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Each year, the best paper's author(s) and the best reviewer are awarded. I am glad to inform, that the Author of the Best Paper 2015 award goes to: Timothy Isle and Andre M. Mostert for the paper titled *On motivation and enterprise education – ensuring manageable goals and objectives* (AMME Vol. 1, No 1, 2015) and the Best Reviewer 2015 award goes to Łukasz Satoła.

dr hab. Joanna Szwacka-Mokrzycka, prof. WULS-SGGW
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AN ANALYSIS OF CAPITAL STRUCTURE DETERMINANTS USING THE EXAMPLE OF PAKISTAN'S CEMENT SECTOR COMPANIES LISTED ON THE KARACHI STOCK EXCHANGE

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INTRODUCTION

A company's capital structure is a particular combination of debt, equity and other sources of finance it uses to fund its short- and long-term financing needs. However, the key division in capital structure is between debt and equity. The proportion of debt funding is measured by leverage. There are different factors that affect a firm's capital structure, and a firm should attempt to determine the optimal mix for its financing. While determining the optimal capital structure, a firm will analyse a number of factors to establish the capital structure which it believes is optimal. Using more debt raises the risks in the firm's earnings stream but a higher proportion of debt generally leads to a higher expected rate of return. At the same time, that higher expected rate makes the stock more attractive to investors, which in turn ultimately increases the stock's price. Therefore, the optimal capital structure is the one that strikes a balance between risk and return to achieve the ultimate goal of maximising the stock price.

SIGNIFICANCE OF THE STUDY

This research study would be a useful tool for company managers in the cement industry to decide the optimal capital structure for their firm by considering the variables which have a significant impact on decisions regarding their capital structure. It could also help policymakers formulate cash flow policy. The study would also enable credit institutions to consider important variables before sanctioning loans to firms in Pakistan's cement sector. Finally, the study's findings provide data for further research work.

RESEARCH QUESTIONS

Following are the research questions for this study.

1. What determinants of the capital structure are relevant to the leverage in Pakistan's cement sector?
2. What is the relationship between leverage and the determinants of capital structure in Pakistan's cement sector?
3. Which determinants of the capital structure have a significant relationship that could be suggested for different sectors of Pakistan's economy?

LITERATURE REVIEW

In recent years several authors have proposed to identify and explain many potential attributes that influence financial decisions in selecting the right debt-to-equity variations across a firm's capital structure. The link between a firm's capital structure and the factors that influence a firm's debt-equity mix took on added importance as a result of the ground-breaking debate pioneered by Modigliani and Miller [1958] on the irrelevance theorem, which states that the firm's value has no relevance in its choice of capital structure.

According to Modigliani and Miller [1958], the rate of return required by shareholders increases linearly as the debt-to-equity ratio is increased. The enormous criticism received after the publication of MMI (Modigliani and Miller theory I) gave rise in 1963 to MMII (Modigliani and Miller theory II), a framework which includes tax, a component absent in the former. Miller's [1977] discovery of the effect of personal and corporate tax on the firm's value and two other theories: Jensen and Meckling's agency cost theory [1976] and Myers's pecking order theory [1984] dominates the literature on capital structure.

The publication of Capital Structure, a correction by Modigliani and Miller [1963], demonstrated the tax advantages of debt financing when tax was introduced into the equation. The publication also concluded that the market value of a leveraged firm is greater than the market value of the unleveraged firm by a tax shield due to tax.

The tax relation allowed firms the tax advantage of debt financing by deducting interest payments on debt from taxable income. MM I encourages firms to maximise the possible amount of debt they can hold in their capital structure. Debt is valuable within this framework primarily because interest payments are tax deductible. For instance, when money is borrowed, interest expenses are deducted before arriving at the taxable income. This will automatically reduce the firm's taxes, a luxury equity does not provide. Dividends are not deducted before arriving at the taxable income, hence they do not provide similar deductions for cash flow from equity, making debt a more attractive financing vehicle than equity. MM II suggested that a point of optimum leverage exists when firms should issue 100% debt.

Donaldson's pecking order theory [1961] goes against the idea of companies having a unique combination of debt and equity to minimise their cost of capital. The theory states that firms have a well-defined order of financing preference available to it. "Firms prefer retained earnings as their main source of funds for investment. Next in order of preference is debt and lastly equity financing" [Myers 1984]. This implies that a firm's first preference is to use internal finance or retained earnings rather than external sources of finance. If internal finance proves insufficient, bank borrowing and corporate bonds are the preferred source of external finance. Once both options have been exhausted, then the final and least preferred source of financing is issuing new equity; least preferred because of the transactions costs associated with it.

According to Myers [2001], if external funds are required for capital investment, firms will issue the safest security first. That means debt before equity as debt has the prior claim on assets and earnings; equity is the residual claim. Investors in debt are less exposed to errors in valuing the firm. In contrast, if internally generated cash flows exceed investment, the surplus is used to cover debt rather than repurchasing and retiring equity. This is attributable to information asymmetry, as Shyam-Sundler and Myers have confirmed [1999]. As the demand for external financing increases, the firm will work down the pecking order, from safe to riskier debt, perhaps to convertible securities or preferred stock and finally to equity as a last resort [Irvine 2000].

"The static tradeoff theory of capital structure is determined by the tradeoff of the value of tax benefit against the cost of debt. This theory states that the optimal capital structure is determined by balancing the corporate tax shield associated with debt financing against the probability of financial distress. This theory contends that firms will borrow up to the point where the marginal value of tax shields on additional debt is offset by the increase in the present value of possible costs of bankruptcy and also to the agency cost when a firm's credit worthiness is in doubt".

Myers [2001] predicts that firms with different types of assets will have different bankruptcy, agency costs and optimal debt ratios. In addition, those with varied amounts of alternative tax shields will have different levels of optimal debt ratios. Any increase in debt beyond this optimal point reduces the firm's value as the perception of investors of the increased cost of bankruptcy outweighs the tax benefits of debt.

The static theory provides a testable prediction that the analysis of the costs of financial distress should not be taken lightly, especially for those firms with valuable intangible assets and with growth opportunities. It should be observed that mature firms with mostly tangible assets borrow more than growth firms that rely heavily on research and development or advertising [Booth et al. 2001]. This demonstrates an inverse correlation between intangible assets and gearing.

While there is less than total agreement on the precise costs and benefits of leverage and the role it plays in influencing a firm's capital structure decisions, Myers [2001] observes that there is a general consensus among financial economists that supports partial versions of the trade-off theory. Recent studies have examined debt-equity responses to the effect of taxes.

RESEARCH METHODS

The cement sector of Pakistan's economy was selected for this study because of its significant contribution to the country's GDP per annum. The sector accounts for almost 0.04% of the entire manufacturing sector, which is 25% of Pakistan's Economy [Economic Survey of Pakistan 2014] so this sector could be a good proxy for the manufacturing sector. The financial statements used were profit and loss accounts, balance sheets, and financial ratios.

The dependent variable of the study was leverage and the independent variables were profitability, size, growth, financial cost and asset tangibility. The following hypotheses were formulated for the research:

H1: Profitability is positively correlated with leverage.
H0: Profitability is negatively correlated with leverage.

H2: Size is positively correlated with leverage.
H0: Size is negatively correlated with leverage.

H3: Growth is positively correlated with leverage.
H0: Growth is negatively correlated with leverage.

H4: Financing is positively correlated with leverage.
H0: Financing is negatively correlated with leverage.

H5: Assets tangibility is positively correlated with leverage.
H0: Assets tangibility is negatively correlated with leverage.

To analyse the data collected, different statistical tools were used, including descriptive analysis, correlation, and regression. SPSS and Microsoft Excel were used for analysis.

The linear equation used is:
$D/E = \alpha + \beta 1.P + \beta 2.S + \beta 3.G + \beta 4.FC + \beta 5.TA + \varepsilon i$
where:
D/E = debt/equity
P = profitability
S = size
G = growth
FC = financial cost
TA = tangibility of assets
E = the error term

The data were first described using descriptive analysis. To test the hypothesis, additional statistical tools were then applied to see whether there is a relationship between the dependent and independent variables. Pearson correlation was used to measure the degree of association between different variables in the study. Regression analysis was then applied to measure the causal relationship between dependent and independent variables.

DESCRIPTIVE ANALYSIS RESULTS DISCUSSION

There are 21 firms operating in Pakistan's cement industry and listed on the Karachi Stock Exchange. The following are the results and discussion of an analysis of those companies. The debt-to-equity column in each table presents figures in Pakistani currency (the Pakistani rupee) and all the figures are in millions. The results of descriptive analysis show that the mean to the dependent variable debt/equity is 319.75 (Table 1). The dependent variable's maximum value is 17,561 while the minimum value is 0. This means that the mean value is extracted by incorporating all the maximum and minimum values. The standard deviation of the dependent variable is 1,593, a higher value of standard deviation. There are a total of 105 observations in this sector.

The first independent variable, financial cost, has a mean value of 4.80 with a standard deviation of 1.85, which means that it can deviate that much from its mean value. The maximum value of financial cost is 9.60 and the minimum value is –0.35; there are 105 total observations.

The second variable, growth, has a mean value of 0.19 with a standard deviation of 1.13. The maximum value in this variable is 7.16 and the minimum value is –1 and there are a total of 105 observations. Profitability as an independent variable has a mean of 0.045, with a standard deviation of 0.12, which means that it can deviate 0.12% from the mean value. The maximum value in this variable is 0.43 and the minimum value is –0.24 and there are a total of 105 observations. The fourth variable is size, which has a mean value of 8.83 with a standard deviation of 1.20. The maximum value in size is 12 and the minimum value in the series is 6 while the total number of observations is 105. Tangibility is the last variable. It has a mean value of 0.72 with a standard deviation of 0.16. The maximum value for this variable is 0.98 and the minimum value is 0.00. Here too there were 105 total observations.

TABLE 1. Descriptive statistics

Specification	Debt/Equity	Financial cost	Growth	Profit	Size	Tangibility
Mean	319.7575	4.8099	0.1944	0.0450	8.8374	0.7220
Median	134.35	4.8819	0.1518	0.0190	8.6856	0.7568
Maximum	17 561.1	9.6023	7.1630	0.4382	12.5453	0.9844
Minimum	0	–0.3566	–1	–0.2477	6.0806	0
SD	1 593.605	1.8543	1.1302	0.1247	1.2648	0.1695
Observations	105	105	105	105	105	105

Source: results of SPSS analysis, financial data sourced from the State Bank of Pakistan balance sheet analysis 2009–2014 [http://www.sbp.org.pk/departments/stats/bsa.pdf, accessed: 23.03.2014].

CORRELATION ANALYSIS RESULTS DISCUSSION

The results of correlation analysis show that out of five independent variables, two are positively correlated and three negatively with the dependent variable (Table 2). Financial cost is positively correlated with debt/equity, with a coefficient value of 67.50907 (Table 3). This relationship is insignificant with a t-value of 0.507909 and a p-value of 0.6125. This result shows that as costs increase, so too does the debt level. This conclusion is in line with MM II theory [1984], which suggests that higher financial costs and debt levels will provide a benefit in the form of a tax shield to any firm.

Growth as an independent variable is negatively correlated with the dependent variable, having a coefficient value of –133.7509. This relationship is significant as proved by the statistical values: the t-value is –0.921555 and the p-value is 0.0587, meaning that as the firms grow they prefer to finance their needs with internal sources. It also means that when firms grow they enjoy higher earnings, and firms like to use internal financing to save their financial cost.

With a coefficient value of –1,770.703, profitability is negatively correlated with the firm's debt, meaning that as a firm becomes more profitable, it tends, according to pecking order theory, to be financed less with debt [Myers 1984]. The relationship is significant with a t-value of –1.357115 and a p-value of 0.0174. As many other studies have shown, as firms earn more and more profit, their reliance on internal financing increases. Firms use their profit to make investments and take care of other financial needs.

With a coefficient statistic value of –193.9601, size is also negatively correlated with a firm's leverage. The relationship between size and debt ratio is significant, as evidenced by a t-value of –1.074652 and a p-value 0.02848. According to pecking order theory [Myers 1984], as a firm's size increases, debt financing decreases and it uses the internal funds available to meet its financial needs. The larger cement firms rely on their internal profits and retain funds because they have considerable internal funds which can be used for profitable projects without any restrictions or legal obligations [Myers 1984].

With a coefficient value of 635.1859, a t-value of 0.673885 and p-value of 0.05017, tangibility was found to be positively correlated with company leverage. This means that the more tangible assets a firm has, the more borrowing it can do from the external market. The relationship is also a positive one because financial institutions prefer lending to firms which have more tangible assets for collateral. So, in the cement sector, the value of tangible assets determines how much a firm can borrow on the market.

TABLE 2. Correlation analysis

Variable	Debt/Equity	Financial cost	Growth	Profitably	Size	Tangibility
DEBT_EQUITY	1.0000	0.0478	–0.1029	–0.1714	–0.0674	0.0662
FINANCIAL COST	0.0478	1.0000	–0.3214	–0.2780	0.7195	0.1620
GROWTH	–0.1029	–0.3214	1.0000	0.0161	–0.0473	0.1796
PROFITABILITY	–0.1714	–0.2780	0.0161	1.0000	–0.0664	–0.2899
SIZE	–0.0674	0.7195	–0.0473	–0.0664	1.0000	0.2422
TANGIBILITY	0.0662	0.1620	0.1796	–0.2899	0.2422	1.0000

Source: results of SPSS analysis, financial data sourced from the State Bank of Pakistan balance sheet analysis 2009–2014 [http://www.sbp.org.pk/departments/stats/bsa.pdf, accessed: 23.03.2014].

REGRESSION ANALYSIS RESULTS DISCUSSION

In Pakistan's cement sector, 52% of the variation in the dependent variable can be attributed to the independent variables used in the study. The remaining 48% of the variation is due to other external factors – extraneous factors, as they are also known – which lie in the model's error term.

TABLE 3. Regression analysis

Variable	Coefficient	Standard error	Probability
C	1 356.273	1 228.314	0.0218
FINANCIAL_COST	67.50907	132.9156	0.6125
GROWTH	–133.7509	145.1361	0.0587
PROFITABILITY	–1 770.703	1 304.755	0.0174
SIZE	–193.9601	180.4865	0.02848
TANGIBILITY	635.1859	942.5732	0.05017
R-squared	0.5212	319.7575	
S.E. of regression	1 585.179	17.62349	
Sum squared resid	2.8608	17.76286	
Log likelihood	–1 051.409	17.68009	
Prob(F-statistic)	0.002887	–	

Source: results of SPSS analysis, financial data sourced from the State Bank of Pakistan balance sheet analysis 2009–2014 [http://www.sbp.org.pk/departments/stats/bsa.pdf, accessed: 23.03.2014].

CONCLUSIONS

The three variables (growth, profitability and size) are negatively correlated with leverage. This means that if a company adds more debt to its capital structure, its growth and profitability will fall because most of the funds will go towards paying down interest against the debt. The results of the present study show that tangibility and leverage are positively correlated in the cement sector of Pakistan economy.

These findings are similar to the trade-off theory, which states that the debt level in a firm's capital structure increases with the amount of tangible assets available on its balance sheet. This highlights the role of fixed assets as collateral in obtaining long-term debt. Financial costs are positively correlated with leverage, which is quite obvious as the firm will incorporate more debt as its costs rise.

The results of the research done for this paper support the conclusion that the determinants of capital structure do indeed make decisions relevant in Pakistan's cement sector. This study is not applicable to the services sector of Pakistan's economy, for banks and the like.

A future study could be based on other sectors of the Pakistani economy, while other developing economies could also be used to make a comparative study. Researchers could use the market leverage as a dependent variable, much as this study uses book leverage as a dependent variable. Future studies could also use a different number of explanatory variables.

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Summary. This paper examines the capital structure determinants of Pakistan's cement sector. The sample is based on 21 cement sector companies listed on the national stock exchange of Pakistan, the Karachi Stock Exchange (KSE). Debt/equity was taken as the dependent variable while independent variables were sales growth, profitability, financial cost, company size and tangibility. The overall results showed that financial cost and tangibility have positive relationship with the dependent variable. The three other variables growth, profitability and size are negatively correlated with leverage.

Key words: capital structure determinants, cement sector, KSE Pakistan

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THE INFLUENCE OF THE OPERATIONAL PROGRAMME INNOVATIVE ECONOMY ON INDIVIDUALS AT RISK OF THE DIGITAL DIVIDE AND THEIR PARTICIPATION IN THE ELECTRONIC ECONOMY

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INTRODUCTION

The role information plays in the economy has been growing since the mid-20th century, as has the need for quickly accessible and reliable information. During the industrial revolution, new production technologies and new machines were the engine of progress. Today we are witnessing a new revolution, one in which technologies associated with the processing and transfer of information – Information Communication Technologies (ICT) – are responsible for economic development to an ever greater degree. When properly created and used, information is becoming a valuable resource – increasingly more valuable, in fact, than physical or human resources. ICTs have become more ubiquitous, used as they are to accomplish both individual and professional goals. This is how the development of the new social model called the information society is unfolding.

The aim of the research we have done for this paper was to examine phenomena associated with the digital divide in the context of the rise of the information society and to assess the extent of digital divide in Poland before and after marginalised individuals participated in a programme for combating digital divide. The main source of empirical data was the results of a research survey available online. The research sample consisted of people using the Operation Programme Innovative Economy (OPIE) – Measure 8.3. Combatting Digital Divide – eInclusion. We conducted the study in cooperation with local government units (LGUs) in Poland. It involved sending information to programme beneficiaries living in a municipality, county or voidvodship (province) benefiting from measure 8.3 OPIE about the research we were conducting with the website address of the survey and asking participants to fill it out. We chose this method because personal data is protected in Poland, so there is a lack of direct access to data on households, the project participants. The study was conducted from September 2014 to March 2015. Pilot studies covered the entirety of Poland, while the ones chosen were those that had completed implementation of measure 8.3 no later than 30 June 2014.

The research sample size (as of 30 June 2014) was 12,929 households. Number of 1,487 surveys were returned, but 85 were discarded because they were returned blank, so the number analysed was 1402 (Table). The survey questions were grouped thematically:

TABLE. Sampling distribution

Category	Number	Percent participating in a given category
Gender of the respondent		
Female	818	58.3
Male	584	41.7
Combined	1 402	100.0
Age of the respondent		
Under 18	43	3.1
18–30	182	13.0
31–40	247	17.6
41–50	267	19.0
51–60	326	23.3
Over 60	337	24.0
Combined	1 402	100.0
Education of the respondent		
Primary	137	9.8
Trade	321	22.9
High school	695	49.6
University	249	17.8
Combined	1 402	100.0
Place of residence of the respondent		
Village	278	19.8
City of up to 100 thousand inhabitants	140	10.0
City of more than 100 thousand inhabitants	984	70.2
Combined	1 402	100.0
Socio-economic status of the respondent		
High school or university student	106	7.6
Unemployed	243	17.3
Employed	282	20.1
Farmer	80	5.7
Self-employed	20	1.4
Retired/Pensioner	671	47.9
Combined	1 402	100.0

Source: the authors.

using the Internet to communicate, search for information, entertainment, culture, online education, e-banking, e-finance, purchasing and selling online, labour market, contacting government offices.

THE INFORMATION SOCIETY

The term information society was coined in 1963 by T. Umesao, in an article about a novel theory of society based on the processing of information [Gajdos 2008]. Y. Masuda later produced a detailed description of the changes that take place within a society based on the telecommunications sector and information. He believed that this society would not be a material one, as embodied by huge structures, but would in fact be an invisible society that should aptly be called an information society. Economists emphasize that in the information society, information and knowledge are treated as non-material values, which have become the new resources generating the value of money. The literature on the information society covers a range of concepts including the third wave (A. Toffler), postindustrial society (D. Bell), the network society (M. Castells), the global information society (the European Union) and the media society (T. Goban-Klas) [Tomczyk 2010].

The information society is the third element of Bell's triad of social development, joining preindustrial society and industrial society [Sztompka 2002 after Bell 1974]. The concept was first used by K. Koyama [1968] and Y. Masuda [1969]. The transition from industrial to postindustrial society brings with it an increase in the importance of information, knowledge and skills as the main factors in placing an individual in society [Domanski 2000]. Commentary on the postindustrial society includes changes including technological advances in both production and communication [Turner 1998]. In a postindustrial society, machines assume routine, repetitive work while people engage in creative work, increasingly involving the processing of information.

The information society is typified by a highly developed modern services sector, with banking, finance, telecommunications, informatics, research and development, and knowledge economy governance all prominent examples of such services [Gajdos 2008]. From 1993 to 1999 Martin Bangemann was the Commissioner of the European Union responsible for the development of telecommunications and information technology. His 1994 report „Europe and the global information society – recommendations for the Council of Europe", helped popularise the notion of the information society. In his view, the information society is characterised by modernity, a high level of development and an elaborate teleinformation infrastructure, enabling members access to information and other services [Janoś-Kresło 2011]. A characteristic quality for the knowledge society is growth in competitiveness between employees and societies that are open at the same time. Formal education and knowledge provide access to new professions and a higher social position than that of one's parents. The basic areas promoting the development of the knowledge society are:

- first, people (possessing the proper knowledge, embodying social capital);
- second, institutions including the law (promoting the development of business and strengthening the position of consumers), organisations (both business and non-profit organisations that are able to compete in the electronic economy) and information resources as a public good available on both the micro and macro levels;

– third, the technical infrastructure (the availability of computer equipment, software and Internet access).

The information society is the next step, as it were, after the industrial revolution, and some researchers describe this stage of development as the information revolution or postindustrial society. In the information society, there will be a focus on human relations – human because it is people who stand for/represent the natural environment, society, culture and political order. The global information society, if it is to have a humanistic character, calls for sustainable societies to be built, in which communities and their systems of symbols are preserved. During the first Congress of Polish Information Technology in 1994, the information society was defined as one "that is prepared and has the ability to use information systems". It is computerised and uses telecommunications services "to transfer and process remote information" [Nowak 2005]. The concept of the information society has been set out in planning documents, which pointed to the need to build a system of society where the management of information, its quality and the speed with which it moves are essential factors of competitiveness, both in industry and in services [*e*Poland 2001]. Thus, the information society these documents referred to is characterized by:

– heavy use of information in everyday life by the majority of individuals and organisations;
– the use of information technology for individual/private, social, educational and professional ends;
– the ability to send, receive and exchange data and information regardless of the distance to be covered.

The use of personal computers connected to the internet has for many become a natural existential environment, in the absence of which they are unable to function normally. The Internet and microelectronic devices have irrevocably shaped the surrounding world, visibly changing and covering practically all areas and walks of life. The notion that "if something cannot be found online, then it doesn't actually exist" speaks to the importance and ubiquity of the medium [Tomczyk 2010: 140].

The development of the information society offers numerous new opportunities, which we would be fortunate to have find application not only in our personal lives but also in our professional lives and the economy. The ever more frequent use of ICTs, particularly the Internet, has given rise to a new economic model known as the electronic economy, or e-economy. It has forced users to change traditional approaches and mindsets. The way transactions are conducted has changed as the frequency of online shopping has risen. The Internet has become not only a source of entertainment, but a fundamental source of information and communication. The various courses and training and educational materials available online are used in education and further education. Financial transactions can be done online, as can one's business at government offices. One can look for work online and also work remotely as a telecommuter. This is to say nothing of the numerous other uses the development of e-commerce has enabled.

Modern technologies are not only an expression of luxury and tools to improve comfort and quality of life, but are the necessary infrastructure in the electronic economy. The increasing possibility of using computers and the Internet make them indispensable tools in everyday life (in school, work, access to information and knowledge). Most people's lives are built around the performance of computers and flow of digital information [Kurowska 2013]. The importance of having access to current, reliable information, especially with regard to electronic commerce has naturally drawn the attention of numerous economists. Nobel Prize winners Joseph E. Stiglitz, George Akerlof and A. Michael Spencer have all done research on asymmetric information. In their studies they analysed the risk posed by having imperfect, incomplete information. The negative consequence of information asymmetry is that inferior choices may be made [Kurenda 2004].

THE DIGITAL DIVIDE

The differences in access to information-communication technology will lead to the establishment of a new type of social divide, defined as the digital divide (digital divide, in Polish). It is one form of social divide that characterises the 21st century, consisting of marginalisation in social and professional life. Alongside the traditional divisions – wealthy and poor, most often – the categories of having and not having access to modern technologies, including the Internet, have arisen [Janoś-Kresło 2011]. According to the OECD, this is a phenomenon of social inequality, or the appearance of a divide between individuals, households, enterprises and regions in social-economic development, and connected with the access and use of information-communication technology in all spheres of economic activity [Jastrzębska 2012].

The failure to keep pace with technological development is a challenge for international organisations, states, local governments and other institutions that shape policy on providing access to new media [Tomczyk and Węgrzyk 2010]. Those most vulnerable to the digital divide are also those most vulnerable to social divide: the unemployed, disabled, uneducated, and the poorly paid. The digital divide has a negative influence on state functioning insofar as it leads to citizen passivity, a lack of involvement in social and political life and people being poorly informed. Action on the part of public administration is therefore essential in combatting the digital divide [Popiołek 2013]. The most common causes of the divide are a lack of or limited access to a computer and the Internet (mainly due to the high cost of the equipment and an Internet connection) and an inability to use them. A lack of awareness about the practical uses of the Internet, mainly among the elderly, the poor, and poorly educated is a third cause of the divide [Janoś-Kresło 2011].

The information society can be divided into three classes: the knowledge creators (the information aristocracy), those who possess wide knowledge about new technologies, making up the creative group. The creative group contains academics, artists using new technologies, innovators and inventors. The second group comprises individuals able to uniquely use a single new technology, including individuals who propagate knowledge, such as teachers and government workers. The third group consists of individuals who lack knowledge about and access to modern technology (the informationally illiterate). Between them and the creators of knowledge there lies a civilization gap, which in the near future will result in those who lack access to information (knowledge of information) having lower incomes and possibly being marginalised socially and economically. In the context of the digital divide, beyond these groups the literature [Batorski 2009] points out the different levels of access to new media. J. van Dijk [2008] identifies four levels of access to the new media:

– the motivation to use new technologies;
– physical access (owning a computer, having Internet access);
– skills;
– use (different ways of using the computer and Internet).

