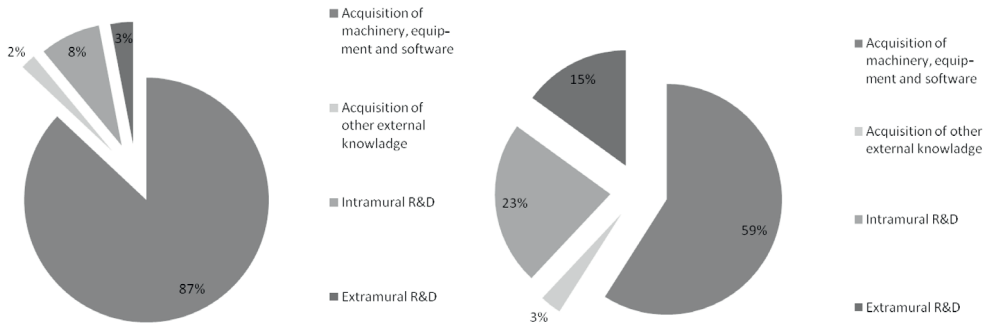
Poland's R&D expenditures have been largely stagnant in the last 15 years, unlike in the other CEE countries. While R&D expenditures (in proportion to GDP) in the Czech Republic and Hungary increased by 60% and 70% respectively, growth in R&D spending in Poland was negligible in the same period. Total R&D spending has oscillated around 0.75% of GDP (Figure 3).

**Figure 3. Poland R&D Expenditures (1995–2012)**



Source: Own research based on OECD data, Eurostat, and World Bank 2013.

**Figure 4. Absorption Dominates Enterprise Innovation Spending in Poland Compared to CEE**

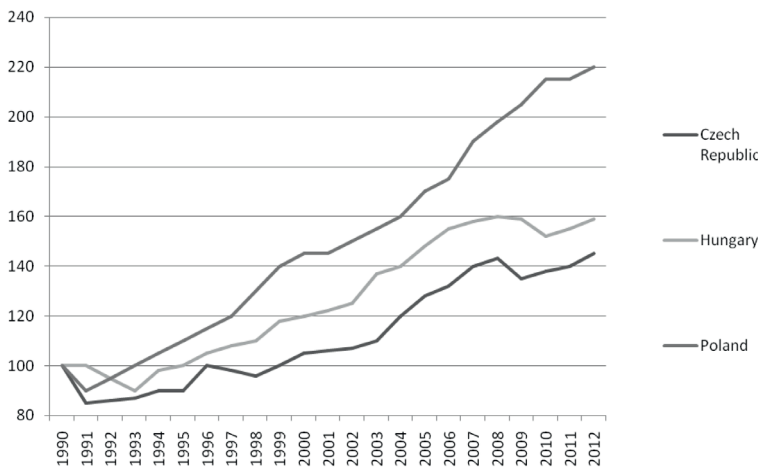


Source: Own research based on OECD data, Eurostat, and World Bank 2013.

R&D-related expenditures, including extra- and intra-mural R&D, as well as acquisition of external knowledge, amount to only 13% of the total innovation spending in the private sector. In a regional comparison, total R&D expenditures, coupled with spending on acquisition of external knowledge, absorb about 41% of all innovation funding in enterprises across CEE (Figure 4).

Insufficient emphasis on innovation and R&D has not prevented the Polish economy from growing faster than the rest of CEE. In the past two decades, the economy has expanded at a rapid pace in terms of GDP per capita (Figure 5).

**Figure 5. Poland in GDP per capita Growth in CEE (1990–2012)**

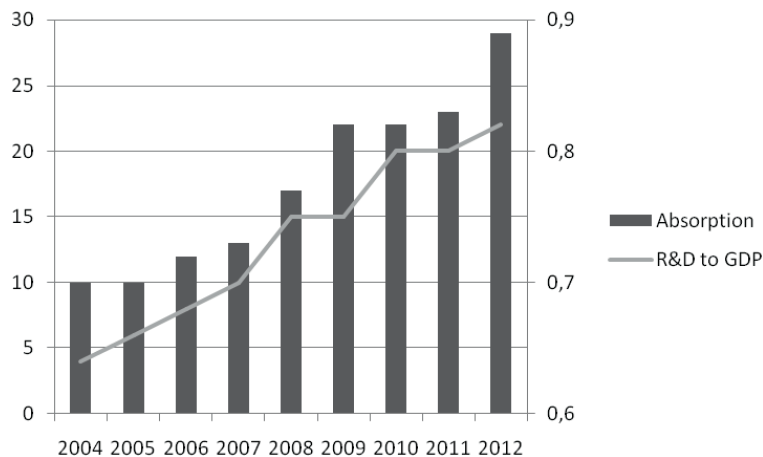


Source: Own research based on OECD data, Eurostat, and World Bank 2013.

Following the Oslo Manual methodology of OECD, the levels of innovation absorption were calculated. It is visible that this indicator is still growing. In years

2009–2011 the trend was quite flat but 2012 gives us disproportionate increase. It could be an effect of national policies or rebuilding the previous tendency. Crucial is, that spending on R&D in described period stays at almost the same (extremely low) level (Figure 6).

**Figure 6. Innovation Absorption and R&D Spending (2004–2012)**



Source: Own research based on OECD data, Eurostat, and World Bank 2013.

## 6. Conclusions

Polish enterprises spend significantly less on R&D and innovation than their regional peers, but so far, the country's economic performance has not suffered. On the contrary, Poland's income and productivity growth in the past 20 years has been much faster than that of its neighbors. This suggests that factors unrelated to R&D and technological progress must have accounted for the boom. Looking ahead, however, Poland needs a transition to innovation- and R&D-driven growth to meet targets defined by the Europe 2020 Strategy and sustain the fast pace of convergence with the EU.

All of the pointed divisions and types of innovation with a special attention to its boundaries indicate how it is difficult to determine the absorption processes of innovation. On the one hand, the multiplicity of types of innovation is an advantage, but on the other hand the difficulty of defining their boundaries is a disadvantage. It is necessary to rise up to the level of developed countries R&D spending, but more significant is to increase awareness, both, customers and producers.

After theoretical background overview and preparation of the absorption of innovation analysis, it is possible to point out the most important areas for changes:

improving the investment climate by upgrading the business environment to stimulate organisations investments in R&D<sup>470</sup>; channelling public funding into supporting co-inventions in addition to domestic inventions, promoting international collaboration and knowledge spill overs; establishing a system of employee-led, i.e. a transfer of ownership to RDI managers and researchers (excluding real estate), completing the restructuring of commercialised RDIs and RDIs volunteering for privatisation; support international interdisciplinary research and foster links with relevant institutions and organisations and continue to improve the quality of human capital and increase the availability of specialised skill sets, which have to go hand-in-hand with innovation and technology absorption to bring the largest benefits<sup>471</sup>. Comparing R&D spending to the GDP, level of innovation absorption is not so bad but should be focused on qualitative implementations. The presented investigation was partly designed to highlight the possibilities of innovation implementation with special attention to its absorption boundaries.

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<sup>470</sup> N. Arnhold, N. Kapil, I. Goldberg, M. Piatkowski, I. Rutkowski, M. Kwick, *Europe 2020 Poland. Fueling Growth and Competitiveness in Poland through Employment, Skills, and Innovation*, The World Bank, Warsaw 2011.

<sup>471</sup> N. Kapil, M. Piatkowski, Radwan, J.J. Gutierrez, *Poland Enterprise Innovation Support Review*, The World Bank, Warsaw 2009.

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# Organisational Procedures and Routines

## 1. Introduction

Every organisation needs to establish its boundaries to distinguish the organisation from the environment and define its domain of action<sup>472</sup>. Organisational boundaries are fundamental. Given this central role, the phenomenon of organisational boundaries has been addressed with a set of rich theoretical perspectives<sup>473</sup>. Research relies on a competence view, in which the evolving resources and capabilities of organisations shape their boundaries. Where boundaries between the organisation and the environment are increasingly arbitrary, the role of organisational routines becomes increasingly relevant. The notion of routines as a powerful metaphor for explaining organisational capabilities and the evolution of organisations have been widely accepted as a central issue in evolutionary economics.

Organisational routines are an important element of organisational behaviour. Routines have long been regarded as the primary means through which organisations accomplish much of what they do<sup>474</sup>. Organisation's stock of routines is enacted by its members. They help to solve recurring problems and reduce the demand to cognitive processes, since they offer the answer to the present conditions and simultaneously, focus on the changes. Moreover, they favour reducing uncertainty, because on the one hand, they propose the interpretation of reality, and on the other hand, they provide specific solutions in response to the emerging challenges and stabilise the organisations' operations by promoting repeatability<sup>475</sup>.

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<sup>472</sup> Sz. Cyfert, *Role organizacyjne w zarządzaniu granicami – propozycja definiowania i wynik badań empirycznych*, in: *Metody badania i modele rozwoju organizacji*, (ed.) A. Stabryła, S. Wawak, Mfiles.pl, Cracow 2012, p. 183.

<sup>473</sup> F.M. Santos, K.M. Eisenhardt, *Constructing markets and shaping boundaries: entrepreneurial power in nascent fields*, "Academy of Management Journal" 2009, vol. 52, p. 643–671.

<sup>474</sup> D.D. Dionisiou, H. Tsoukas, *Understanding the (re)creation of routines from within: A symbolic interactionist perspective*, "Academy of Management Review" 2013, vol. 38, no. 2, p. 181–205.

<sup>475</sup> M.C. Becker, *Organizational Routines: A Review of the Literature*, "Industrial and Corporate Change" 2004, vol. 13, no. 4, p. 643–677; W. Czakon, *Sieci w zarządzaniu strategicznym*, Oficyna a Wolters Kluwer business, Warsaw 2012, p. 145.

Procedures serve to perpetuate behaviour desired by the organisation. Organisation members, however, do not always perform their duties in a manner consistent with the procedure. Therefore, it is necessary to identify these discrepancies, prompting organisations to develop tools for measuring the actual methods of employees' performance.

The aim of the paper is to present the essence of organisational procedures and routines, as well as to exemplify the sales procedure and to verify its implementation in the car distribution channel.

Tools verifying the practical implementation of the procedure will indicate possible deviations between the expected and actual state, which may underlie the diversity of the organisation's capabilities among participants operating at the same level of the distribution channel, and thus, the performance of these organisations.

The identification of organisational routines occupies an important place in the search for sources of the enterprise heterogeneity. On the basis of strategic management, it means that operational efficiency is not a random feature of enterprises, but results from specific, targeted managers' actions. In turn, the diversity of routines leads to varied efficiency.

This indicates that the subject presented is important for managers who want to treat procedures as a tool for achieving the increased organisational effects. They not only have to be conscious of the existence of these differences, but also must measure and analyse the information obtained from the viewpoint of specific processes. This problem is also important for researchers, because it allows them to deepen knowledge about the actual organisational behaviour, of their change and their impact on competitive advantage.

## **2. The Concept and Essence of Organisational Procedures and Routines – Theoretical Approach**

According to Markus C. Becker, organisational routines can be described by several features<sup>476</sup>. Firstly, they are standard behaviour used by the organisation. Secondly, they are reproducible, therefore, under certain conditions, the organisation takes action in accordance with the routine pattern. Thirdly, the routine is a collective pattern, as it covers many participants and their interactions. The routine is performed by at least two different people or organisations. This results in spatial, temporal and organisational distribution of various types of routines. Fourthly, the routine is of processual character, reflected in sequencing and complexity, which allows us to connect the structure and the action.

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<sup>476</sup> M.C. Becker, *Organizational...*, op. cit.



Routine action of the organisation requires the existence of processes and allocated resources possible to repeat, as well as individual skills of their performers. Therefore, the routine relates to operating activity<sup>477</sup>. Following this logic, it can be concluded that dynamic capabilities affect the resource base of the organisation through routine transformations<sup>478</sup> that are built into managerial interpretations<sup>479</sup>.

It is worth quoting some definitions of the 'routine' construct which are presented in Table 1.

**Table 1. Selected Definitions of the 'Routine' Construct**

Authors	Definition	
Cohen	<i>Routine is a distinctive mode of organisational action, and the title phrase 'micro-level origins' directs us to closer observation of the underlying individual processes that generate routine action.</i>	2012
Parmigiani, Howard-Grenville	<i>Routines are regular and predictable behaviour patterns of firms.</i>	2011
Salvato, Rerup	<i>Routines are truncated, collective, recurrent entities or 'black boxes'.</i>	2010
Felin, Foss	<i>Routine is defined as a pattern of behaviour that is followed repeatedly, but is subject to change if conditions change, and performance differences indeed are imputed to this routine, then a natural (and critical) question is where this (potentially successful) 'patterned behaviour' comes from in the first place.</i>	2009
Feldman, Pentland	<i>Routines are repetitive, recognisable patterns of interdependent actions, carried out by multiple actors.</i>	2003
Nelson, Winter	<i>Routines are an integral part of organisations and everyday organising.</i>	1982

Source: A. Parmigiani, J. Howard-Grenville, *Routines revisited: Exploring the Capabilities and Practice Perspectives*, "The Academy of Management Annals" 2011, vol. 5, no. 1, p. 414; M.D. Cohen, *Perceiving and Remembering Routine Action: Fundamental Micro-Level Origins*, "Journal of Management Studies" 2012, vol. 49, no. 8, p. 1383; M.S. Feldman, B.T. Pentland, *Reconceptualizing Organizational Routines as a Source of Flexibility and Change*, "Administrative Science Quarterly" 2003, vol. 48, p. 95; C. Salvato, C. Rerup, *Beyond Collective Entities: Multi-Level Research on Organizational Routines and Capabilities*, "Journal of Management" 2011, vol. 37, p. 470; T. Felin, N.J. Foss, *Organizational Routines and Capabilities: Historical Drift and a Course-Correction toward Microfoundations*, "Scandinavian Journal of Management" 2009, vol. 25, p. 158.

In the literature, the 'routine' construct is defined in many ways. It may be though concluded that routine is considered a learned, repeatable pattern, set partly in

<sup>477</sup> W. Czakon, *Kompetencje współdziałania przedsiębiorstwa: relacyjna i sieciowa*, in: *Wybrane aspekty pracy kierowniczej*, (ed.) S. Cyfert, "Zeszyty Naukowe Uniwersytetu Ekonomicznego w Poznaniu" 2011, no. 187, p. 37.

<sup>478</sup> M. Bratnicki, *Przedsiębiorcze zdolności dynamiczne jako źródło trwałej wysokiej efektywności przedsiębiorstwa*, in: *Kierunki i dylematy rozwoju nauki praktyki zarządzania przedsiębiorstwem*, (ed.) H. Jagoda, J. Lichtarski, Wydawnictwo UE we Wrocławiu, Wrocław 2010, p. 41.

<sup>479</sup> Idem, *Przedsiębiorczość organizacyjna: orientacja, dynamiczna zdolność i kontekst*, in: *Rozwój szkoły zasobowej zarządzania strategicznego*, (ed.) R. Krupski, Wydawnictwo Wałbrzyskiej Wyższej Szkoły Zarządzania i Przedsiębiorczości, Wałbrzych 2011, p. 141.

tacit knowledge and intended for particular purposes<sup>480</sup>. In other words, “there is considerable agreement in the literature that organisational routines can be defined as repetitive, recognisable patterns of interdependent actions, carried out by multiple actors”<sup>481</sup>.

It is clear that the routine is conceived as ‘living’ at the organisational level, not at the individual level<sup>482</sup>. They are thus observable patterns of the organisation. Patterns are not constant over time, or context-independent. They are subject to adaptation and alteration processes whose motivating force is learning. Hence, the emergence of an organisational routine involves organisational and experimental learning<sup>483</sup>. However, it is worth noting that learning does not always lead to better results and increased development. Learning is a process of change in cognition and behaviour, which not necessarily improves performance<sup>484</sup>.

Routines may be thought of as multi-person recurrent behaviour patterns, akin to habits at an individual level<sup>485</sup>. Routines can be formal procedures or the informal, subjective understandings of those who perform the routines<sup>486</sup>. They can be characterised as abstract patterns used to guide specific performances of a routine (their ostensive aspect) and can also be characterised as actual performances by specific people, at specific times, in specific places<sup>487</sup>. Thus, routines exhibit a duality of structure and action in which there is memory of a pattern (structure) and the action that enacts it<sup>488</sup>.

That is why, the researchers’ attention focuses on the order, repeatability, interdependence and patterns. The definitions provided in the Table 1 also show that, in the widest sense, routines are perceived as ways of doing things, and more precisely, as pat-

<sup>480</sup> S. Winter, *Understanding Dynamic Capabilities*, “Strategic Management Journal” 2003, vol. 23, no. 10, p. 991–995.

<sup>481</sup> M.S. Feldman, B.T. Pentland, *Reconceptualizing Organizational Routines as a Source of Flexibility and Change*, “Administrative Science Quarterly” 2003, vol. 48, p. 95.

<sup>482</sup> S.G. Winter, *Habit, Deliberation, and Action: Strengthening the Microfoundations of Routines and Capabilities*, “The Academy of Management Perspectives” 2013, vol. 27, no. 2, p. 120–137.

<sup>483</sup> W. Czakon, *Kompetencje...*, op. cit., p. 37.

<sup>484</sup> M. Bratnicki, A. Austen, *Strategia ogniw pośrednich, czyli przedsiębiorcze uczenie się przez porażkę* in: *Zarządzanie strategiczne. Strategie małych firm*, (ed.) R. Krupski, Wydawnictwo Wałbrzyskiej Wyższej Szkoły Zarządzania i Przedsiębiorczości, Wałbrzych 2005, p. 239.

<sup>485</sup> M.C. Becker, *Organizational...*, op. cit., p. 643–677; idem, *A Framework for Applying Organizational Routines in Empirical Research: Linking Antecedents, Characteristics and Performance Outcomes of Recurrent Interaction Patterns*, “Industrial and Corporate Change” 2005, vol. 14, no. 5, p. 817–846.