The fundamental issue is having the motivation to use the new technology. Much depends on that motivation: the decision to purchase a computer and an Internet connection as well as to acquire the essential skills to use the required applications. Not only having access to a computer and the Internet at home, work, school, or elsewhere, but also the desire to use it is also at the heart of the discussion. After all, access doesn't automatically beget use. Using a computer and the Internet also requires the appropriate competencies with the software, and some aptitude in searching for information online, judging its reliability and usefulness, as well as the ability to create and use it for one's own goals. Finally, what influence the use of new technologies has on the user's situation and opportunities in life is of essential importance. Therefore, how computers and the Internet are used – van Dijk distinguished this as the fourth level of access – are of fundamental importance. These technologies can be used in very different ways, bringing both benefits and harm to users (addiction, for example) [Batorski 2009]. Kuśmierz recognises the digital divide as one of the most important afflictions the world faces today. A seemingly trivial issue turns out to have far greater impact on the life of an individual than originally thought [Furmanek 2010].

e-INCLUSION

e-Inclusion is inextricably linked to the digital divide. It focuses on building digital cohesion by delivering benefits arising from Internet use and other technologies to all groups of society, in order to help them overcome social and economic divide [Batorski 2009]. e-Inclusion refers to the effective participation of individuals and the whole of society in all social and economic spheres based on knowledge through the access and use of ICT. It is also important to overcome barriers to access and enable the use of the benefits ICT brings to society. e-Inclusion further refers to the degree to which ICTs level the playing field and promote participation in the various spheres of social life. It therefore stands to reason that the goal of European policy should be not only to guarantee citizens access to new Internet communication technologies, but also to enable their use. A basic goal of measures undertaken for e-Inclusion in Europe is to counteract social divide, guarantee social cohesion, while at the same time boosting human capital, another means of achieving long-lasting economic growth. Gary Stanley Becker took up the importance of human capital for the economy, and originated the concept of "investing in human beings". He observes that skills and knowledge cause wealth to grow, while a low level of human capital deepens poverty [Kurenda 2004].

THE OPERATIONAL PROGRAMME INNOVATIVE ECONOMY – MEASURE 8.3

The answers to these challenges are measures to be implemented under government and international programmes, one of which is the Operational Programme Innovative Economy. As part of Priority Axis 8, Information society – increasing the economy's innovativeness – measures have been designed to tackle digital divide (measure 8.3). The aim of priority Axis 8 is to stimulate the development of the digital economy by supporting the creation of new, innovative eServices, innovative electronic business solutions and reducing the technological, economic and mental barriers to using eServices that exist in society. The following four measures have been implemented as part of this axis:
– 8.1. Support for economic activity as regards the electronic economy;
– 8.2. Support for implementation of electronic business – B2B;
– 8.3. Counteracting the digital divide – eInclusion;
– 8.4. Ensuring Internet access at the "last mile" level.

Measure 8.3 is intended to guarantee Internet access to individuals at risk of digital divide due to poverty or being disabled. The support comes in the form of subsidies paid to LGUs or consortia of local governments and non-governmental organisations, which are responsible for the comprehensive implementation of measures supporting the eligible households of their municipalities [http://8poig.mac.gov.pl/os8/dzialania/einclusion/1814,Przeciwdzialanie-wykluczeniu-cyfrowemu-eInclusion.html, accessed: 14.01.2015]. The target groups that receive assistance include:
– households meeting income criteria entitling them to receive support under the social security system;
– households meeting income criteria entitling them to receive support under the family benefits system;
– school children from families in a difficult material and social situation entitled to allowances and chosen to receive support in cooperation with a school and/or social welfare centre;
– disabled people with a severe or moderate degree of disability or the equivalent medical certificate;
– foster families;
– institutions operated or coordinated by the municipality (including public libraries, cultural institutions, schools, public childcare centers situated on the benefiting territory, and public care homes).

The target groups of the project are identified by the respective LGUs, with the possible support of a non-governmental organisation.

RESEARCH RESULTS

One of the research areas concerned the use of the Internet for educational purposes (Fig. 1). The programme beneficiaries' activity grew considerably in every area after joining the programme. The largest percent increase – from 52 to 75.1% – occurred for those using online encyclopedias, while the percentage using free online materials also rose notably. In the remaining cases the percentage point increase was smaller, though taking into consideration the starting point and end results, the number of users using a given option practically doubling is a respectable result. For example, 11.6% of respondents were involved in online courses before the project, while the number jumped to a full 20.6% after. This is, relatively speaking, a very large number, especially considering that not everyone who could opt to study online has the need to do so. The ability to take online courses enables training and further education and eventually improves the situation on the labour market thanks to improved competencies.

The second group of questions concerned the use of the Internet as a banking and financial tool (Fig. 2). Participation in the project brought a change in the use of electronic banking. The number of respondents who opened an online bank account grew, from 31.5 to 49.9%.

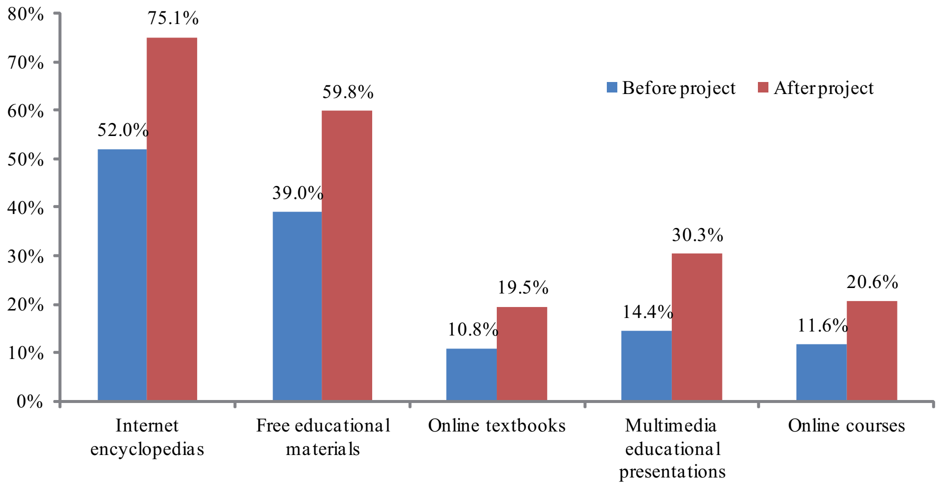

FIG. 1. Internet use for educational purposes

Source: the authors.

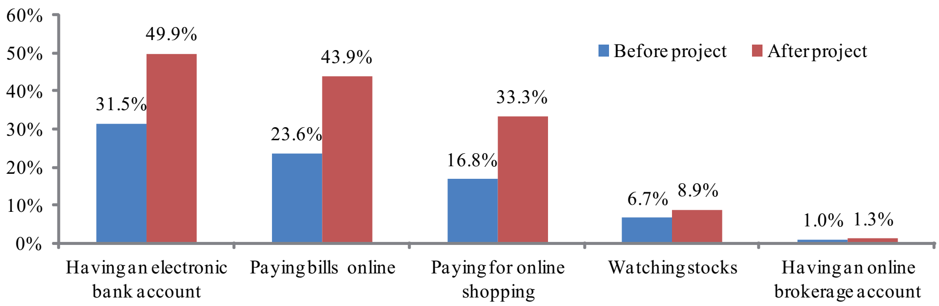

FIG. 2. Changes in the use of electronic banking services (financial institutions)

Source: the authors.

Exactly 43.9% of the individuals in this group pay their bills online, though only a third of respondents pay online for purchases made online [Pizło and Lesicki 2012]. Decidedly fewer watch stocks and use brokerage accounts online. The next group of questions concerned the use of the Internet to purchase and sell items online (Fig. 3).

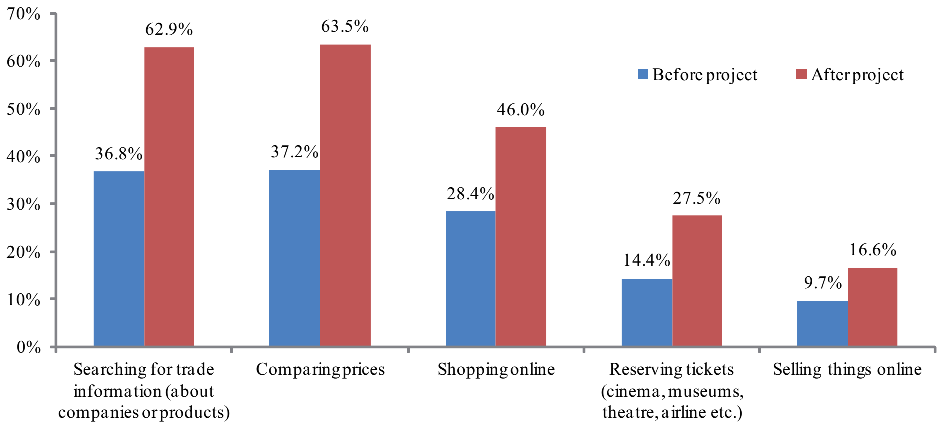

FIG. 3. Use of Internet to buy and sell online

Source: the authors.

Nearly two-thirds of the survey respondents use the Internet to look for commercial information, including companies and products, and to compare products. Just over a third could say the same before receiving support from the digital divide programme. 46% of respondents shop online, while only 28.4% had done so before participating in the programme. The number of people who make reservations online also grew, from 15 to 25%. At 16.6%, a relatively large share of people – especially given that they had recently been digitally excluded – used the Internet to sell items.

CONCLUSIONS

Emerging alongside the spread of personal computers and Internet connectivity, the digital divide is also referred to as the information divide or technology/computer illiteracy. It involves the alienation of individuals, groups or regions from the information society. The digital divide holds back people who are affected by marginalisation, as in the era of widespread e-economy services it prevents this group from satisfying online a vast range of both basic and more complex needs. A failure to use such services can in many cases lead to reduced quality of life. The most important barriers to widening Internet use include "hard" infrastructural barriers (no connection to the Internet usually for financial reasons) and "soft" barriers, including a lack of motivation or appropriate skills. The aim of social policy should therefore be to prevent the digital divide, by means of eInclusion, and by removing the barriers to Internet use and the attendant development of electronic commerce. This study has highlighted that the funds provided under measure 8.3

OPIE benefited participants in each of the areas studied. They pointed to the need for and legitimacy of such activities. In addition to the personal advantage of the beneficiaries, steps taken to tackle digital divide also indirectly affect the development of electronic commerce by increasing the number of people who actively use it.

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Summary. The article examines the influence of the Operational Programme Innovative Economy on individuals whose participation in the electronic economy is threatened by the digital divide. The aim was to diagnose the digital divide in the context of the Information Society and to assess the level of digital divide. The empirical material was a survey on a sample of 1,487 questionnaires, 1,402 of which were ultimately accepted and analysed. The sample consisted of individuals benefiting from the Operational Programme Innovative Economy – Measure 8.3, Counteracting Digital divide – eInclusion. The article presents the essence of the information society by looking at the ideas of A. Toffler, D. Bell, M. Castells, M. Bangemann and T. Goban-Class, as well as the nature of the digital divide and e-Inclusion. It was found that, after joining the programme, beneficiaries significantly increased their use of Internet encyclopedias (from 52 to 75.1%), as well as participation in online courses. Respondents also showed an increase in the use of electronic banking (the number of respondents who opened up an online bank account rose from 31.8 to 49.9%).

Key words: information society, digital divide (digital divide), Operational Programme

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EUROPEAN UNION POLICY FOR THE SOCIO-ECONOMIC DEVELOPMENT OF AFRICA

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INTRODUCTION

The European Union (EU) in its actions focuses not only on developing the Old World, but also undertakes to provide prosperity for other regions, for instance the African continent. While African states will never formally become Member States of this supranational organisation[1], they may successfully interact and efficiently cooperate on political, economic and socio-cultural issues based on bilateral association agreements. It is important to emphasise, clearly and precisely, that the EU benefits from this collaboration as well (as a defined goal in aid policy and striving for coherence with other areas, for instance trade or agriculture). On the one hand, this is as a result of Africa's still untapped potential, the variety of its oil and natural mineral resources and modernised civil society (it has been estimated that contemporary only 3% of the world's investments are allocated to Africa) [Czernichowski and Polus 2009].. On the other hand, also at issue here is the maintenance of stability, peace and security in the region, acquire new allies, address the

[1] Article 49 of the Treaty on The European Union (TEU) concluded on February 7, 1992 "Any European State (…) may apply to become a member of the Union (…)". Dz.U.2004.90.864/30, as amended. *If Af*rican states were to become EU Member States, the treaties would have to be revised. While it seems unbelievable, negotiations about Turkey joining the EU have been ongoing for years, though approximately 3% of the country is located in European territory. According to aforementioned, affiliation this supranational organization by a non-European state may say a lot about liberalisation in the system approach, but in the future it will be a good way to discuss the problem of extending the region of Europe. However, this matter is still very controversial, see more on http://www.forbes.pl/turcja-w-unii-europejskiej-mieszkancy-ue-sa-przeciw,artykuly,157780,1,1.html [accessed: 10.03.2016].

issue of mass migration from North Africa to the EU, and the high costs of neutralising the consequences of global terrorism. Provided that, by the end of the XX century, the geopolitical strategy of influential entities on the international political arena was based majorly on bilateral and multilateral alliances, but nowadays regional pacts are more common. In consequence, the Parties (The EU Member States and African states) intensify their structural, cohesion and sectoral policy and press for sustained development.

In this context, the geographical location of African states has a more than trivial impact on EU interests and safety. That is why the EU is not only mainly interested in cooperation with its "south neighbour" but it provides financial support estimated to be in the billions of euro (EUR) as well. This is called an aid policy by using unconventional measures (to realize its projects and programmes the EU spends monthly about 1 billion EUR distributed on five continents) [Stachurska-Szczesiak 2007]. It should be clearly emphasized that EU actions taken to develop Africa are aimed not only at helping poor states, but also at helping itself. Africa is one of the best marketplaces for EU products, including metal wares and chemicals. As an example, in 2011, engines exported to Poland from the Republic of South Africa (RSA) accounted for 30% of the total sales in the sector, while motor vehicles accounted for 15.7% and chemicals for about 14% [The Ministry of Economy 2012]. Another issue is that European energy security also to some extent depends on African resources.

The European Commission (EC) summarises in its Communication to the European Parliament (EP) and the Council the seven-year cooperation between the EU and Africa: "Africa is now at the heart of international politics, but what is genuinely new is that Africa – and the African Union particular – is emerging, not as a development issue, but as a political actor in its own right. It is becoming increasingly clear that Africa matters – as a political voice, as an economic force and as a huge source of human, cultural, natural and scientific potential (…). Meanwhile, the EU too has changed – its membership has expended to 27 States[2], its role in the world has developed and its adopted ambitious common policies on security, energy, climate change and innovation. Europeans have recognized that African economic prosperity is essential for European prosperity and acknowledge the need for more comprehensive partnership and more coherent policies towards Africa. Future partnership has to be based on jointly identified mutual and complementary interests and benefits. The UE must continue working and supporting African Government (…). Finally, the world has also changed with the forces of global capital and financial markets, climate change, global media and information and communications technology, trans-national terrorism and organized crime, and global pandemics all making the world smaller by the day. The need for common global responses is therefore more vital than ever before. The EU and Africa are old partners, but in a world transformated" [The European Commission 2007: 3].

The EC not only stressed the strategic importance of the African continent, but it also mentioned that its development is essential for the prosperity of the entire European Community. At the same time, the EC confirmed its willingness to take actions towards

[2] The EU members are known as Member States, not Member Countries. *State* means political entity, but *Country* means state but in a geographic meaning. These terms are very often use interchangeably, but should not be.

escalating joint streams of a universal character. In turn, J. Mangala[3] [2012] stressed that establishing common strategy – *Joint Africa – UE Strategy (JAES)* and the *Action Plan* in 2007 started a new era in bilateral collaboration. After almost seven years, he spoke on how he sees the relationship today (in 2014)[4], and discussed a few of the challenges facing the EU and Africa. First of all, both Parties should get further involved in building cooperation by implementing an added value based on mutual and political motivation. Secondly, both sides should rebuild the confidence in collaboration and return to assumptions underpinning their relations by way of open dialogue. He also pointed out the need to continue implementing the aims and discussing problems afflicting the balance of the partnership. What is more, the priority is to realize long-term goals and not look back, implement mechanisms in order to make life easier for the EU and Africa, their governments and citizens alike.

By contrast, J. Zając, in one of her books about the EU-Africa cooperation, articulates a more negative opinion on the common policies. She traces the main problem to the inaccuracy of the *Barcelona Declaration* [Zając 2001], which she believes treats some issues without due urgency. There is no single, general and coherent aid policy. What is more, many aid programmes are counterproductive, providing immediate aid while failing to heed intergenerational policy. I agree with J. Zając. These days, helping poorer regions or states is fashionable. Following summits, meetings or international message boards enriches the panoply of interactions, but it is in reality only a diplomatic game played for mutual amicability. To understand this phenomenon, we need look no further than the basic problems that continue to plague Africa including a lack of potable water and the failure of educational systems for young children.

GOALS AND METHODOLOGY

The main goal of the research is to show the dynamics of EU political activity for African social and economic development and to assess them. Africa is becoming increasingly stronger in the international arena. The author cites only the policies of the European Union, which in the history of cooperation with the countries of Africa play the most important role. In order to achieve these goals, I describe the legal basis, discuss the cooperation, conduct a detailed analysis of the assistance activities intended to develop Africa and its societies that are laid out in the *Barcelona Process* and *MEDA Programme*, especially the Maghreb and Mashrek sub-regions (the most important development concepts).

Because international collaboration is still being evaluated, there are countless agreements, acts, reports, analyses and programmes in place. Many of the documents renders

[3] Jack Mangala is a Professor at Grand Valley State University in Michigan (The Department of Political Science and African Studies). He is the author of many books, including: *Africa and the New World Era: From Humanitarianism to a Strategic View, New Security Threats and Crises in Africa: Regional and International Perspectives* etc., read more on http://carleton.ca/africanstudies/people/jack-mangala [accessed: 02.03.2016].

[4] Interview conducted during Fridays of the Commission in Addis Ababa in March 2014, available at https://www.youtube.com/watch?v=YsD1I1SZtNw [accessed: 04.03.2016].

the cooperation devoid of any general and leading principle, and there are no long-term goals. I therefore examine the lack of effectiveness and complementarity of the EU's policy. The final part of the paper looks at the mutual benefits of the EU-Africa collaboration. Legal acts and recent literature are used as the primary sources of information. The analysis was based on comparing particular acts and programmes. I have included many indicators, percentage lists and statistics in graphic form to better clarify the situation.

THE LEGAL BASIS OF EU-AFRICA COOPERATION

The relationship between the EU and Africa is based mainly on three fundamental legal regulations: *The Treaty on the Functioning of the European Union* (TFEU, article 217) [Dz.U.2004.90.864/2], *The Cotonou Agreement* [Dz.U.UE.L.2000.317.3, as amended] and *The Trade, Development and Cooperation Agreement (TDCA)* [Europa – summaries...]. Apart from that, there are many bilateral association agreements or co-operation agreements, declarations, programmes or unnamed *sui generis* acts.

Article 217 TFEU states that "The Union may conclude with one or more third countries or international organisations agreements establishing an association involving reciprocal rights and obligations, common action and special procedure" [Dz.U.UE.L.311, as amended]. Based on this, the association agreements are founded on three premises, that are [Niedźwiedź 2012]: (a) mutuality of rights and duties – this rule is not always retained, for instance in the *Cotonou Agreement* the least developed states are regarded as exceptional with regard to access to food; (b) mutual activities – meaning the activity directed towards achieving collective and intended aims in the field of institutional matters; (c) special procedures – on dispute settlement methods. The procedure for concluding the association agreements is stated in article 218 of TFEU.

At the beginning, the association agreements were concluded by the EU and other European states that have not become a part of the European Community because they have not fulfilled the convergence criteria. The agreements stated mutual import and export rules for states that belong to the customs union. The first agreement of this type was concluded by Greece in 1961 and it became a role model for following association agreements, for instance with Turkey (1964), Malta (1970) or Cyprus (1972). The second type of association agreement is co-operation agreements, which are generally based on the same principles, but are less comprehensive. Their main role is to intensify international economic cooperation. These acts were entered into from the early 1970s, while the dynamic of development was set down after 1989 as Middle and Eastern European states strove to become the EU community Member States [The European Union Encyclopedia and Directory 1996].

The second and extremely important act is *The Cotonou Agreement*, known also as *The Partnership Agreement,* which was concluded by 77 African states for a specified time – to 2020, but including a facility for it to undergo revision every five years based on accepted protocols. *The Cotonou Agreement* lays down the terms of cooperation in five areas: (1) extensive political dialogue; (2) social community activity in matters that regard their states, based on collaboration; (3) reducing poverty; (4) laying out new frameworks for cooperation in economy and trade; (5) reform the financial sector. Apart from that, the Parties decided to establish the *free-trade area* over two decades [Love and O'Brien

2003]. This agreement replaced the Lome IV Convention concluded in the early 1990s and based on it, the amount of 16.4 billion EUR that was donated from 2002 to 2007 for the development of African states, including 13.5 billion EUR for European Development Funds (EDF) for long-term assistance, regional help and investment facilitations. Additionally, the previous period balance was approximately 1.2 billion EUR. As a part of the third help basket, the European Investment Bank provided 1.7 billion EUR. These quotas do not contain the financial support allocated from the general budget of the EU [Urząd Komitetu Integracji Europejskiej 2006].

A third document is *The Trade, Development and Cooperation Agreement* concluded on October 11, 1999 and which entered into force after five years. The main priorities included the Republic of South Africa (RSA) gaining access to the EU sales market (and visa versa), organising the cooperation rules in development, for instance by creating new workplaces, increasing economic development, including the creation of small and medium-sized enterprises and health-related measures, including for the struggle against HIV/AIDS and malaria [Europa – summaries...].

THE ORIGIN OF EU-AFRICA COOPERATION

The cooperation between the EU and African states fits into four basic periods. The first of them was the concluding of association agreements/arrangements known as preferential trade arrangements or first generation agreements. In the event of Tunisia or Morocco[5] the agreements came as annexes to the *Treaty of Rome* [1957] concluded under article 131 "(The Member States hereby agree to bring into association with the Community the non-European countries and territories which have special relations with Belgium, France, Italy and Netherlands. These countries and territories (…) are listed in Annex IV[6] to this Treaty. The purpose of this association shall be to promote the economic and social development of the countries and territories and to establish close economic relations between them and the Community as a whole. (…) this association shall in the first place permit the furthering the interests and prosperity of the inhabitants of these countries and territories in such a manner as to lead them to the economic, social and cultural development which they expect)" because of the economic and political relation with France, which was one of the signatory states of the European Community. Based on these agreements, on the one hand the Member States were obliged to use the same principles in trade with respect to dependent territories the same rules that apply within the Community. On the other, the territories had to use the same rules among themselves

[5] Protocol (1.7) on goods originating in and coming from certain countries and enjoying special treatment when imported into a Member State.

[6] French West Africa: Senegal, French Sudan, French Guinea, Ivory Coast, Dahomey, Mauritania, Nigeria and Upper Volta; French Equatorial Africa: Middle Congo, Ubangui-Shari, Chad and Gabon; Saint Pierre and Miquelon, the Comoros Archipelago, Madagascar and dependencies, French Somaliland, New Caledonia and dependencies, French settlements in Oceania, Southern and Antarctic Territories; The Autonomous Republic of Togoland; The trust territory of the Cameroons under French administration; The Belgian Congo and Ruanda-Urundi; The trust territory of Somaliland under Italian administration; Netherlands New Guinea.

and with the Member States as with the metropolis that they were connected with [Ambroziak 2000]. Afterwards, very similar agreements were concluded with Algeria and the other states across the Mediterranean area [Stachurska-Szczesiak 2007]. With the adoption of the *Treaty of Rome*, the Parties also signed *The Convention on the Association for Overseas Countries and Territories.*

The next step sought to establish a *Comprehensive Mediterranean Policy (CMP)* with its beginning in the 1960s. Because the assumptions were not stated precisely, a complicated network of links and pacts was launched between Africa and the EU. In 1976–1977, the CMP was signed by Tunisia, Morocco, Algeria, Egypt and Lebanon. In the case of the CMP, the cooperation was due to be based on financial assistance in favour of Africa (financial protocols totalling 3.1 billion EUR, while at the end of the period the European assistance was estimated at 5.5 billion EUR). It was intended to solve social problems, develop the SME sector, protect the natural environment and bolster food production. Unfortunately, this project was not efficacious, because a common political framework was not reached [Stachurska-Szczesiak 2007]. The third step was called the *New Mediterranean Policy* (NMP), and started in about 1990. The fundamental arrangements were for: (a) supporting Mediterranean states in institutional-economic (system) transition; (b) promoting investments; (c) concluding agreements in order to allow African states access to European marketplaces; (d) developing a mutual market; (e) discussing political and economic reinforcement; (f) reducing population increases; (g) developing MED programmes and activating citizens to participate in changing the world. To realise these goals, the EU assigned provided 4.5 billion EUR (Fig. 1).

During last step, from the Europe-Maghreb Partnership to Euro-Mediterranean Partnership (EMP) the Parties laid down three main aims: to support the intermediate stage in revitalizing the African economy, promote economic and social balance and integration in the region [Stachurska-Szczesiak 2007]. Ultimately, this period of time should have triggered comprehensive European-African cooperation on the basis of what has been achieved.

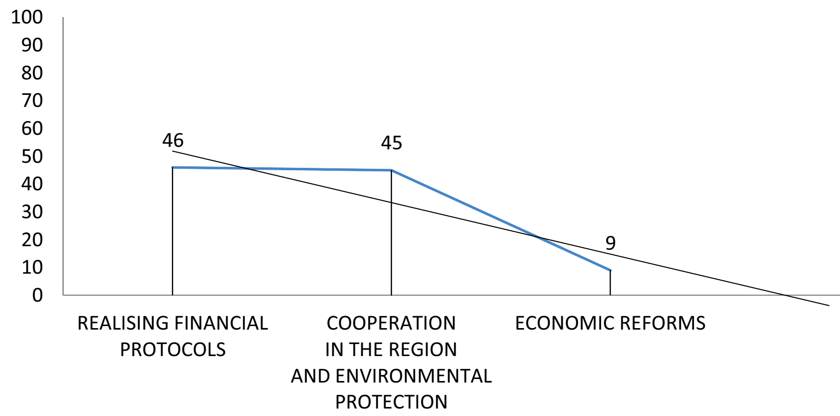

FIG. 1. The percentage of the overall amount assigned by the EU to realize goals in the NMP in the years 1990–1995

Source: the author on the basis of Stachurska-Szczesiak [2007].

TOP EVENTS

After signing *The Convention on the Association for the Overseas Countries and Territories* during *The Treaty of Rome*, the next landmarks in European-African common policy were the first (1963) and the second (1969) *Jaunde Convention*, both of which were based on preferential treatment, including practically unlimited access by Community states to markets in dependent states, reducing import quotas, technical support, financial assistance as for preferential loans for African states, existence of safeguard clauses in the trade market. But with respect to the revision of the international area situation – Great Britain's joining the European Community in 1973 prompted new arrangements in order to put dependent countries in a privileged position. Because of that, during the years 1975–1989, the Parties concluded four other *Lome Conventions*, which became common for cooperation between the two continents. This political chapter drew to a close when The Agreement on the revised *Lome IV Convention* was signed on October 20, 1995, where it had been pushed for its axiological issues (Table).