<sup>486</sup> M.S. Feldman, B.T. Pentland, *Reconceptualizing organizational routines as a source of flexibility and change*, “Administrative Science Quarterly” 2003, vol. 48, p. 95.

<sup>487</sup> B.T. Pentland, M.S. Feldman, *Organizational Routines as a Unit of Analysis*, “Industrial and Corporate Change” 2005, vol. 14, no. 5, p. 793–815.

<sup>488</sup> M.J. Garfield, A.R. Dennis, *Toward an Integrated Model of Group Development: Disruption of Routines by Technology-Induced Change*, “Journal of Management Information Systems” 2013, vol. 29, no. 3, p. 43–86.

terned sequences of learned behaviour involving multiple actors who are linked by relations of communication and/or authority<sup>489</sup>. A routine is recognisable if the steps within each performance follow from one to the next, like the notes of a song<sup>490</sup>.

Granted, almost all definitions of routines continue to highlight the inevitabilities or the determinacy of selective, environmental pressures; the environment clearly plays a key role in shaping behaviour<sup>491</sup>.

Organisational routines are not just individual routines performed in a group context, they are the coordinated interdependent actions of multiple actors in the group or in the organisation. Like dancers, organisation members must adjust to each other's actions. There is an improvisatory nature of performing organisational routines, and the degree of divergence from the routine can involve taking into consideration the actions of others and the details of the situation<sup>492</sup>.

Routines are granted a positive impact on the organisational efficiency, since they: provide activity coordination (these mechanisms play an important role in the transition to consecutive phases of the organisational development)<sup>493</sup>, assign specific roles to employees to play in the given circumstances, and reduce conflicts<sup>494</sup>.

It should be noted that routine behaviour proves true under certain conditions. With time, however, it restricts the ability to change and adapt to the changing conditions. Therefore, routines favour retrospective thinking, directed to understanding the essence of events and thinking over the actions taken<sup>495</sup>.

Routines determine the functioning of the organisation. They are behaviour that helps it survive and thrive. However, due to the search for excellence of the proven routines, there appears to be a disturbance in their implementation. These, in turn, paradoxically cause inconsistencies and changes in routines which should aim to stabilise in uniform and rather stable environment.

It is worth noting that apart from several positive organisational outcomes, routines may cause the failure of the organisation and severe decrease in its efficiency,

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<sup>489</sup> M. Cohen, P. Bacdayan, *Organizational routines are stored as procedural memory*, "Organization Science" 1994, vol. 5, p. 554–568.

<sup>490</sup> B.T. Pentland, M.S. Feldman, M.C. Becker, P. Liu, *Dynamics of Organizational Routines: A Generative Model*, "Journal of Management Studies" 2012, vol. 49, no. 8, p. 1484–1508.

<sup>491</sup> T. Felin, N.J. Foss, *Organizational routines and capabilities: Historical drift and a course-correction toward microfoundations*, "Scandinavian Journal of Management" 2009, vol. 25, p. 157–167.

<sup>492</sup> M.J. Garfield, A.R. Dennis, *Toward...*, op. cit.

<sup>493</sup> E. Stańczyk-Hugiet, *Strategiczne uczenie się organizacji – kilka uwag*, in: *Zmiana warunkiem sukcesu. Odnowa przedsiębiorstw – czego nauczył nas kryzys?*, (ed.) J. Skalik, Wydawnictwo Uniwersytetu Ekonomicznego we Wrocławiu, Wrocław 2010, p. 539.

<sup>494</sup> K.D. Miller, B.T. Pentland, S. Choi, *Dynamics of Performing and Remembering Organizational Routines*, "Journal of Management Studies" 2012, vol. 49, no. 8, p. 1536–1558.

<sup>495</sup> K. Krzakiewicz, *Formułowanie strategii w koncepcji organizacji uczącej się* in: *Zarządzanie strategiczne. Badania i koncepcje*, (ed.) R. Krupski, Wydawnictwo Wałbrzyskiej Wyższej Szkoły Zarządzania i Przedsiębiorczości, Wałbrzych 2002, p. 57.

for example by maintaining repetitive patterns of employees' behaviour, unmatched to changes in the business environment. In such situations, increasing the effects can be done by unlearning<sup>496</sup> the pattern of recursive behaviour.

In the case where organisational learning helps control the organisation members' behaviour, the organisation finds routines better suited to the current challenges of the environment than the current ones, and stabilises them. Organisations must expect that their future reactions will be consistent with the routines from the past. This explains the organisation members' resistance towards changes and ways to adapt to changes. Learning routines incur costs and therefore, organisations are reluctant to abandoning the previous methods of operation well learned and perfected over the years<sup>497</sup>.

To sum up, we may say that the routine emergence requires an incremental learning process, repetition and daily improvement in the organisation.

### **3. Procedures and Proposition how to Verify Their Practical Implementation**

Since the employees' skills are not developed once and for all, the creator of the distribution channel (general importer) periodically checks whether employees representing authorised distributors of his products or services behave as expected by the model.

The authorised dealer is an entity acting in the car distribution channel who is granted by the key supplier with technical information, diagnostic and other equipment, tools, including appropriate software, or training required for the repair and maintenance of motor vehicles as well as effective protection of the environment. It includes, in particular, the unrestricted use of the motor vehicle electronic control and diagnostic systems, programming of these systems in accordance with the supplier's standard procedures, instructions for the repair and maintenance, and training, as well as information necessary to use diagnostic tools and service equipment.

Having the status of an authorised dealer – operating within the distribution system created by the supplier – is also associated with the necessity of applying procedures of ordering and the physical distribution of products (cars, spare parts and accessories), inventory management, and provision of services for the customer.

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<sup>496</sup> A. Wójcik-Karpacz, *Zdolność relacyjna w tworzeniu efektów współdziałania małych i średnich przedsiębiorstw*, Oficyna Wydawnicza SGH, Warsaw 2012, p. 128.

<sup>497</sup> J. Strużyna, M. Bratnicki, M. Majowska, T. Ingram, *Rozwój zarządzania zasobami ludzkimi*, Wydawnictwo AE w Katowicach, Katowice 2008, p. 197.

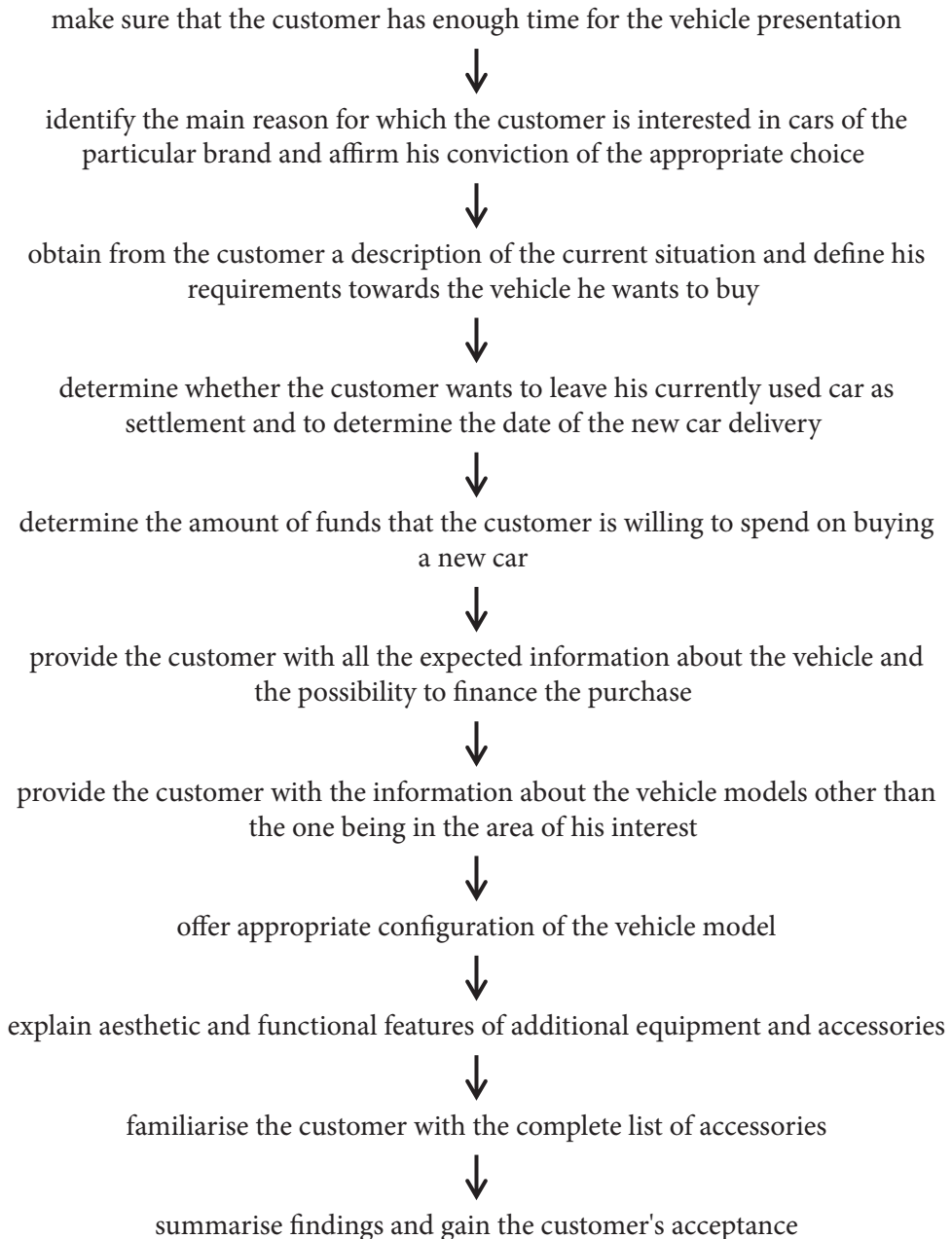
Hence, the creator of the distribution channel engages specialised public opinion research centres to regularly ask their customers to answer questions to what extent particular channel members care about them. It is client that is the most appropriate entity whose answers will help identify the actual behaviour of dealers towards him. Thanks to such research, the channel creator may not only compare the particular dealers' behaviour, but may also take action to continuously improve products and services and meet changing customers' expectations. Surely, the very fact of conducting this kind of research shows that the channel creator ensures that the behaviour of the employees representing authorised dealers towards customers is not random, but determined by the creator.

The results of this research could provide a valuable data source to determine repetitive patterns of behaviour observable in reality. In addition, since the behaviour pattern changes depending on the environment conditions, these results could be used to identify and understand those changes, and then to develop a new routine. However, these results are presented only in the form of aggregated statistics, made available to the channel creator, which limits the possibility of their wider use.

Since researchers do not have access to those results, it is worth identifying even the way the procedures determining the expected sellers' behaviour on one of the stages of the car sales are subject to verification by the general importer. "Analysis of the customer's needs" is the stage of the sales process immediately following the "First contact". In turn, it precedes the successive stages: "Car presentation", "Test drive", "From the offer to the order", "Car delivery", "Contact with the customer after the car purchase".

The sellers' behaviour at the "Analysis of the customer's needs" stage is determined by the procedure, the implementation of which is designed to fill the customer's need for the purchase of a new car by presenting him a satisfactory solution. An assumption is made that the customer visits the dealer due to specific needs, and the seller confirms the validity of this choice by building a positive relationship with the customer. Hence, the seller's task is to understand these needs and to match them to the offer of products and alternative forms of financing the vehicle purchase.

According to the procedure valid at this stage of the sales process, the seller should follow the recommendations presented in Figure 1.

**Figure 1. The Seller's Expected Behaviour at a Given Stage of the Sales Process**

Source: Own research based on the information obtained from an authorised dealer.

To determine the actual seller's behaviour at this stage of the sales process, the following questions asked to the client are used: Do you have a car? If so, what is it? What is its optional equipment?; Do you wish to leave your current car as a settlement?;

What driving style do you prefer (sport, economical)?; How much are you willing to spend on purchasing a new vehicle?; When do you prefer to receive your new car?; What elements of the vehicle equipment are the most important to you?; Did the seller familiarise you with the list of optional equipment and accessories?; Did the seller offer you a vehicle model corresponding to desired parameters?

The answers to these questions given by the selected group of clients will help assess the way of the procedure implementation in a certain moment (during the research), and modes of operation developed as a result of accumulation of the organisation's experience in the case when this operation is repeated (cyclic research).

Comparing obtained results of the research (actual sellers' behaviour) with the prescribed procedure performed by the authorised dealer's employees at a specific time and in a specific place will reveal any discrepancies between the actual and desired state. This will serve as evidence for heterogeneity of the authorised dealers' capabilities.

## 4. Conclusions

Boundaries are a defining characteristic of organisations, and boundary roles are the link between the environment and the organisation.

Once the traditional boundaries of hierarchy, function, and geography disappear, a new set of boundaries becomes important. These new boundaries are more psychological than organisational. They aren't drawn on a company's organisational chart but in the minds of its managers and employees. And instead of being reflected in a company's structure, they must be 'enacted' over and over again in a manager's relationships with bosses, subordinates, and peers.

Routines are an important concept in strategic management allowing us to clarify the organisation's capabilities. At the strategic level of analysis, we must recognise that organisations differ in their capability to implement routines, allocation of resources to the routine, effectiveness of its implementation, or efficiency of processes that are part of them. Thus, routines can be considered as the source of differentiation of organisational capabilities and thereby, of their results.

The configuration and management of routines across organisational, and ownership, boundaries involves a range of specific managerial and strategic issues which are not addressed in the current literature on routines. However, as new less-hierarchical and more fluent organisational forms evolve, where boundaries between the organisation and the environment are increasingly arbitrary, the role of routines beyond the organisational perimeter becomes increasingly relevant. It is argued here that social networks sustain interpersonal routines, which not only transgress organisational boundaries but on occasion also incubate new organisations in order to ensure their continued existence.

Although the authorised dealer is obliged by the contract with the key supplier to carry out the sales process in a manner specified by the procedures, it may happen in practice that even the same employee does not perform a certain activity in a manner consistent with the procedure. This shows that routines may change due to imperfect repetitions by the same employee or the others designated to perform the tasks in this position (e.g. as substitutes in the case of the absence of a permanent employee, or in the case of employing new persons). This indicates that the skills of the staff assigned to perform specific tasks differentiate authorised dealers from each other and underlie the different results achieved by these organisations having the same set of procedures.

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# **THE COMPETENCE OF PROFESSIONAL PRACTITIONERS AS SELF-ASSESSED AND EMPLOYER-ASSESSED**

## **1. Introduction**

This topic shows how extensive are ways to expand the boundaries of the company/organisation and the limits of its management on the basis of competence of the freelance professions.

At the core of this issue is to take the thesis of the need to expand the boundaries of management in the current economic reality in which you desire to abandon the stereotype as precision of their determination. A characteristic feature of the new management is liquidity and the blurring of these boundaries. Example of this is the management staff of professionals with a high level of professional competence in a specific way affiliated with employers.

Freelancers (those who work on their own) are those persons who do not have tenure and are not tied to any employer. They perform the work on a project and provide their services to many employers. Freelancers work without a permanent contract of employment; they establish professional contacts and negotiate the terms of cooperation (such as labour rates, qualitative aspects and duration of the project). This group of workers is sometimes identified with the professions of journalism, translation services and writing. However, it can also include merchants, individuals associated with information technology consultants, HR experts, trainers and business coaches. The study group will be interchangeably referred to as external experts (“EEs”) or consultants.

The freelance professions are a special group of employees for whom there is no “classic relationship” between employer and employee, as it is in the case of a contract of employment. Perhaps more so than in the traditional employer-employee relationship, the employer can assess this professional dynamic by the substantive criteria of productivity of work. On the other hand, from the perspective of the freelancers,

there are wider job opportunities and more freedom of choice of employers. Also, the relationship is, to a greater extent, based on a psychological contract<sup>498</sup> much more than on the agreed terms of the “typical” contract of employment.

The psychological contract is a specific form of management referring to the relationship between employers and consultants. Therefore the author of this article proposes the term, “management by psychological contract”. In brief, the psychological contract is the element of the working relationship in which there is reconciliation between consultants’ and employers’ expectations. The psychological contract concerns not only issues including remuneration for work resulting from a formal contract of civil law but also a number of obligations of a psychological nature, which make the EEs not only employees, but also people who are interested in actively contributing to business development.

The relationship is dependent on such factors as trust, motivation and creative exploration. Additionally, in comparison to the traditional employer-employee relationship, it can provide some difficulties for the possibility of understanding and making a lifelong dialogue between stakeholders. There are important aspects of the psychological contract which develop outside of the formal civil agreement and take the form of consciously uttered words to each other. The psychological contract that both parties aim for, is based on the principle of adaptation to the individual needs of the employer and external experts, on mutual benefit and on the voluntary decisions of both sides. Loyalty can be considered as a specific framework for dialogue between them.

One may outline the framework of this psychological contract as follows:

- The source of knowledge between mutual EE expectations and representatives of the company provides the opportunity to openly present the interests of both sides,
- There is a method in which discrepancies can be eliminated – as a result of a gentlemen’s agreement between the partners,
- There is a tool to build trust in the organisation.

The psychological contract is the first significant step on the way to build trust between the EE and the employer, because it does not emanate from a consideration of the consequences of breaching of contract, but instead results from the employee’s identification with the organisation as well as the employer’s taking care of him or her.

Thus, there is a basic precondition of trust between actors. This trust occurs as a result of mutual understanding. It arises from an acceptance of intentions and

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<sup>498</sup> G. Bartkowiak, *Psychology in management*, Poznan, Wydawnictwo UE w Poznaniu, Poznań 2010, p. 59–62.

an awareness of the needs and aspirations of both sides. In turn, understanding is the result of an effective mutual representation of the interests of both parties.

Management flexibility is one of the factors that currently characterises human resources management in the case of freelancers<sup>499</sup>; which manifests itself in the promotion of various forms of employment and work organisation. In this context, it is becoming more common for professionals to freelance as employees, a process which usually takes the form of a civil law agreement and specific organisation of work. Also, the popularity of this trend to freelance is useful for the company from the point of view of resources of external knowledge. External experts may emerge from this group (of freelancers), and this is the specific matter of interest for issues undertaken in this article. The study is therefore a presentation of the challenges of working professionals – external experts, in particular – their opinions about their work, as well as evaluation of employers concerning the suitability of using the services of external experts.

## 2. Results of Previous Research

According to conducted studies among representatives of external experts in 2009, a group of 535 people<sup>500</sup> showed that the majority of EEs lived in the UK (55%) and the Netherlands (31%). Others worked in countries such as the USA, Belgium, Germany, Spain and India. The largest group of respondents (61%) were representatives of computer industry. The least numerous group consisted of financial advisors (5% of respondents). From this group, 15% had their own business. Another study was carried out in 2011 and 1500 external experts<sup>501</sup> (Freelancer, 2011) who were registered on a website for freelancers, [www.elance.com](http://www.elance.com) were surveyed. It showed that these people represented a different generation in the labour market. The largest group among freelancers consisted of representatives of Generation X (42%), followed by the generation over 50 years old (31%). It was also represented by subsequent generations, such as Generation Y (26%).

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<sup>499</sup> J. Cewińska, *Freelancing and human capital management*, in: *Success in human resources management. Flexibility in the management of human capital*, (ed.) T. Listwan, M. Stor, Research work no. 248, Wydawnictwo UE we Wrocławiu, Wrocław 2012, p. 149; A. Błaszczak *Experts for hire by the hour*, <http://www.ekonomia24.pl/artykul/706,303.435032-for-hire-specialists-on-godziny.htm>, 27.03.2010.

<sup>500</sup> *Freelancers in Poland 2010*, [http://www.infact.pl/Raport\\_Freelancer\\_Polska\\_2010](http://www.infact.pl/Raport_Freelancer_Polska_2010), 27.03.2012; J. Ćwiek, *Companies prefer freelancers*, [http://www.polskatimes.pl/artykul/241257\\_company-will-freelancers,id,t.html](http://www.polskatimes.pl/artykul/241257_company-will-freelancers,id,t.html) 29.03.2012.

<sup>501</sup> *Freelancers in 2011, Independence Day every day*, <http://pracujflexi.pl/warehouse/index.php/category/research>, 27.03.2012.

For analytical purposes, the typical silhouette of such an expert is that he or she has completed higher studies (80% of the survey sample), he or she has the desire to perform 'independent work' and has become aware of the motives behind his choice. The degree to which this independent work is the causative agent of job satisfaction (33%) was examined. For one's own career success, the experts' ability to control the time and place of work' was measured, which was found in 90% of the sample. This factor also proved to be significant in previous studies conducted with a smaller sample (for example, with a total of 252 people) than the survey noted in the previous paragraph, among professionals in Poland, France, the UK and the USA<sup>502</sup>.

To further justify their professional choice to freelance, subjects mentioned the reasons of "time to pursue their own passions" (87%), and "the elimination of commuting to work." Not without significance is the fact that subjects emphasised the upward trend in wages over the last several months (47% of responses), a phenomenon also indicated by other authors who have taken up this issue. "A manager of a special task (such term also appears in the literature) usually earns one and a half times more than his colleague who is employed by a company..."<sup>503</sup>.

Also, the level of satisfaction in work among freelancers seems to be higher than average. Survey results<sup>504</sup> showed that about 80% of the respondents expressed a positive view of their careers, and 61% said they felt better working as EEs than they would if they were employed in 'on-time' positions. Research on such freelancers in Poland was first conducted by the IT service *infact.pl* in 2010<sup>505</sup>. Respondents consisted of a group of online accounting services. The research involved the completion of 808 questionnaires via the Internet. In this group there was a definite advantage demographically, in that they were relatively young people (26–40 years), of which two thirds had university degrees. The background of the sample was as follows: commerce services and sales (about 17%), computer science and programming (almost 15%) and advice and consulting (about 11%). Over 80% offered their services throughout the country and a little less than two thirds offered them in large cities. Similar to the study by *E lance.com*, the study conducted in Poland showed that respondents believed that they could increase their earnings; it also showed that there were barriers to the introduction of this type

<sup>502</sup> G. Bartkowiak, *Quality of life and level of job satisfaction of female managers (Representatives of freelance jobs in Poland and in France)*, "Management", vol. 9, no. 1, University of Zielona Gora, Faculty of Management, Zielona Gora 2005.

<sup>503</sup> A. Błaszczak, *Desk for freelance*, [http://www.ekonomia24.pl/artykul/322387\\_377268](http://www.ekonomia24.pl/artykul/322387_377268) –: 27.03.2012; A. Błaszczak, *Experts for hire by the hour*, 19.02.2010, <http://www.ekonomia24.pl/artykul/706,303.435032-for-hire-specialists-on-hour.htm> 27.03.2010.

<sup>504</sup> *Freelancers in 2011...*, op. cit.

<sup>505</sup> *Freelancers in Poland 2010*, [http://www.infact.pl/Raport\\_Freelancer\\_Polska\\_2010](http://www.infact.pl/Raport_Freelancer_Polska_2010), 27.03.2012.

of activity – for instance, the amount of insurance premiums charged (25.5%)<sup>506</sup>. Another study, which focused on the specific nature of Polish work characteristics in companies, took place in 2011<sup>507</sup>. In these studies, which were conducted by In Fact and cooperated with 10 leading centres in Poland and the co-working research agency 4P, there were mixed results. The results showed that 73% of the information in offices is derived from the Internet. Approximately 43% of representatives use these agents daily and 41% once a week. In considering the reasons for the use of such activities, the primary reason given was “the objective of separating work from everyday life.” (This was given by 71% of respondents.) Other advantages and benefits, in addition to the use of an office, included “an opportunity to exchange professional experiences with other Skype users”, “reasonable prices”, “(to) trigger job satisfaction”, and “business meetings”<sup>508</sup>.

The typical person who uses the services of the office is a male between the ages of 26–30 years, having higher education, living in the Mazowieckie Province, conducting his own information and technology operations, working mostly in the IT industry, and working in marketing, advertising or public relations. Most co-workers' collaboration was established within one to three years and required the support of up to 50 people. As previously discussed in the polls, about two-thirds of those participating in the research showed satisfaction with their earnings, and about 72% predicted their growth in the near future. Among the factors affecting their work, co-workers included bureaucracy and the need to self-apply for a job. On the other hand, with respect to restricting their income, they mentioned social security contributions and taxes.

The training of professionals, regardless of the place and form of work in the future, seems to be a very challenging task, especially when it relates to consultants working in the organisation. It requires extensive knowledge, not only psychological but also knowledge of sociology, pedagogy, organisation and management and the wider economy. New horizons are possible for university graduates in which they can gain operationalised, practical knowledge and have new experiences. Further, they should be underpinned by the support of experienced staff, so that future knowledge student is able to meet new challenges. To achieve these goals, it seems crucial that the process of post-graduate education is not simply an intellectual event. Instead,

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<sup>506</sup> *Freelancers in Poland* 2010, [http://www.infact.pl/Raport\\_Freelancer\\_Polska\\_2010](http://www.infact.pl/Raport_Freelancer_Polska_2010), 27.03.2012; A. Błaszczak, G. Raszkowska, *Good times for freelancers*, 11. 06.2010, <http://www.rp.pl/artykul/492473.html?p=1>, 29.03.2012.

<sup>507</sup> *Coworking in Poland* 2010, [http://www.infact.pl/coworking\\_w\\_Polsce\\_2011/news](http://www.infact.pl/coworking_w_Polsce_2011/news), 30.09.2012.

<sup>508</sup> *Ibidem*.

it should be holistic<sup>509</sup> and include education competencies for purely professional and non-specific purposes.

The extent of professional competence seems to be a task that is a little less complicated, less elusive than the non-specific competencies, but also challenging and inspiring. Certainly there are skills that need to be communicated in the organisation. External experts discuss the service provider's current difficulties and the conditions under which the functioning of the organisation can meet its expectations. Thus, it shows the extent of appreciation of the relationship<sup>510</sup>.

Another effect on competence is the ability to make a good and accurate diagnosis of the organisation, including not only the knowledge of the structure, implemented processes with suppliers and customers and strengths and weaknesses, but also a thorough diagnosis of the culture and personality of the organisation<sup>511</sup>. It is also important here to consider the nature of relationships within teams of employees, relationships with senior management, as well as acquisition of knowledge and organisational learning<sup>512</sup>. What's more, gaining knowledge about the environment of the organisation is crucial. Therefore, it is essential to provide the opportunity to develop the competencies of consultants by giving them the opportunity of internships and stimulating them to interact with the environment<sup>513</sup>. Another important area of competencies is that of non-specific competencies – for instance, the ability to cope with anxiety in an organisation. Fortuna<sup>514</sup> singled out for David Conroy the category of “fear of failure”, associated with the operations of the people in the organisation. Fear of losing other prominent persons of interest and over-excitement, discontent and fear of important people were included within this category. By this, emphasising the universality of the “fear of failure” indicates that there is almost an obligatory social and cultural context of the phenomenon. In a society functioning on the basis of the mechanism of competition, conditions naturally invite shameful defeat and fear, which can block development. An effec-

<sup>509</sup> M. Doorley, *Service Learning's Challenge to the Educator*, in: *Higher Education and Civic Engagement: International Perspectives*, (ed.) L. McIlrath, I. Mac Labhrainn, Ashgate Publishing, Aldershot, 2007, p. 137.

<sup>510</sup> L. Michno *New forms of individual and community support for social and professional integration of socially excluded groups*, in: *Methods of individual and community support for the integration of social and professional groups of socially excluded due to the isolation of prison*, (ed.) M. Dobrowolska, Scientific KMB Press, Katowice 2011, p. 10–31; A. Van Eck, *Methods of socio-professional reintegration of women over the age of 45 socially excluded. Vocational training tools and interventions job coaching*, Scientific KMB Press, Katowice 2012, p. 14–15.

<sup>511</sup> A. Barabasz, *Personality organization: application in management practice*, Wydawnictwo UE we Wrocławiu, Wrocław 2008, p. 42.

<sup>512</sup> A.J. Fazlagić, *Intellectual Capital and Benchmarking*, Rys, Poznań 2006, p. 125–133.

<sup>513</sup> Yi-Chung Huang, Yen-Chun Jim Wu, *Intellectual capital and knowledge productivity: the Taiwan biotech industry*, “Management Decision” 2010, vol. 48, no. 4, p. 580–599.

<sup>514</sup> P. Fortuna, *Positive psychology defeat*, GWP, Sopot 2012, p. 76.



tive antidote seems to be taming the negative scenarios of events and incorporating them into a wider skill set that includes negative experiences – from which one can learn – as a necessary part of professional experience. The ability to think critically, which assumes that professionals will be a bit skeptical about their achievements, can also assist in avoiding the structures of thought that favour unconscious compulsions or stereotypes<sup>515</sup>.

Recognising this legitimate claim, Obuchowski<sup>516</sup> stated that the designation of the ambitious, yet challenging goals is an inherent component of personality, in particular, being “self objective and intentional”. Also, it is important to consider that the people involved in solving problems in the organisation<sup>517</sup> should set goals that are challenging but achievable. The reward for their implementation is self-efficacy. In this paper it is stated that the receptivity to external instruction from experts should not be underestimated. Such goals should always take into account the social values which contribute to the implementation of new skills<sup>518</sup>.

### 3. Research Questions and Methodology

The following research questions were raised:

1. Among those who provide consulting services to organisations (companies), which competencies are considered important in their work, and which competencies are the most important to their employers?
2. Which competency gaps in their work do freelancers experience and how do they view their employer?

The study was conducted among 68 EEs in Poland (38) and France (30), of which 42 had psychological preparation and other work as consultants in an associated organisation and 22 in unaffiliated specific organisations. In several of the organisations, employers used the services of external experts. Services which were carried out within the framework of the work related to consulting “the smaller and mid-sized” organisations, and focused on human resources consultancy, recruitment and selection and organisational consulting to implement changes in the situation.

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<sup>515</sup> G. Bartkowiak, *Dynamics and the perception of career success factors increase the quality of working life representatives selected professions*, in “Science Quarterly Vistula University” October–December 2012, p. 74; I. Czaja-Chudyba, *Prospective teachers to issues of critical thinking*, in: *School, communication and education, Communicating in a variety of interpersonal relationships*, (ed.) K. Czerwinski, A. Knocińska, M. Okrasa, Wydawnictwo Adam Marszałek, Torun 2012, p. 65.

<sup>516</sup> K. Obuchowski, *Galaxy needs. Psychology of human desire*, Profit and S-ka, Poznan 2000; K. Obuchowski, *Revolution players*, AHE, Lodz 2005.

<sup>517</sup> Locke, Lathmann quoting R.E. Franken, *Psychology of motivation*, Gdansk GWP, 2005.

<sup>518</sup> D.H. Pink, *Drive*, Riverhead Books, New York 2009, p. 137.

The study was conducted in 2012, in two stages, the first established two lists of competencies for both groups of respondents (EEs and employers), by reducing the previously-developed lists of 21 and 18 that had been originally submitted to provide an assessment of competence, with two lists of the seven skills.

The original list of competencies was established as a result of pilot studies, in connection with the planning of a broader research project concerning the operations of the professionals. These studies were carried out in Poland in 2012 (47 people) and France (23 people) in 2011, and consisted of a group of professionals – persons providing consulting services to organisations (organisational consulting and accounting services). The selection of consultants who participated in the research was purposeful, though both in Poland and France they provided nearly identical services. The first stage took the form of in-depth interviews, which resulted in a list of competencies of EEs, composed of 21 items. The condition for its creation was the appearance of a certain competence in the statements of at least 4 people (Polish group) and 3 participants (French group). Competent judgment has then created a list of the items that were identified in a group of more than 50% of respondents.

A list formulated by employers was created and based on in-depth interviews with 33 representatives of employers (17 in Poland and 16 in France), following a similar procedure. As a result, the list of the remaining seven items was intended for employers. At the same time, groups of consultants and employers in Poland were asked to provide definitions of competencies and also competency gaps. These preparations have been ascertained using “back translation” and also by using relevant research. The assessment of competence by employers was related to the same group, treating the group as a total but not as a sum of the individuals.

Following is a ranking of the necessary competencies and assessment occurring within these deficiencies.

## **4. Results of Research**

The analysis of a panel of experts shows that in assessing the gap between their very high level of gained expertise and the process of communication, they emphasised the important role of practical knowledge in the field of organisation and management and business management. This was seen as a result of the experience of the person with knowledge of the organisation and, in particular, the company; this suggests that there is a lack of a weakness – see Table 1. Types of competency gaps chosen by respondents exceed 100% because of not excluded choices.

**Table 1. Competency Gaps of Consultants in Their Own Judgment**

Type of competence				Description of competence	Competence gaps in the EE group self-assessment
An effective Communications				Ability to use effective communication and the use of all types of communication, use and creation of multi-channels and providing feedback to entrepreneurs with high quality.	Not all communication channels are used; there are gaps in the provision of feedback.
Poles		French			
N	%	N	%		
30	78,94	21	70,0		
Independent diagnosing of organisational problems				The ability to look at the functioning of an organisation in independent ways, not just taking the employers' vision.	Understanding others' vision of the organisation ("going short cuts").
Poles		French			
N	%	N	%		
30	78,94	21	70,0		
Diagnosis of the organisation				Diagnosing the study of the organisation, implementing organisational strategy, the strengths and weaknesses of the organisation recognition period "settlement efficiency and productivity of the organisation".	The gap in the knowledge of the industry and its specificity, the lack of tools to diagnose the functioning of the organisation.
Poles		French			
N	%	N	%		
15	39,47	20	66,66		
Diagnosing organisational learning				Identifying organisational learning mechanisms in the organisation of learning and knowledge sharing and obtaining information.	The gap in the consultant's focus on cross-cutting approach, too ("here and now"), inadequate testing and orientation processes forecasts.
Poles		French			
N	%	N	%		
19	50,0	14	46,66		
Diagnosing the organisational culture as a whole				The ability to recognise the "personality" organisations, a comprehensive knowledge of culture, relationships, the system of penalties and rewards, the dominant motivation of employees etc..	No tools or sufficient experience to enable organisations to make the diagnosis, so that was not too much of a time-consuming method.
Poles		French			
N	%	N	%		
14	36,84	12	40,0		
Contributing to a team relationship with co-operating				Skills necessary for the acquisition of the service information, the transmission of feedback relationships.	Sometimes insufficient in adapting to the style of communication of the organisation.
Poles		French			
N	%	N	%		
19	50,0	10	33,33		
Commitment, passion, self-development				Critical assessment of one's skills, work on acquiring new skills, the ability to create new solutions.	Involvement in the work completed, no creative solutions, the use of template solutions often duplicated but proven.
Poles		French			
N	%	N	%		
19	50,0	10	33,33		

Source: Own research.

Some discrepancies existed between subjects in Poland and France, including experienced professionals in the diagnosis of the organisation, often perceived by the Polish consultants as a weakness, and also 'co-relationship with the cooperating

team and the commitment, passion, self-development', which are subject to greater critical attention among Polish representatives. This condition may be due to the fact that the French EEs, because of the existing forms of the organisation (to a greater extent than the Polish, they are likely to work with the same employer), to better understand the company, and to cooperate more readily with a team of employees. The consultants among the French displayed, in their work, tendencies indicating a higher degree of individuality. On the other hand, the greater 'commitment, passion and self-development', shown by Polish professionals may be due to a slightly lower average age of Polish participants of the study (divergence of about 7 years) and is therefore derived from the stage at which the career was pursued. It can also be a form of adaptation to a difficult job market, especially noticeable in the case of professionals who believe that only by putting a lot of effort into the work may they continue to work in that occupation.