TABLE. Comparison of four Conventions

Specification	Lome I Convention	Lome II Convention	Lome III Convention	Lome IV Convention
Date of signing	28.02.1975	31.10.1979	8.12.1984	15.12.1989
Member States	The Member States of the Jaunde II Convention, 21 states of the Commonwealth and 6 African states	The next 37 ACP join (The African, Caribbean, Pacific states)	The next 7 ACP states join	The next ACP states join
Main arrangements	access of manufacturing products to the European Community markets with no customs duties (70%) no quantitative restrictions mutual information duties in range of changes in marketplace access	increase the 25% of availability of duty-free products abiding by non--discrimination principles allowing for Most--Favoured-Nation Clauses	sustaining previous arrangements	supporting in cooperation development with out of the European Community markets security development mutual interests respect independence and sovereignty of states

Source: the author on the basis of Ambroziak [2000].

Over the following years, four summits took place. They were, on the one hand, a forum for discussing the most important issues and accomplishments EU-African policy had achieved. They also served as the occasion to forge new goals as a response to today's challenges. The first of the summits was held in Cairo on April 3–4, 2000. The parties signed a document – *The Cairo Declaration* – which obliged them to address problems as follows: (1) regional economic cooperation and integration, including recommendations to implement declarations, plans, programmes that could promote the development of

African states, such as the *Lagos Plan of Action, Final Act of Lagos* (1980) or *Sirte Declaration* (1999); (b) integrate the African continent with the global economy in terms of trade, private sector development, investments, infrastructural troubleshooting and industrial base, research, technology and debt. The EU stressed that African liabilities have been growing increasingly despite the EU's financial assistance (debt increased annually by about 12%, from 110 billion USD in 1980 to 350 billion USD in 2000). In response, the EU conveyed 1 billion EUR for the *Human Indebted Poor Country (HIPC)* programme (an EDF programme) but it pointed out that the beneficiaries of this donation should have been mainly the African states so that they could achieve their defined objectives in reducing poverty; (c) international collaboration with African activity, ie during summits organised by the UN. It was an extremely urgent statement in terms of the requirement to hear the voice of the "weaker" states; (d) focus on human rights violations, and implement democratic and legal rights. The EU recommended organising a UN Conference for discussing problems of racism, racial discrimination, xenophobia and intolerance. The conference was slated to take place on African territory within a year of the summit and The Regional Conference in Senegal. They also looked at refugee issues (6 million refugees left Africa) and African citizens that were mass deported on their own continent (20 million), according to the United Nations High Commission for Refugees (UNHCR) [Cairo Declaration 2000]. One of the rules that the Commission for Refugees worked on was crisis support and providing active help, for instance in transportation, education, access to clean water and medical assistance.

The next summit took place in Lisbon on December 8–9, 2007, and played the main role in valuable matters including the 50th anniversary of EU integration (The Treaty of Rome 1957) and it was a symbolic 50th anniversary of some African states' independence (the decolonization process began in the 1960s). The summit was a great success, because the Parties concluded the *Joint Strategy* and *Action Plan*, which called for long-term goals to be realized in security and peace support, democratic government and civil rights, regional economic integration, trade and infrastructure, *Millennium Development Goals*, climate change, environmental protection, energy, migration, mobility, employment, education and the Information Society: „We are determined to give this new strategic partnership the necessary means and instruments that will enable it to fulfil the Joint Strategy and the Action Plan that we have adopted today, and to do so we have created a comprehensive and effective follow-up mechanism that can deliver on these goals and show us the results on the occasion of the Third Summit that shall be held in 2010." [Lisbon Declaration 2007].

The following summit took place in Tripoli on November 29–30, 2010, with its focus on "Investment, Economic Growth and job creation". The *Tripolis Declaration* was adopted and the Parties were obliged to continue pursuing goals adopted previously (which gets no approval) with no substantive or detailed financial agenda. Moreover, some EU representatives missed the summit, which gave the impression that in spite of the wide aid policy, the collaboration is established for their own goals and benefits. Anyway, the Parties discussed issues concerning, for instance, illegally using African minerals. They also recommended The Charter of the Organization of African Unity be implemented, to support The International Criminal Tribunal and guarantee a donation equal to 0.7 of GDP for aid policy (to 2015) and development of student mobility policy [Przybylska-Maszner 2011].

The fourth and final EU-Africa summit took place on April 2–3, 2014, in Brussels, where representatives strongly stressed how important the previous summits had been. The title of this conference was "Investing in People, Prosperity and Peace". The following objectives were adopted for the next 4 years: to promote global peace and security, democracy, great governing and human rights, social development, and continental and global integration (http://www.consilium.europa.eu/pl/meetings/international-summit/2014/04/02-03/, accessed: 30.03.2016). The Parties then planned a fifth summit in 2017. There is a strong possibility they will discuss terrorism and its influence on the economy. EU tourists do travel frequently to the northern parts of Africa. Increasingly common terrorist attacks have rendered these territories less attractive as tourist destinations, which are, consequently, missing out on billions of euro.

Despite the many arrangements made during the summits, EU policy in relation to Africa is disorganised. Representatives failing to attend summits and the need to repeat the same programmes is an indication of just how egregious the disorganization can be. In spite of that, Africa should be helped, starting from basic problems such as strengthening the financial help for education or student exchanges and developing the continent's IT infrastructure. There is no point striving to accomplish higher goals while the basics remain unsolved.

ARRANGEMENTS OF THE EU POLICY

The EU policy is mainly oriented towards the Mashrek region (Mashreq, Mashriq), which includes Egypt, Jordan, Syria, Lebanon, and the Maghreb region, which means literally "west" in Arabic [Szczepankiewicz 2010]. This region of North Africa consists of the Little Maghreb (Algeria, Tunisia, Morocco) and the Great Maghreb (Mauretania and Libya) [Szczepankiewicz 2010]. The EU started its closer cooperation with these areas in order to provide peace on the unstable southern border. In 1994 the EC took a stand on the tense situation in the regions. They indicated that in the then current political, economic and social order, many of the states there are a source of mass migrations, religious fundamentalism terrorism, drug problems and organised crime. These have a tragic influence both on the region itself and the EU. The EU determined to take action to ensure the the Mediterranean border remained safe and stable. Arrangements were made during a meeting in Spain on November 25–26, 1995, where the Parties concluded the *Euro-Mediterranean Partnership*[7] [Fontagne and Peridy 1997] also known as *The Barcelona Process* [Borkowski 2005]. Representatives implemented two documents: *The Barcelona Declaration* and *The Work Programme*, which were divided into three parts (the Triptych) [Stachurska-Szczesiak 2007]:

– political and security – the main goal is to make a mutual area of peace and stability by using regional programmes such as EuroMeSco (the Mediterranean network of research institutes and academic centres, which deals with foreign policy. The aim of the

[7] The basic rule is an ever-closer union.

48 institutes is to conduct research analyses regarding mutual matters for the Maghreb region, Europe and The Middle East); Disaster management – access to information on catastrophes, technical support and civil protection, and a forum for discussing and exchanging views; Maltan's Seminars – a variety of seminars dedicated to educating young diplomats, a forum for exchanging information, for instance about social-cultural matters; The Stability Process on The Middle East – regards relations between Israelis and Arabs. The funds donated in order to achieve the goal for the first Triptych amounted to roughly 76 million EUR;
- economy and finance – the main goal is to make a zone of divided welfare, for instance by providing the Euro-Mediterranean Economic Area, which helps establish the biggest free-trade area in the entire world, based on signed association agreements with every single state in the Maghreb region. For instance, in 1995 this kind of act was concluded with Tunisia and Morocco; Euro-Mediterranean cooperation of small and medium-sized enterprises with three measures – Europartenariat, Med-Partenariat and Med-Interpise operations. These programmes are based on appointments signed between enterprises in order to exchange information, ideas, and experiences in horizontal and also vertical terms. For that activity, the EU donated about 30 million EUR; FEMISE – the programme that was spearheaded in 1997 with its direct aid to monitor and establish research on economic matters. An indirect goal is to make a free-trade area; Euro-Mediterranean industrial cooperation – to establish a zone of divided prosperity with its main document, a joint declaration; the European Investment Bank activity – providing loans for environmental protection and strengthening the financial sector; SESMIDE/EMWIS; Euro-Mediterranean transport cooperation or EUMEDIS – a programme for developing the Information Society based on knowledge;
- social, cultural and humanitarian issues – the main goal is to develop human resources and exchange between societies, for instance cooperation on education and infrastructure. For this the EU had donated a total of 6 billion USD by 2000. Ideas to be implemented included Euromed Heritage, Euromed Audiovisual Programme and Euromed Jeunesse.

One of the most important matters planned to be realised in the years 1995–2006 was to establish special instruments to accompany financial and technical support under the MEDA Programme I and II. These were intended to help states appertain to the Barcelona Process, and have now been substituted by the European Neighbourhood and Partnership Instrument (ENPI). The name comes from French and it is an acronym for MEsures D'Accomagnement. The legal basis of MEDA I is Council Regulation 1488/96 of 1996 (financial support was ca. 3.4 billion EUR for the years 1996-1999), while the legal basis for MEDA II was Council Regulation 2698/2000 of 2000 (financial support totalled about 5.3 billion EUR for the years 2000–2006) [Szczepankiewicz 2010]. When dividing financial resources, the EU pays attention mainly to issues that are top priorities in individual states and how the beneficiaries have implemented reform arrangements up to the point in question [Szczepankiewicz 2010]. From the two MEDA programmes, the financial support went to Tunisia (19%), Algeria (4%), Egypt (20%) and Morocco (22%) [Szczepankiewicz 2010].

Apart from that, the EU also provided support to African states in the form of humanitarian missions, a necessity in view of the continent's geographic location and very hot sub-saharan climate. Because of natural atmospheric conditions in many African regions, there is no water to drink or it is highly limited, no vegetation, which leads to a scarcity of food, and a high mortality rate. That is why, under the EU's auspices and its support, there are many humanitarian missions, for instance Agir-Sahel, Share, Dipecho, to name three. In 2012 alone the EU donated: 207 million EUR to Sudan and Chad, 92 million EUR to the countries of Middle Africa, 32 million EUR to South Africa and the Indian Ocean, 188 million EUR to West Africa. All told, this accounted for 50% of the entire 2012 EU budget for humanitarian aid [EC 2014].

BENEFITS OF EU-AFRICA COOPERATION

Figure 2 shows the growth rate of African states versus the global growth rate in GDP per capita in USD for the years 2005–2013 divided for Sub-Saharan Africa (the areas to the south of the Sahara, North Africa and Middle East Africa). The graph shows that North Africa is developing more quickly relative to previous years. However, the indexes should be interpreted as follows: the highly developed states show GDP per capita in excess of 10 thousand USD, mid-developed states from 2 to 10 thousand USD, and the still-developing state comes in below 2 thousand USD.

FIG. 2. The growth rate of African states in 2005–2014

Source: World Bank database, retrieved from http://data.worldbank.org/indicator/NY.GDP.PCAP.CD/countries/1W-ZG-ZQ?display=graph, accessed: 02.03.2016.

Prioritising African matters in terms of policy with the EU Member States causes disparities between the rich North and poor South to fall, and therefore less exclusion and the ability to capitalize on globalisation. Donations and financial support play a major role, as do organised humanitarian missions contributing to a better quality of life for citizens. Certainly, the EU support is not enough and does not solve all of Africa's problems, but it is helping. Providing support is important from the EU perspective also. First of all,

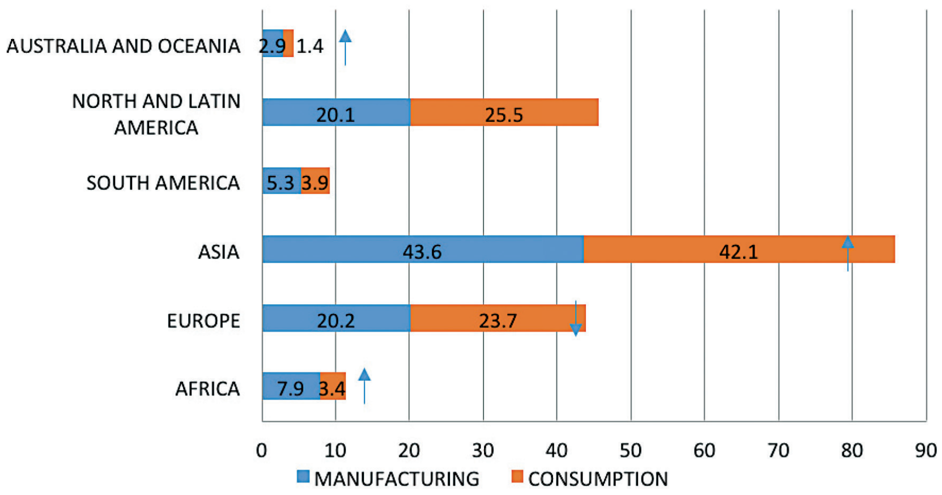

FIG. 3. Share of manufacturing and consumption of fuels in 2008 by continent
Source: the author on the basis of International Statistics Yearbook [2012].

it strengthens safety and peace in the region (armed conflicts on a massive scale) and provides a counterbalance to the Russian Federation's growing strength and its potential geopolitical aspirations.

Energy safety also plays a main role, as do export independence from the East territories (Fig. 3)[8], the promotion of democracy and humanitarianism, and showing power on international arena. The possibility of continued cooperation between states and their ex-colonies is also crucial, to stress the predominant role in international relations and prestige, as well as the development of interregionalism.

SUMMARY

On the one hand, EU policy towards Africa's development is complex, because it addresses a variety of issues, including environment protection, health, regional development and the promotion of economic integration. However, because of a lack of a one-track policy, it is hard to find precise and expressive long-term goals, so it remains considerably unstructured. From the beginning of EU-Africa collaboration, the parties have signed a host of documents describing mutual relations and financial support. Today, helping Africa is only done because it is fashionable to do so – much, perhaps, like environmental protection, with its focus on eco rules. Studying the history of cooperation

[8] Though Africa is not the biggest manufacturer of fuels, it still compares favourably with other continents because of the least consumption. Indexes in % are as follows: +4.5 for Africa, –3.5 for Europe, +1.5 for Asia, +1.4 for South America, –5.4 for North and Latin America, +1.5 for Australia and Oceania. This makes the Africa an attractive marketplace for Europe, which is experiencing shortfalls.

and the legal basics, I have come to the conclusion that the declarations and agreements that have been forged and signed are "empty": There is a lot of text and compromise, but the road seems to be a blind alley. Quantity does not necessarily make for quality. Certainly, given the large number of as yet unsolved problems, Africa needs special support. Addressing the basic problems – for instance, building high quality education and establishing new schools for Africa's youth would mean starting from the beginning. The EU could then turn its attention to other matters, such as the economy – well-educated students are "an investment" in the future. Unfortunately, theory does not make practice.

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Summary. The main goal of the research was to show the European Union's policy towards the regional development of the African continent. Recently, Africa has played a very important role on the international political arena and it has been empowered thanks to a plentiful supply of raw materials. The Communities' help is based mainly on financial support and promotion of the Mediterranean area. Under the long-term cooperation between the two continents, many agreements, acts, and documents have been signed that would directly benefit the African states and indirectly help the entire European Union. While these documents and agreements cover a variety of matters, including environmental protection and human rights, they are diffuse and lack clear goals. The article relies on the relevant and current literature and a variety of statistics.

Key words: Africa, socio-economic development, the European Union, growth, prosperity

JEL: F63, I15, R11

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CHANGES TO THE SYSTEM OF DIRECT PAYMENTS IN THE FRAMEWORK OF THE CAP REFORM FOR THE YEARS 2014–2020

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INTRODUCTION

The Common Agricultural Policy (CAP) was created in 1962. Among its main aims were to improve agricultural efficiency in order to ensure consumers had a permanent food supply at affordable prices, and to guarantee European farmers appropriate wages [EC 2014]. The role of the CAP was to solve food problems in a Europe devastated by WWII, and it was therefore designed strictly as sectoral policy. The CAP functioned in its initial form until 1992, a thirty-year period of pro-supply policy. Thanks to that policy, the Union became very self-sufficient in supplying its own food [Adamowicz 2005]. However, the MacSharry reform in 1992 ushered in the era of pro-demand agricultural policy, and introduced compensation for farmers (known today as direct payments), which allowed for the gradual reduction of institutional prices and a concurrent slowing of unwanted growth in production. Further reforms and changes in EU agricultural changes introduced after 1992 are a continuation of the ideas contained in the MacSharry reforms [Poczta 2010]. The CAP is moving away from supporting production, and to a greater extent focuses on environmental and climate issues. The CAP will now have to accomplish ever more goals even as the share of funds for financing this policy in both the structure of the EU budget as well as its GDP continue to be systematically reduced. In the early 1990s the share of the CAP budget in the EU's GDP was 0.54%, but it had fallen to.43% by 2004 and is anticipated to fall to roughly 0.38% by 2020 [Drygas 2012].

The Common Agricultural Policy's dual complementary pillar structure is the result of successive reforms of EU agricultural policy, which were undertaken in the presence of changing goals and challenges facing agriculture. As a result, aside from supporting the productive function of agriculture, the CAP is also intended to prop up non-production functions, forming the basis for multifunctional and balanced growth – that is, it takes into account economic, social and environmental criteria [Czyżewski and Stępień 2012a].

The first proposals for a reform of CAP 2014–2020 were geared to improving the economic and environmental competitiveness of the agricultural sector, promoting innovation, eliminating the effects of climate change caused by agricultural production, increasing employment and diversifying economic activity and economic growth in rural areas. At the same time, new EU Member States expected a fairer direct payment system to be introduced [Drygas 2012, Krzyżanowski 2015].

Formal work on shaping the CAP after 2013 at the EU level began after the European Commission (EC) published, in November 2010, its communication *The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future* (http://www.minrol.gov.pl/Wsparcie-rolnictwa-i-rybolowstwa/Platnosci-bezposrednie, accessed: 01.02.2016). The document indicated that the reformed CAP will continue to be divided into two pillars, with the first more ecological in focus and based on a fair distribution of resources, and the second focused more on competitiveness and innovation, climate change, and the natural environment [EC Communication 2010].

Almost a year later, in October 2011, followed by discussions and public consultations, the EC prepared a draft of new regulations, including for the operation of the CAP towards 2020 with regard to direct payments (PB), as well as the development of rural areas, common agricultural market organisation and the financing, monitoring and control of the CAP. Following extensive negotiations, a common position was worked out in December 2013, and the legal basis was accepted and published for regulating the new CAP, including national budgets, the direct payments for each year of the new financial framework. Publication of the laws enabled the completion of the work on the preparation of implementing acts at the EU level, which made it possible to take a series of decisions at the national level on the possibilities left to Member States to adapt the instruments to the needs and specificities of the agricultural sector. Because so much time was required to conclude the negotiations, the new rules went into effect only in 2015. In 2014, transitional regulations were applied. They did not take into account the fundamental changes adopted in the framework of direct payments. As part of the solutions it was decided that the system of direct payments would consist of specific components, some of which would be obligatory for implementation by EU Member States.

AIM AND METHOD

The aim of this article is to present the measures some EU Member States have taken in shaping common agricultural policy after 2013 in the area of direct payments. In this context, it also considers issues pertaining to the current national budgets compared to those of the previous financial framework. Given these goals, the article takes the form of a review and looks at the solutions contained in legislation on common agricultural policy in the years 2014–2020. It is meant to help readers become familiar with the differences in the solutions adopted by EU member states in the framework of direct payments in their country.

The article makes use of scientific publications, the text of Regulations and data on the amount of particular EU Member State budgets allocated for direct payments. The horizontal (comparative level) method was used to analyse the statistical data and the results are both described and presented in charts and maps.

NATIONAL BUDGETS AND THE REDISTRIBUTION OF DIRECT PAYMENTS

From the point of view of shaping agricultural policy, direct support stabilises farm revenues. Results obtained by Poland's Farm Accountancy Data Network (FADN) on the basis of a survey of commodity farms indicate a high (nearly 70%) share of subsidies to support operational activities in 2014 farm revenues. In 2010–2014, the share ranged from approximately 55% in 2012 to approximately 69% in 2014 [Chechelski et al. 2013, FADN 2014]. Thus, the support directed to farmers significantly affects the income they generate.

Ongoing negotiations on CAP reform after 2013 produced several options for redistributing direct payments between Member States [Krzyżanowski 2015]:

– a flat rate for the whole EU: funds per 1 ha would be the same for all farmers in the EU;
– a pragmatic approach: adapting the existing rules governing the division of funds so that Member States received, for example, at least 80% of the EU average per 1 ha;
– the application of objective criteria: a flat rate for the whole of the EU but taking into account the objective criteria based on economic, physical and environmental indicators;
– a combination of the pragmatic approach and the objective criteria.

Following extensive negotiations, a convergence mechanism was worked out that seeks to transfer funds from countries whose direct payment rates per 1 ha are higher than the EU average to countries where the rates are lower. Pursuant to the provisions of CAP reform after 2013, in Member States with direct payments per 1 ha that are lower than 90% of the EU average, the difference between the current level of payment and 90% of the EU average will be reduced by a third. Ultimately, all EU Member States should achieve the minimum rate of 196 EUR per 1 ha by budget year 2020. This uniformity will be financed proportionally by all Member States, whose total direct payments exceed the EU average [Regulation 1307/2013].

As a result of convergence, 12 EU Member States will receive more funds for direct payment in the present financial framework than they did in 2007–2013. Despite the changes, including budget cuts, the leading countries with the largest budget for direct payments will remain unchanged. The countries with the largest available budgets include France (more than 52 billion EUR), Germany (nearly 36 billion EUR) and Spain (more than 34 billion EUR). With more than 21 billion EUR, Poland is sixth on the list.

In nominal value, the largest percentage growth in the total payments to be received in the years 2014–2020 over the 2007–2013 period was observed for the Baltic countries and the countries which joined the EU in 2007, i.e. Latvia (135% growth in total payments), Romania (122%), Bulgaria (108%), Estonia (102%), and Lithuania (72%). This was in large measure attributable to the fact that when a country joins the EU, the phasing-in rule is applied during the first few years of its membership with the aim of its gradually reaching the level of payments the EU-15 Member States received as of April 30, 2004 [Żmija 2011]. Direct payment funds received by Poland for the present financial framework rose 39%. Belgium (–14%), Denmark (13%), and Germany, Holland and Greece (all –12%) incurred the highest costs for the 2014–2020 financial framework (Fig. 1).

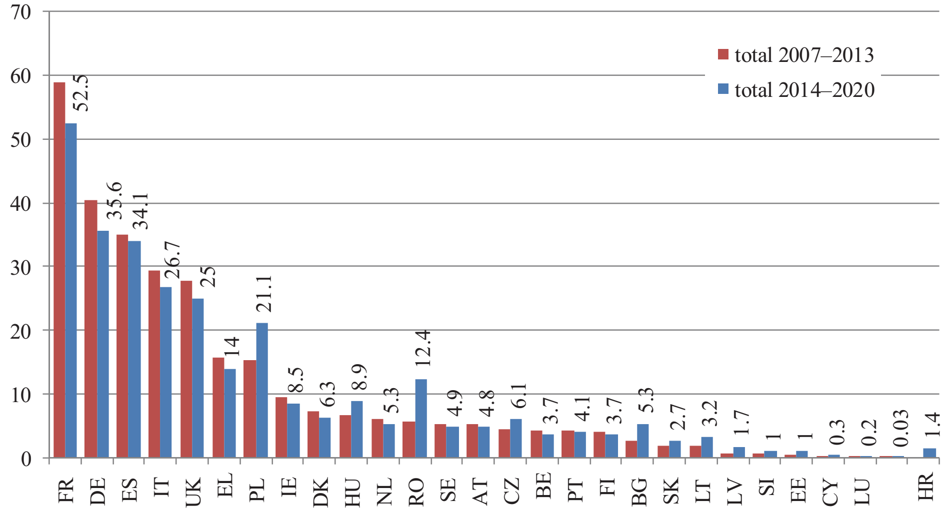


FIG. 1. A comparison of EU Member States' direct payment budgets in 2007–2013 and 2014–2020 (in billion EUR), (budgets figuring for convergence but not flexibility between pillars)

Source: the author's own calculations on the basis of Council Regulation 1782/2003, 73/2009, 994/2014 and 1307/2013 (before applying flexibility).

Pursuant to art. 14 of the Regulation of the European Parliament and of the Council (EU) 1307/2013 of 17 December 2013 Laying down rules for direct payments to farmers under support schemes under the common agricultural policy, Member States may decide to move from the pillar I to the pillar II of the CAP up to 15% of their annual national ceilings for calendar years 2014–2019. In addition, states can move to direct payments on 15% of the amount allocated to support for measures aimed at the development of rural areas for the period 2015–2020. Bulgaria, Estonia, Spain, Latvia, Lithuania, Poland, Portugal, Romania, Slovakia, Finland, Sweden and the UK can move to direct payments on 25% of the amount. These funds may be used in the first pillar in the years 2014–2019 .

Ultimately, 11 UE Member States opted for a trade-off: to reduce their overall direct payment budgets in order to develop their rural areas. The group included eight EU-15 members and three that joined in 2004 (Fig. 2). The United Kingdom transferred the largest amount for developing its rural areas (more than 2.3 billion EUR). This move alone accounted for more than a third of the total funds transferred from the first to the CAP pillar II. On the other hand, five countries shifted funds from the second to the pillar I, and all of them were new EU members. Poland was responsible for the largest percentage shift in the group (25% – the largest amount possible – of the pillar II total for the years 2015–2020). In fact, this accounted for nearly 70% of the total funds transferred from the CAP II pillar for direct payment in the EU [EP 2015].

Taking into consideration the last size of the direct payment budgets (after applying convergence and budget changes as a result of transfer between the CAP pillars), the largest budget reductions between the last year from the previous financial framework and

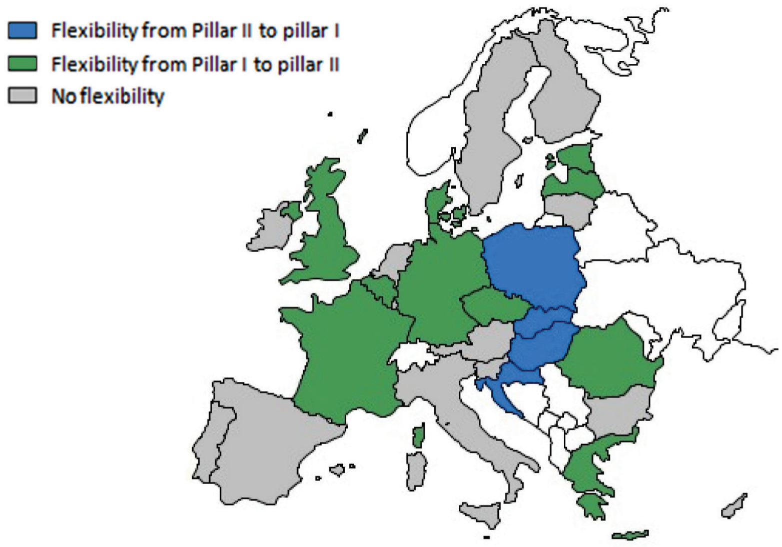


FIG. 2. How EU countries transfer funds between the CAP'S two pillars

Source: done on the basis of PE, Implementation of the pillar I of the CAP 2014–2020 in the EU Member States [2015].

the last year from the present framework – that is, between 2020 and 2013 – occurred in the following countries (Fig. 3):

– France (the budget fell by approx. 1.1 billion EUR, –13% of its 2013 budget);
– Germany (–835 million EUR, –14%),
– Italy (–666 million EUR, –15%).

At the same time, the largest percentage drops in the budget occurred in:

– Belgium (budget fell by 18% from its 2013 level, –110 million EUR);
– The Netherlands (–18%, –165 million EUR);
– Denmark (–16%, –169 million EUR).

The countries that will make the most use of the direct payment budgets in the present financial framework include:

– Romania (2020 budget grew by 639 million EUR, or 51%, over its 2013 budget);
– Bulgaria (216 million EUR, 37%);
– Latvia (156 million EUR, 107% – doubled its budget);
– Lithuania (137 million EUR, 36%);
– Estonia (68 million EUR, 67%).

The convergence and interpillar fund transfers led to changes in the conversion rate of EUR per 1 ha of potentially eligible area[1] that qualified for both the direct payment and

[1] Potentially eligible area (PEA) was used in converting DP budgets per 1 ha. It is used by the EC to distribute funds within the present financial framework based on the Council of the EU document (5715/12) Background data used in the impact assessment for the distribution of direct and rural development payments between Member States.

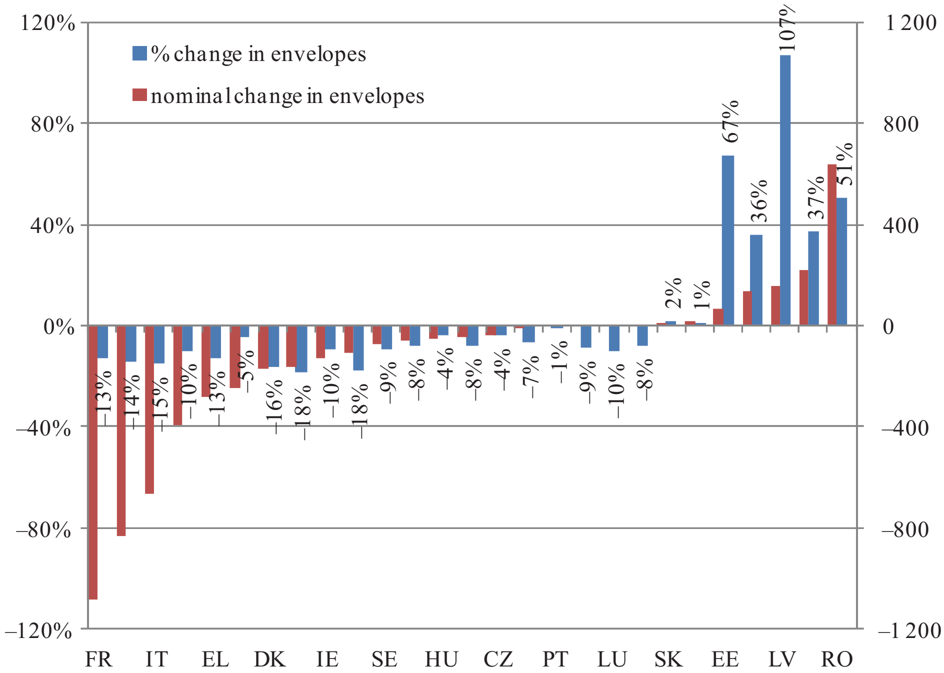


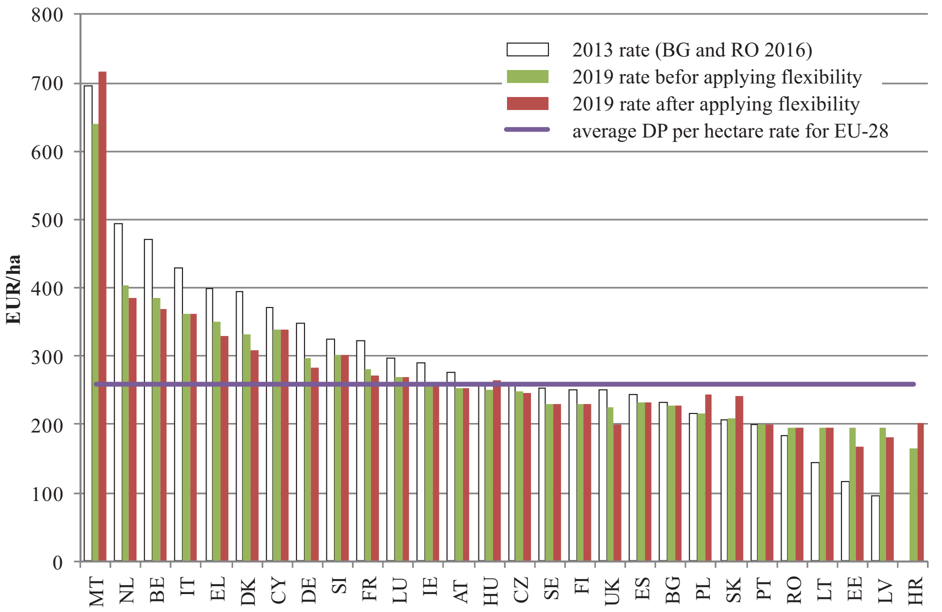
FIG. 3. Change in direct payments in 2020 over 2013 levels (after adjusting for flexibility between pillars)

Source: the author's own calculations on the basis of Council Regulation 73/2009 and 1307/2013 (after applying flexibility).

the rural area development payment. For the most part, the countries which opted to transfer part of their funds from the pillar I to the pillar II had direct payments exceeding the EU average. This group included the Netherlands, Belgium, Greece, Denmark, Germany and France. Interestingly, they were joined by Latvia and Estonia, which had among the lowest rates in the EU while at the same time observing some of the highest direct payment growth in their budget in the current financial framework.

Although Malta is to have the smallest 2019 direct payment budget (after adjusting for flexibility, it's only around 5 billion EUR), after converting it for hectare of agricultural use, the country will actually receive the highest rate among all EU Member States (around 716 EUR per 1 ha). The leaders among the countries with the highest rate after adjusting for flexibility didn't change. Malta is followed by the Netherlands (approx. 386 EUR per 1 ha), Belgium (approx. 368 EUR per 1 ha), Italy (approx. 363 EUR per 1 ha), and Greece (approx. 330 EUR per 1 ha). Rounding out the list of countries that receive an above-average rate are Cyprus, Denmark, Germany, Spain, France, Luxembourg, and Ireland (Fig. 4).

The rate of direct payments in Poland has been growing since the country joined the EU in 2004. As mentioned earlier, until 2013, the country's growth was the result of phasing-in to the full payment rate, while the growth in payments after 2013 has been attributable to convergence – that is, aligning the rate with the EU level. Furthermore, as



For Bulgaria and Romania th e 2016 rates were analysed because their phasing-in period ends in that year.

FIG. 4. Comparison of direct payments in EU countries from 2013 and from 2019 before and after accounting for flexibility between the I and II CAP pillars

Source: the author's own calculations on the basis of Council Regulations 73/2009 and 1307/2013 (before and after flexibility between pillars).

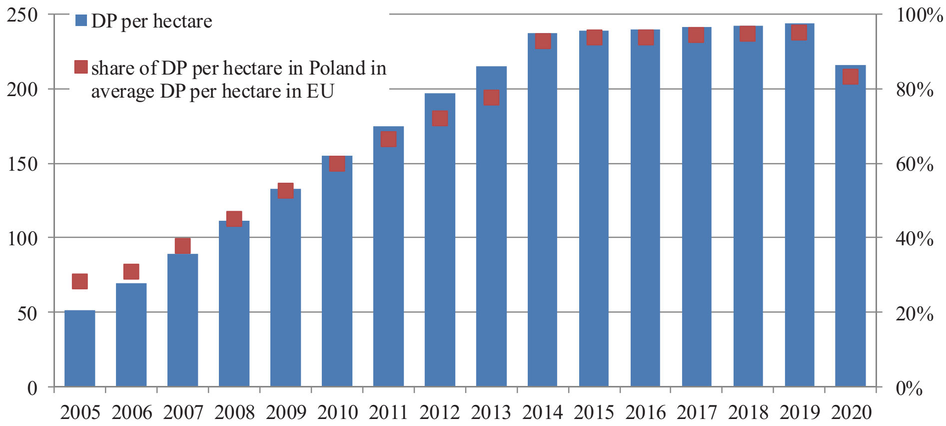


FIG. 5. Direct payments per hectare in Poland in 2005–2020 (EUR per 1 ha of potentially eligible area and as a percentage of the EU average)

Source: author's calculations on the basis of Council Regulations 1782/2003, 73/2009, 994/2014 and 1307/2013 (after flexibility between pillars).

a result of transferring 25% of its pillar II funds for the years 2015–2020, Poland's direct payment rate has grown, in the present financial framework, to approximately 95% of the EU's average rate, from around 78% in 2013. Pursuant to EU regulations as laid down in art. 14 of Regulation 1307/2013, funds transferred from the rural area development budget can be used as direct payments in 2014–2019 campaigns. This also accounts for the fall in the DP rate in 2020 (Fig. 5).

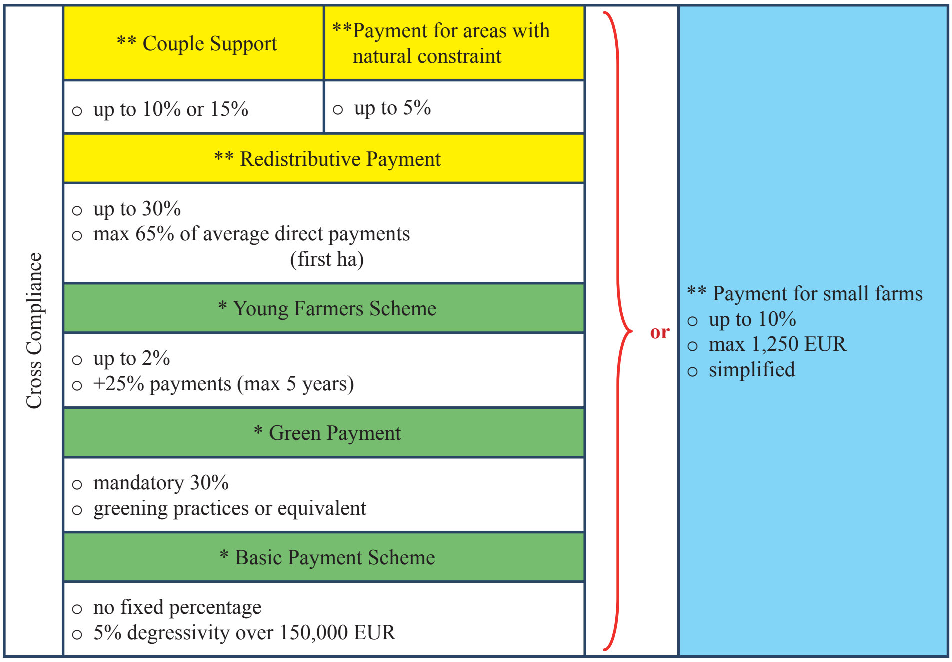
Direct payments are made to farmers after converting to Polish złoty (PLN) according to the reference rate of the ECB from the last working day of September of the year for which the payments are due. Therefore, any change in the exchange rate can have a profound effect in shaping the structure and level of farmers' income. The euro–Polish złoty exchange rate is characterised by a high annual variability – for example, 17% appreciation in 2005 (from 4.7352 to 3.9185 zł/euro) and 25% depreciation in 2009 (from 3.3967 to 4.2295 PLN per 1 EUR) [Poczta 2014].

COMPONENTS OF THE DIRECT PAYMENTS

Direct payments are a fundamental instrument in the CAP, and they play a key role in realising the programme's goals, including [Czyżewski and Stępień 2012b]:
- maintaining the incomes of agricultural producers;
- reimbursing costs related to meeting environmental requirements;
- maintaining agricultural uses in good agricultural practice;
- guaranteeing equal competitive conditions in the framework of the unified food market.

In the current financial framework, new elements have arisen in the system of direct payments. The implementation of some is obligatory, while others are done on a voluntary basis. The choice of the individual components translates directly into the amount of direct payments per 1 ha of area, as the implementation of every subsequent component will reduce the remaining funds for what is known as the basic payment. These components are aimed at specific goals, and not everyone can participate – for example, in payments for young farmers, not everyone will receive an additional payment for all of the eligible hectares of agricultural use on their farm. Figure 6 presents a detailed look at the components.

Voluntary DP components include couple support, payments to areas with natural constraint, the additional payment and payments for small farms. Payments for young farmers, green payments and the basic payments are mandatory for all countries. The basic payment (SAPS/SPS) allocation will range from 12% of Malta's budget to 68% of Luxembourg's. A total of 12 countries/regions have allocated more than 60% of their budgets for the basic payment (they include Denmark, Germany, Estonia, Ireland, Greece, Cyprus, Luxembourg, the Netherlands, Austria, and three out of four regions of the UK – England, Wales, and Northern Ireland). This could be achieved because, among other reasons, none of these countries, with the exception of Germany, opted to introduce the additional payment or, with the exception of Denmark, the LFA payment. At the same time, some spent less than the allowable threshold for the payment for young farmers (e.g. Estonia 0.3%), and couple support from 0.2% of the budget in Ireland to 7.9% in Cyprus. In addition, Denmark, Germany, Estonia, Cyprus, the Netherlands, Austria, England and



* compulsory ** voluntary

FIG. 6. The direct payment system for 2015–2020 (components and their share of the direct payment) Source: Overview of CAP Reform 2014–2020, Agricultural Policy Perspectives Brief 5, KE [2013].

Wales have implemented compensation payments on the national level (flat-rate), which means that most of the national ceiling would be distributed among all beneficiaries, who will ultimately receive individual payments at the same level. The remaining four countries have applied a partial internal convergence, so a large part of the national ceiling would be distributed among farmers maintaining partial division of the historical allocation [PE 2015].

The direct payment system implemented in Malta, Wallonia, and Lithuania is entirely different. For these regions and country, the basic payments make up the smallest share of the overall scheme (Malta 12%, Wallonia 30%, Lithuania 38%). Among other factors, this is because they allocate a large portion of overall funds to production-related payments – from 15% in Lithuania and 21% in Wallonia to as much as 57% in Malta. Moreover, Lithuania and Wallonia have also opted to use the additional payments: Lithuania allocated 15% of its portfolio while Wallonia sets aside 17%. In fact, with the exception of Germany, all EU Member States have opted for a production-related payment, and a full 24 of them support the beef industry. Eight countries have opted for an additional payment: Belgium (Wallonia only), Bulgaria, Germany, France, Croatia, Lithuania, Poland and Romania. At the same time, none of these countries have decided to allocate for this purpose the maximum ceiling of 30%, while the share of the redistributive payment

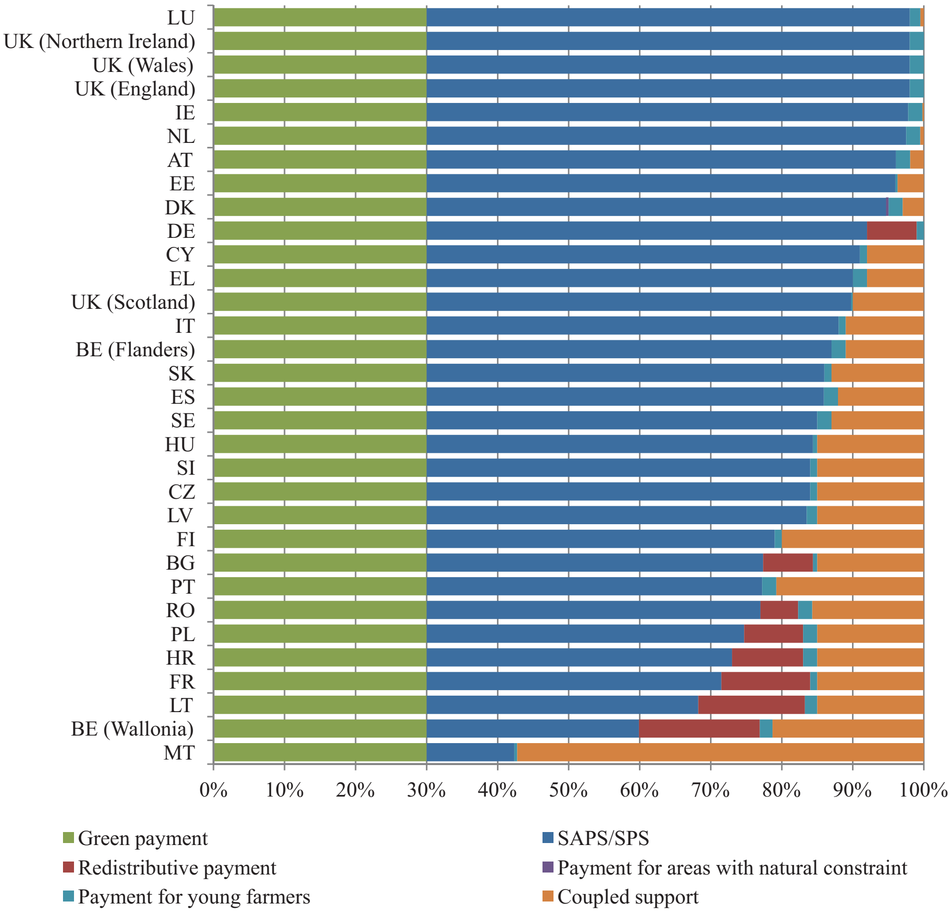


FIG. 7. The percentage share of the national budget for individual components of the direct payments (average for the 2014–2020 period)

Source: elaborated on the basis of done on the basis of PE, Implementation of the pillar I of the CAP 2014–2020 in the EU Member States [2015].

in the national budget ranged from 5% in France to 17% in Wallonia. Only Denmark allocated money for LFA support from Pillar I, and that amounted to only 0.3% of its overall portfolio [EP 2015].

CONCLUSIONS

The above considerations show that the system of direct payments has a complex structure with a tightly defined budget. The following changes made to the payment system in the present financial framework may be considered the most important:

– Negotiations carried out for the post-2013 CAP began in November 2010 and were concluded in December 2013 with the publication of the regulations to be applied.

Because discussions concerning CAP in the new financial framework lasted so long, the new regulations took effect only in 2015 (in 2014 the so-called transitional regulations, which did not include the basic changes, were applied).

– A key criterion for dividing and allocating direct payments among EU Member States is the area each uses for agriculture. The mechanism implemented increases the convergence of direct payments in countries with a rate below 90% of the EU average by a third of the difference between this level and the current rate in the country. Beyond that, in the present financial framework all of the states are to receive a minimum rate of 196 EUR per 1 ha. A mechanism for reducing direct payment rate disproportions in EU Member States was introduced.
– Thanks to the introduction of the convergence mechanism and the end of the phasing-in period, The Baltic countries, Romania and Bulgaria noted the largest increase in direct payments received. The phasing-in period consists in new Member States receiving gradually higher payments during the first years of their accession until the level of payout they are receiving is on a par with EU-15 countries. Poland's overall package grew in the present period by nearly 40% over the levels it received in 2007–2013.
– Flexibility between the CAP pillars. Five countries (all new Member States) have used their right to transfer funds from the pillar II to the pillar I, while 11 Member States moved funds in the other direction, from the pillar I to the pillar II. Poland took the most RDP funds (25% of the RDP funds for the years 2015–2020), which comprised 70% of all the funds transferred from the CAP pillar II to direct payment. Great Britain was responsible for the lion's share of transfers (around a third of all funds) moving in the other direction, from direct payment to the rural development programme.
– During the present operating period, new components have been introduced in the direct payment system, some of which are obligatory for EU Member States. These include payment for young farmers, for which a maximum of 2% of the national budget can be allocated, green payments, which can account for a 30% share of the budget, and single area payments. In addition, Member States can implement a redistribution payment (up to 30% of the budget), an LFA (less favoured areas) payment up to 5% of the budget, and coupled support (generally up to 15% of the country's budget).

In summary, EU Member States enjoy a degree of freedom both in transferring funds between the CAP's two pillars and in choosing the components they implement in their countries. They can also define, albeit within certain limits, the amount they will allocate for a given payment, and also the criteria by which particular components are made available. Thanks to this latitude, the individual countries of the European Union have the ability to fashion the system of direct payments to the needs that exist in their agricultural sector.

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Summary. The article examines the changes that have been made to the direct payments system as a result of the most recent reform of the Common Agricultural Policy (CAP) for the years 2014–2020. It presents a model division of direct payment funds taken on by the countries and institutions of the EU, as well as changes to the national budgets and payments for 1 ha of agricultural land resulting from the redistribution and the ability to transfer funds between the CAP's two pillars. It also presents solutions individual countries have used in choosing components available in the direct payment system and the division of national budgets allocated for their realisation. Results of the analysis show that the amount of direct payments in Poland has grown and that EU Member States have taken a variety of approaches to shaping the new national payment system.

Key words: direct payment system, direct payment budget and rates, CAP reform

JEL: O13, Q14, Q18

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CUSTOMER TRANSPORT PREFERENCES IN SERVICES OFFERED BY THE REGIONAL OLSZTYN-MAZURY AIRPORT IN SZYMANY

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INTRODUCTION

Air travelling requires air lanes and ground infrastructure. Until recently, the infrastructure was provided by central airports. The appearance of regional airports with international connections encumbers central ports. The regional airports are usually used by low-budget airlines, whose manner of operating and favourable prices support the demand for air transport. The airports and airlines are forced to meet required standards. Constantly increasing competition requires the demand for and destinations of air transport to be researched. One regional airport in Poland is the Szymany airport, close to Szczytno in Warminsko-Mazurskie voivodship. The airport was opened in January 2016. Signing contracts for destinations of connections and transport services required research and analyses to be conducted in order to make the range of services safe and fulfil the expectations of potential travellers and guarantee that the investment costs would be repaid.

AIM AND METHODS

The subject matter of the research was demand for services offered by Szymany Airport. Our aim was to determine the demand for destinations and extra services offered by the airport. The research sample was made up of students and employees of the Faculty of Economics at University of Warmia and Mazury in Olsztyn. The information gathered from them was the primary data, which concerned the respondents' characteristics, their destinations, demand for air transport services, accompanying services, and the infrastructure supporting air traffic. The research was conducted during the first quarter of 2015, with respondents directly answering questions on a paper-based questionnaire. From 1,136 correctly filled questionnaires data were transferred to a Microsoft Excel spreadsheet. The results are presented here in graphic and descriptive form.

DEVELOPMENT OF POLISH AIR TRANSPORT

The development of air transport in Poland took place in the period between WW I and WW II. It began with Poland joining the International Convention Organizing Air Transport (Międzynarodowa Konwencja Urządzająca Żeglugę Powietrzną), which happened on 13 November 1919 [Drzazga 2015 after Litwiński 2008]. Civilian air transport began at the end of 1919, on a military air transport (back then still German) initiative, under the name Air Transport Station Lawica in Poznan (Stacja Lotnicza Ławica w Poznaniu). This was followed by Cracow – Rakowice, Warsaw on Pola Mokotowskie and Lviv – Lewandowka. In 1929 the LOT Polish Airlines (PLL LOT) were established to execute transport activity to five inland airports: Gdańsk, Poznań, Lwów, Katowice and Cracow, and two international ones: Brno and Vienna [Drzazga 2015 after Litwiński 2008].

Until the end of the 1980s, the air transport market in Poland was centralized. Almost 80% of air transport operations was performed by Warsaw Chopin Airport. Regional airports played a supplementary role, providing flights to and from the central airport. Only some of the regional airports offered European connections to Munich, London and Frankfurt. The leading air company was the PLL LOT and a small number of flights was also provided by foreign air transport companies [Drzazga 2015 after Rekowski 2011].

The infrastructure of the regional airports languished, as a result of high ticket prices and an insufficient number of connections. Only when Poland became a member of the European Union did changes in the air transport services market take place. In 2011, the regional airports Cracow – Balice, Gdańsk – Rebiechowo, Katowice – Pyrzowice eclipsed 10% participation in passenger service [Drzazga 2015 after Rekowski 2011].

Today the Polish airports consist of one central port complemented by regional ports, unequally deployed. Three regions: podlaski, opolski i świętokrzyski, have no airport. Private airports (for exclusive use) constitute 71% of all Polish civil airports, including: 31 exclusive airports governed by the Polish Aeroclub (Aeroklub Polski). Of the 58 civil airports, 41 are exclusive, 13 public and 4 have limited certification. Public airports constitute 22%, and airports with limited certification 7% [Piórkowski 2015 after Rokicki 2014].

MARKET FOR AIR SERVICES

The advantages of air transport are that large spaces can be quickly covered. Drawbacks include relatively low accessibility and high prices. Demand for air transport services is the intention to buy disclosed. With supply comes the ability to satisfy demand [Drzazga 2015 after Hawlena 2012]. Constant coordination is required if an air transport market is to function properly. The air transport market is a dynamic one. Airports and air transport companies offering services, work in constantly changing conditions and must make decisions about, consulting cost-effectiveness. Transport possibilities, quantity of procurements, uneven demand for services in time and costs all have special meaning.

For air transport companies, what's important is that the services they provide be cost--effective. Supply growth depends on innovation and access to potential buyers, while a fall can cause organisational constraints (e.g. licensing). Supply is also contingent on the cooperation of transport companies, cooperating companies and transport policy.

AIR CARRIERS

According to article 2, point 16 of Aviation law (2002) an air transport company is recognised as "an entity licensed to conduct air transport transit on the basis of a concession (in the case of Polish companies) or on the basis of the appropriate act of another country (for non-Polish airlines)". Polish airports are serviced by both domestic and foreign airlines. Polish air transport companies are: LOT Polish Airlines + Eurolot SA, Eurolot SA, and Sprint Air. In 2014 Polish air transport companies handled only 27.2% of total passenger flights originating in or arriving in Poland, while more than 70% of flights was handled by other air transport companies, including 50% by low-budged companies like Ryanair and WizzAir [Rokicki 2014].

Data from 2014 show an increasing tendency to use non-Polish companies (mainly LOT Polish Airlines – Eurolot SA) in favour of low-budget airlines. Involvement of national air transport companies decreased by 5.08% while one low-budget airline increased by 5.97%. The increasing involvement of low-budget airlines in passenger services can be attributed to the increasing stature of regional ports. Between 1993 and 2010 involvement of regional ports in passenger services increased from 15to 58% [Drzazga 2015 after Haderek-Glapska 2011].

Regional air transport and low-budget airlines now play a large role in air transport in Poland. All in all, that means air transport is becoming more popular.