However, it is important to be aware that (perhaps due to the low sample size of the research) these differences do not meet the criterion for statistical significance. Therefore they cannot be subjected to a deeper interpretation. In reply to gaps in competence, consultants participating in the study showed a critical self-reflection, indicating not only the shortcomings of their work, but also that they needed to work on specific skills such as relatively nonspecific uncritical acceptance vision. This involves the organisation of existing problems and difficulties. Adoption of the vision or a particular point of view of the employer, on the other hand, may not necessarily result in reliable and professional conduct. If a different opinion than that of the employer is presented, the employer will be liable to pay and the next project can terminate the relationship.

Generally speaking, the situation presented in the study appears to be the result of high awareness of freelancers of their own work. On the other hand, it is puzzling that relatively honest insight into their professional competence and their shortcomings does not automatically mean that they take steps to reduce the perceived gap. If the surveyed subjects are able to accurately self-diagnose, it seems puzzling that they often do not, by their actions, answer the question, 'why do not you take action to change their situation?'

Data obtained from business-research results showed that the subjects who were external experts pointed to another group of competence other than employing their service – see Table 2. Types of competency gaps chosen by respondents exceed 100% because of not excluded choices.

**Table 2. Competence Gaps of Consultants in the Evaluation of Employers**

Type of competence				Description of competence	Competence gaps in the employers group self-assessment
Efficiency				Achieving expected results, and care for the creation of opportunities for further positive effects.	This competence is usually sufficient, but should still work on the limits to achieve maximum efficiency.
Poles		French			
N	%	N	%		
38	100,0	30	100,0		
The ability of combining theory and practice				The operationalised knowledge application that allows the verification of the effects of its use, the ability to create "the concept of effective", the recognition that the practice is the best verifier of the validity of the theory of gaps in the understanding of the need to abandon the theoretical knowledge to practical knowledge.	Gaps in the understanding of the need to abandon the theoretical knowledge to practical knowledge, lack of awareness of the consultants listed in the dichotomy of the two kinds of knowledge.
Poles		French			
N	%	N	%		
38	100,0	30	100,0		
The experience in the organisation and its knowledge				Experience in the organisation and its knowledge of successful experience in solving organisational problems, the practice of including long-standing relationship with the organisation.	The lack sufficient experience of experts to arbitrarily comment on errors in the management of the company.
Poles		French			
N	%	N	%		
15	42,10	19	53,33		
The flexibility to adapt to the needs of service providers				The need for an accurate and thorough "needs to listen to the service provider" as a condition of a positive evaluation of EE.	The lack of awareness of the relationship of subordination to the expert customer service set.
Poles		French			
N	%	N	%		
20	52,63	15	50,0		
The ability to use the experience of the provider				The ability of objective assessment of the organisation to recognise and prices of other (employers') opinion.	No sufficient confidence and experience and service and objective evaluation of the practice that best knows the organisation.
Poles		French			
N	%	N	%		
20	52,63	15	50,0		
Professionalism of the expertise (for example "psychological know-how")				The knowledge of organisational intervention techniques and their application in relation to a particular company.	Insufficient knowledge on the possible implementation of concepts to practice.
Poles		French			
N	%	N	%		
17	44,74	15	50,0		
Knowledge of the realities of the market and the broader context of the organisation				Knowledge of the many limitations of the macroeconomic conditions of the organisation. Having knowledge of current trends in the economic, a basic knowledge of commercial law, labour law, etc.	No outside microeconomic broader knowledge of factors affecting the ability to achieve success in the organisation.
Poles		French			
N	%	N	%		
11	28,94	22	73,33		

Source: Own research.

The obtained test results showed a relatively extensive list of critical assessments and formulations for employers and service providers employed by these professionals. Both Polish and French employers, in the first place, expected an effective, committed level of work, leading to concrete practical decisions concerning the problems of the undertaking. They appreciated professional knowledge, which is translated into practical actions, and also emphasised the effectiveness of the experts employed. Similarly, in both groups, a significant factor was the experience of consultants that, at appropriate times, may preserve a distance from their own opinions and to simplify the ways to obtain the right conclusions of investigations. Interestingly, while facing challenges and being self-critical is very much possible for both of groups of providers (Polish and French), all consultants rarely made the adjustment to learn about the needs of employers, and they had insufficient trust in their opinions.

According to company representatives, specific concerns involved not knowing the degree of independence of freelancers and opining that they sometimes acted in an “ad hoc” fashion. In other words, they often function without proper analyses and they reject their employer’s point of view, treating it as biased. This situation makes it difficult to cooperate with each other and leads to a non-application of resources, which could prove harmful. Furthermore, the opinion was put forth that professionals expect practical knowledge of organisational intervention techniques to address the specific problems occurring in the organisation, i.e. the resolution of conflicts, where collision-free implementation of changes was necessary, the release of an unproductive employee should not compromise the reputation of the entrepreneur as a friendly employer etc. These are certainly difficult-to-meet expectations. The final observation on this point is that there was some discrepancy between the opinions of the Polish and French in knowing the wider context of the company, specifically the macroeconomic conditions. In the view of the former, most consultants focus only on the narrow approach of the organisation, and did not take into account the environment, the state policy towards small and medium-sized enterprises, the risk of bank loans, which are subject to undo any other solution. With regard to the latter point, some difference in the opinions of Polish and French traders was exhibited. Businesses from both nationalities often pointed to the need for improved competence in the matter of consultants.

## 5. Conclusions

It was suggested by the EEs that a fairly good knowledge of the area of the social sciences has not always been sufficiently taken into account in the curricula of such professionals (especially graduates in economics). This knowledge underpins awareness of the complexity and wide extent of skills, including psychological ones,

which may be necessary for high levels of competency and self-opined competency in free-lancing.

From this data it is evident that the consultants' work requires a lot of professionalism, high self-awareness and criticism in relation to their achievements, regardless of the actual results achieved. On the other hand, the results of the study indicate the enhanced expectations from employers who "are not interested in the culinary arts principles but rather in the specific recipe for pudding." Perhaps the postulated uniqueness relating to freelancers stems from a desire to shift their responsibilities to management decisions, or it is a sign of concern about the blurring of responsibility and is a reflection of the pragmatic desire "to facilitate the work."

The reviews of employers seem to differ from the established skills gaps, as was indicated by external experts. From these statements it is evident that there is a clear dichotomy between theoretical and practical knowledge and the depreciation of the first field of work. In addition, on the relationships of entrepreneurs and their service providers, they indicate that their suggestions regarding the organisation have been underestimated or even ignored and their needs taken into account insufficiently. Employers also pointed to the need to have the knowledge of external experts, such as macroeconomic experts, providing insight into the broader context of the enterprise market.

The confrontation of the two points of view, in both groups of Polish and French consultants and entrepreneurs, indicates the variety of differences of opinion. This discrepancy relates to the independence of the positions of different points of view, the situation in the organisation, the plane of communication and to mutual trust of experts and employers (especially among the French participants). The solution would seem to be establishing procedures about mutual knowledge of their own expectations, and recognising professional consultants and their positive motivation in solving specific organisational problems. At the same time, knowledge of the limitations involved and techniques for reaching a commonly agreed position are necessary. These data, although they refer to a very large study sample, are limited in their representativeness. Still, they may form the basis for designing training programs for practitioners. Special attention and care both enhance the comprehensive knowledge and competence that is expected of psychologists, consultants and other experienced professionals working as consultants in organisations. On the other hand, the results point to the growing social status of the profession and to the social responsibility of the consultant.

The contents presented in this paper confirm implicitly adopted thesis of the existence of the trend of expanding the boundaries of management in organisations, businesses. In the case of the present article these determinants become postulated competence of the freelance professions, where "a reach resource" is located outside the organisation. Therefore it is necessary to adapt the borders of understanding

management, which become extremely fluid, leading to reflection if at all we can set them up. The article indicates that the trends, that expand the boundaries, are not a local phenomenon, do not apply to one nationality and appear regardless of the limits imposed administratively.

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# SYMBOLIC DIMENSION OF BRAND IN ITS DEVELOPMENT

## 1. Introduction

In recent years, the face of branding and brand management has changed. In consequence, the boundaries of brand management have been exceeded several times. Most contemporary approaches to marketing management concentrate on the development of brand equity elements as awareness, loyalty, associations and perceived quality or the development of customer-based brand equity. However, very often they do not use full potential of symbolic meaning of brands and possibilities given by social media and tribal marketing. However, the question arises whether the symbolic approach to brand management is beyond the boundaries of management.

When market development led to an increase in competition, particular brands had to meet the specific needs of consumers who expected products to satisfy their needs and also symbolic desires. Nowadays, a brand has to attract and inspire customers, has its own personality and should promote some philosophy<sup>519</sup>. The development of brands at the beginning of XXI century is closely related to consumer behaviour and changes in the marketplace. Today managerial action must be focused on the perception of symbolic dimension of brands. Level of customers' involvement plays a critical role. The postmodern brands should become the symbolic resources for the construction, communication and maintenance of identity.

The objective of this paper is to analyse the symbolic meaning of brands in context of boundaries of management as well as to consider the possibilities of development of brand symbolic dimension by application of tools given by social media and tribal branding.

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<sup>519</sup> M. Grębosz, *Brand Management*, Wydawnictwo Politechniki Łódzkiej, Łódź 2008, p. 37.

## 2. The Symbolic Meaning of Brands

At the beginning, it is important to highlight the difference between the product and its brand. A product is perceived by the consumer as a set of real features related to its looks, use, manner of use and place of purchase. In turn, the notion of a brand has a much wider dimension. It is primarily related to the intangible values connected to the brand, its origin and symbolism.

Brand symbolism is often emphasised by creation of specific brand personality and brand values. Brand personality is the way the brand is perceived by the customers and is the basis for forming strong symbolic associations which make it possible to recognise brands among other products. Brand personality can be defined as a collection of characteristic human features or traits associated with the brand. Brand personality may be shaped through the creation of a brand hero, promotion of a distinct and characteristic profile of a brand user or application of an archetype<sup>520</sup>. Current discussions about brand personality refer to a personified brand image, that is, a brand image that can possess any attributes of consumers, rather than brand personality. The results of research conducted by H.H. Huang *et al*<sup>521</sup>. revealed that consumers reflect their personalities by the brands they use, but the relationship between brand choice and symbolic dimensions (i.e. extraversion, agreeableness, neuroticism, and openness to experience) is much stronger than the relationship with functional dimensions (i.e. conscientiousness). Moreover, the pattern of this relationship remains consistent across symbolic and utilitarian products, which implies that consumers choose brands with similar personalities to theirs across various products.

Brand can also base on values. G. Lewi<sup>522</sup> distinguished real and intangible brand values. The former include product features, the degree of product innovativeness, price and manner of distribution. Functional values are related to the actual benefits ensuing from choosing a given brand, and thus they are the least characteristic and do not constitute the distinctive features of a brand. The intangible values of a brand are related to sensual features such as sound, smell, taste and colour, to a brand message expressed in its history, also through its creators, advertising and social values, that is, the company's attitude to social issues. Intangible values are key brand values and have a symbolic meaning. These key values make a connection between the

<sup>520</sup> M. Styś-Hajdas, *Archetyp dla marki: świętoszek czy buntownik?*, "Marketing w praktyce" 2006, no. 12, p. 74–76; A. Kozak, A. Gózik, A. Trojanowska, *Wpływ wizerunku marki na postrzeganie cech jej użytkownika*, "Marketing w praktyce" 2006, no. 2, p. 21.

<sup>521</sup> H.H. Huang, V.W. Mitchell, R. Rosenaum-Elliott, *Are Consumer and Brand Personalities the Same?*, "Psychology & Marketing" 2012, vol. 29, no. 5, p. 334–335.

<sup>522</sup> G. Lewi, *La marque*, Librairie Vuibert, Paris 1999, p. 70.

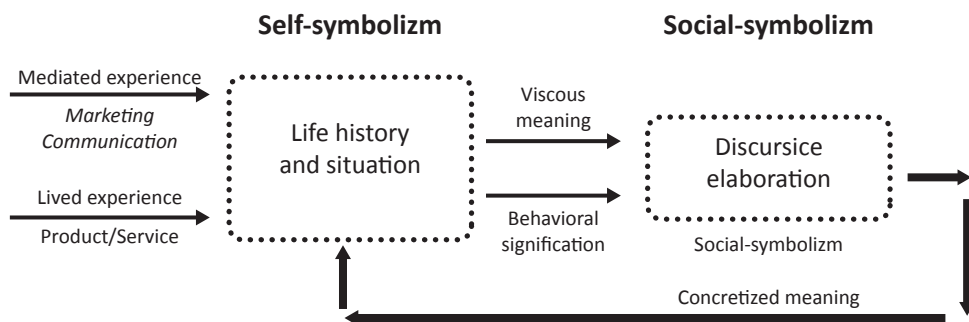
consumer and the brand at the level of principles, philosophy and morality. They are usually ultimate values such as safety, freedom, wisdom, equality or balance that are useful for consumers in pursuing their lifestyles according to chosen models. Finally, intangible values are expressive and allow the consumer to identify with a certain reference group<sup>523</sup>.

Nowadays, non-material values create companies competitive advantage in the marketplace. They help to understand the uniqueness of the brand and the brand promise. A strong and convincing brand message is the basis for its further development and extension to new product categories and new markets.

The cultural meanings can be transferred to brands and brands are often used as symbolic resources for the construction and maintenance of identity. By these cultural meanings, brands are beyond the traditional boundaries of management where brand is strictly connected with a product or a company. The functions of the symbolic meaning of brands operate in two directions, outward in constructing the social world (social-symbolism) and inward towards constructing self-identity (self-symbolism)<sup>524</sup>. The social-symbolic meaning of brands can be used by customers to communicate to other people the kind of person they wish to be seen as and the group that they want to belong to. The self-symbolic meaning of brands is what their usage communicates to others about who the customers are or want to be.

Brands can be used by the customer as resources for the symbolic construction of the self, both social identity and self-identity. The process of the consumption by the prism of self-symbolism and social-symbolism of brands is presented in Figure 1.

**Figure 1. Relations between Self-symbolism and Social-symbolism of Brands**



Source: R. Elliot, L. Percy, *Strategic Brand Management*, Oxford University Press, New York 2007, p. 52.

The symbolic needs of customers become more and more evident. These symbolic needs are defined as desires for products that meet internally generated needs for

<sup>523</sup> J. Kall, *Silna marka. Istota i kreowanie*, PWE, Warsaw 2001, p. 53–54.

<sup>524</sup> R. Elliot, L. Percy, *Strategic Brand Management*, Oxford University Press, New York 2007, p. 44.

self-enhancement, role position, group membership, social approval or ego identification. Customers value the prestige, exclusivity or fashionability of a brand because of how it relates to their self-concept<sup>525</sup>.

A brand with a strong symbolic dimension- that is beyond the traditional boundaries of management – is one designed to associate the individual with a desired group that can be developed by tribal branding and social media.

### 3. Tribal Branding

Defragmentation of traditional communities causes that people need to belong to some groups that contribute to their self-identity. It is a reason and explanation for development of tribal brands. Today, tribal groups and brand communities give the new opportunities for marketers and allow to cross the boundaries of marketing management and brand management.

Tribal branding integrates offline and online approaches to brand development, allowing marketers to benefit from greatly enhanced levels of consumer devotion to brands<sup>526</sup>.

Tribal brands rely on a number of key factors<sup>527</sup>:

- anticipation of usage,
- social (or depersonalised) attraction to others who use the service or product,
- commitment,
- loyalty,
- trust.

Situations where tribal branding might work include festivals, sporting seasons, annual charity drives, as well as brands that create a strong sense of identity and ‘discovery’ amongst its users, and seek to be positioned as niche, independent, difficult, edgy, or different, such as Mooks, Virgin, Apple, OK, Go! and Alessi<sup>528</sup>.

In case of tribal brands, it is necessary to target the weakening relational commitment noticed amongst customers who have been using the product for a long time and to invest in relational programs that counteract the centrifugal forces that besiege the longer-term relational bond.

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<sup>525</sup> K.L. Keller, T. Apéria, M. Georgson, *Strategic Brand Management. A European Perspective*, Prentice Hall, Harlow 2008, p. 657.

<sup>526</sup> B. Richardson, *Tribal Marketing, Tribal Branding*, <http://www.palgraveconnect.com/pc/doifinder/10.1057/9781137349101>, 7.01.2014.

<sup>527</sup> P. Harrison, *What is a tribal Brand?*, <http://tribalinsight.wordpress.com/2008/12/11/what-is-a-tribal-brand/>, posted on 11/12/2008, 8.01.2014.

<sup>528</sup> *Ibidem*.

The academic research on branding is increasingly considering the degree of connectedness between consumers and brands. The literature in this area investigates the nature and the strength of the relationship that consumers develop with brands, as well as the trend of joining brand tribes or brand communities in order to demonstrate and share with others their feelings towards and preference to brands based on its symbolic dimension.

Using the laddering technique, G. Morandine *et al*<sup>529</sup>. disclosed the sense-making related to the participation of 174 members of Ducati motorcycle communities. The emergent cognitive map reveals that the members' sense-making is related to a strong personal involvement with the focal brand and its social relatedness and symbolic meanings. These variables and their interconnections allow customers to define their relationships through the community. The authors also explored how elicited explanations for joining a community are efficacious in decision-making processes, through their influence on variables included in the theory of planned behaviour. The findings provided a clearer explanation of consumer membership in brand communities than extant approaches and how customers define their identities through the centrality of the brand in their lives.

Using data collected from 912 respondents, C. Veloutsou and L. Moutinho explored the importance of the long term brand reputation and brand tribalism on the strength of brand relationships. The findings suggest that brand tribalism is a better predictor of the strength of brand relationships than the long term brand reputation itself<sup>530</sup>.