THE HISTORY OF SZYMANY AIRPORT

In 1933 Germany began building airports close to its border with Poland. They were intended to be used later on for armed aggression. One such airport was in Szymany, which at the time was located barely 10 km from Poland's border. To make space for the airport, forest land was cleared, but it remained well hidden by the surrounding forest. The infrastructure was not developed. Apart from a landing field, a few wooden barracks were built for storage purposes and offices. In 1939, the airport was used in attacks against II Rzeczpospolita. In 1945, the Soviet Army took the airport over but abandoned it in the same year, after which it sat idle until the 1950s (because of the potential of war) the USRR ordered armed forces to develop in the PRL (Polish People's Republic). The airport in Szymany was picked as a base for a regiment of the Air Force. In the 1960s and 70s the airport was expanded to include a paved runway and concrete barracks. In the 1990s the army stopped using the airport [Drzazga 2015, Piórkowski 2015].

On 15 November 1966 the Voivode of Olsztyn launched Mazury-Szczytno Airport (Port Lotniczy Mazury-Szczytno) to take over passenger flights. The first PLL LOT aircraft landed at the airport on 2 June 1996 and on 10 October 2001 it was added to the list of airports offering international flights. On 14 April 2003 Mazury-Szczytno Airport partnership obtained a certificate for passengers, luggage, aircraft and transport between terminals and aircraft services. However, there was little interest, leading PLL LOT to suspend flights in 2003. In 2005, Ryanair airlines expressed interest in launching flights to Szymany airport, provided the terminal was expanded and the runway improved. Unfortunately, the partnership running the airport lacked the financing. Only with the help of European Regional Development Fund within the Regional Operation Program Warmia and Mazury 2007–2013 and with additional help from the state budget did the expansion of the airport as an object of the Regional Airport Olsztyn-Mazury begin. The process was completed in 2015 and the airport obtained the necessary certificates. The first connections were Szymany – Berlin and Szymany – Cracow, launched in January 2016, and were handled by Sprint Air.

LOCATION AND FACILITIES OF THE AIRPORT IN SZYMANY

The Regional Airport Olsztyn-Mazury is located 10 km from Szczytno, 58 km north of Olsztyn. The terminal accessible to the passengers is around 7,000 m^2, is air-conditioned, and has separate sections for arriving and departing passengers. The check-in section in both arrivals and departures, is divided into two directions: service of passengers within the Schengen zone (S) and service for passengers leaving the zone (NS). Average day-capacity is around 830 passengers, jumping to 1,250 during the peak hours. The airport has Airport Rescue – Fire Forces, which is responsible for safety and intended for single rescue. The fire unit (together with vehicles, crew and equipment) secures immediate reaction in emergency situations [Piórkowski 2015].

CHARACTERISTICS OF THE RESPONDENTS

The respondents' gender, age, occupation and gross income per family member were considered. The results are presented in a form of charts. Figure 1 shows that a substantial majority of the interviewees were women (73.9%) and minority the men (26.1%). Women display a greater willingness to study and to educate themselves, a fact also observed at the UMW and the WNE. Men show a greater desire to become employed after finishing high school, which can interfere with studying.

Figure 2 presents the division of the interviewees by the age groups suggested by Regional Olsztyn-Mazury Airport in Szymany. The majority of interviewees were young people (88%) up to 29 years of age because in the WNE society students make up 95.56% of the population. Other age groups included: people aged 30–45 (8.6%), people 46–67 (2.7%) and a small number of people above 67 (0.6%). No one less than 16 years old was interviewed.

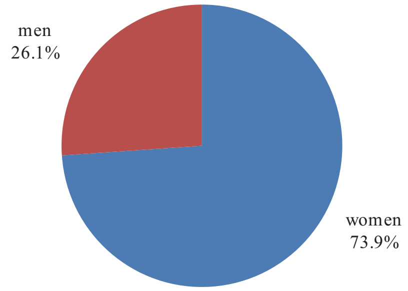

FIG. 1. Interviewees by gender

Source: Pawelec et al. [2015] on the basis of personal questionnaire research.

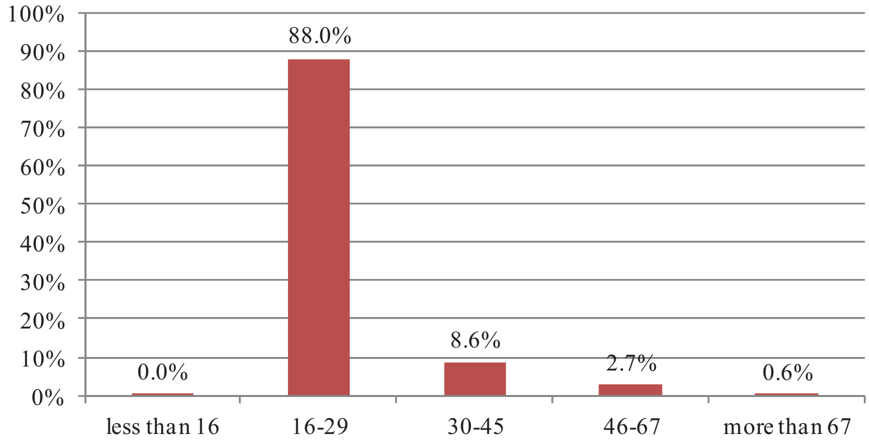

FIG. 2. Interviewees by age (division into age groups according to coordination with Regional Olsztyn-Mazury Airport in Szymany)

Source: Pawelec et al. [2015] on the basis of personal questionnaire research.

Figure 3 presents the interviewees' permanent place of residence. Among the interviewees the majority consisted of urban residents, while rural residents constituted only 37.4% of the sample. 22.6% of the interviewees were from cities with populations of up to 25,000 residents were 14.5% were from cities with a population greater than 150,000 while 13.1% were from cities with a population of 50,000 to 150,000 and 12.4% were, from cities with a population of 25,000 to 50,000 .

Figure 4 displays the interviewees' occupations. The largest share of respondents (71.7%) was students who did not work. Those employed worked as administration employees (15.6%), physical workers (4.1%), businessmen (2.6%), directors (2.5%). Other occupation groups (less than 1%) included: paramedics, farmers, researchers and lecturers. Figure 5 presents a view of gross income per family member.

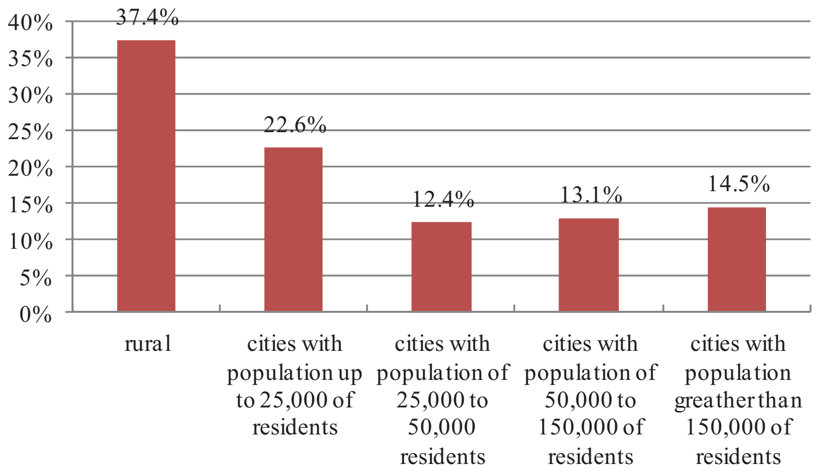

FIG. 3. Interviewees by place of residence

Source: Pawelec et al. [2015] on the basis of personal questionnaire research.

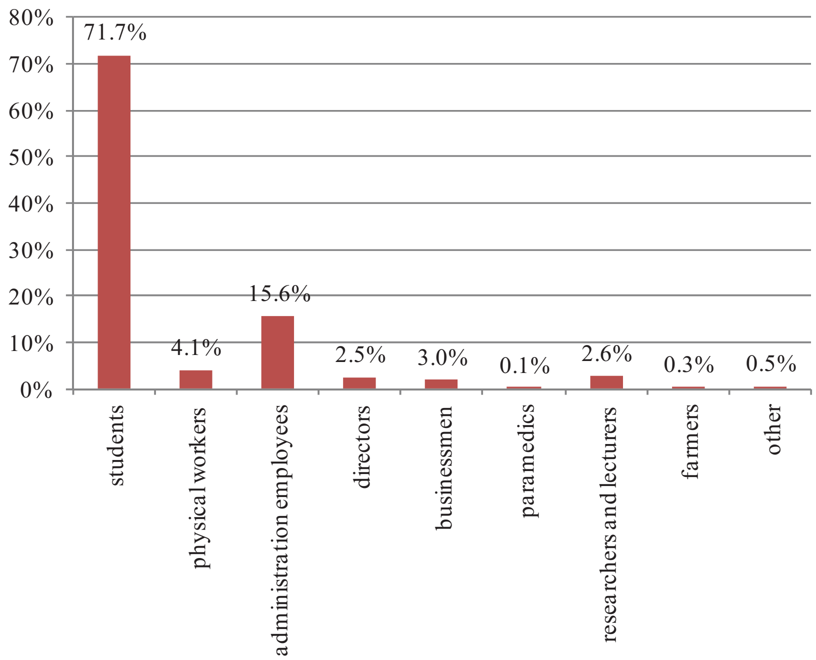

FIG. 4. The interviewees' occupations

Source: Pawelec et al. [2015] on the basis of personal questionnaire research.

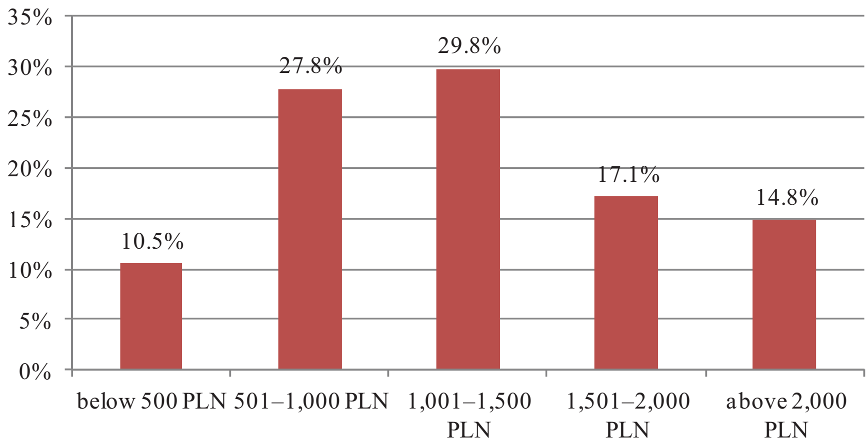

FIG. 5. Gross income per family member

Source: Pawelec et al. [2015] on the basis of personal questionnaire research.

The largest share of interviewees (29.8%) described their gross income per family member as 1,001–1,500 PLN. 27.8% chose 501–1,000 PLN. 13.1% indicated 1,50–2,000 PLN, PLN 14.8% said their income exceeded 2000 PLN per family member while 10.5% said their family's income was below 500 PLN per person. Income on that level can limit air travel affordability.

ANALYSIS OF THE INTERVIEWEES' PREFERENCES CONCERNING SERVICES OFFERED BY THE AIRPORT

The interviewees' level of demand for the flights offered was low. More than half (62.4%) did not intend to fly while only 37.6% planned to use air transport including: 18.9% once a year, 12.9% twice a year, and 3.9% a few times a year. Only 1.1% of the interviewees intended to use air transport a few times a month. Figure 6 displays intended frequency of travel.

Figure 7 presents the respondents' destination preferences. The respondents that go to London probably do so for economic or family reasons, while respondents that travel to Paris likely go as tourists. Other frequently mentioned connections include Rome, Berlin, New York and Croatia.

The next question was why people fly. Figure 8 provides the answers. The greatest share of those interviewed – 44.7% – indicated they fly as tourists. Exactly 22.6% fly to visit family and friends, 13.5% for work abroad, and 6% for business purposes. These results stand in contrast to views commonly presented in the media about the mass emigration of young people, especially students, with the aim of looking for new job opportunities. Exactly 36.8% of the interviewees do not intend to use the services of Szymany Airport for the reasons listed in the questionnaire.

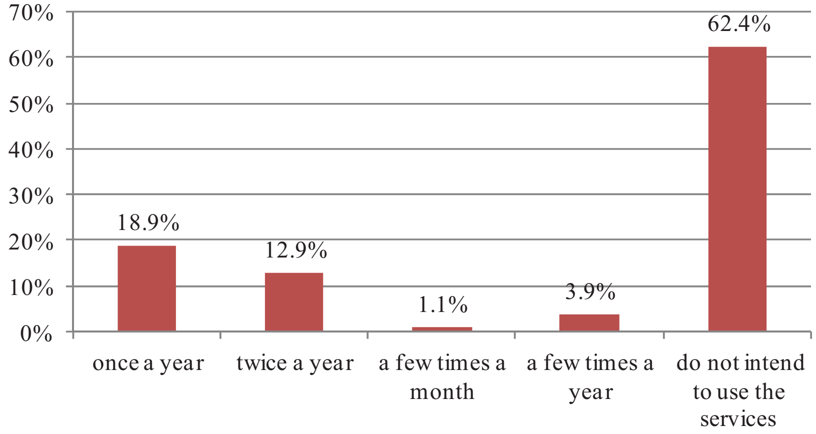

FIG. 6. The frequency of air travel

Source: Pawelec et al. [2015] on the basis of personal questionnaire research.

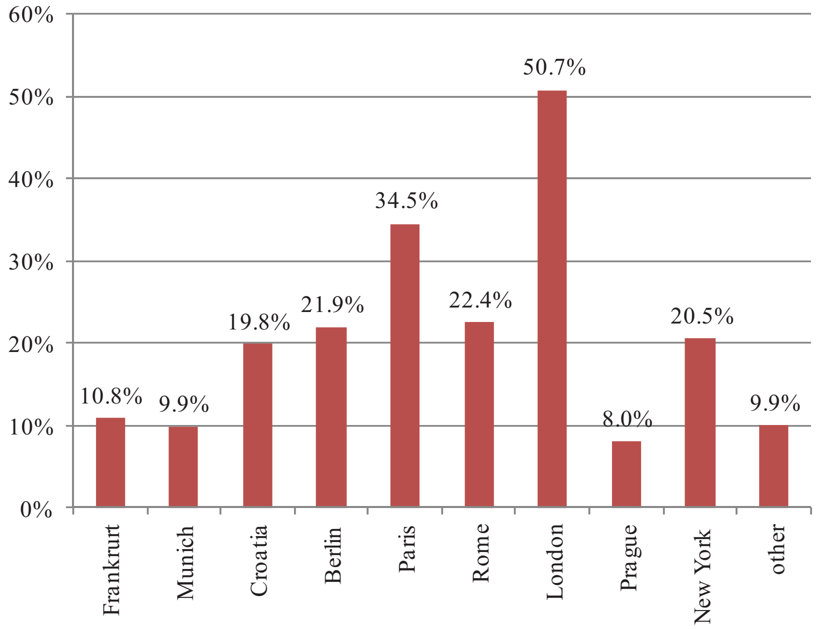

FIG. 7. Preferred destinations

Source: Pawelec et al. [2015] on the basis of personal questionnaire research.

The interviewees were also asked what factors would encourage them to use the services for inland and international travels. They were asked to choose the most important factor. The price of the tickets was the most decisive factor in encouraging 45.5% of interviewees to fly. For 20.7% of interviewees the availability of connections was impor-

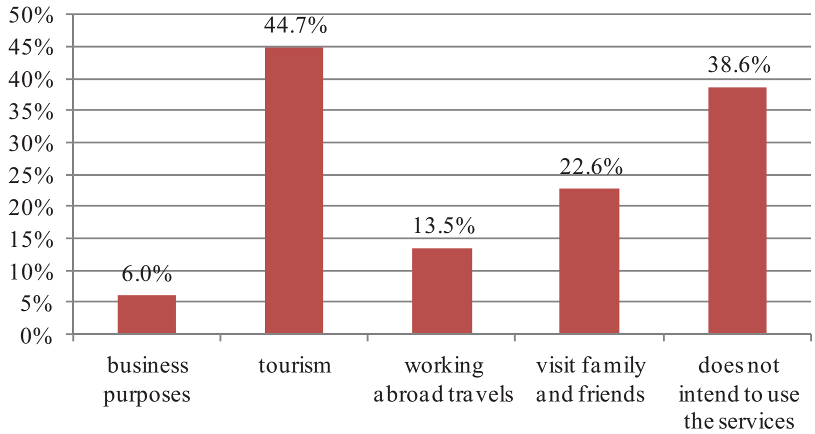

FIG. 8. The reasons for using air transport

Source: Pawelec et al. [2015] on the basis of personal questionnaire research.

tant, while 13% of them valued the most short flight times. For 9.5%, fast transport to the airport is important and for 8.37% comfort was the most important consideration. A small number (2.9%) revealed that nothing could encourage them to travel by plane (Fig. 9).

Answers to the question about factors encouraging plane travel within the country were very similar. The data are presented in Figure 10. The results presented by Figures 9 and 10 show that low-budget airlines are preferred for both inland and international flights.

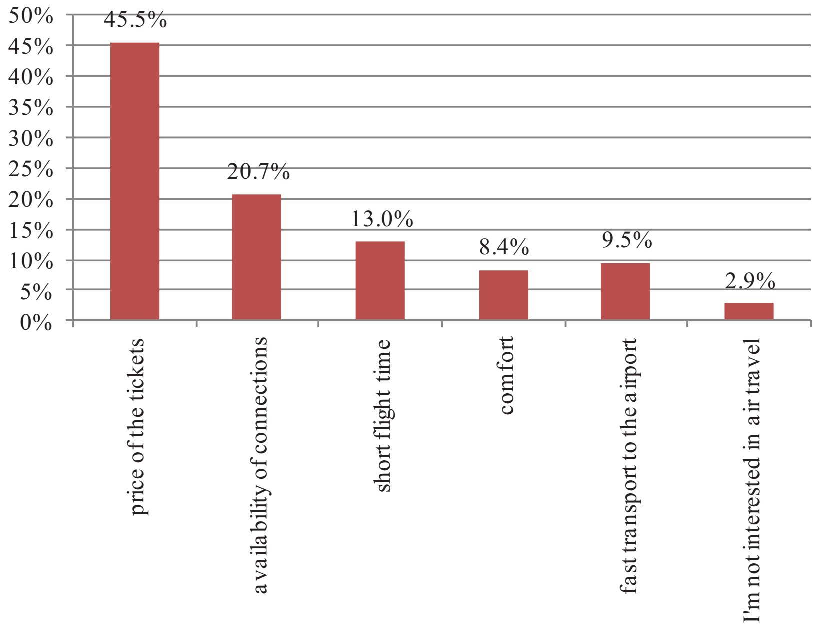

FIG. 9. The factors encouraging people to fly internationally

Source: Pawelec et al. [2015] on the basis of personal questionnaire research.

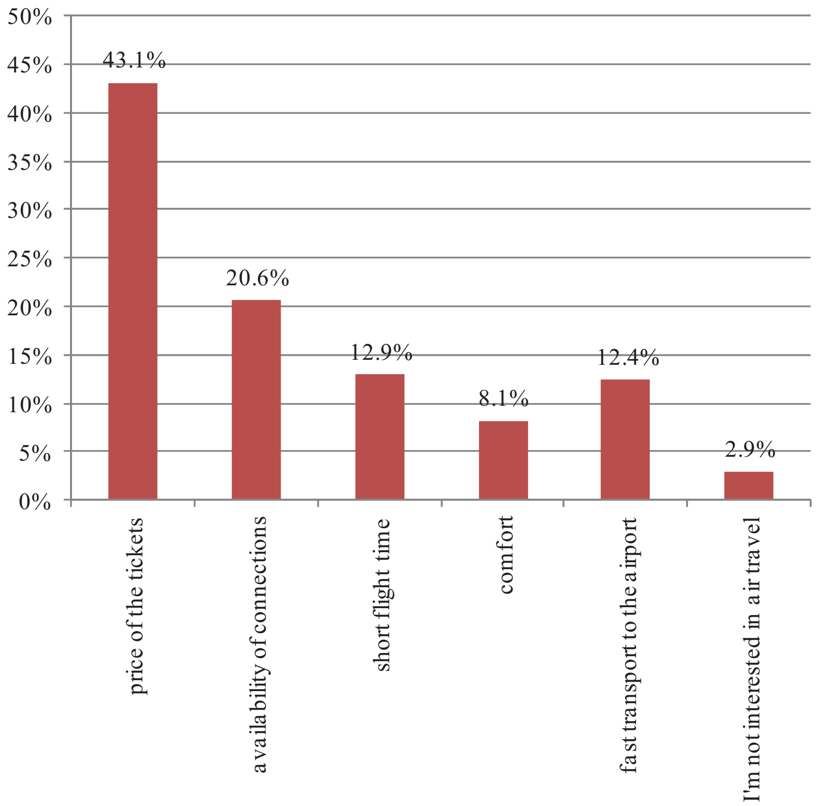

FIG. 10. The factors encouraging inland plane travel
Source: Pawelec et al. [2015] on the basis of personal questionnaire research.

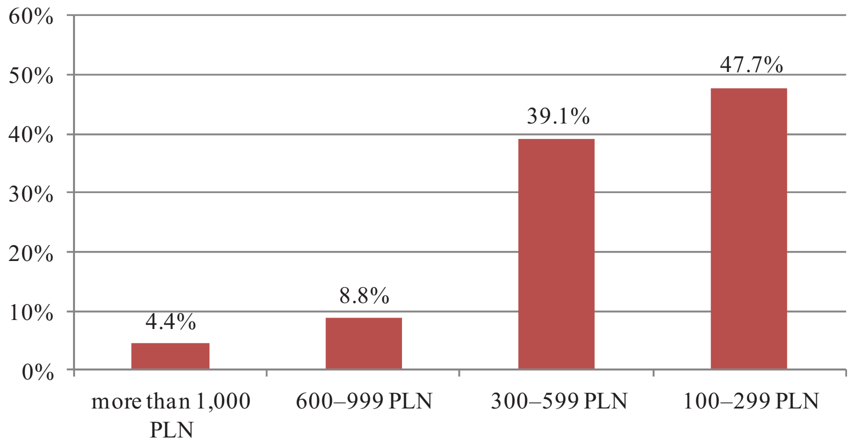

FIG. 11. Preferred ticket price
Source: Pawelec et al. [2015] on the basis of personal questionnaire research.

Figure 11 presents responses to questions concerning the cost of tickets. The largest share of interviewees (47.72%) is willing to pay between 100 and 299 PLN for a ticket. 30.08% would pay 300–599 PLN, while a price between 600 and 999 PLN would be achievable for 8.80%, and only 4.40% could spend more than 1,000 PLN. Preferred ticket prices are for the preferred destinations presented in Figure 7. These answers correspond to the results displayed in Figures 9 and 10.

Figure 12 presents answers to the question about additional services, including special offers and additional perks, which would encourage individuals to fly.

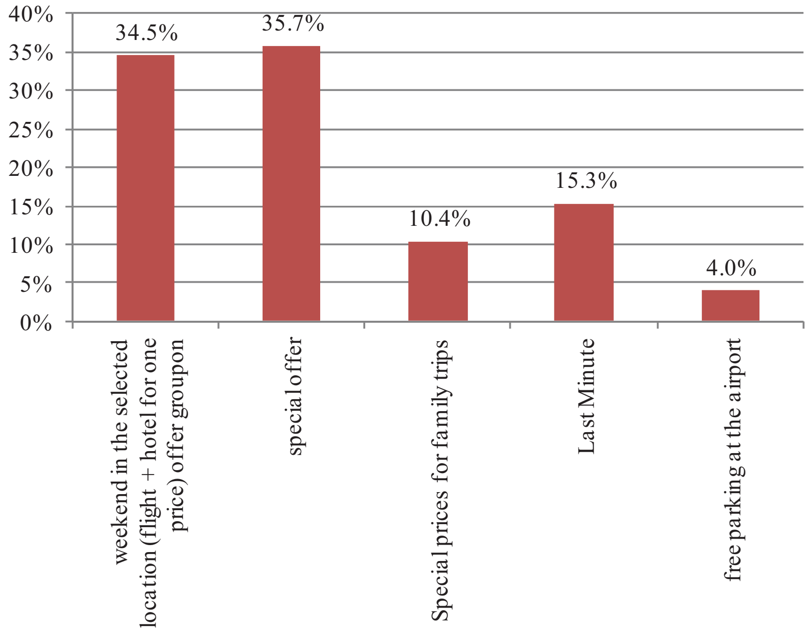

FIG. 12. Additional services encouraging air travel

Source: Pawelec et al. [2015] on the basis of personal questionnaire research.

As the research shows, the most encouraging factor would be reduced price tickets thanks to special offers and promotions: 35.73% of the interviewees indicated as much, 34.50% would be willing to use special offer like Groupon. 10.41% also indicated they would be motivated by special prices for family trips. The "last minute" option was chosen by 15.31% of the interviewees. Free parking by the airport would convince 3.99% of people to use the airport's services.

CONCLUSIONS

The development of regional air transport in Poland, with the engagement of low--budget airlines, has encumbered central airports and wider access to services. The modernisation and opening, in January 2016, of the Regional Olsztyn-Mazury Airport in

Szymany necessitated a way to establish the preferences of future passengers concerning destinations and other aspects of transport services. The most popular destination was London, followed by Paris, Rome, New York, Berlin, Munich, Frankfurt, Croatia, Prague, Madrid, Toronto, Warsaw, Barcelona, Copenhagen, Glasgow, Switzerland and China. Our research shows that higher gross income per family member translates into greater intention to use the services.

To increase the demand for air transport services, it seems legitimate to offer special ticket prices. This strategy is used by low-budget airlines and others. The lack of interest among those interviewed in services offered by the airport in Szymany is attributable foremost to their low incomes. The majority indicated they would be encouraged by ticket price, availability of connections, fast transport to the airport, comfort and safety.

Another important issue is the reasons people travel. Those interviewed for this research indicated tourism, social (family) visits, and to a smaller degree business purposes and looking for new job opportunities (13.7%).

To sum up, the results of the research may constitute a foundation the administrators of the airport in Szymany could use to create offer of air transport services. The research was conducted primarily among young people showing a great interest in travelling. Similar research should be conducted among other age groups.

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Summary. The aim of the study was to research, analyse and evaluate preferences concerning the services offered by the Regional Olsztyn-Mazury Airport in Szymany. A questionnaire was used as the research tool. The researched groups were students and employees of the Faculty of Economics of Warminsko-Mazurski University in Olsztyn. Number of 1,136 people, accounting for 38.77% of the student body and employees, responded. Thus they were statistically representative. The theoretical part of the paper discusses air transport in Poland. Definitions and features of the air transport market are presented, as are the relationship between supply and demand for passenger transport services. Information about Polish airports is presented along with development trends of the airports and the role of the regional airports. The empirical section presents the characteristics of Regional Olsztyn-Mazury Airport in Szymany. Questionnaire respondents were described by gender, age, occupation and income. The preferences of the interviewees concerning transport services offered by the airport are presented. The research shows that a significant number of respondents would be unwilling to use the services, though there are factors that could encourage them (lower prices and more services). The article also examines demand for a list of frequently visited destinations, the reasons for travelling, and the need to adjust transport services to demand.

Key words: air transport, regional airport, air transport offer, additional services, studying preferences

JEL: R41, R42, Z32

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INTERNATIONAL COMPETITIVE INTELLIGENCE

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INTRODUCTION

The main aims of this paper are to present the role, importance and methodology of gathering competitive intelligence to prepare, implement and evaluate an enterprise's business activities in a foreign market. In particular, the research is intended to provide a background for international trade, compare environmental frameworks and clarify complexities of conceiving international competitive intelligence. This will be done by exploratory research and conclusive research.

Exploratory research provides insight into the nature, scope and conduct of competitive intelligence. It involves a critical assessment of the academic literature and comparative analysis. The critical assessment of the literature allows one to select the considerable contribution of theoretical deliberations and research findings to generalise an approach to organising and completing competitive intelligence. The comparative analysis enables the identification of competitive problems and to undertake to solve the points at issue.

Conclusive research assists decision-makers in determining, evaluating and selecting the best course of action to take in a given international business situation. Descriptive research delineates the basic concepts and competitive processes in a foreign market. Casual research is used to obtain evidence of cause-and-effect relationships. The following hypotheses are formulated:

- H1. Competitiveness in a foreign market is complicated by the unknown environment, the rivarly that exists between market participants and unpredictable financial risk.
- H2. An enterprise can streamline international intelligence by gathering data and selecting the best sources of information.

The hypotheses will be tested as the topic and issues of international competitive intelligence are systematically introduced and discussed. Before describing how competitive intelligence can potentially benefit every enterprise and affect international trade, it is essential to impart essential definitions.

Competitive intelligence (CI) is a specific form of marketing intelligence (MI). By standard definition, marketing intelligence is information relevant to an enterprise's markets, gathered and analysed specifically for the purpose of accurate and confident decision-making in determining strategy in areas including market opportunity, market penetration strategy, and development of commercial products [http://www.businessdictionary.com/definition/marketing-intelligence.html, accessed: 30.03.2016]. A marketing intelligence system includes a set of procedures and sources managers use to obtain everyday information about developments in the marketing environment. Marketing intelligence systems take data from disparate sources, like web analytics, call centers, sales data, stakeholders, customers, distributors, suppliers and social media [Kotler and Keller 2006]. Competitive intelligence is the process of discovering, analysing and using information to make an enterprise more competitive in the marketplace. This involves gathering information about competitors in order to determine their current and possible future actions and strategies to gain a competitive advantage. Information is mainly gathered about local and international competitors and their activities. Intelligence is also used to collect and monitor external data such as analyst reports, competitors' financial data and mass media monitoring. It can assist with more or less every marketing decision an enterprise faces [Michalski 2012].

The overriding purpose of most intelligence, however, is to help the enterprise grow – to increase revenue, profit and market share. Good intelligence can provide a huge return on investment when spent on knowledge and information, and can therefore generate extra revenue or help the enterprise avoid making poor trade decisions. The purposes of competitive intelligence are constantly evolving and often require information technology (IT) to put together and edit custom reports [Robbins et al. 2000].

Competitive intelligence is an ongoing process that involves gathering specific data about:

- competitors and their strategic intentions;
- technology, especially emerging trends and possible future developments;
- legal and regulatory changes;
- suppliers and changes to distribution systems;
- economy and market trends;
- political and social changes that affect the competitive environment.

Competitive intelligence refers to information about a particular enterprise's competitors, and is sometimes confused with stealing information from or spying on competitors. Although finding out about competitors' activities is an essential component of competitive intelligence, it does not involve covertly gathering information. Rather, it is the legal and ethical collection and analysis of information regarding the capabilities, vulnerabilities, and plans of an enterprise's competitor [Zeithamel et al. 2009]. In many countries, a good quality provider of marketing information should offer competitive intelligence as part of its range of services.

Developing competitive intelligence includes perpetually monitoring all factors in the competitive environment, not just competitors. In competitive intelligence, all information is gathered from publicly available and non-proprietary sources. The information is analysed constantly to answer the questions raised by an enterprise's objectives and strategic planning. Competitive intelligence keeps an enterprise informed about critical issues that might influence its profitability and ability to compete in the marketplace.

An enterprise needs to develop competitive intelligence as well as marketing intelligence because doing so enables it to be more profitable and avoid losses. Marketing intelligence might indicate that customers in a new market desire a certain new product [Solomon et al. 2011]. New product ideas and design considerations might be uncovered or an enterprise might gain advance warning of new product introductions. Other monitoring activities might reveal competitors' prices, which can help in making decisions about one's own cost structure. An enterprise might avoid investing considerable time and financial resources into developing that product and preparing a marketing plan, only to see that a competitor also develops the same product and releases it first.

Competitive intelligence enables an enterprise to make better decisions regarding short- and long-term planning, research and development programmes, and to focus on the company's marketing mix. It also allows an enterprise to react quickly to legislative and regulatory changes in the competitive environment. The intelligence that is developed can be used to aid in decisions about whether entering certain product markets is worthwhile. It can also be used to help the company decide how to go about entering a market and to assess potential profitability.

THE SCOPE OF INTERNATIONAL COMPETITIVE INTELLIGENCE

Competitive intelligence works best when clear, concise questions are formulated after an enterprise conducts a needs assessment. This method will identify knowledge gaps and facilitate questions to be developed. With international trade, competitive intelligence becomes even more important. There are ten phases involved in the formation of international competitive intelligence:

- carry out a needs assessment;
- formulate questions;
- organise the process of investigation;
- gather the data;
- organise the data into information;
- assess the accuracy of the information and fill the information gaps;
- analyse information to create competitive intelligence;
- disseminate intelligence to decision makers;
- formulate a strategy and implement it;
- evaluate action effectiveness and adjust the needs assessment as required.

The rules of conduct are cyclical and continually build on and refine the competitive intelligence that has been obtained from earlier prospecting.

Developing an understanding of the competitive set of circumstances prevailing in a foreign environment is invaluable for making a decision about whether to enter a market. Marketing research might show that the target market is dominated by a few large and powerful corporations, which might make securing an initial market foothold prohibitively expensive. If this is the case, an enterprise might decide that it would be a strategic move to develop a partnership with one of the large corporations already present in the market. Competitive intelligence can contribute to an enterprise's international activities in many ways. An enterprise might be able to find out why competitors have succeeded or failed in a new market and learn from their mistakes.

The competitor profile can be tailor-made for a foreign market. Porter's forces, illustrated in Figure 1, can be used as the basis for a high-level assessment of the international competitive environment in any international market. It can be seen that each of the competing enterprises are perceived as being quite distinct from each other, although none has really possesses a particular attribute. The forward-thinking enterprise would invest in resources and marketing efforts that associated it with an attribute that was distinctive, important, and in which it has already demonstrated some aptitude.

For an international marketer, the competition forces assessment that might lead to answers to these questions:
– What is the financial strength of a competing enterprise in the target market?
– What are the critical success factors in the market leader's promotional campaigns?
– What are the competitor's strategic intentions?
– Who are the competitor's partners?
– What markets is the competitor targeting?

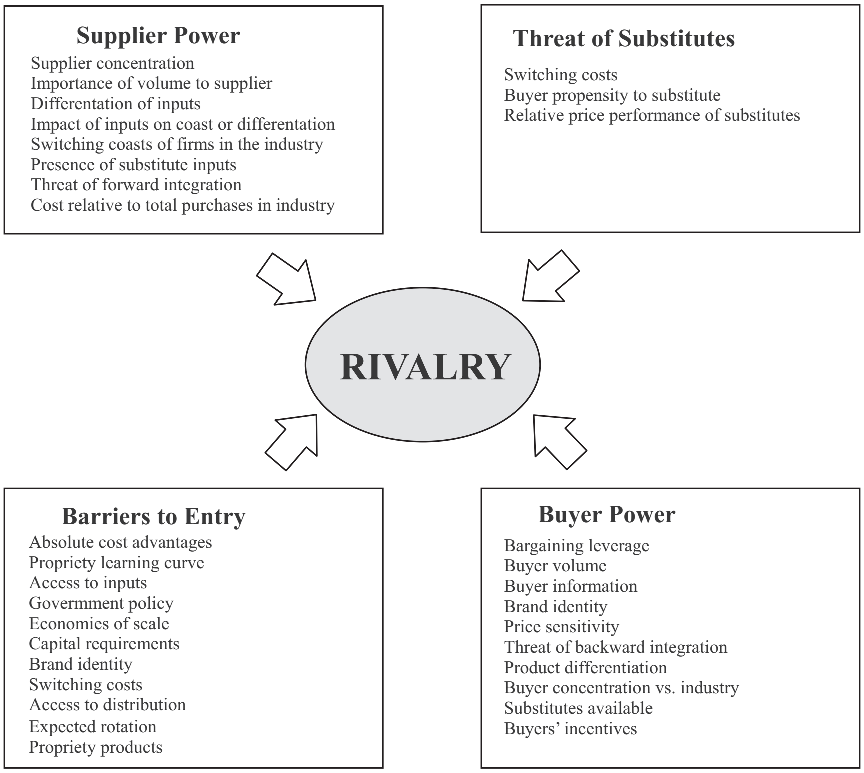

FIG. 1. Porter's model of international competition forces

Source: the author, based on Jones et al. [2008].

Competitive insight studies provide diverse, rich information which enables a comprehensive overview of the competitive environment as well as a detailed profile on competitors covering topics such as enterprise characteristics, needs, views on supplier performance, investment plans, marketing strategies, financial data, expansion record and plans.

To regain some of their power to influence events, policymakers have sought to restrict the impact of international trade and financial flows by erecting barriers, charging tariffs, designing quotas, and implementing other import regulations. To help a country remain a player in the world economy, governments, enterprises, and individuals need to respond aggressively with innovation, process improvements, and creativity. By communicating a clear and distinctive message and delivering goods and services that accord with that message, the enterprise can increase customer loyalty, sales revenue, prices and ultimately profitability [Roy 2015].

A wide variety of information sources is used in competitive intelligence, including information about market positioning and market messages, core clients and contracts, the size and structure of the business and issues like pricing or typical deal structures. Intelligence might be oriented towards collecting price-check information, details of promotional and advertising campaigns, or monitoring news channels for information about new products or new technologies.

An enterprise also gathers data by studying competitors' websites as well as sales and corporate brochures. Doing so can help the enterprise compare its strengths and weaknesses against those of key competitors to develop various pricing strategies. It is often important to verify how competitors rank on quality, service and value through marketing research. One way to accomplish this is by conducting phone surveys among customers, who rank the enterprise and its competitors on quality, service and value, using, for example, a five- or ten-point scale, with five or ten being the highest rating.

Competition in international markets is intense and widespread. Along with common sense, an enterprise will need to bring to the market something different or innovative that allows it to compete and beat competitors. Here are a few business tips regarding competition:

– select markets to enter carefully. It is better to succeed in one or two markets than fail in many;
– find a partner in the local market. In the beginning it will be much easier to succeed with local market knowledge and an established network;
– learn about the local business culture, environment and politics. The way business is conducted in other countries is not the same as in one's home market, where it is always easier to sell.

Understanding this makes a good case and requires better preparation. However, no matter how well a marketer understands the foreign country and its culture, there will always be something missing. So, he should listen and learn from local partners. Building and developing local networks is time-consuming and can be expensive but it provides great benefits. One key point is that for legal and ethical reasons, competitive intelligence should not be carried out in an underhanded way and should rely only on openly available information sources. Competitive intelligence can also use primary sources of data, such as feedback from sales teams, suppliers or distribution channels or feedback based on direct win–loss business research.

Every enterprise must monitor the diverse range of competitors' activities. Competitive intelligence contains research, analysis and the formulation of data and information from the entire competitive environment on other enterprises. Such research can be done by purchasing competitors' products, studying their advertising campaigns and press media coverage, and reading their published reports. An enterprise can set up customer panels [Kotler and Keller 2006], which can be enterprise's the largest or the most outspoken customers or customer representatives.

Publicly available information such as headline financial figures, changes of key personnel and senior management statements can be of great interest. Most enterprises conduct such research on a regular basis. Publicity is conducted by external marketing research and intelligence agencies as apart of the analysis of competitors. Press analysis can also be used to look into competitors' marketing strategy by assessing the messages behind the adverts. Examining employment advertisements can yield valuable intelligence can be gathered on wage rates.

Needs assessment, customer satisfaction, enterprise positioning and segmentation studies are based on two key sources of information – customers and potential customers. Indeed, the topic areas covered by each are similar, but each refers, with different levels of detail, to decision-making and buying, process work, customer requirements and views on customers. However, the studies vary greatly in terms of output, with enterprise positioning and segmentation studies being the most complex in terms of methods. Enterprise positioning studies are designed to establish the essence of a brand, and make recommendations in terms of how to invent the brand values as clearly and positively as possible, and how to increase a market's awareness of the brand. A key output of many branding studies is a competitive brand map, which uses satisfaction and perception scores provided by customers to statistically plot the relative strengths and weaknesses of competing enterprises against each other.

COMMERCIAL RISK INTELLIGENCE

Commercial risk is one of the most serious financial risks facing exporters and importers alike [Hill and McKaig 2012]. Foreign trade usually is financed on credit in descending order in terms of security. The basic methods of payment for exporters are: cash in advance, letters of credit, documentary collection or draft, open account and other payment forms including consignment sales or countertrade. A letter of credit obliges the importer's bank to accept a draft and pay the exporter. If payment is to be made by documentary collection or drafts, the exporter instructs the importer to transfer the face amount on the bill of exchange at a given time. An exporter sells under open account only if it has successfully conducted trade with the importer for an extended time. These are the following major risks covered by insurance companies:

– the inability to convert into convertible currency a local currency received by an investor as profit, earnings or return on the original investment;
– loss due to expropriation, nationalisation or confiscation by a foreign government;
– loss due to political violence such as war, revolution, insurrection and/or civil strife.

These risks relate primarily to foreign investment. However, insurance also covers exposure to loss on cash flows arising from contractual arrangements. Countertrade refers to any one of several different arrangements by which goods and services are traded for each other. Countertrade is significant today because of credit shortages and lack of hard currency in many countries. An enterprise faces several pricing problems when selling products abroad. It must deal with price escalation, transfer price, dumping charges and gray markets. Because cost escalation varies from country to country, the question is how to set prices in different countries. An enterprise has three choices:

- set a uniform price everywhere – in which case the enterprise will earn quite different profit rates in different countries;
- set a market-based price in each country – here the enterprise charge prices each country can afford. This situation ignores differences in actual costs from country to country;
- set a cost-based price in each country – an enterprise uses a standard markup of its costs everywhere. This may lead it to exit or avoid a market in countries where costs are high.

An enterprise can set a transfer price for goods it ships to its foreign subsidiaries. If the price is too high, the subsidiary may pay higher tariff duties, although it may at the same time pay lower income taxes. If the enterprise takes too low a price, it can be charged with dumping – that is, pricing exports below cost or below the price it takes at home in order to enter or win a foreign market [Stiglitz 2002].

Many enterprises are plagued by gray markets, where goods are handled through unofficial distributors. For example, dealers in a low-price country find ways to sell some products in higher-price countries, thus earning more. Product pricing risks include the following:

- quality perception of the product as conveyed through price;
- price of competitive products;
- distinguishing prices for different market segments;
- extensive discounts and allowances.

A major consideration is how prices account for exchange rates. If the exporter bills in the home country's currency, the importer absorbs the foreign risk and must decide whether to pass on any exchange-rate differences to the customer. If the exporter bills in the currency of the importer's country, the foreign-exchange risk falls on the exporter. Price variability results from transportation costs, duties and distribution channels in the importing countries. The price may depend on dumping laws in the foreign country. An enterprise must not only be aware of the dumping laws but also the degree to which they are enforced.

Competitive pricing intelligence is difficult, valuable and expensive. There are a number of different types of pricing research. Statistical techniques such as conjoint analysis are pure marketing research techniques used to calculate what prices the market would bear for different types of offerings. Competitor pricing research is easier to explain but arguably no easier to carry out. This painstaking work involves trawling websites, price lists and other sources of information for the prices of competitors' goods and services. The information is then benchmarked against one's own prices.

The complexity of pricing models make competitive pricing intelligence difficult. Definitions of product in most markets have broadened to encompass service benefits and intangible brand benefits. The services associated with a good are sometimes priced separately as add-ons, and sometimes included as part of one price. For example, it is hard to maintain competitive pricing of cars. A manufacturer has a host of options ranging from metallic paint of leather seats, sun-roofs and satellite navigation are available for extra incremental fees. However, not only does the price of each of the options from vehicle to vehicle, but so too do the options themselves. Add to this running costs, fuel efficiency and other factors one must consider in owning a car, as well as the fact that prices of all packages, options and benefits constantly change over time, and it is clear that price benchmarking is an extremely difficult and resource-intensive task.

There are a number of good sources of information on commercial risk that enterprises looking to go international can use to make their decisions. Such enterprises have to know how to assess a potential customer before doing business with them [Holton et al. 2009]. So they consult their international contacts and representative staff who sell to competitors about the customer's reputation, and listen to industry views and opinions before granting a client credit. However, enterprises that trade internationally don't always have ready access to firsthand knowledge on potential importers or exporters.

Figure 2 shows a source of risk intelligence. If the potential client is located in an industrialised country, the reports of credit bureaus are likely to be similar, providing detailed financial information. In developing countries, much of the usual financial information may be missing and the credit report may look more like a reference. Using the banking information of the prospective client or business partner, a local bank can ask the client's financial institution for a credit reference. However, this will only show how the enterprise operates its bank account; it will not show how efficiently the prospective trad-

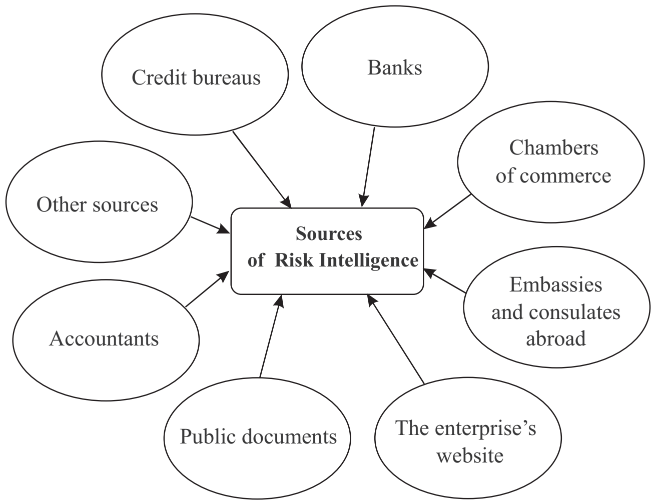

FIG. 2. The source of commercial risk intelligence

Source: the author, based on Carter [2014].

ing partner pays invoices and meets financial obligations. Moreover, privacy legislation in many countries will restrict the information a bank may pass on about their clients.

In many countries, businesses must be members of their local chamber, which may be able to help traders investigate a potential client or exporter. If the potential client or exporter has previously done business with enterprises based in a given country, the commercial sections of the embassy or consulate in the trading partner's country may have a file on that enterprise, particularly if the previous experience was negative. An exporter, for example, can inquire through their own country's diplomatic missions, whether a potential buyer is known to the mission in the buyer's home country, and may even be able to enlist commercial specialists in the mission to conduct some preliminary due diligence on the prospective buyer.

One of the best sources of intelligence about any enterprise is its website. Sites are often rich sources of information that the importer or exporter can later verify. Various search devices on the Internet may also provide useful information on the potential exporter or importer. If the enterprise is public, its financial statements are official knowledge and anyone can access them through various sources, such as libraries and the Internet. Filings with regulatory authorities in the enterprise's home country, as well as in other jurisdictions where it operates, are excellent sources of information.

Many large accounting firms have offices worldwide. As well as providing information on potential clients, they may be able to help entrepreneurs learn about issues in other countries. These sources will collectively enable an importer or exporter to assess the creditworthiness of a potential supplier or importer. It is of the utmost importance that they be able to identify the company's ability to produce the quality of required goods or services, or their ability and track record in paying for shipments as agreed in order to operate a profitable and successful business. International intelligence costs money and an enterprise should be prepared to incur budget expenses they do not normally face at home. These include also, at a minimum, travel and business development expenses.

FACTORS SHAPING THE COMPETITIVE ENVIRONMENT

Because culture plays an integral role in international business relationships, the enterprise needs to know what cultural differences will impact the business [Michalski 2015]. The nuances of language and culture can lead to misunderstandings. It is therefore of paramount importance that an exporter understand the importance of the communication process and how it relates to the enterprise's promotional activities in mass markets abroad. Linguistic and cultural diversity have a direct influence on the form and content of the promotional message. Some confusion may be overcome by developing advertisements that use pantomime or voice-overs, as in some television commercials. However, this is more than just a matter of translation. In some cases, underlying symbols have completely different meanings. For example, people in Europe associate lemons with cleanliness and freshness, whereas in the Philippines, they connote illness. Marketers should examine the various legal, cultural and linguistic factors that could prevent them communicating their message to new markets with the same clarity as their existing customers. Their efforts can serve to build a strong brand relationship and win over a whole new segment of customers to their products.

A simple method of understanding the cultural norms for advertising and promotion is to review magazines, television commercials or other mass marketing tools from the local market, such as billboards or newspaper advertisements. In some cultures, what is socially acceptable is immediately apparent. Logos, packaging and advertising that some countries find acceptable – and indeed sometimes appealing – can unwittingly cause offence in other countries. It is not uncommon that an agent or distributor recommends packaging changes. The agent can provide information about the uses and limitations of the enterprise's symbol.

Copyrights, patents, trademarks and registrations do not automatically leap across national borders. Many countries have taken drastic measures to co-operate with international enterprises and authorities to counteract illegal practices. The marketer must also take into account the possibility of piracy, depending on the nature of the product and the target market.

The results of intelligence will provide the evidence it needs to include or exclude countries from a given strategy, to know where it stands relative to competitors, and to know which are the best ways into the markets it may target. It is essential to focus on building credibility with international business partners by:

- setting the right expectations, so an enterprise can always follow-through;
- listening to international customers and adapting the offerings accordingly;
- sharing any knowledge that will help partnerships succeed;
- establishing and developing long-term international business relationships.

Enterprises are credible if they are honest and transparent. To maintain credibility, corrective action should be taken and all proposals can be modified. This will naturally make its way into product sales. The enterprise should offer guidance on the differentiating factors and the benefits of representing original products. Nobody likes it when expectations are not met. The enterprise can send high-quality posters for use. However, this will require a complete review of all materials to ensure that proper expectations are always set and followed through on. Marketers have to learn from every transaction and use what they learn to perfect the next one.

Temporary importation is the process of bringing items over borders into a new country for a limited time. It exists to help facilitate international business by reducing the costs and extensive customs procedures of bringing goods over the border. This type of importation is used to demonstrate products to potential customers through commercial samples or to display at trade shows, conventions, and business fairs. A customs licence authorises the temporary importation of a product and allows the importer to avoid duties and value-added taxes. It is valid for a period of one year and minimises customs procedures, time and paperwork.

Trademarks may also consist of drawings, symbols, three-dimensional features, such as the shape and packaging of goods, non-visible signs, such as sounds or fragrances, or colours used as distinguishing features. The possibilities are almost limitless. In the past, smaller enterprises tended to focus on domestic markets. Moreover, when protectionism was rampant, those enterprises tended to be insulated from international markets. Distances, unique cultural characteristics, politics, tariffs and regulations all combined to protect them from international business competition. With the emergence of the global economy, little of this traditional business environment remains. As distance has been overcome and barriers have been overturned, enterprises are now exposed to the full force of international competition, even if they don't venture beyond their own country's borders [Hill and McKaig 2012].

The final stage of intelligence on a foreign country should be well-structured and supported by various visuals to represent the data. It usually contains relevant information about the relevant political, economic, social and technological environments, as well as market size, customer segments, distribution channels and competition.

CONCLUSION

The research carried out has looked at knowledge, understanding and the usefulness of international trade. The research findings showed the factors that shape the entry into foreign markets and indicated how an enterprise can thrive internationally. The importance of competitive intelligence relies on pointing out the successive stages of entering a foreign market. Intelligence bridges an enterprise to the unknown foreign environment, and gives it the confidence and power to do international business. It also provides a comprehensive picture of the economic and technological development of a foreign country.

Effective communication establishes a strong relationship between the enterprise and existing and new potential agents and customers. The main aspects and comprehensiveness of international trade must be analysed by placing particular emphasis on forces of competitiveness and commercial risk factors. Needs and preference of customers for goods and services assessment studies make it possible for them to meet better their needs and therefore increase foreign market loyalty and extend market share. This issue is particularly important in a foreign country because of the geographic and psychological distances that separate an enterprise from its intermediaries and customers.

Competitive intelligence studies are in increasingly high demand, as enterprises seek an inside view of a competitor's strategy, weaknesses and modus operandi. International intelligence costs money and an enterprise should be prepared to budget for expenses that it does not normally incur domestically. However, money spent here goes beyond being a mere cost – it's a worthwhile investment.

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Summary. Creating international competitive intelligence is the foundation of an enterprise's entry and existence in a foreign market. Good preparation for international trade and the exchange of goods and services requires intelligence to be collected and examined. An enterprise needs to determine sources of competitive intelligence as well as set up foreign market entry strategies and activities under the existing conditions. For that, it must know the nature and scope of international competitive intelligence. To understand the factors shaping business activities, it should also study the competition between local and foreign enterprises in a foreign country, commercial organisations and risk in price fluctuations.

Key words: international trade, market, competition, commercial risk, price risk, international environment

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REGULATORY DETERMINANTS OF US AUTOMOTIVE MARKET STRUCTURE – AN OVERVIEW

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INTRODUCTION

Governments have various measures at their disposal to influence the car market and thus achieve particular goals. Indirect interventionism, due to, for example, environmental regulation, should include social welfare. Moreover, economic aspects can force governments to take direct action on the market. The occurrence of particular circumstances can be a reason to nationalise a company. All these processes have already happened in the history of the American car industry. Indirect and direct interventionism has influenced both market structure and foreign competitors. The main reasons for this action were the need to save thousands of jobs in the car industry and increase environmental standards.

The aim of this article is to identify the regulatory determinants of changes in car sale structures and other consequences of government intervention in the car market. These findings could be very useful in further research concerning the Polish automotive market. The American passenger car market has a long history; therefore, as much should be learnt as possible from its successes and failures. Firstly, we need to clarify and analyse the prospects of government influence on strategic sectors, which the automotive branch definitely is for the US economy. The research also analyzes the concentration ratio (CR4) and Herfindahl–Hirschman Index (HHI) that were used to highlight the level of changes in market structure.

NON-REGULATORY AND REGULATORY DETERMINANTS OF PASSENGER CAR OWNERSHIP

The determinants of passenger car ownership can be divided into two groups: regulatory and non-regulatory. The second group has been widely described by V. Van Acker and F. Witlox, who maintain that the two main factors that influence car ownership are

daily lifestyle and travel habits. Therefore, the following determinants can be distinguished [Van Acker and Witlox 2010]:
– population density;
– opportunity to reach daily destinations;
– gender;
– level of education, employment, and personal income.