Neo-tribes and sub-cultures use symbolic dimension of brands, beyond the boundaries of traditional management, to develop and communicate their identity. The consumers often find meaning in their lives through the joint experience of a brand with friends in a brand community also by using social media.

#### 4. Social Media in Symbolic Brand Development

The rise of social media has definitely changed the brand management and led the crossing of certain boundaries of management. There are many debates concerning the activities of brands and companies in social media. Some researchers believe social media provide a unique opportunity for brands to foster their relationships with customers, while others believe the contrary.

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<sup>529</sup> G. Morandine, R.P. Bagozzi, M. Bergami, *Brand community membership and the construction of meaning*. "Scandinavian Journal of Management" 2013, vol. 29, no. 2, p. 173–183.

<sup>530</sup> C. Veloutsou, L. Moutinho, *Brand relationships through brand reputation and brand tribalism*, "Journal of Business Research" 2009, vol. 62, no. 2, p. 314–322.

Social media affect brand management because consumers become emotionally engaged in relation with brand. Key features of social media environment with significant effects on branding are a shift from the company to consumers as participants in the branding process. A high level of interactivity is manifested in social networks by increasing number of active brands. Social media is an effective and low-cost channel to build relationship between customers and brands. By presence in social media, companies can stress symbolic dimension of brand and develop customers' loyalty. Thanks to the online communities, customers socialise, exchange information and opinions and express their emotions connected with given brand. They can also associate with a desired group.

Taking the perspective of the brand community building in the context of the brand trust and loyalty, M. Lacroche, M.R. Habibi and M.O. Richard<sup>531</sup> checked how brand communities based on social media influence elements of the customer centric model (i.e. the relationships among focal customer and brand, product, company, and other customers) and brand loyalty<sup>532</sup>. The results of structural equation modelling showed that brand communities established on social media have positive effects on customer/product, customer/brand, customer/company and customer/other customers' relationships, which in turn have positive effects on brand trust, and trust has positive effects on brand loyalty. They found also that brand trust has a fully mediating role in converting the effects of enhanced relationships in brand community to brand loyalty.

Symbolic dimension of brands can be emphasised also by consumer-generated brand stories. They appear in various online formats (i.e. forums, blogs, social networks, video-, photo-, and news-sharing sites). They are much more impactful in social media, than stories spread through traditional channels because they utilise social networks, are digital, visible, ubiquitous, available in real-time, and dynamic. New connections between consumers could arise because they exchange their brand stories and pick up, refine, and further disseminate the brand stories told by other consumers. Since consumer-generated brand stories have become central for a brand's meaning, managers need to consider coordinating their own brand stories with these consumer-generated stories. Such coordination may happen along different dimensions: content, channel, and space<sup>533</sup>.

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<sup>531</sup> M. Lacroche, M.R. Habibi, M.O. Richard, *To be or not to be in socialmedia: How brand loyalty is affected by socialmedia?*, "International Journal of Information Management" 2013, vol. 33, no. 1, p. 76–82.

<sup>532</sup> A survey-based empirical study with 441 respondents was conducted.

<sup>533</sup> S. Gensler, F. Völckner, Y. Liu-Thompkins, C. Wiertz, *Managing Brands in the Social Media Environment*, "Journal of Interactive Marketing" 2013, vol. 27, no. 4, p. 242–256.



Social media users are more influential than the general Internet users. Brands that are not engaged in social media may be perceived as out of touch or not in tune<sup>534</sup>. To reflect the participative, multi-vocal nature of brand authorship amplified by social media, S. Fournier and J. Avery<sup>535</sup> used the metaphor of ‘open-source’ branding, which implies “participatory, collaborative, and socially-linked behaviours whereby consumers serve as creators and disseminators of branded content”. The customers as the brands creators know no bounds of brand management.

Companies can attempt to leverage social media’s connectedness and get consumers to play the brand’s ‘game’ by using symbolic meaning of brand and creating branded artifacts, social rituals, and cultural icons for consumers to appropriate and work on behalf of the brand<sup>536</sup>.

## 5. Conclusions

Changes in the function and perception of brands are primarily determined by the market situation, the development of new information technologies and the evolution of consumer behaviours. More and more often, brands serve as legitimate relationship partners. Brand relationships can provide consumers with resources in making decisions, meeting their needs and symbolic desires, motivating them and emphasising self-image. Contemporary customers want to be both original and classic, individualist and socially-minded, professionally active and family-oriented. This type of customer expects success, satisfaction, comfort, fitness, stress reduction and intellectual stimulation. This is a challenge for marketing strategists who create and manage more and more often beyond boundaries of management. Values related to a brand must now both attract customers and inspire them, as contemporary brands connote certain lifestyles. According to many, the ownership of brand products boosts one’s social status.

Brands can acquire deep meanings through the socialisation process and can acquire individual meaning through ritual and personal interpretation of meaning. The symbolic meaning of brands is prime motivation for emotion-driven choice. An icon brand relates to emotions and is associated with feelings and personal experiences. Icon brands convey values such as independence or freedom, as opposed to traditional brands, which are based on such values as durability or good service and are associated with functional features and rationality. Through symbolic dimension of brands, brands are beyond the traditional boundaries of management where

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<sup>534</sup> T. Hershberger, *Social Media’s Role in Building Brands*, “ABA Bank Marketing” 2013, vol. 45, no. 8, p. 36.

<sup>535</sup> S. Fournier, J. Avery, *The Uninvited Brand*, “Business Horizons” 2011, vol. 54, no. 3, p. 194.

<sup>536</sup> S. Gensler, F. Völckner, Y. Liu-Thompkins, C. Wiertz, *Managing...*, op. cit., p. 253.

brand is strictly connected with a product or a company. The customers become the brand creators and brand communities created by social media or by tribe groups allow one to nurture and express a persona and inner self that is at once profoundly personal and social.

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# THE INFLUENCE OF ELECTRONIC FILING INCOME TAX RETURNS ON THE TAX ADMINISTRATION BOUNDARIES

## 1. Introduction

Management is making and implementing decisions in more or less complex structures in order to carry out a specific mission<sup>537</sup>. The evolution of IT used in management is changing it and has generally progressed over following phases: automation, rationalisation of procedures and re-engineering. The first phase increases efficiency of operations, the second streamlines the procedures and eliminates bottlenecks that are usually revealed by the automation, and in the last phase – the IT causes a radical redesign of the business processes. One of these aspects is that technology sets new boundaries of the organisation. IT gives possibility to closer collaborate with customer who is more frequently called a prosumer because he takes part in production process. Sometimes, the customer only helps in designing or market research, but from time to time he can generate energy from e.g. solar panels<sup>538</sup>. Similar mechanisms are noted in public administration.

In this paper, attention is focused on one of the public administration areas, which is Fiscal Administration and only on one of its services, which is the Personal Income Tax (PIT). The purpose of this article is to present the changes in the process of registration of the annual income declaration by individuals.

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<sup>537</sup> A.K. Koźmiński, *Tożsamość nauki o zarządzaniu*, in: *Krytycznie i twórczo o zarządzaniu*, (ed.) W. Kieżun, Oficyna a Wolters business, Warsaw 2011, p. 125.

<sup>538</sup> J. Papińska-Kacperek, *Usługi cyfrowe. Perspektywy wdrożenia i akceptacji cyfrowych usług administracji publicznej w Polsce*, Wydawnictwo UŁ, Łódź 2013, p. 74.

## 2. The Electronic Services in Tax Administration

PIT is a direct tax including income received by individuals. After World War II it has been in force in most countries, and applied to all citizens who every year must file a tax return and settle any arrears. The tax authorities deal with collection and control.

Over the past 20 years, the Fiscal Administration in most countries has begun to use IT tools to assist the process of verifying the annual income declaration and collecting tax duty. The tax authorities from a certain moment began to archive the tax returns in electronic form, obtained after scanning the papers. Scanned declarations were verified and recorded (and often still are) in national systems<sup>539</sup>. Today Tax Administration developed and implemented a set of applications and services that allow the taxpayer to fulfil every action needed to fill tax submissions and even pay the tax due, without attending the tax offices.

In some countries, such as US, Taiwan<sup>540</sup>, firstly, one has introduced computer software for preparing annual tax returns that could be printed and delivered to the office. The innovation is that 2D code is generated on the printout. This code contains all the data from the form, and it improves the efficiency of data entry to computer systems because it greatly accelerates the process of scanning paper declaration.

Later, one came up with the idea that taxpayers can send to the tax office at once electronic forms. Thus began a closer cooperation between taxpayer and the tax administration. The United States was the first country that in 1986 introduced a pilot program that checked the costs and benefits of the Electronic Filing System<sup>541</sup>. E-filing became possible in all states, in 2004<sup>542</sup>. The use of the new service has already exceeded 50% in 2005 (19 years from the origin), and in 2011, nearly 75%<sup>543</sup>. At the beginning the market offered a number of commercial software that enabled e-forms submission. In 2003, the IRS<sup>544</sup> introduced a free tool, but not for all. By 2012, every taxpayer whose adjusted gross income (AGI) does not exceed 57 thousand dollars, could take advantage of the free package FreeFile.

In Denmark, the first country in Europe, e-filing started in 1994. However, since 1992, Denmark has introduced a pre-filing of tax returns, in paper form, sent to many taxpayers. At the beginning it could have been confirmed by telephone.

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<sup>539</sup> In Poland it is POLTAX – system used in tax offices, developed and supported by the Ministry of Finance. The project of the system started in 1990, submission of tax declarations has been in force since 1992, and the POLTAX system was implemented in 1995.

<sup>540</sup> Fu J.R., Farn C.K., Chao W.P., *Acceptance of Electronic Tax Filing: A Study of Taxpayer Intentions*, „Information & Management” 2006, no. 43, p. 109–126.

<sup>541</sup> In 1987, 78 000 forms in 7 cities were filled.

<sup>542</sup> A. Sharma, W. Yurcik, *Security Assessment of E-Tax Filing Websites*, 2004.

<sup>543</sup> IRS E-File: A History, 2011.

<sup>544</sup> Internal Revenue Service is the revenue office of the U.S.

Then they adopted the silent acceptance: the taxpayer was freed from the obligation to confirm his completeness, if it was correct. In 1995, they launched e-filing tax returns without pre-filing, which meant that taxpayers were required to fill all the data themselves. Pre-filled e-forms were introduced in 1999, and in 2004 already the entire declarations were completed. Since 2008, instead of the paper forms, only information about an amount of tax due has been sent. Taxpayers are still required to notify the tax authorities about necessary adjustments. In 2009, 4 million taxpayers (out of 4.7 million) were handled in this way<sup>545</sup>.

Ministry of Finance in Italy conducted a test of sending a tax return over the Internet in 1998<sup>546</sup>. They used implemented software for preparing and sending tax e-form. Citizens could also leave the forms in banks or post offices (funded by the state) which transmit them electronically to the tax authority. Tax professionals were required to use the Internet. For this reason, already in 2003, 100% of annual statements were sent electronically.

In Norway, e-filing income tax began in 1999. In 2004, 34% of the population used the service, and in 2005 – even 55%. The large increase was the result of marketing campaigns<sup>547</sup> and the procedure: similar as in Denmark forms were prepared by the administration and the taxpayers only sometimes confirmed their correctness.

In 2001, only 9 of the 18 EU countries (50%) offered e-filing PIT forms. This number increased to 16 in 2003 (89%). In the following years a percentage score slightly decreased due to the inclusion in the EU's new and less developed countries, but still remained high, 78% in 2005 and 86% in 2006<sup>548</sup>. The possibility of e-filing tax declarations has already been widely available in almost all OECD surveyed countries (46 out of 49 for the fiscal year 2009).

Some countries reported a large increase of usage of e-filing tax returns. Some of them have made very substantial progress (i.e. 60% in absolute terms) over the last eight years: Argentina (82%), Lithuania (73%), Slovenia (77%), South Africa (95%), Turkey (69%), and UK (60%). Besides administrative initiatives (including incentives like extended return filing periods in France and Malaysia, a faster return of overpaid taxes and a longer retention period), increased usage in some countries has been achieved with the introduction of mandatory e-filing requirements<sup>549</sup>. Sometimes it is obligatory for the institutions to send declaration for the taxpayer<sup>550</sup>. In Italy, this

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<sup>545</sup> OECD, 2011.

<sup>546</sup> L. Turner, C. Apelt, *Globalisation, innovation and information sharing in tax systems: The Australian experience of diffusion and adoption of electronic lodgement*, eJournal of Tax Research, vol. 2, no. 2, 2004, p. 241–269.

<sup>547</sup> *Strategies for Improving the Take-up Rates of Electronic Services*, OECD 2006.

<sup>548</sup> M. Decman, M. Klun, *e-Tax Services and Their Evolution: The Case of Slovenia*, Proceedings of the 8<sup>th</sup> European Conference on e-Government, Lausanne 2008, p. 183–190.

<sup>549</sup> OECD 2013.

<sup>550</sup> Tax professionals, like accounting offices or tax advisers.

has been valid since 2003, in Ireland since 2009, and in other countries after 2010: Argentina, Australia, Chile, Korea, the Netherlands, Singapore and Turkey<sup>551</sup>. In the US tax advisers issuing more than 100 declarations, and since 2012 just over 10, have been obliged to use the Internet channel.

In 2009, according to OECD data, the use of electronic submission tax declaration reached over 90% in Australia, Chile, Denmark, Estonia, Iceland, Italy, Mexico, the Netherlands and Turkey and in 2011 this level was reached in 14 countries.

### 3. Pre-filled Income Tax Returns

In many countries, PIT declarations are pre-filled or fully completed by the tax administration and taxpayers only need to correct errors in them, or add the missing information. It is the most advanced e-tax service. Pre-filling entails the use by tax authorities the information held by them, i.e. the taxpayer' identity, his tax history, received income in accounting year (reported by employers). The process is completely automated: all the information is collected using taxpayer ID number and pre-filled declaration is available for verification and eventually one can make a correction if needed<sup>552</sup>.

This approach was first applied in the Nordic countries (Denmark, Norway, Sweden, Finland and Iceland) as well as in Estonia and Lithuania, then in other countries: Chile, Slovenia, South Africa, Spain and a bit later in Australia, Belgium, France, Portugal and the Netherlands. Many countries intend to introduce such a service, Poland is among them.

Depending on advancement of the service (and legal framework in the country), fully or partially filled tax returns are available in electronic or paper form. In most advanced case, the procedure has been fully automated for the majority or for all taxpayers. So far 19 of the 49 surveyed countries<sup>553</sup> have declared the use of partially pre-filled forms, which suggests that the tax authorities are aware of the significant benefits that can be achieved.

Most countries which offer pre-filling form have a relatively small taxpayers' population. In Denmark, a country for many perceived as a model in this field, only 4.7 million taxpayers were registered in 2009. For this reason, the success of implementation in these countries is more realistic than in countries with much larger populations. There are two exceptions with a population several times larger: France (about 36 million taxpayers) and Spain (20 million).

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<sup>551</sup> OECD, 2011.

<sup>552</sup> J. Papińska-Kacperek, *Ustugi...*, op. cit.

<sup>553</sup> OECD, 2011.

## 4. Electronic Tax Payments

In several countries not only e-filing is possible, but also citizens can pay the tax due electronically. Revenue bodies appear to make progress in fully automated tax payment collection. In many countries, the scope of fully electronic payment methods available to taxpayers is gradually extending. Internet or telephone banking are the most commonly used ones. However, in the OECD report was noted that in 2009 the traditional (i.e. more expensive) methods of payment (e.g. cheques, cash or personal payment in tax offices or external agencies) were still the main form of payment almost in half of the surveyed countries. Payments made personally or in tax offices or through agencies (e.g. banks or post offices) were the main method of payment in 6 countries. Thus, many offices were forced to incur significant administrative costs associated with such transactions charges for third parties, or internal cheque processing or handling.

Tax authorities using the old 'manual' method, can achieve significant savings from promoting e-payment methods, especially considering the large number of payment operations made by taxpayers. Often, the taxpayer is encouraged to select an e-payment, by offering him an exemption from fiscal charge (e.g. in France it is 10 Euro).

The overall rate of fully electronic e-payments was well below e-filing rates still in 2011. There could be a number of factors contributing to this outcome, for example: taxpayers' perception of security weaknesses in the banking system; taxpayers' reticence to give bank account details; taxpayers' reluctance to use direct debit facilities. Lack of comprehensive data on the use of different payment methods makes it extremely difficult to assess the progress in this field.

## 5. Security

Electronic tax return as same as with other e-forms must be authenticated. This is required by either an electronic document sending via Internet, or by having an account on the website, from which citizens send or confirm the prepared declarations. The taxpayers' identification should be based on a digital signature infrastructure, already functioning in most states. It is, however, expensive for the citizen, because the digital signature must be bought (it involves the cost of issuing and maintenance). This requires having and protecting the physical object containing the private key and if it is the card, its reader will be needed, which is not yet standard PC peripherals. For this reason, in many countries, digital signature authentication is not mandatory element in the process of sending an e-declaration, and the problem

is solved often in more comfortable and cheaper way. First method is the free digital certificate, offered by the State, which is used only to contact with the authorities (e.g. in Slovenia). Another method involves personal accounts and password assigning to taxpayer, after one visit at office, and is giving the ability to use tax e-services (Hungary). The procedure is similar to the Polish *trusted profile* on ePUAP portal- but does not give yet the benefit of an *E-Deklaracje* system.

In the US taxpayers authenticate the electronic declaration with chosen PIN number. The procedure also requires sending one of the following data: last year chosen PIN, AGI from the previous tax return or a temporary PIN number generated by the IRS, after checking out a few personal data, including Social Security Number or Individual Taxpayer Identification Number<sup>554</sup>.

## 6. E-filing Benefits

The electronic tax filing system implementation improves the quality of services at all levels and allows the inclusion of the citizens into the PIT collecting, therefore it shifts organisation boundaries: the taxpayers become active actors in this process. It influences the organisation, its structure, and can significantly reduce the costs of the tax administration<sup>555</sup>. In effect we have faster collection of the state revenue, increase the stored data accuracy, reduce the documentation flow, and reduce 'paper-work' for taxpayers, faster tax returns verification and faster access to taxpayer data in a variety of administrative purposes.

Automated procedures reduce the tax settlement process for both the authorities and taxpayers. The number of small mistakes made by citizens is limited, because programs and interactive forms automatically improve obvious errors. The lower number of errors allows avoiding the requirement of preparing and sending corrections and incurring additional costs for tax administration. As a result, number of clerks involved in catching errors is limited, and then, more stress can be placed on controlling or researching the taxpayers' needs. In the audit process it is also important that independent tax administration bodies are able to access the same information about the taxpayer entered into the system before.

The electronic tax systems save not only time but also cut costs, and modify the structure of tax administration. The system in Austria changed the organisational structure and employment offices: seven central departments were replaced with five acting on the regional level, the number of tax offices was reduced from 80 to

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<sup>554</sup> *Electronic Filing PIN Request*, IRS 2012.

<sup>555</sup> L.C. Schaupp, L. Carter, M.E. McBride, *E-File Adoption: A Study of U.S. Taxpayers' Intentions*, 2010.



43, and the number of officials from 15 700 to 11 300<sup>556</sup>. American IRS reduced the number of units processing and filing paper tax returns from ten in 2003 to five at the end of 2011. Obtained savings are generally reinvested in other projects that provide additional support for the taxpayers.

Administrative procedures for filing paper tax returns and taxes payment require large financial investments, in some cases, consuming as low as 20–30% of the resources available to offices. The high cost of scanning is reduced in countries that have introduced the 2D code printing applications (US, Taiwan). According to a report of the American tax administration cost of operating the electronic form in the US is 17 cents while the papers – up to \$ 3.66<sup>557</sup>.

The e-tax service is very comfortable for citizens who can use it even after the office hours or even during weekend. It reduces the cost of transactions for taxpayers, and also the time: both in the process of submitting the form, as well as during e-payments. Sending the form usually takes a few seconds, but sometimes it can take up to a few minutes, especially at the end of tax returns collection, when the servers may be overloaded. However the taxpayer did not lose time on getting to the tax office and back, and on waiting in the queue. Even if he loses a little more time to obtain electronic official acknowledgment, he will be at home and can perform other tasks. Faster control of annual return accelerates a tax overpayment return – it is another benefit.

## 7. E-PIT in Poland

In Poland, individuals can send e-declarations from 2008. In the first year of implementing *e-Deklaracje* portal, only holders of digital signature could use it. The procedure also required the dispatch of the paper notice to the relevant head of Tax Office, informing about the intention of sending the electronic PIT form. It was performed only by 419 taxpayers. In 2009, when the most popular PIT-37 could be sent without digital signature and without written notice, tax authorities received more than 89 thousand declarations from taxpayers. From this year one has been able to sign with the electronic signature unverified by any certificate, but ensuring the authenticity of the settlement. This signature is based on the following set of information about the person who e-files a tax return: tax identification number NIP, name, surname, national identification number PESEL, date of birth, the amount of income referred in the settlement of tax return for previous year<sup>558</sup>. This possibility

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<sup>556</sup> K. Kościński, *Specyfika tworzenia elektronicznej administracji podatkowej i niektóre bariery jej rozwoju w Polsce*, “Kwartalnik Prawa Podatkowego” 2008, vol. 3, no. 4, p. 91–104.

<sup>557</sup> *Oversight Board Electronic Filing*, IRS 2011, p. 8.

<sup>558</sup> or zero value if none of the settlements were filled.

has been available only just in April 2009, at the end of the settlement period. In 2010 five electronic forms were prepared to file without digital signature. Increased number of electronic PIT forms was meant to encourage taxpayers and over one million of declarations were expected. It was reckoned that expensive digital signatures were the main cause of not exploiting the existing possibility. However it turned out that this was not the only reason. Offices received only less than 320 thousand forms from 355 thousands of taxpayers. The Ministry of Finance's expectations came true in 2011: nearly 1.2 million taxpayers sent e-declarations. The system has still been improved and it has been getting easier and more convenient to use: since 2011, an electronic correction of PIT could have been submitted without a digital signature, and the spouses who file joint tax returns did not need to notify about it. Since 2012, identification data – i.e. NIP number have not had to be specified. In 2012, four years after implementation of the service, over 2 million taxpayers have sent e-declarations, what constitutes 8% of the population. In 2013 the result was over 3,5 million e-declarations which states 15% Polish taxpayers.

According to the Polish Ministry of Finance, the total loss of social benefits resulting from the lack of possibility of e-filing tax form is estimated at about 1 billion PLN per year. If half of the declaration were filled electronically, the benefits to the national economy would amount to hundreds of millions of PLN. In 2011, the benefits of implementing the *e-Podatki* system were estimated up to 1.5 billion PLN<sup>559</sup>. The savings grew with the increase in the user's number, which was higher after the implementation of the new system. Pre-filing tax returns was planned to be introduced in 2013, but in 2012 the deadline for *e-Podatki* and *e-Deklaracje 2* projects was prolonged until March 2015<sup>560</sup>.

## 8. Usage Statistics

In most counties, the e-filing is voluntary, that is, taxpayers do not have to use the new systems, if they do not appreciate its benefits. The taxpayer experiences have certainly an impact on the greater systems usage i.e. taxpayer's ability to use a computer and access to the Internet, as well as how long the electronic system has been practiced in a particular country, that is, how much time did the taxpayer have to get used to the new procedure (Table 1).

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<sup>559</sup> Koncepcja transformacji polskiej administracji podatkowej, Ministerstwo Finansów, Warsaw, 2011.

<sup>560</sup> Program *e-Podatki*. Wydłużony okres realizacji projektów *e-Podatki* i *e-Deklaracje 2*, 2012.

**Table 1. The Use of Electronic Tax Returns in Selected Countries**

Country	Beginning	E-filing in 2004 (%)	E- filing in 2007 (%)	E- filing in 2009 (%)	E- filing in 2011 (%)
Estonia	2000	59	85	92	94
Lithuania	2004	5	55	71	87
France	2001	4	20	27	33
Sweden	2002	15	45	55	63
Hungary	2003	3	31,5	30	17
Slovenia	2004	0	4	77	n.a.
Bulgaria	2005	–	0,4	3	5
Spain	1999	23	23	36	74
Poland	2008	0	0	0,4	5

Source: OECD 2013; Papińska-Kacperek, 2013.

In Lithuania in 2006 – 2 years after introducing services, 46% of citizens used the service, and even 71% in 2009 (Tab. 1). One of the reasons for such rapid acceptance of the digital services in Lithuania, as well as in Estonia, was providing citizens with electronic ID cards, by which the taxpayers can authenticate themselves. Higher rates have been achieved in countries where forms were partly or fully prepared by government tax authority. But this growth does not happen at once, as in Slovenia. In 2006 (two years after implementation) the tax administration expected 10%, but only 2.8% of taxpayers filled e-forms<sup>561</sup>. A large increase was anticipated after the introduction in 2007 of pre-filing, and in 2008 the fully filling the declaration. Meanwhile, in 2007, the service was used by only 4% of citizens, but in 2009 nearly 77%.

The graph in Figure 1 compares percentages of electronic systems users in the sequentially years from their implementation. This means that the curves begin: in Spain in 1999, Sweden in 2003, Slovenia and Lithuania in 2004, and in Poland since 2008. It can be seen that it is not meaningful to compare our country with Sweden and Lithuania, where from the beginning at least partial forms completing were introduced. For example, in Slovenia, such increase of the number of users could be predicted after the e-form introduction by the authorities. For the same reason the largest increases were recorded in 2007 in Spain – the most similar country to Poland.

Questionnaire study<sup>562</sup>, conducted by the author, showed that people performing the obligation to file tax return in paper form, have digital experience and, therefore, have access to the Internet, and by using the electronic services, they acquire practice

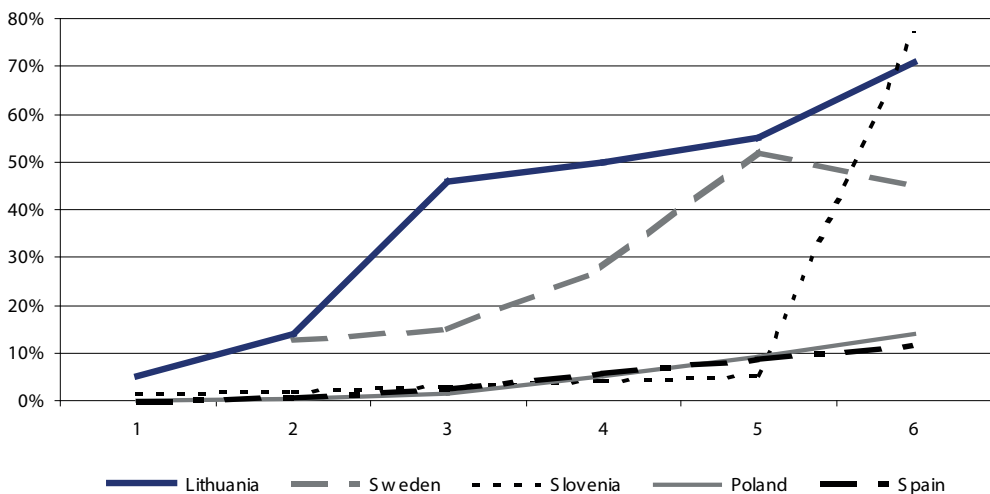
<sup>561</sup> M. Klun, M. Decman, *e-Tax...*, op.cit.

<sup>562</sup> J. Papińska-Kacperek, *Usługi...*, op. cit., p. 192. Four voivodeships were drawn, big and small towns within them. The research was conducted in 11 offices: 8 in big and 3 in small cities, 2012 and 2013.

in the field of the new ICT application in many areas. Despite this, those respondents and unfortunately still majority of Polish taxpayers choose the traditional method.

Distinguishing between obtained responses: cultural, technical, cognitive and procedural factors, it turned out that 40% of spontaneously given reasons belong to the cultural, which is associated with tradition, fear of the Internet, lack of being inquisitive enough. In second place there are reasons related to lack of knowledge about procedure of sending the electronic tax return. Technical problems are the third reason, and lastly procedural. Therefore, citizens are aware of existence of this e-service, they have digital experience, there are no obstacles to the Internet access, applications and the methods of authentication, but they prefer to use the service in the traditional way.

**Figure 1. The Percentage Using Online Tax Systems of Population of Taxpayers**



The task for tax authorities should be a better understanding of the potential group of users and educating on how to use this e-service. Also stronger emphasis on the benefits resulting from usage of the *e-Deklaracje* system would be advantageous.

Services for the mass user should be very well prepared, because many people do not read the instructions and rely on the context-sensitive help. Observing the Polish *e-Deklaracje* portal we have noted numerous weaknesses, happily repaired – sometimes in the same year. In 2011, many taxpayers could have been deterred when it turned out that the full procedure was not completed, because they recognised reference number as the official acknowledgement of receipt (Polish UPO). In this case taxpayers were partly to blame for, but the system could actually suggest that they should have waited for UPO – what was fixed in 2012. In 2013 the authors of the

system did not take into consideration that the new versions of popular Web browsers did not allow opening the interactive forms. It could discourage many citizens.

## 9. Conclusions

Electronic filing is a determinant of e-government, which is a manifestation of the modern state. Its advancement demonstrates how seriously the new communication methods with the authorities at various levels shall be treated in a particular country. Advanced digital services redesign the old processes and allow for closer collaboration with citizens and one can observe the impact of use of ICT tools on the shifting of the offices boundaries.

The tax offices will profit from described here digital services, as cost reduction and efficiency improvement – provided that a large percentage of citizens will benefit from it. Therefore, tax administration should expand the offer of e-services. Citizens will get faster, more useful and convenient services from the more sensitive and conscious offices. This requires a change: organisational and procedural on both sides of the process. The aim of all activities related to the evolution or even revolution of tax authorities is to avoid the chaos associated with the implemented changes and to achieve a state of stability that will satisfy both the tax administration and the taxpayers.

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# THE EVOLUTION OF THE EUROPEAN COMPETITION POLICY AND ITS IMPACT ON THE MANAGEMENT OF THE COMPANY

## 1. Introduction

The enterprise management is an issue which cannot be limited to one scientific discipline only. This is a complex matter that requires a comprehensive approach taking into account also other scientific disciplines, including legal science. This approach significantly contributes to expanding the boundaries of the enterprise management. Management and law are in fact two inextricably related areas of business practice. Only their synthesis gives power to the efficient management of the enterprise in the conditions prevailing in the area of regulation. The dependence of both fields is particularly evident on the basis of competition policy, which requires consideration of not only the legal and economic aspects but also the issues of management sciences. Building a competitive advantage for the company is often associated with the risk of infringement of the competition rules.

The internal market of the European Union (EU) is currently the largest economic area in the world, covering more than 20 million businesses and half a billion consumers<sup>563</sup>. From the very beginning of its gradual construction it was accompanied by the dynamic development of the European competition policy. The aim was to create the system ensuring that competition between enterprises was and is one of the tasks listed in the Treaty on the Functioning of the European Union (TFEU)<sup>564</sup>. The rules governing competition policy aim to create the optimal conditions conducive to economic development of Member States and the effective management of enterprises in the conditions of undistorted competition on the EU market. The provisions contained in the treaties define the possibilities of enterprises behavior on the

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<sup>563</sup> Report from the Commission, Report on Competition Policy 2012, Brussels 7.5.2013 r., COM(2013) 257 final.

<sup>564</sup> Consolidated version of the Treaty on the Functioning of the European Union, Official Journal 2010 C/47.

market, eliminating these which can cause adverse effects on the internal market, mainly in the form of interference or by preventing the functioning of other companies as well as offering the final recipients goods and services which do not meet their expectations in terms of usability and the conditions of purchase.

Economic and political conditions have changed dramatically during more than 40 years of European competition policy, thus its rules and procedures have been in a process of continuous adaptation.

The need to adjust the legal standards to the changing economic reality was one of the reasons to begin the thorough reform of competition policy in the second half of 90's. The basic aim of the reform among other goals, was to increase the efficiency of the enterprises by reducing the administrative burden and thus to increase their competitiveness on the EU market and in the world. Consequently, this resulted in a greater openness of EU antitrust authorities on the issue of the economic aspects of business management. In the assessment of the facts and when justifying their decisions the antitrust authorities are not limited only to the legality of the entrepreneur's practice but above all they refer to the rules and principles of economics and management.

The purpose of this article is a retrospective analysis of the evolution of European competition policy which aims to identify the biggest challenges that this policy has had to face in the past and which are still ahead and to answer the question how and to what extent it affects the management of enterprises within the EU internal market. Selected judgments of the European Union antitrust authorities are the subjects of case studies. Due to its framework, the paper focuses on selected issues which are, according to the author, key modifications of the European competition policy.

## **2. The Origins and Basic Principles of the European Competition Policy**

Competition policy is one of those special areas of law which contributes to the natural connection of management and law. The law in this respect has the secondary character because it regulates economic concepts and processes underlying the basics of business management. In order to classify certain economic phenomena such as cartel, concentration, dominant position it refers to the terminology of economics and management.

Competition policy is one of the fundamental and earliest established areas of EU activity. It is assumed that when creating European competition regulations one drew from the rich experience of the American legal system. Competition issues have been described there in 1890 in the so-called Sherman Act – the law which prohibited any agreements, trusts or other forms of cooperation which were intended to limit the



trade and the monopolisation of trade was recognised as a crime<sup>565</sup>. The origins of EU competition policy date back to the Treaty of the European Coal and Steel Community (TECSC) of 1951<sup>566</sup>. The Treaty introduced the prohibition of anti-competitive agreements between companies, as well as provisions related to the mergers. These records were used as a reference during the work on the preparation of the Treaty establishing the European Economic Community (later the Treaty establishing the European Community, TEC). In the light of the TEC, European integration was to be made, among others, by creating a system that would protect competition within the Community from any disturbance. This assumption is confirmed by the European Court of Justice (now the Court of Justice of the European Union) in one of the first cases related to competition law – Metro I in which the Court stressed the need for undistorted competition as a condition of the internal market<sup>567</sup>.

In 1962, the Council adopted the basic implementing Regulation No. 17/62 to Articles 85 and 86 of the TEC T (now Articles 101 and 102 TFEU). It established a dual system for the application of these provisions European Commission – at EU-level and the administrative authorities of the competition and the courts – at the level of the Member States<sup>568</sup>.

The Maastricht Treaty created a new dimension of integration, requiring from the Member States and the Community to conduct business in accordance with the principles of an open market economy with respect to free competition<sup>569</sup>. With the entry into force of the Treaty of Maastricht and the ultimate establishment of the internal market, competition policy was aimed specifically at preventing the formation of the dominance of companies and their unbridled expansion which would cause disequilibrium in the market. In 1999 it was decided to complete modernisation of competition policy and as a result of several years of discussions, the Council Regulation 1/2003 on the application of the rules on competition, laid down in Articles 81 and 82 EC (now Articles 101 and 102 TFEU), was issued. It created the legal basis of a new decentralised and administratively simpler system for application of these rules.<sup>570</sup> In light of the current regulations the main objectives of European competition policy related to economic efficiency are the unification of the internal market, which is to protect it from fragmentation resulting from the operation of enterprises,

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<sup>565</sup> K.P. Ewing Jr, *Competition Rules for the 21<sup>st</sup> Century: Principles from America's Experience*, Kluwer Law International 2006, p. 84.

<sup>566</sup> Treaty establishing the European Coal and Steel Community, signed in Paris on 18 April 1951, expired on 23 July 2002.

<sup>567</sup> Case 26/76 Metro no. 1 v. Commission, European Court Reports, 1977, p. 1875.