Berri has found that there is a connection between the level of a society's income and car density. Changes in car ownership can be acknowledged as a convincing indicator of a country's development. Research in seven different countries (France, Italy, the Netherlands, the United Kingdom, Poland and the United States) highlights this relationship. Although Berri focuses on non-regulatory determinants, such as the history of a car market in a particular country, economic development, and population density, her findings are also worth mentioning here for the valuable background they provide. The higher the level of social welfare, the lower the number of car purchases will be. Such a relationship can also be seen in the US car market [Berri 2009].

Distortions that negatively influence market mechanisms are called market failures. Regulation is one of the methods used to achieve higher market efficiency [Asch 1988]. If interventionism is not based on a purposeful and integrated formula, it might have a tendency to cause random measures including:
– government reaction to incidental market changes;
– solutions that solve the problem in one area, but can also cause distortions in others;
– reasons for further differentiation of the position of entities on the market.

The state may intervene to:
– restructure the economy;
– redistribute incomes and expenses;
– eliminate market instability;
– change social policy.

Interventionism developed due to the inability of the free market to solve a crisis without assistance [Wrzosek 2002]. The 2008 financial crises destabilized the market. As a result, the US government decided to intervene directly, also in the automotive market. This was a sign of direct interventionism from the main regulator. In normal circumstances, a government has a range of indirect tools to steer a market in the desired direction, one of which is fiscal policy. Fiscal instruments are some of the most popular and effective regulatory determinants of automotive market share. U. Kunert and H. Kuhfeld [2007] divided them into three groups:
– a one-time payment linked with purchase and registration (i.e. turnover tax, registration tax, registration fees);
– periodically charged taxes (i.e. vehicle tax, insurance tax);
– charges that depend on vehicle usage (i.e. petroleum tax).

Specific taxes can also vary. For example, there are at least 10 different bases for estimating registration taxes in Europe. Moreover, there are eight different bases in European countries for vehicle taxes levied on passenger cars [Kunert and Kuhfeld 2007]. Parry has pointed out that the optimal petroleum tax in the US should be twice as much as the current base. In comparison, it should be half as much in the UK. One of the major reasons for this discrepancy is the political background. Firstly, decentralisation and ethical diversity help to preserve the low tax rate in the US and federal authorities prefer governance to direct steering. Secondly, lower density and public transport availability have a greater impact on road transportation. Finally the US has vast and diverse oil supplies, so the, oil giants and the entire car industry play a significant role in the economy [Parry and Small 2005].

THE BIRTH OF THE BIG THREE

General Motors (GM), Ford and Chrysler make up what is know as the Big Three of the American automotive industry. They strengthened their leading position after the crisis in 1930. Smaller car producers were not able to compete with the effects of scale and the shrinking economy, which let only the strongest car producers survive. There were 88 competitors in 1928, but the number had been slashed to 5 by 1958. The remaining other significant players were American Motors and Studebaker. This oligopoly in combination with the trade union monopoly (UAW – United Automobile Workers) seemed to be unbeatable. Moreover, the post-WWII boom helped the Big Three to develop rapidly. This is because they managed to fulfill consumers' expectations and preferences. For example, the moral revolution associated with contraception was a great time for the new Ford Mustang. Millions of Americans admired the 1960s muscle cars and their own escapades in the automobiles of their youth. The new invention of television was also helpful in spreading the popularity of cars as a symbol of status and power in the US. Ford booked advertising on all three television networks and ran advertisement campaign in newspapers nationwide [Ingrassia 2011].

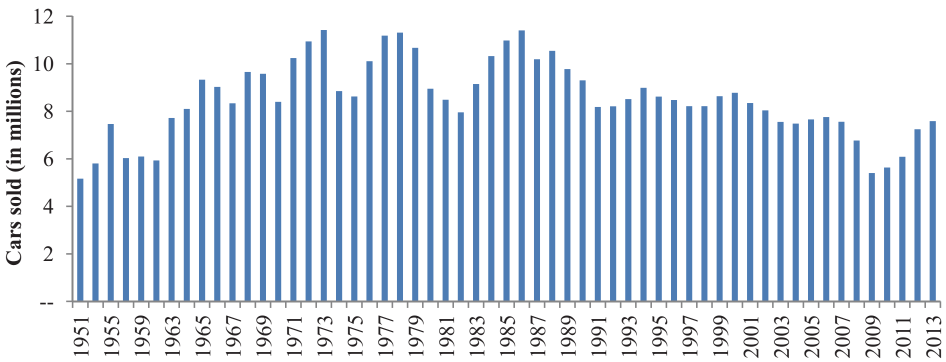

FIG. 1. Sales volume of new passenger cars in the US, 1951–2013

Source: the author's own elaboration based on Ward's Auto database, available at wardsauto.com/data-browse-us-sales-inventory [accessed: 03.12.2014].

As Figure 1 shows, the yearly number of car sales has been stable since 1990, with a slightly falling trend. Overall, the market has diminished significantly compared to the highs of 1985 or 1977. The 1973 oil crisis 1973 and the 2008 financial crisis precipitated steep declines.

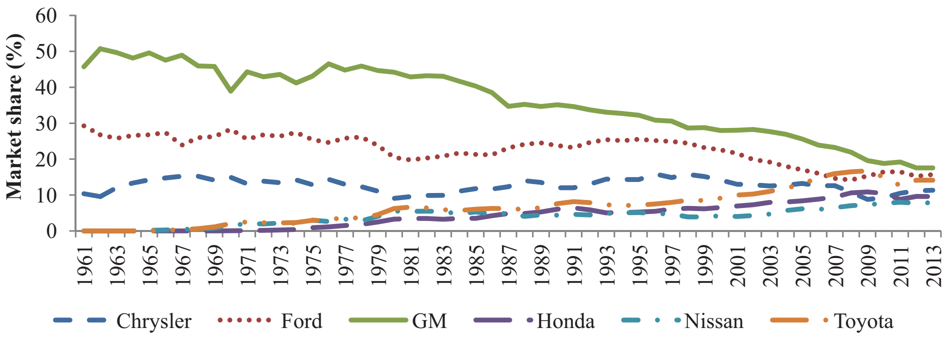

FIG. 2. The top six and their shares in the automotive market in the US, 1961–2013

Source: the author's own elaboration based on Ward's Auto database, available at wardsauto.com/data-browse-us-sales-inventory [accessed: 03.12.2014].

As Figure 2 shows, the structure of the car market has changed over the last 50 years. The Big Three's total 90% stake in the market in 1960 became a 10–20% market share for each of the main six market participants. The automotive sector was influenced by different determinants leading to the final stage today. The situation could have been far graver if the American government had let the dying giants from Detroit fail after the 2008 crisis.

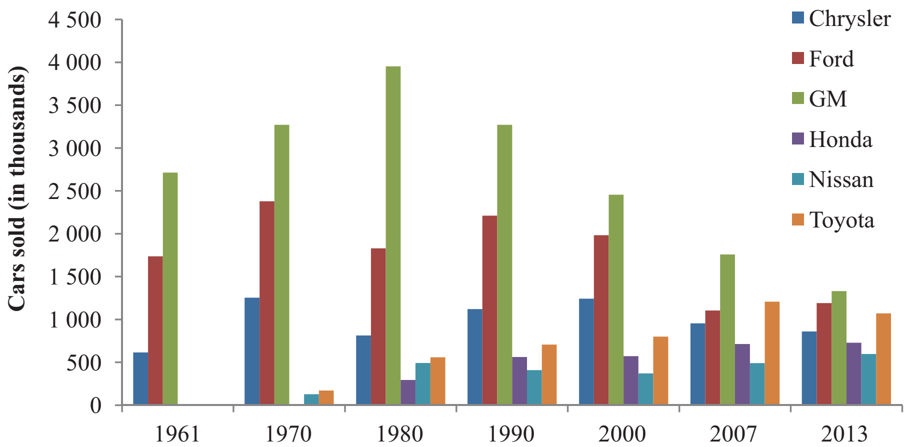

FIG. 3. The top six carmakers and their sales volume in 1961, 1970, 1980, 1990, 2000, 2007, and 2013

Source: the author's own elaboration based on Ward's Auto database, available at wardsauto.com/data-browse-us-sales-inventory [accessed: 03.12.2014].

A comparison of passenger car sales among the top competitors in the last 50 years reveals an increasingly oblate structure. Figure 3 displays the falling sales volume, especially of GM, and the rising volumes of Japanese brands Honda, Nissan, and Toyota. In the early years (1960–1990), limited access to the American market for foreign competitors was one reason the Big Three dominated to the extent they did, perhaps inflating the truth of the well-known notion "America will buy everything that Detroit builds". Detroit was the centre of the automobile industry, with the main GM, Ford and Chrysler factories headquartered there.

Changes in market structure are confirmed by an analysis based on market concentration indicators: CR (concentration ratio) and HHI (Herfindahl–Hirschman index). In this article, CR is focused on total market share of the four largest car sellers. It illustrates their level of market control and, all in all, the tendency towards an oligopolistic model. This indicator varies from 0% (extremely competitive market) to 100% (monopoly). Different methodologies clarify the levels between these two extremes:

– low concentration (0–50%). As value grows, the market structure changes from monopolistic competition to oligopoly;
– medium competition (50–80%). This kind of market structure is usually strictly oligopoly, or has a lot in common with it;
– high concentration (80–100%). Oligopoly structure that often requires government regulation.

The second indicator, HHI, is calculated on the basis of the top 10 car sellers. The US Department of Justice uses the following levels in estimating concentration:

– unconcentrated market (0–10%);
– moderately concentrated market (10–18%);
– highly concentrated market (above 18%).

Changes in both indicators for automotive market concentration in particular years are shown in Figure 4.

Concentration ratio fell from 91% in 1961 to 59% in 2013, meaning that the market share of the top four car sellers dropped by more than 30% in 50 years. This trend is also

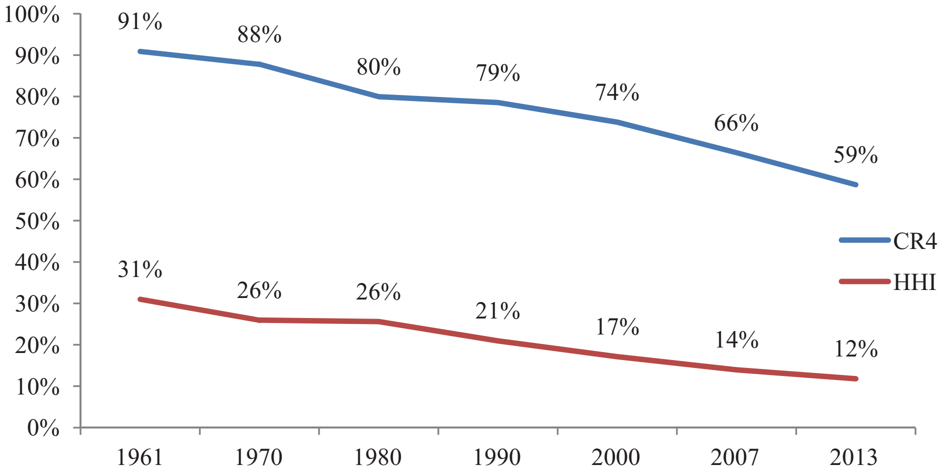

FIG. 4. Concentration ratio (CR4) and Herfindahl–Hirschman index (HHI) for the automotive market in the USA in selected years

Source: the author's own elaboration based on Ward's Auto database, available at wardsauto.com/data-browse-us-sales-inventory [accessed: 03.12.2014].

confirmed by HHI as its value declined by 19% in the same period. As a result, the market structure changed from highly concentrated (far above 18%, which is said to be the moderate limit) to almost unconcentrated (near 10%). If the government had not decided to help GM and Chrysler avoid shut down after bankruptcy, these indicators would have fallen even more significantly.

INTRODUCTION OF ENVIRONMENTAL STANDARDS

The rising awareness of environmental issues and the resulting regulations did not bypass the car industry. A new amendment, called the Clear Air Pact, was implemented on 22 April 1970. Car producers had to change their emissions standards and make a greater effort to enhance engine efficiency; therefore, environmental regulations have played an increasingly important role in the automotive market since 1970. In their research, V.J. Karplus et al. [2013] presented the influence in the US on the greenhouse effect of regulation regarding CO_2 emissions in the car industry and road transportation. The econometric model estimated that fuel-saving standards are 6 to 14 times more efficient than traditional fiscal instruments, such as increasing the fuel tax. The aim of this estimation was to lower the amount of fuel used at any cost. The number of vehicles in the US has risen 2.3% annually since 1970, but the distance travelled has only gone up by 0.4% year on year. Cars were also responsible for 45% of fossil fuel usage in 2010. Due to this trend, the US government decided to amend CAFE (The Corporate Average Fuel Economy). As a result, CAT standards (Cap and Trade) were planned. Although this regulation was somehow rejected, it shows the direction environmental restrictions in the car industry and transportation are going to take [Karplus et al. 2013]. New emissions standards relating to distance travelled were set thanks to the new Clear Air Act (2010), which was subsequently amended and sharpened by the EPA (Environmental Protection Agency). We cannot forget about the power of the well-known car industry lobby. There are many obstacles to implementing new regulations in this area, because car producers and the transport sector contribute significantly to the US economy. Therefore, fuel taxes in the US are lower than, for example, in Europe. Sterner emphasised the importance of fuel tax in the context of climate politics. This fiscal instrument influences the demand for fossil fuels and the resulting CO_2 emissions. According to Sterner's estimation, if Europe implemented a tax model similar to that in the US, the demand for fuel would be twice as high as it currently is. On the other hand, if the US implemented European tax rates, the usage of fossil fuels would decrease by 57%. Overall, the fuel tax is one of the most effective ways of reducing CO_2 emissions [Sterner 2007].

AMERICAN CAR PRODUCERS WERE CHALLENGED ON DIFFERENT NICHES

New environmental regulations were not the only obstacle for the Big Three from Detroit. The demand for higher wages and other employee benefits forced car producers in the US to renegotiate work conditions. The power of the UAW was very effective and, as a result, GM and others agreed to a new deal with workers. This move negatively influenced car production costs. Moreover, Israel invaded Egypt in October 1973 and oil exporters from the Persian Gulf imposed an embargo on US. Oil prices, which had been stable for 25 years, but went on to increase rapidly (by 60%) in a few months (Fig. 5). Shrinking oil reserves forced the US government to limit fossil fuel usage and decrease the speed limit to 55 miles per hour. This was also the reason for the subsequent tougher emission standards in car production. Other events including the Vietnam War and Watergate scandal also took its toll on the car industry.

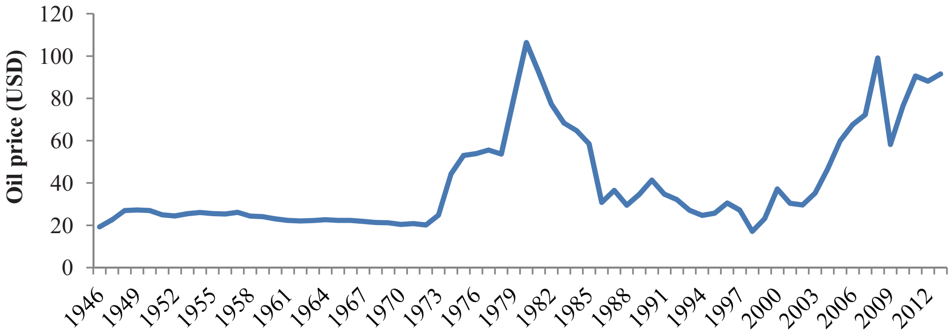

FIG. 5. Oil price corrected by inflation rate in 1946–2012

Source: own elaboration based on inflationdata.com [accessed: 03.12.2014].

Due to these problems, foreign competitors found their opportunity to break the domination of The Big Three and enter the American car market. Car producers from abroad, mainly from Japan, offered smaller vehicles with low fuel usage. This was a perfect match with market expectations. Since then, the Japanese market share in the US has grown at a constant clip ever since. The US government tried to protect home car producers by imposing limitations on the number of cars that could be imported. Initially, in 1980, it was 1.7 million annually, but rose to 2 million by the middle of 1980. This regulation did not deter the Japanese companies, which opened production plants in the US and car sales grew year on year.

THE FINANCIAL CRISIS AND INTERVENTIONISM

The Big Three from Detroit already had their own doubts about the future (i.e. high labor costs and ineffective car brand policies) just prior the financial crisis in 2008. Ford suffered an 8.7 billion USD loss and GM a 15.5 billion USD loss in the second quarter of 2008. General Motors shares were worth less than 12 USD, the lowest price for 26 years, and Merrill Lynch bank forecasted a scenario in which GM went bankrupt "as not impossible". The peak of the financial crisis came in September 2008. Merrill Lynch was merged with Bank of America, insurance giant AIG needed to ask for a bailout, and investment bank Lehman Brothers declared bankruptcy. As a result, the Dow Jones index fell to 500 and two weeks later the government introduced a rescue plan worth 700 billion USD. These events had an enormous impact on passenger car sales in the US and the volume of new vehicles purchased fell by 30%. A cash injection was not enough to help the American car giants. For this reason, in 2009 the government implemented a special rescue plan designed for the car industry. Official estimations were that bankruptcy of the car industry would mean 3 million lost jobs, 150 billion USD in lost personal incomes, and another 156 billion USD in lost tax revenues. The rescue plan obliged participating companies to make significant production cost cuts, abandon less profitable brands and sectors, to name a few changes. On these conditions, car producers were partly nationalized with the intention to re-sell acquired shares in the future.

Unfortunately, GM did not survive on its own. Previously one of the most powerful corporations in the world, GM went bankrupt on 1 June 2009. Debt reached 172 billion USD while assets were estimated at 82 billion USD. The recovery plan set up the following division of new shareholders: the American government 60%, bondholders 10%, trade union healthcare fund 17.5%, and the Canadian government 12.5%. Nationalisation was reversed in 2013. Overall, the government recouped 39 of the 49.5 billion USD it invested in saving the Detroit car giants. Chrysler was also forced to declare bankruptcy and reshape Chrysler Group LLC. Finally, Fiat (an Italian car producer) took over Chrysler in 2014.

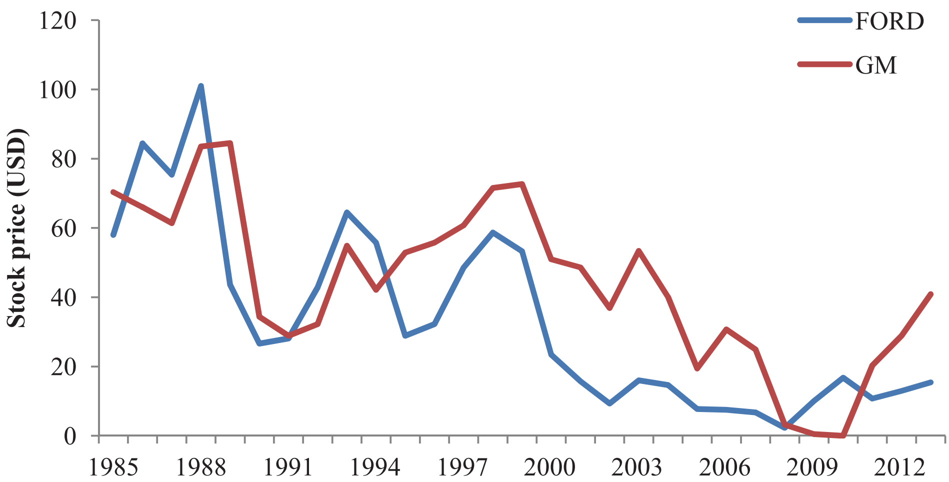

FIG. 6. Ford Motor Company and General Motors stock prices in 1985–2013

Source: own elaboration based on http://www.stockoptionschannel.com, http://www.1stock1.com, http://finance.yahoo.com [accessed: 03.12.2014].

As can be seen in Figure 6, the value of American car producers has fallen constantly since 1987, hitting the lowest point after the crisis in 2008. Chrysler is excluded from our comparison due to changes in ownership. Share prices do not include dividends and are given as year-end values. As a result of bankruptcy, GM also issued a new series of shares in 2010.

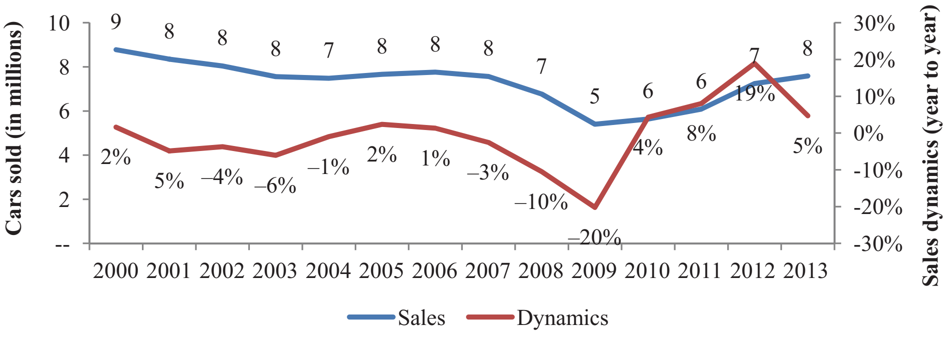

FIG. 7. Sales volume and dynamics of new passenger cars (year to year) in the US in 2000–2013

Source: own elaboration based on Ward's Auto database, available at wardsauto.com/data-browse-us-sales-inventory [accessed: 03.12.2014].

There are several doubts about government intervention and the rescue of two of the Big Three from Detroit. As we know, some economic paradigms indicate that the state has no right to steer and lead private companies to bankruptcy, because individual investors and equities holders would have no chance to get their money back. This is the cost of saving social benefits for employees and jobs. According to the American Automotive Research Center, the total cost of the recovery plan for GM and Chrysler was 13.7 billion USD. On the other hand, 1.2 million jobs were saved in 2009 and there was no need for an estimated 39.4 billion USD of social expenses in 2009 and 2010. P. Ingrassia stated that the total bailout for GM and Chrysler reached over 100 billion USD. This estimation includes direct financial injection for companies, as well as help for subcontractors, suppliers, and vendors in the form of discounts and other initiatives for buying new cars, and so on [Ingrassia 2011].

Ford Motor Company also faced financial crisis in 2008, but was the only one of the Big Three to survive without declaring bankruptcy or receiving state help, though they asked for it. An agreement with trade unions let production costs decrease so significantly that there was no danger of losing financial liquidity. Another fact worth mentioning was that they were able to finance their own development with less risk, and therefore use its financial reserves in the crisis. GM and Chrysler had not followed such a sensible financial policy and therefore lacked the cash to pay their debts.

CONCLUSIONS

Different approaches to interventionism influence ongoing perceptions of market regulation theory. This also applies to the automotive market. Measures against market failure (i.e. unfair competition and monopoly, road transportation safety or environment care) should be taken when the need arises. The government played the role of guardian angel not only for the US automobile market, but also for some private companies as it directly intervened to rescue them.

As P. Ingrassia [2011] observed, the entire cost of the financial sector bailout and the saving of American banks was seven to eight times higher than the recovery plan for Detroit. In addition, the United States suffered a number of emotional losses, with political costs and dented pride among them. One of the reasons for the collapse of the Big Three was foreign competition, mainly car producers from Japan. Since the 1973 oil crisis, more and more American consumers have purchased Nissan or Toyota vehicles. This prompts the question: Why did the government rescue the automotive giants and not let them go bankrupt? The first answer contradicts Schumpeter's "creative destruction" or even the basics of Smith's theory. If GM and Chrysler had been left to their own devices, they would also probably have gone bankrupt and disappeared like Lehman Brothers. There is no empty space in the market; maybe saving them, however, prevented the opportunity to create new companies that would be more effective and better managed than the dying giants? The answer to this question may be found in political economy. The Detroit region is one of the most important sectors of American industry and plays a prominent role in US history, akin in many ways to Silicon Valley. There's a good deal of truth in Charles Erwin Wilson's admission: "because for years I thought what was good for our country was good for General Motors, and vice versa" [Simmons and Macklin 2014].

In summary, the American automotive market has been influenced by different forms of direct and indirect interventionism. Environmental or safety regulation caused all of the Big Three to change. The financial crisis of 2008 clearly showed that market mechanisms are not sufficient. Possible further losses associated with the collapsing car industry forced the government to take control of the bankruptcy of GM and Chrysler. Since then, the Big Three has become the Big Six, in which each of the competitors has around 10–20% market share.

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Summary. Governments have different measures at their disposal to influence the car market and thus achieve particular goals. Indirect interventionism, thanks to i.e. environmental regulation, should include social welfare. The American automotive market is more than 100 years old and has been the subject of various regulations that have shaped its structure. The Big Three of the US car industry (General Motors, Ford Motor Company, Chrysler) has changed over the last 50 years into The Big Six, which now includes Nissan, Honda, and Toyota. Analysis shows how fiscal and environmental policies influence particular sectors. This should be a revealing lesson for Polish automotive market regulators, especially when we need to deal with our own problems, such as the high average age of vehicles. The article also describes government activity in rescuing a key national economic sector. The financial crisis of 2008 showed that market mechanisms are not sufficient. Possible further losses related to the collapsing car industry forced the government to take control of the bankruptcy of GM and Chrysler.

Key words: American automotive market, interventionism, General Motors, Ford, Chrysler

JEL: O18, O38, O51

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TAX PLANNING FOR SMALL AND MEDIUM ENTERPRISES (SMEs)

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INTRODUCTION

Every business entity operating within a specific market and its environment is obliged to observe applicable provisions of tax law. Nevertheless, it is only when the enterprise possesses complete information and knowledge that it can properly diagnose, analyse, plan and develop its business activity, thus increasing its income. This study discusses skilled differentiation among tax optimisation, tax savings, tax evasion and tax avoidance. The aim is to indicate criteria for SME sector entities (SMEs) not classified as legal entities (in other words, they are run by natural persons and they pay personal income tax) to choose the form of taxation that is best for them. This aim is supported by a case study based on actual economic data, taking into account applicable tax regulations.

The result of the study is recommendations for entrepreneurs facing the dilemma of choosing the form of income taxation that is most suitable for them, keeping in mind that tax planning is an element of the entity's operating strategy.

ECONOMIC INTERPRETATION OF TAX OPTIMISATION

Entrepreneurs may pay lower taxes and remain in compliance with tax regulations. Applying tax optimisation allows the company to reduce its tax burden and thus improve its financial results. However, it is vital to conduct an appropriate analysis that can be used in the creation of a tax strategy enabling the entrepreneur's burden imposed by the State Treasury or other public law entities to be legally minimised. Tax optimisation promises not only a lower tax burden and better financial result but, first and foremost, an opportunity to find additional resources for the rapid development of the enterprise.

The specialist literature defines tax optimisation as tax planning aimed at creating the most beneficial structures and solutions in respect of tax burdens and quasi-fiscal charges related to specific economic actions taken by taxpayers [Wyciślok 2013]. By reducing the tax burden an entity faces, tax optimisation can be treated as a source of savings. The starting point for such a strategy is the analysis of applicable tax regulations as interpreted and employed by tax authorities and administrative courts as well as the Constitutional Tribunal judicature. On 10 July 1996 the Supreme Administrative Court (SAC) issued a judgment stating that provisions of the tax law do not prohibit the taxpayer from choosing the most beneficial solution, so long as it complies with the law. As the SAC pointed out in its judgment, the choice of the least taxed route is an independent decision of every taxpayer and may not be controlled by tax authorities [The Judgment of the SAC in Katowice of 10 July 1996].