<sup>568</sup> EEC Council: Regulation no. 17: First Regulation implementing Articles 85 and 86 of the Treaty, "Official Journal" no. 013, 21/02/1962, p. 0204–0211.

<sup>569</sup> Treaty of Maastricht on European Union, "Official Journal" C 191, 29 July 1992.

<sup>570</sup> Council Regulation (EC) no. 1/2003 of 16 December 2002 on the implementation of the rules on competition laid down in Articles 81 and 82 of the Treaty, *OJ L 1*, 4.1.2003.

maintaining and strengthening its competitive structures on the European market and to guarantee free competition by controlling the aid granted by the State<sup>571</sup>. European competition policy focuses on enterprises operating in the area of the European market and the Member States. Rules related to companies are aimed at preventing the conclusion of restrictive agreements, the abuse of dominant position in the market and the control of enterprises concentration. Policies addressed to the Member States aim to counteract the states aid which is contrary to the idea of a common market and which violates the assumption of the equality of its traders. These rules also include the liberalisation of monopolised sectors of the economy.

The interpenetration of management rules and regulations, especially in the first plane addressed to entrepreneurs, is visible. In this aspect the boundaries set by the standards of European competition law can be regarded as an objective limitation in shaping the company's development strategy and building a competitive advantage in the market. The implementation of European competition policy is the competence of the European Commission and more specifically the General Directorate for Competition. It is responsible for the implementation and enforcement of EU competition rules. In some cases the Commission shares its powers with the relevant authorities and courts of the Member States while in other it works independently, for example when controlling and monitoring mergers or public aid. The role of the Court of Justice of the European Union should be emphasised as well. The Court accepts appeals against the Commission's decisions and in its case-law interprets the competition rules included in European Union law.

### **3. The Evolution of the European Competition Policy within Agreements Restricting Competition**

The provision of Article 101 TFEU prohibits agreements restricting competition – the so-called cartels. This prohibition includes both horizontal agreements – between undertakings operating at the same level of production, processing and distribution as well as vertical agreements – between undertakings at different levels which do not compete directly with each other. We are talking about agreements between undertakings, decisions of associations of undertakings and concerted practices between enterprises, if they aim to eliminate, reduce or distort the competition and their effects have impact on the market. In particular agreements concerning pricing, quotas, market sharing agreements or agreements concerning sources of supply are prohibited as discriminatory. Prohibition of the above agreements may be declared

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<sup>571</sup> E. Radomska, *Polityka konkurencji a funkcjonowanie rynku UE, Zarządzanie zmianami*, "Biuletyn of Polish Open University" May 2010, vol. 5, no. 39, p. 5.

inapplicable to “any agreement or category of agreements between undertakings, any decision or category of decisions by associations of undertakings, any concerted practice or category of concerted practices, which contributes to improving the production or distribution of goods or to promoting technical or economic progress, while allowing consumers a fair share of the resulting benefit, and which does not impose on the undertakings concerned restrictions which are not indispensable to the attainment of these objectives and afford such undertakings the possibility of eliminating competition in respect of a substantial part of the products in question” (Article 101 paragraph 3).

Depending on the size and nature of the breach of law, the Treaty provides a variety of legal consequences: *ex lege* invalidity of the agreement, the Commission’s decision ordering the immediate discontinuance of the existing agreement, the Commission’s decision to impose a fine and the possibility of a claim for damages<sup>572</sup>. The primary law however could not be effectively enforced without the introduction of standards specifying the provisions of the Treaty. Among the secondary legislation of an executive nature, Regulation 17/62 and Regulation 1/2003 have played the most important role in relation to the above mentioned provisions of the Treaty. Both regulations are very similar in their structure. Both acts define the rights and obligations of the companies that aim to achieve its economic goals through the concluded agreements. Moreover, those regulations covered all areas of the economy. On the basis of Regulation 17/62 companies, which made an agreement within the scope of contemporary art. 81 of the TEC, were required to ask the Commission to ascertain compliance of their activities with the treaty regulations. The Commission began mandatory proceedings in such cases. Applications and notifications submitted by the company took effect upon its entry into possession by the Commission. Companies involved in the cartel agreements were in addition liable to present any modification that occurred after the notice or notification. Commission presented its proposal within a month. Not all agreements within the scope of the TEC had to be notified to the Commission. Regulation however defined the exemption including, among others, agreements involving companies from only one Member State which were not relevant to imports or exports between Member States. Secondly the regulation concerned the agreements involving two or more businesses which run their activities for the purposes of the agreement within a different level of the production or distribution chain and which were related to the conditions under which the parties may purchase, sell or resell certain goods or services. Thirdly, the regulation concerned the agreements which the only object was a common development,

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<sup>572</sup> Consolidated version of the Treaty on the Functioning of the European Union, *op. cit.*

testing or uniform application of standards and types<sup>573</sup>. The provisions provided in Regulation 1/2003 significantly limited the scope of the Commission's interference in the activities of enterprises. Regulation conditioned the possibility of a cartels activity on the fulfilment of the premises referring to paragraph 3 Art. 81 (now Art. 101) by the entities involved in it. The burden of proof rests on the concerned companies. These companies take full responsibility for the restriction of competition which is necessary to achieve the economic goal and for the effects of actions taken against other market participants. The Commission has in this respect right of control<sup>574</sup>.

The Court of Justice of the European Union played active role in the development of the competition policy from the very beginning. First cases of the competition law concerning agreements made between private companies, which were aimed to impede the parallel imports, took place in the 60's. A judgment of 1964 against the agreement Grundig-Consten<sup>3</sup>, which led to the division of the market and that caused significant differences in the price of the same products between France and Germany<sup>575</sup>, was a pioneering decision. The Court continued intensive activities in the enforcement of competition rules in the 70s and later it was combating anti-competitive practices such as cartels dividing the market. The sugar cartel – Suiker Unie case can be the example in which the Court argued that proving the existence of a cartels actual plan is not necessary. Moreover it condemned the action of sugar producers that participated in the concerted practices to protect the position of the two Dutch producers on their domestic market<sup>576</sup>.

At the end of the 90's of the twentieth century and early twenty first century the Commission's antitrust policy has been focused on the effects – oriented approach, in particular it concerned the agreements between competitors (horizontal agreements) and agreements between undertakings operating at different levels of the distribution chain (vertical agreements).

The Commission considering the pro and anti-competitive aspects of the various agreements began to analyse the agreements involving companies with large market power which means that they could work to the detriment of consumers. As with other violations of antitrust laws by the companies, the Commission may impose fines to discourage similar behavior. Although the fight against the most serious cartels is considered to be the main pillar of competition policy, the situation was different in the past. Commission had at the beginning to act gradually facing a fundamental lack of national legislation and implementing measures against cartels. It is worth

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<sup>573</sup> T. Jarocki, *Ewolucja polityki konkurencji we Wspólnocie Europejskiej*, Wydawnictwo Uniwersytetu Humanistyczno-Przyrodniczego Jana Kochanowskiego, Kielce 2008, p. 67.

<sup>574</sup> Z. Jurczyk, *Kartele w polityce konkurencji Unii Europejskiej*, Monografie ekonomiczne, C.H. Beck, Warsaw 2012, p. 256.

<sup>575</sup> Cases C-56/64 and C-58/64 *Grundig-Consten*, European Court Reports, 1966, p. 299.

<sup>576</sup> Case C- 40 – 48/73, *Suiker Unie v. Commission*, European Court Reports, 1975, p. 1633.

mentioning the most important decisions of the Commission in this period. The first decision in 2001 concerned the Scandinavian airlines SAS and Danish Maersk Air which have been fined 52 million euros for anti-competitive sharing of the air routes to the detriment of passengers who paid inflated ticket prices<sup>577</sup>.

The second case concerned cartel practices in years 1990 – 1999 committed by the companies belonging to the French company Aventis Company: Aventis Pharma S.A. and Rhone-Polenc Biochemie S.A. and the German company Merck KGaA of Darmstadt. These companies violated competition law by establishing the price of one of the intermediates for the pharmaceutical industry. Merck which has decided to cooperate with the European Commission provided information on illegal cartel practices and therefore was not punished. The French company Aventis was fined with 2.85 million euros<sup>578</sup>.

The analysis of the above presented regulations and decisions of antitrust authorities within cartel policy clearly highlights the complexity and dependence of two areas: management and law. Management rules, in addition to the principles of economics and applicable laws, become the essential foundations of the decisions of antitrust authorities.

#### **4. Evolution of the European Competition Policy within the Abuse of a Dominant Position and Concentrations between Undertakings**

Apart from cartels the activities of individual companies with a large market share and excessive concentration of undertakings may be a threat to competition in the EU internal market as well. Article 102 TFEU provides an unconditional ban on the abuse of the dominant position by one company or group of companies if such action could negatively affect trade between Member States. The concept of dominant position has not been clearly defined in EU law. It is assumed that the dominant position covers a situation in which the share of one company in the market is very high – for example, the Polish Act on competition and consumer protection makes a presumption that the market share exceeding 40% should be regarded as a dominant position (article 4.10)<sup>579</sup>.

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<sup>577</sup> Commission Decision of 18 July 2001 *relating to proceedings pursuant to Article 81 of the EC Treaty and Article 53 of the Agreement on the European Economic Area 2001/716/EC: (Case COMP.D.2 37.444 — SAS Maersk Air and Case COMP.D.2 37.386 — Sun-Air versus SAS and Maersk Air)*; notified under document number C(2001) 1987, “Official Journal” 05.10.2001, L 265, p. 0015 – 0041.

<sup>578</sup> *Commission takes decision against Aventis and Merck in methylglucamine cartel*, European Commission – IP/02/1746, 27.11.2002, Brussels.

<sup>579</sup> Act of 16 February 2007 on Competition and Consumer Protection, “Journal of Laws of 2007”, no. 50, item 331.

The forms of abuse are, among others, imposing unfair prices directly or indirectly, discriminatory trading conditions, limiting production, sales or technical development, the use of different conditions with analogous transactions with various partners and conditioning contracts on additional obligations not related to the transaction. The issue of abuse of dominant position by the company is the subject of extensive case law of the Court of Justice of the EU. For example, in its judgment of 13 February 1979, in the *Hoffmann-La Roche*, the Court noted that the concept of abuse is an objective concept related to the behaviour of an enterprise holding a dominant position, which may affect the structure of the market, where competition is weakened just as a result of the actual presence of this company<sup>580</sup>. However in its judgment in *BPB and British Gypsum* case the Court completed the above interpretation and stated that for the application of the provisions of the Treaty it is necessary and sufficient that the abusive behaviour could negatively affect trade between Member States. It is not necessary to decide that this behaviour actually affects the internal trade at the moment. It is sufficient to state that at least the potential action could have such an impact<sup>581</sup>. Creation or strengthening of a dominant position may also be a result of uncontrolled concentrations between undertakings.

Merger control applies to EU dimension only. This dimension depends on the total value of the worldwide turnover of all the undertakings – at least 5 billion Euros, the total turnover of the EU internal market – a minimum of 250 million Euros, at least two undertakings involved in the merger, as well as the participation of each of these companies in the domestic market. In order to gain a competitive advantage in the market by achieving a dominant position, the managing director certainly should be aware at least of elementary legal solutions and the sanctions for their violation. This legal background should set boundaries and strategic direction of the enterprise. The penetration of these two areas of economic activity is inevitable in this case.

Since the late 80's of the twentieth century, in the fight against the abuse of a dominant position and concentrations, the policy of the Commission within anti-trust and merger control has focused more effectively on the welfare of consumers, in particular through more accurate economic analysis. The work of the Commission on the Regulation of the merger, which eliminated the risk of consumer exposure to loss as a result of the creation and strengthening of dominant position through mergers, were of great importance in this regard. Until the entry into force of the Council Regulation No. 4069/89 control of the concentration compatibility with the rules of European competition policy could take place under the primary legislation

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<sup>580</sup> Case 85/76, *Hoffmann-La Roche*, European Court Reports, 1979, p. 461.

<sup>581</sup> Case T-65/89, *BPB Industries plc & British Gypsum Ltd.*, European Court Reports, 1993, p. 2–389.

only. The above Regulation equipped the Commission with the power to examine proposed mergers before their implementation in order to decide whether or not they threaten the proper functioning of the EU internal market<sup>582</sup>.

A breakthrough in competition policy took place in 2002 when the EU Court of Justice overturned in a relatively short time three different decisions of the Commission prohibiting the merger due to the lack of sufficient economic analysis and errors of assessment. This had a positive impact in the long term as the Commission has decided to improve their ability to carry out a more professional economic analysis, establishing in 2003 a team of dedicated economists under the leadership of the Chief Economist. The emphasis on the economic aspect has allowed the extension of the Commission's assessment. At the moment it can answer not only the question whether the transaction will put the company in a dominant position but also can assess other situations of unilateral anti-competitive use of market power<sup>583</sup>.

## 5. Conclusions

European competition policy is a key tool to drive better functioning of markets through efficient allocation of resources and to increase productivity and innovation. Therefore, this policy is the basis for managing any enterprise that seeks to obtain a competitive position in the European market. The new rules introduced in the process of reforming competition policy have greatly facilitated the management of European companies. It may be proved by legislations eliminating mandatory notification of cartel agreements and by the facilitation of mergers. The simpler control procedures and exemption from competition law concerning activities of minor importance for trade in the internal market were introduced. Reforms have a positive impact on the functioning of the business because they enable a more efficient management of the EU economy through an increase in production, fuller utilisation of production capacity and increase of technological advancement. At the same time liberalisation of obligations imposed on undertakings did not weaken the strong position of the European Commission which counteracts any even potential risks for competition.

In particular, the evolution of European competition policy and the reforms related to it have contributed to the equalisation of opportunities for companies oper-

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<sup>582</sup> Council Regulation (EEC), no. 4064/89 of 21 December 1989 on the control of concentrations between undertakings /CORRIGENDA – WHOLE TEXT REPUBLISHED IN OJ L 257/90 P 13 /, "Official Journal" L 395, 30.12.1989.

<sup>583</sup> Report from the Commission, Report on Competition Policy 2010, Brussels 10.6.2011, COM (2011) 328 final.

ating in several countries, allowing them to plan a trading strategy based on a single EU catalog of laws instead of 28 different legal systems of the Member States.

The process of the evolution of European competition policy is yet another evidence for the permanent expansion of the firm management boundaries. The effectiveness of management in this case is conditioned by knowledge and taking into account the competition rules, which play in this aspect the dual role. First, they provide guidance as how to compete in the market and not to expose the company to serious distortions in the implementation of market strategy. On the other hand, they guarantee the protection of the economic interests of the company against the effects of anti-competitive practices by stronger market participants.

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# THE LEGAL DIMENSION OF THE ENTREPRENEUR'S RESTRUCTURING WITHIN INSOLVENCY

## 1. Introduction

Restructuring a company is a complex and multi-faceted process. This process has both economic and legal dimensions and therefore management science in this sense becomes of especially interdisciplinary nature. Managing the process of restructuring must take into account the above factors. Therefore in this field naturally comes to the connection of variety of scientific disciplines, which significantly contributes to expanding the boundaries of management of restructuring the company within insolvency.

Economic market forces participants to use the new legal and economic instruments, aimed at efficient management of the firm's activity. The procedures related to bankruptcy restructuring help an enterprise to maintain its economic and legal existence through the reorganisation of its payments and obligations in a manner that allows it to survive in the market. The practice of economic life contributed to the creation of debt management instruments such as bankruptcy restructuring.

The distinction of management and law aspects within insolvency is necessary due to the possibility and need for the analysis of this process both in management and legal context. Bankruptcy similarly to other concepts related to the economy has its own specific meaning both on the basis of management sciences and law sciences. The legal recognition should be analysed within the context of management sciences. The law however plays the subsidiary role here which is focused on describing management concepts with a specific legal and conventional language and framework.

In times of crisis the delayed payments of financial commitments become one of the most fundamental problems associated with running a business. Lack of regulation for financial claims leads in turn to a state of insolvency which according to Art. 10

of the Act of 28 February 2003 on Bankruptcy and Restructuring is a fundamental prerequisite for bankruptcy<sup>584</sup>.

According to a recent report of Euler Hermes, Europe and particularly the Eurozone is experiencing a significant increase in the number of bankruptcies. The bankruptcy rate within the Euro area amounted to 16% in 2012 and amounts to 21% in 2013. Important thing is that the increase in the number of bankruptcy covers all three main sectors: manufacturing, construction and services. A similar situation exists on the Polish market. Since the beginning of June 2013 Polish courts declared bankruptcy of 483 companies (in the same period in 2012, it was 472 companies) of which in the first place are the manufacturers, service companies and then construction companies. Bankruptcy however contrary to the popular opinion does not always have to end with a final liquidation of the company. On the contrary, it may entail the effective restructuring of its liabilities. The current Bankruptcy and Restructuring Law specifies the terms and conditions which should be subject to restructuring liabilities of the bankrupt's creditors. Restructuring is in this case an opportunity to rebuild the company and to bring it back to a competitive market.

This article aims to outline the legal possibilities to restructure debts of the entrepreneur due to bankruptcy restructuring. It also presents wide boundaries of restructuring management process which includes the crucial legal aspects in this field.

## 2. The Bankruptcy Proceedings and the Forms of Insolvency

The restructuring procedure of the enterprise is strictly associated with legal dimension of this process. The limitation within the legal basis is the key factor of proper debt management. The legal framework for bankruptcy management is crucial to understand this process. It is also a good example for interdisciplinarity of this issue. Each manager considering options for debt management needs to realise the basic legal solutions within which he can make decisions. The penetration of management and law boundaries in this case is particularly evident. The legal institutions and definitions stated below should be of particular interest of entrepreneurs.

The basis of the bankruptcy is insolvency. In the light of Art. 11 of the above mentioned Act the debtor is considered insolvent if it does not perform its due liabilities. If the debtor is a legal person or an organisational unit without legal personality, it shall be deemed to be insolvent if its liabilities exceed the value of its assets even if the company settles the obligation. An application for a declaration of bankruptcy can be made by the debtor himself and /or his creditor/ creditors. In practice the creditors

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<sup>584</sup> Bankruptcy and Restructuring Law of 28<sup>th</sup> February 2003, O.J. 2009, no. 175, pos. 1361.

shall submit an application for bankruptcy in order to mobilise the debtor to pay. They need to take into account the fact that when the court declares the bankruptcy they can no longer withdraw the application and if the debt does not belong to the privileged ones (such as compensation of employees social security charges, bills receivables) the satisfaction of their claims will occur at a later stage.

In accordance to Art. 12 the court may dismiss a bankruptcy petition if the delay in the performance of the obligations does not exceed three months and the amount of default does not exceed 10% of the assets of the debtor company. These solutions cannot be applied however if such failure is permanent or if the rejection of an application may harm creditors. The court also has the ability to initiate at the request of the debtor's the reorganisation proceedings. The current definition of insolvency should be evaluated critically mainly because of too broad scope. In the light of that fact if the debtor fails to fulfil its financial obligations, it will be the ground for bankruptcy irrespective of the size of the debtor and the fact that his liabilities are covered by the value of this property. According to established case-law in practice the maturity of the obligations is a condition in which the creditor has a legal opportunity to request meeting its claims. It is also important that insolvency refers to the state in which the debtor has failed to pay at least two financial obligations which after all, in practice can be due to various reasons (inability to pay due to circumstances not attributable etc.) and should not automatically lead to the elimination of the debtor's business transactions on the result of bankruptcy proceedings. Sufficient legal instrument in this case seems to be able to pursue claims in civil law.

The necessary condition for the opening of bankruptcy proceedings is to have the debtor's assets sufficient to cover the costs of the proceedings. The court is entitled to reject a proposal if the debtor's property is burdened by collateral (mortgage, lien, pledge, tax lien) and other assets are not sufficient to cover the costs of the proceedings. These rules do not apply in a situation when it is probable that the burden of debtors' assets are void under the provisions of the Act or if they were made to defraud or when it is probable that the debtor has made other unsuccessful legal action under the provisions of the Act which divested him of assets sufficient to cover the costs of the proceedings. At this point it is worth noting that the theoretical classification in practice is questionable because the debtor is always required to file for bankruptcy irrespective of the assessment of his property from the point of view of costs. In addition, the means of carrying out the bankruptcy are not part of the concept of insolvency.

The fundamental term for bankruptcy is the concept of bankruptcy capacity. The ability of bankruptcy is defined as an attribute for guiding proceedings. Moreover, the concept presupposes the existence of legal capacity as a civil law entity, and in the subjectivity in debt, and in terms of the assets comprising the assets. Entrepreneurs as well as limited liability companies and non-commercial joint stock companies,

commercial partnerships partners, who bear the responsibility for the liabilities of the partnership without limitation with all of its assets and the partners of a partnership (Article 5) have the ability of bankruptcy in the first place. The entities to which one cannot declare bankruptcy so the entities which are not fitted by the legislature attribute bankruptcy capacity are: the State Treasury, local government units, independent public health care institutions and legal entities established by law, unless the law provides otherwise, and created in the performance of an obligation imposed by law, natural persons engaged in the farming and the educational institutions (Article 6).

Satisfaction of the creditor in the liquidation is followed by payment of the amount that the creditor receives from the liquidated company, i.e. the amount paid by the trustee against claims which the creditor is entitled to from the debtor. However in the arrangement procedure all the benefits, which are received by a creditor of the arrangement, are defined in this way and therefore not only cash but also the shares of the bankrupt or the individual components of its assets. In the first instance preferential claims are satisfied and therefore: the cost of bankruptcy proceedings, payment for work, taxes and other governmental duties and social security contributions, retirement, disability, sickness. In bankruptcy liquidation no creditor of further category will receive its debts unless all creditors of a higher category are satisfied in full<sup>585</sup>.

The law influences the process of restructuring offering legal options to be chosen. The debt management must not exceed the legal boundaries in this case. The boundaries of management and law come together again. On the basis of the current bankruptcy law entrepreneur has several significant opportunities to restructure its financial obligations. The Act provides that insolvency proceedings may occur in one of two forms: bankruptcy by liquidation of the debtor and the bankruptcy with the possibility of an arrangement. The choice of procedure should be defined in the court. It is worth noting that Art. 14 establishes the principle of the primacy of the bankruptcy proceedings with an arrangement stating that if it is probable that the creditors will be satisfied to a greater degree with an arrangement than they would be satisfied after the bankruptcy proceedings involving realising the assets of the debtor, the debtor's bankruptcy is announced with the possibility of the arrangement. The above procedure does not apply if the debtor's past behaviour does not guarantee that the arrangement will be made. However according to Art. 15 bankruptcy involving liquidation of the assets of the debtor shall be published only if there are no grounds for bankruptcy with the possibility of an arrangement.

The restructuring under liquidation occurs least likely Bankruptcy liquidation seeks to sell the assets of the insolvent businesses and satisfy the claims of creditors

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<sup>585</sup> A. Kowalewska, *Regulacje prawne w obszarze prawa upadłościowego i naprawczego*, in: II szansa dla Przedsiębiorców, Raport z badań, Polska Agencja Rozwoju Przedsiębiorczości, Warsaw 2011, p. 55.

from the sale proceeds. In the case of liquidation bankruptcy trustee is appointed who shall be obliged to take the property of the bankrupt, manages and protects it from damage, injury etc., and proceeds to its liquidation. Liquidation bankruptcy which follows the preparation of the inventory and accounts shall be made by the sale of the bankrupt company as a whole or its organised part, the sale of real estate and movable property, the recovery of debts from debtors of the bankrupt and the execution of its other property rights belonging to the bankrupt or being at their disposal. The legislature provides opportunities for the restructuring of the bankrupt mainly by the possibility of changing the mode of bankruptcy. This possibility exists in principle throughout the investigation but for obvious reasons it would be the best to use it before the sale of the bankrupts estate by the trustee. The request for change of the mode can be made by the bankrupt who despite of the appointment of a liquidator does not cease to be a party of the proceedings. Significant is the fact that even if the bankruptcy is carried through liquidation it does not necessarily mean the end of the existence of the company. In accordance with Art. 316 trustee must sell the bankrupt's enterprise as a whole. The purchaser buys the whole company including its business and the purpose of the transaction is very often in practice to continue business of the bankrupt. Much better chance for restructuring is under bankruptcy with an arrangement. Bankruptcy arrangement aims to continue operations and to conclude an arrangement with creditors on restructuring liabilities. If the court declared bankruptcy with the possibility of an arrangement and the arrangement proposals were not made, the bankrupt should report them within a month. Along with the proposals the bankrupt should also provide a cash flow statement for the last twelve months if he was obliged to keep records to enable the preparation of an account. In the same period proposals can be submitted by the court supervisor or manager. Proposals should describe restructuring of liabilities of the bankrupt in particular by: postponement of implementation of commitments; rescheduling of the debt in instalments; reducing the amount of the debt; conversion of debts into shares; amend, replace or repeal legislation which provides specific claim.

The Act does not exclude the possibility of merging several proposals of arrangement (called a package of proposals). In practice this is usually a decrease in total debt and at the same time distribution of their repayment in instalments, delay in the execution of commitments to the establishment or modification of rights securing performance of the proposed arrangement<sup>586</sup>. The rule is that the terms for restructuring of liabilities of the bankrupt should be the same for all creditors (or creditors included in the same group if the judge-commissioner decided that the vote on the system will be carried out in groups of creditors). Exception to this rule is the creditor's

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<sup>586</sup> A. Witosz, *Prawo upadłościowe i naprawcze. Komentarz*, Wydanie 3, LexisNexis, Warsaw 2010, p. 501.

consent to the terms which are less favourable or to grant more favourable conditions for small debts to creditors or creditors who have given or have to give credit necessary to implement the arrangement (Article 279). Proposals for restructuring should include justification which consists of: description of the business and its economic and financial, legal and organisational situation; analysis of the market sector in which the company operates taking into account the market position of competitors; methods and sources of funding of the arrangement, including revenue and expenditure provided for the performance of the system; analysis of the level and structure of risk; persons responsible for the execution of the agreement; assessment of alternative restructuring of liabilities; system for safeguarding the rights and interests of the creditors during the time of the arrangement performance (Article 280).

At present the practice of the Polish market shows the predominance of the bankruptcy with liquidation. In the first quarter of 2013 the Polish courts conducted a total of 211 bankruptcy proceedings, including bankruptcy liquidation which accounted for 170 cases and bankruptcy with arrangement which included 41 cases<sup>587</sup>.

Completely distinct possibility is a restructuring in the way of resolution which basically is a non-judicial proceeding. The primary objective of the rehabilitation is to restructure the trader's commitments at risk of insolvency and restore company's ability to operate in the market. Entrepreneur, who settles his liabilities, can take advantage of the rehabilitation and debt reduction (with an acceptable except, when he does not settle it, but the amount of default does not exceed 10% of the carrying amount of the company), and according to a prudent assessment of his economic situation, it is obvious that it will soon become insolvent (Article 492).

The entrepreneur threatened with insolvency initiates corrective actions by submitting the statement of initiation in the commercial court. The statement should include information about the debtor, description of the circumstances justifying the application of those facts and a statement that none of the cases of exemption takes place (for example a trader has previously led the reorganisation proceedings within the time of two years). With the initiation of recovery proceedings execution of the trader's commitments and the payment of interest due on those obligations are suspended. From the point of view of the debtor this solution should be assessed positively. As a result of the subsequent acceptance and approval of the arrangement the interest shall be redeemed. The positive effect of the initiation of recovery proceedings is also the ability to continue the business by the debtor and the prohibition of the foreclosure.

In the later stages of the rehabilitation entrepreneur is preparing a recovery plan which includes the documents on its financial situation required to initiate

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<sup>587</sup> Raport Coface nt. *upadłości firm w Polsce w I kwartale 2013 roku*, 2.04.2013, Warsaw, [www.coface.pl](http://www.coface.pl).



appropriate insolvency proceedings. Then the arrangement is a subject to a vote of creditors. If approved by the creditors, arrangement must be approved by the bankruptcy court. Approved recovery arrangement has the same effect as the agreement carried out in bankruptcy proceedings.

Unfortunately, the recovery law is not very popular and is certainly not perceived as an attractive opportunity to restructure. The main reason for this is the fact that the current regulations prevent the implementation of recovery proceedings against the entrepreneur who is suffering from financial problems despite the fact that its overall financial condition indicates a good chance to protect it from bankruptcy. The implementation of the recovery plan is in fact impossible if the entrepreneur "missed" the right time to take action for restructuring and the first signs of insolvency occurred. The legislature recognised this problem and amendment of the Act of April 2009 extended the range of entities that may be subject to recovery proceedings. One introduced the possibility, which allowed the initiation of recovery proceedings in all these cases when the court may dismiss the application for a declaration of bankruptcy because the debt is not significant or as to the amount or as to the duration of the state of insolvency. Level of insolvency, which justifies the dismissal of the bankruptcy petition, and thus opens the way to recovery proceedings initiated against him, is now referred in Art. 12 Paragraph 1. The court may dismiss a bankruptcy petition if the delay in making payments does not exceed three months and the sum of default does not exceed 10% of the carrying amount of the debtor's business. Dismissing the bankruptcy the court may authorise the recovery proceedings<sup>588</sup>.

The costs associated with salaries of the court supervisor, who is appointed by the court at the commencement of the proceedings, are the disadvantage of the reorganisation proceedings. These costs are covered by the entrepreneur. Another drawback is the time limit. Small and medium-sized enterprise has three (other entrepreneurs four) months to make an arrangement under the penalty of the discontinuance of proceedings.

### 3. The Key Assumptions of the Amendment

The assumptions of the amendment are mainly derived from the everyday practice of entrepreneurs. Legislator recognising the problems which many managers have to face decided to improve the law in this case. Creating law without taking into account various aspects of management would make this law useless. Furthermore, the legislator needs to be flexible and open to new challenges faced by managers. Management

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<sup>588</sup> Kowalewska A., *Regulacje...*, op. cit, p. 58.

and law are the close cooperation of two sciences which are essential here. As a result of this cooperation some proposed changes in law were announced.

In December of 2012 the Recommendations of the Minister of Justice for the amendment to the bankruptcy and reorganisation law were announced. Currently we are in time of inter-ministerial consultations and public consultations. Scheduled date of the entry of the Act into force is 2014.

The key idea behind the proposed changes is a postulate: “restructuring rather than liquidation” according to which the use of the bankruptcy procedure should take place only after an ineffective use of the process of restructuring<sup>589</sup>. The Recommendation’s authors point out that the state should guarantee the legal instruments to make the restructuring quick, effective and adjusted to the needs of entrepreneurs together with the postulate to make it less formal. The public awareness needs to be changed within the approach to the issue of bankruptcy especially in the current economic slowdown and the economic problems of entrepreneurs. Due to the proposed changes in the restructuring proceedings the title of the current law was transformed into “Bankruptcy and Restructuring” which most fully reflects the axiological and teleological assumptions of the Act.

An important change concerns the definition of entrepreneur’s insolvency. The basic premise of the recognition that the debtor is insolvent is the lack of regulation of financial liabilities lasting more than three months. Loss of ability to pay liabilities should result from the assessment of the financial condition of the debtor company. This means that this state should have certain stability (liquidity condition). An additional criterion for proving insolvency is a condition in which the sum of liabilities exceeds the total value of the debtor’s assets. The period in which the entrepreneur is required to file for bankruptcy will be extended from 14 – as it is now – up to 30 days. This will allow the company to collect the necessary documents needed to file for bankruptcy and to take a more rational and prudent decision on the rescue procedure<sup>590</sup>.

One is expected to introduce four restructuring procedures of varying degrees of severity depending on the financial status of the entrepreneur and the structure of the creditors. In addition to the current judicial arrangements which are subject to slight modification it is intended to introduce two new ones. An arrangement with the request of the debtor entered by the debtor and creditors and then approved by the court as well as an arrangement with the debtor’s request made on the initial meeting of creditors. An arrangement with the request of the debtor entered by the debtor

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<sup>589</sup> Rekomendacje Zespołu Ministra Sprawiedliwości ds. nowelizacji Prawa upadłościowego i naprawczego, Ministerstwo Sprawiedliwości, Warsaw 10<sup>th</sup> December 2012, p. 26.

<sup>590</sup> *Ibidem*, p. 31.

and creditors is a subject to approval by the court and covers situations in which the debtor prepares proposals for reorganisation, chooses restructuring advisor – the trustee who prepares the financial statements, contacts the creditors and negotiates the scope of the agreement with them. The court has the power to control the proposed system. The debtor is not considered being the bankrupt until the opening of the proceedings. The debtor may also in certain circumstances obtain protection from its creditors executions. The second proposal is dedicated to debtors and creditors, which depends on the conclusion of a quick and informalised arrangement under the control of the court: the court-appointed overseer examines the financial situation of the entrepreneur. This capability reduces the personal conduct of the debtor with an emphasis on broader responsibilities of the court and his supervisor. These two new modes of restructuring procedures allow businesses to benefit from the flexible restructuring in maintaining their own management company. If the trader does not take a restructuring in proper time or his behaviour deepens his poor financial situation, the company will face a loss of executive management and a temporary court supervisor or trustee will be established<sup>591</sup>.

The recovery proceedings proposals include one of two options. The first possibility for the debtor is to court an application for suspension of all executions in the period necessary to increase revenue and reduce the cost of business, or in the period of searching for an investor. Secondly, the possibility to derogate from certain contracts or employment adjustment, taking into account the constraints of employment law<sup>592</sup>.

## 4. Conclusions

Bankruptcy in practice does not always lead to the liquidation of the company. Sometimes it may be the only available option of effective restructuring of the company which is in a difficult economic situation. Restructuring of liabilities through bankruptcy is a real chance to rebuild the company. It is a long-term solution, requiring from the bankrupt the rational implementation of the action plan primarily to reduce labour costs and consequently to guarantee the cash flows to ensure repayment and progressive development of the bankrupt enterprise. Unfortunately, majority of Polish entrepreneurs associate the bankruptcy negatively. The reasons for this are undoubtedly complex. In the first place it is the need of legal proceedings

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<sup>591</sup> J. Płoch, M. Gieronim, B. Groble, *Upadłość, czyli szansa na nowy start*, "Na wokandzie" 2013, no. 16. [www.nawokandzie.ms.gov.pl/numer16/wokanda-16/upadlosc-czyli-szansa-na-nowy-start.html](http://www.nawokandzie.ms.gov.pl/numer16/wokanda-16/upadlosc-czyli-szansa-na-nowy-start.html), p. 1.

<sup>592</sup> *Rekomendacje...*, op. cit., p. 68.

which are usually associated with publicity and thus often the loss of the entrepreneur's reputation. On the other hand, Polish entrepreneurs have a negligible level of knowledge in the field of bankruptcy law which results in practice with delayed submission of bankruptcy – when the economic situation of the company is critical. This in turn determines the capabilities to take advantage of the insolvency proceedings, often including the inability to use restructuring solutions. Furthermore, persistent for several years, the economic crisis leads to a critical evaluation of existing legal instruments in the field of bankruptcy proceedings. This applies mainly to repair and composition proceedings which are a relatively small proportion of the total number of insolvency proceedings. The provisions governing the reorganisation which give the businesses opportunities for proper restructuring are not used effectively. The proposed amendments in bankruptcy and restructuring law create a chance to increase the opportunities for effective restructuring of financial liabilities of entrepreneur. It is also important to state that each manager and entrepreneur who considers bankruptcy as a tool for restructuring needs to have the knowledge of management enriched with the knowledge of law and economics to be more effective. The above proves that the boundaries of the company's management are flexible in this respect.

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# WITHIN AND BEYOND BOUNDARIES OF MANAGEMENT

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