The concept of tax optimisation (also referred to as tax planning) means such a choice of the structure of a planned legal act so that the total tax burden can be reduced to a minimum. Tax optimisation should, however, be distinguished from tax evasion. That means that tax planning takes place within the limits of the applicable legal regulations. As Wyciślok has emphasised, the term tax savings is not tantamount to tax optimisation [Wyciślok 2013] as the former consists in refraining from actions that result in creating a tax liability. On the other hand, tax planning is aimed at creating optimal structures and solutions related to specific economic actions taken by the taxpayer (egospodarka.pl, accessed: 02.06.2011].

Tax optimisation strategy (Fig. 1) requires resolutions in respect of the objective for which the state introduces and modifies the system of taxation, the criterion that determines the importance of the assumed objectives and conditions limiting the set of feasible solutions. The main indicator of optimisation is presumed to be the minimisation of adverse effects of the redistribution of incomes by public authorities, with the limiting condition being the available set of taxation instruments. The gist of tax planning is to choose expenses all or part of which are tax-deductible. Therefore, the essence is to generate such expenses that are regarded as tax deductible costs and thus reduce one's taxable base.

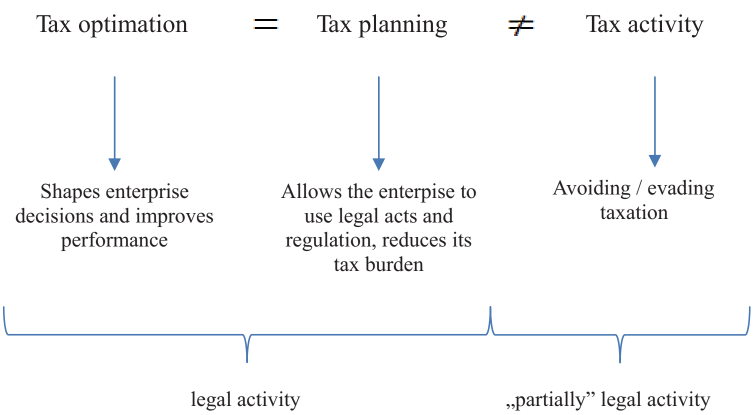

FIG. 1. Tax optimisation, planning and resistance

Source: the author's own work based on Rudnicki and Blak [2007].

For entrepreneurs, tax planning is becoming increasingly important, although rather in its supranational sense. Entities are set up in certain countries so that taxable revenues can be revealed where there are low effective tax rates. A principal objective of entrepreneurs is to reduce tax burdens to a minimum, a process referred to as tax resistance. The literature distinguishes between two forms of tax resistance: tax avoidance and tax evasion [Filip 2009]. Tax avoidance consists in the lessening of tax burdens using methods and means permitted by tax law, and aimed at taking advantage of those opportunities which, within the framework and limits of applicable regulations, relieve the burden of taxation. Tax evasion, on the other hand, involves taking actions that lead to the minimisation of tax burdens or their complete elimination but which are prohibited by tax law.

Market conditions in Poland should be carefully observed because economic realities in the country do not guarantee business operations will be stable. The constantly changing law and never-ending reforms take a serious toll on SMEs, which are often unable to cope with changes in the law because new statutory obligations bring high costs with them. Therefore, in order to operate effectively, it is worth adapting one's business model to market realities, in which tax optimisation may be of use.

It is worth emphasising that there is no such legal norm in the Polish legislature that would impose on the taxpayer an obligation to bear the highest possible tax burdens in a given situation or to plan a course of activity in such a way that tax liabilities would be maximised [Krasnodębski 2009]. Thus, there is no prohibition against taxpayers optimising their tax liabilities. Hence, tax optimisation involves adopting appropriate tax strategies that enable a reduction in tax burdens and postponing the obligation to pay tax liabilities. Tax strategies can be classified as follows:

– strategies aimed at reducing tax liabilities (choice of how the activity is carried out, choice of tax settlement method, cost strategies, income strategies, strategies taking advantage of agreements for the avoidance of double taxation);
– strategies aimed at postponing the payment of tax liabilities (the cash method of VAT settlement, quarterly settlement of tax and advance payments, strategy of simplified advance payments).

OPTIMISATION IN THE CONTEXT OF CHOOSING ONE'S FORM OF INCOME TAXATION – A CASE STUDY

In the case of SMEs, choosing the legal structure under which to operate also entails choosing a tax settlement method, concerning, in particular, income tax. Therefore, the latter part of the study focuses solely on the impact of the form of taxation chosen on lessening tax burdens. Small- and medium-sized enterprises in Poland can choose from among several forms of taxation in respect of income and goods and services taxes. The largest array of tax settlement choices is available to natural persons running individual business activity and partnerships formed by such persons. A decision on the settlement form entails financial consequences in the form of tax liabilities. Failure to properly analyse the available solutions for an enterprise carrying out specific activity may lead to large tax liabilities, resulting in lost or decreased liquidity [Stolarski 2014].

One of the taxes which arouses the greatest controversy among entrepreneurs is the income tax. From the point of view of SMEs' financing abilities, it is the tax burden imposed on their income that is of crucial importance because it deprives them of money that could constitute their own capital. Thus, the amount enterprises would be able to allocate to developmental objectives is decreased. That is vitally important for SMEs due to their limited access to outside capital [Gołębiowski 2003]. Every natural person carrying out business activity in Poland, irrespective of the legal form, may choose both the form and principles of taxation pursuant to the legal regulations. The exception is such entities which, due to their type or, mainly, size, are obliged to make settlements according to general principles based on accounting books.

The most common organisational and legal form among small firms is the individual business activity of a natural person. Its key feature is the unlimited liability for debts the entrepreneur bears with all of his or her assets. Civil law partnerships and commercial partnerships (that have no legal personality) are also common in the SME sector, with a smaller share of legal entities, including, in particular, joint-stock companies. Differentiating between companies with a legal personality and partnerships without is of vital importance in respect of tax regulations as civil law partnerships and commercial partnerships are subject to neither personal nor corporate income taxes [Matejun, Kaczmarek 2010]. The tax is levied on the incomes of their partners. Depending on whether the partner is a natural or legal person, the income is subject to personal or corporate income tax. In consequence, the functioning of small and medium enterprises of natural persons is to a large extent dependent on personal income tax regulations, as opposed to larger commercial companies, which are subject to corporate income tax. Small- and medium-sized enterprises often face a tax dilemma – natural persons may choose the organisational and legal form of carrying out activity as well as the form of income tax settlement. Currently, natural persons' incomes (revenues) from business activity are taxed in one of the following forms:

– taxation according to general principles:
  - according to the tax scale,
  - linear tax;
– flat-rate taxation forms:
  - flat-rate taxation on recorded revenue,
  - tax card[1].

It should be kept in mind that the possibility to choose the form of taxation is contingent on many detailed conditions being fulfilled, the choice being finalised by submitting an appropriate declaration to the tax office competent for the taxpayer's place of residence.

[1] The case study does not take into account that form of taxation because its consideration would *ad vocem* require more detailed assumptions as to the enterprise understood as a subject and object. The amount of the tax is the outcome of the kind of activity and two figures: the number of employees and the number of residents of the place where the activity is carried out (the more there are, the higher the tax). The tax payment based on the tax card is made monthly without a call in the form of a fixed lump sum specified in the decision issued by the head of the tax office. The tax card is a good solution for those who earn high income (with a relatively small business). That form of taxation is limited to revenues derived from some precisely specified kinds of activity [Bartoszewicz, Kubacki 2008].

TABLE. Income taxation forms for SMEs and income levels

Income variant (in PLN)	Flat-rate income tax	General principles (tax scale)	Linear tax
	PLN		
50,000	50,000 – 9,275.52 = 40,724.48 40,724.48 × 8.5% = 3,461.58 3,461.58 – 3,467.40 <0 (no tax)	50,000 – 9,275.52 = 40,724.48 40,724.48 × 18% – 556.02 = = 6,774.39 6,774.39 – 3,467.40 = 3,307	50,000 – 9,275.52 = 40,724.48 40,724.48 × 19% = 7,737.65 7,737.65 – 3,467.40 = 4,270
100,000	100,000 – 9,275.52 = = 90,724.48 90,724.48 × 8.5% = 7,711.58 7,711.58 – 3,467.40 = 4,244	100,000 – 9,275.52 = = 90,724.48 14,839.02 + 32% × (90,724.48– – 85,528) = 16,501.89 16,501.89 – 3,467.40 = 13,034	100,000 – 9,275.52 = = 90,724.48 90,724.48 × 19% = 17,237.65 17,237.65 – 3,467.40 = 13,770
150,000	150,000 – 9,275.52 = = 140,724.48 140,724.48 × 8.5% = = 11,961.58 11,961.58 – 3,467.40 = 8,494	150,000 – 9,275.52 = = 140,724.48 14,839.02 + 32% × × (140,724.48 – 85,528) = = 32,501.89 32,501.89 – 3,467.40 = 29,034	150,000 – 9,275.52 = = 140,724.48 140,724.48 × 19% = 26,737.65 26,737.65 – 3,467.40 = 23,270

Note: It is assumed that the entity is a service enterprise (for the 8.5% flat rate); moreover, income is considered the taxable base. In the case of the flat-rate tax, the levy is paid on the amount of revenues but that could not be compared with the other forms of taxation where the base is the level of income (profit). It is assumed that income variants concern the whole financial year and, pursuant to the applicable regulations, the entrepreneur is obliged to pay Social Insurance Institution contributions, which for 2016 are as follow: social insurance 772.96 × 12 months = = 9,275.52 PLN; health insurance 288.95 × 12 months = 3,467.40 PLN. In turn, the Labour Fund was considered a taxable expense.

Source: the author's own elaboration based on: The Act of 23 January 2003 on general insurance in the National Health Fund, The Act of 13 October 1998 on the social insurance system, The Act of 26 July 1991 on personal income tax, The Act of 20 November 1998 on flat-rate income tax on certain revenue earned by natural persons.

The subjective scope of taxation in the form of a flat-rate tax on recorded revenue includes natural persons and civil law partnerships of natural persons as well as registered partnerships of natural persons deriving revenue from business activity if, in the year preceding the tax year, they earned revenue from business activity not exceeding 150,000 EUR. The base for setting the flat-rate is monthly revenue. Tax rates vary depending on the type of activity conducted and are: 20, 17, 8.5, 5.5 and 3% [The Act of 20 November 1998 on flat-rate income tax…].

Taxation according to the tax scale (general principles) consists in paying tax on income according to a progressive tax scale. Tax may be paid in that form regardless of the legal form and type of business activity carried out [Kosacka-Łędzewicz, Olszewski 2007].

In turn, linear tax is always 19% of the taxable base and may be paid solely on income derived from business activity [The Act of July 1991 on personal income tax]. In order to use the linear tax, the individual has to meet several conditions. One is that, in the tax year or the year preceding it, he or she may not perform, in the framework of the employment relationship, services for a former or current employer in the same scope in which he or she intends to carry out business activity subject to the linear tax.

The case study used in this paper (Table) allows several conclusions to be drawn, and which indicate that choosing carefully the form of taxation is an important manifestation

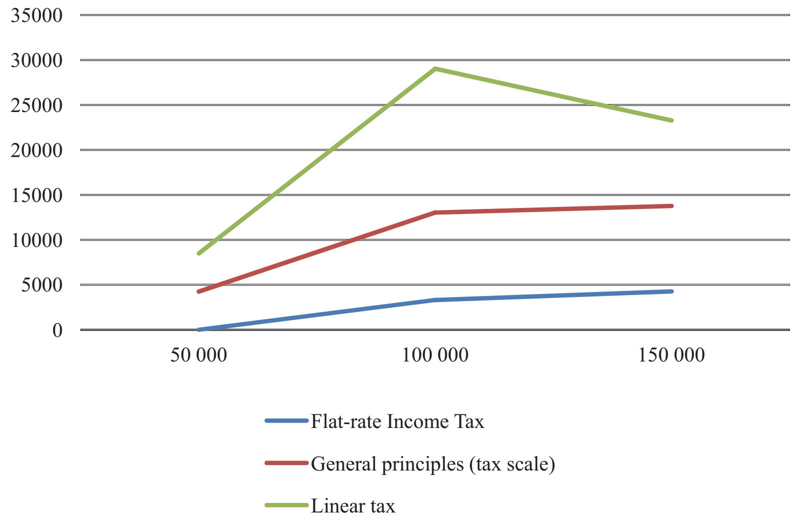

FIG. 2. Income tax liability and form of taxation in the SME sector – case study

Source: the author's own work, based on Table 1.

of tax optimisation. As far as the amount of income tax is concerned, the lowest liability occurs for the flat-rate income tax, irrespective of the income assumed in the case study. According to general principles, income taxation means that the dynamics of tax liability decrease along with the rise in the taxable base. For a relatively high income, there is a relatively low income tax, which means that a further rise in income would result in a significant fall in tax liability in the above case study.

CONCLUSIONS

The forms of personal income taxation SMEs choose determine to a large extent how the companies function and develop. The quickly changing economic reality motivates entities to constantly look for new sources of savings. In the process of managing a small and/or medium enterprise, the importance of tax as an element of management must be considered if the company is to gain competitive advantage. One source of savings may be tax optimisation, which enables the firm to lessen its tax burden and improve its financial result.

Tax optimisation may also be called tax management, i.e. exerting an impact on the amount of burdens an enterprise faces. Optimising solutions are most commonly used in respect of income tax. Striving to reduce fiscal burdens is an element of tax strategy that affects survival in the competitive market and is taken into account in creating the enterprise's mission. Through tax optimisation, entrepreneurs may obtain better financial results, hence increasing the enterprise's assets. That is the fundamental objective of tax optimisation. Striving to minimise income tax motivates micro-entrepreneurs to choose the form of taxation that will be the most beneficial for them.

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Summary. This study points to the essence of appropriate differentiation among tax optimisation, tax savings, tax evasion and tax avoidance. It discusses criteria for choosing taxation forms for entities in the small and medium enterprise sector that do not have a legal personality (in other words, they are run by natural persons and pay personal income tax). It uses a case study based on actual economic data, taking into account applicable tax regulations. The study concludes with recommendations for entrepreneurs facing the dilemma of choosing the form of income taxation that is most appropriate for them, keeping in mind that tax planning is an element of the entity's operating strategy.

Key words: tax optimisation, corporate sector, income tax

JEL: A10, A11, D00

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THE IMPACT OF THE GLOBAL ECONOMIC CRISIS ON TOURISM IN CYPRUS

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INTRODUCTION

The global economic crisis significantly weakened the growth rate of the global tourism sector. Economic crisis consists of an economy collapsing, and the transition from a development phase to one of recession [Bremond et al. 2005]. Changes in prosperity are a natural phenomenon for an economy and the pace of economic growth in the long term is differentiated in time and space [Balcerowicz, Rzońca 2010]. Economic cycles are regular, and when a collapse phase occurs, unemployment rises. A mere two consecutive quarters of declining GDP justifies discussion of a recession hitting the economy [Bremond et al. 2005]. At the beginning of the twentieth century, John Maynard Keynes explained the occurrence of cycles, and recommended the introduction of "state intervention" during recession to prevent fluctuations in the economy [Czaja 2009].

Not all island countries which derive profits from tourism have reacted to the global economic crisis in a similar manner. There was a small group of islands which did not register declines in inbound tourism (e.g. Seychelles). There were also some island countries which could not climb out of the recession caused by the crisis (e.g. Saint Vincent and the Grenadines). Cyprus was among the countries and dependent territories that suffered significantly from the global economic crisis. A decline in the number of tourist visits was recorded both in 2008, at the beginning of the global economic crisis, and also in 2009. However, visitor numbers rebounded in subsequent years, returning to pre-crisis levels.

Cyprus is a destination European tourists appreciate. It is an island with an area of more than 9.3 thousand km^2 and a population of 858 thousand persons (in 2013). The state has been independent since 1960, and in 2004 it became a member of the European Union, which significantly increased inbound tourism. The northern part of the island is governed by Turkey and is not recognised internationally. The island's geological origins are volcanic and the climate is defined as subtropical marine [Wróblewska 2009], with warm summers and relatively mild winters (www.visitcyprus.com)[1]. While high temperatures are recorded particularly during the tourist season, there is rainfall in the cooler months (October to May), driving down tourism. The island is full of natural beauty [Wróblewska 2009]. Cyprus consists of five major tourist regions: Famagusta, Paphos, Limassol, Larnaca and Nicosia. Each offers a wide range of tourist services and strives to attract different types of tourism [Cyprus Tourism Market Report 2015]. Cyprus is also an area with a rich cultural heritage and considerable religious diversity: 78% of the population is Greek Orthodox while 18% practices Sunni Islam [Buczkowska, Pajsert 2009].

OBJECTIVES, HYPOTHESES AND METHODS

The aim of the article is to examine if, during the global economic crisis, there was a correlation between economic growth on the emitting markets of tourism to Cyprus and the increase in the number of tourists from those markets in different years. Another of the article's objectives is to determine whether the promotional activities undertaken during the global economic crisis by the National Tourism Organisation of Cyprus and the tourist administration were efficacious. Finally, the research confirms that there was a correlation between the increase in the number of foreign tourists and economic growth during that period.

The following hypotheses were set forth: it is assumed that during the global economic crisis there was a strong correlation between economic growth on the emitting markets and the increase in the number of tourists from these markets each year. Additionally, it was assumed that measures taken by the tourist administration during the global economic crisis would bring the results it desired, such as the priority markets in the coming years sending greater numbers of tourists to Cyprus (Priority markets are emitting countries identified as being important for Cyprus to attempt to win over as a tourist destination). It was also assumed that there would be a strong correlation between the increase in the number of foreign tourists and economic growth during the period analysed (2008–2011). Analysis of the literature, data analysis, Spearman's rank correlation and Pearson's linear correlation were used to verify these hypotheses.

DEVELOPMENT OF TOURISM IN CYPRUS

The tourism sector globally has good growth prospects, a fact statistics on international travel bears out. The number of trips taken increases yearly by 3–5%, with setbacks occurring only as a result of crisis situations. The global economic crisis of 2008–2009 brought one such situation, causing the number of trips taken in the world to fall. Many countries are strongly dependent on tourism, especially those with island areas located in the tropical zone and the islands of the Mediterranean Sea, such as Cyprus. In the 1960s,

[1] Temperatures during the day in the warm season in the central part of the country average 29°C. Water temperature is 22°C in June and 27°C in August. Cyprus receives up to 11.5 h a day of sunlight during the tourist season (www.visitcyprus.com, accessed: 15.01.2016).

Cyprus was visited by approximately 20 thousand foreign tourists annually. By 1974 the number had climbed to 2.2 million, and another period of rapid growth in foreign tourist visits to Cyprus was observed in the 1980s [Sharpley 2000]. Between 1980 and 1990, the average growth in the number of foreign tourist arrivals to the island was 16%. During that period revenues from tourism increased six-fold (from 203 million USD to 1.2 billion USD), and per capita GDP in Cyprus increased alongside the development of its tourist function. Cyprus is currently visited by approximately 2.5 million tourists a year, the average one of whom spends approximately 800 USD [Wróblewska 2009].

The main emitting markets to Cyprus are countries in Western Europe. A third of the visitors are British, followed by Swedes and Germans. The number of tourists varied in the years 2000–2013, with 2.6 million coming in 2000, and a fewer 2.4 million in 2002. However, the numbers swung back and began to climb in the years 2003–2005, making up for the previous decline. In 2005 the number of tourists reached 2.6 million, followed by a slight fluctuation in 2006–2008. Due to the global crisis, the most significant decrease in the number of foreign visitors to the island – like to the majority of islands – occurred in 2009. Between 2010 and 2013, there was a steady increase in the number of visits and in 2013 it again reached the 2.6 million mark it hit at the beginning of the century. Figure 1 presents the number of foreign tourists that came to Cyprus in the years 2000–2013. The significant decrease in the number of arrivals in 2002 was likely the result of the worldwide fear of traveling due to terrorist attacks on the World Trade Center in September 2001. Unfortunately the number of tourists has not revisited, the highs it reached in 2001 since those attacks (almost 2.7 million)[2].

Haritini Tsangari [2012] pointed out that strong competition between tourist destinations, brought to light during the global economic crisis, had a negative impact on tourism in Cyprus, due mainly to the brutal price wars between Greece and Cyprus. Tsangari

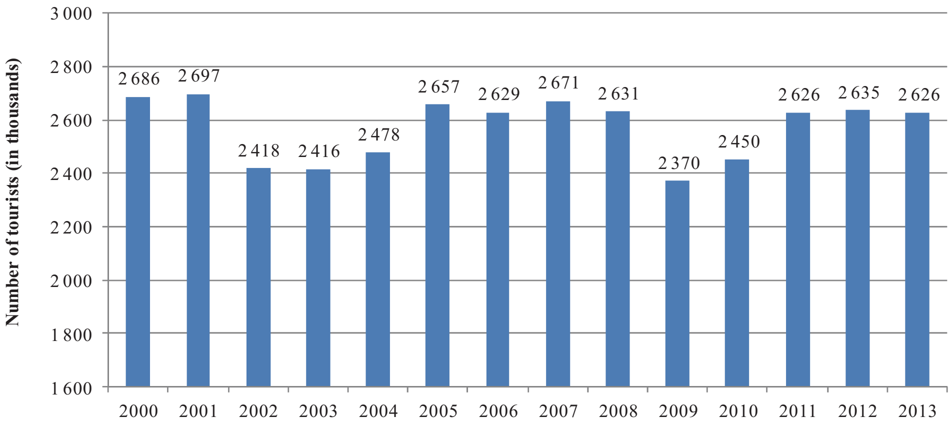

FIG. 1. Foreign tourist arrivals in Cyprus in 2000–2013

Source: the author's own elaboration on the basis of UNWTO database, available at www.unwto.org [accessed: 10.09.2015].

[2] Economic crisis befell Turkey in 2001 [Wang 2009, after Okumus et al. 2005].

also confirmed the assumption that tourism in Cyprus is also dependent on what happens in the emitting markets, including the UK, Germany, Norway, and Sweden [Tsangari 2012]. Russia, Greece, Switzerland and Israel are likewise important source markets of tourism to Cyprus. Tsangari's research also proved that among the eight major competitors of Cyprus – Spain, Portugal, France, Italy, Turkey, Malta and Croatia – only the price relationship between Greece and Cyprus affected the level of tourist traffic and the value of tourist expenditures. Cyprus' dependence on prices in Greece was predictable as both tourist destinations are based on the same type of tourism ("3S tourism")[3]. Both are perceived by tourists as offering warmth and hospitality complemented by a rich cultural heritage [Tsangari 2012].

Accommodation in Cyprus includes mainly hotels, hostels, hotel apartments, holiday villages, agrotourist and camping facilities, and guest houses. In 2014, There were 798 total accommodation facilities with a total of 87.2 thousand beds in Cyprus[4] [Cyprus Tourism Market Report 2015].

HOW TOURISM TO CYPRUS RESPONDED TO THE GLOBAL ECONOMIC CRISIS

Tourist island areas can be divided into four groups based on how they reacted to the global economic crisis. The first group contains island countries whose tourist visit numbers did not decline as a result of the global economic crisis. The second group consists of territories which after several years had a better situation than before the crisis movement. The third group is made up of countries and dependent territories whose tourism economy recovered within three to four years after the global economic crisis. Cyprus is in the third group, among other island regions that recorded a slight slump in incoming tourism but returned within three to four years to 2008 levels. However, it is in the first group[5] in terms of its share of tourism in GDP, which, at 11.6%, may be defined as significant (11.6%). Of course, many island areas have a much higher value[6]. The fourth group are island territories whose tourist economy was left mired in a deep recession following the global economic crisis.

Figure 2 presents changes in the number of visitors and the change in Cyprus' GDP in the years 2000–2013. The trend lines clearly diverge. This shows the problem of large declines in GDP in recent years in Cyprus. The gross domestic product declined 2.4% in 2012 and 5.4% in 2013.

Calculated with Spearman's rank correlation, the correlation ratio was 0.336 for changes in the number of visitors to Cyprus and changes in Cyprus' GDP value over the

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[3] 3S tourism (sun, sand and sea) – the term for leisure tourism, mainly passive and for organised groups in tourist resorts, located at the seaside with a climate that allows for sunbathing on the beach and swimming in the sea.

[4] Dated June 30, 2014.

[5] In this group the share of GDP from revenues of incoming tourism is estimated at between 10 and 20%.

[6] In terms of the human development index (HDI) Cyprus is one of the most developed islands: the HDI was 0.845 in 2013; according to the UNDP, this proves a very high standard of living.

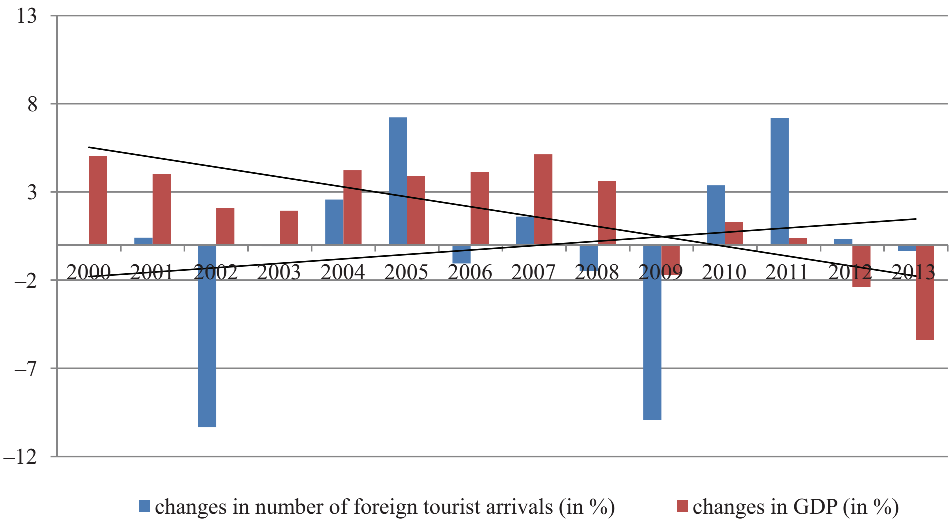

FIG. 2. Changes in the number of foreign tourist arrivals and changes in GDP in Cyprus in 2000–2013 with a trend lines

Source: the author's own elaboration on basis of UNWTO database, available at www.unwto.org [accessed: 10.09.2015] and World Bank database, available at www.worldbank.org [accessed: 10.09.2015].

2000–2013 period. This is a positive, low but noticeable and statistically significant correlation. At the beginning of the global economic crisis, in 2008, the number of foreign tourists visiting Cyprus decreased by 1.5%, while economic growth came in at 3.6%. In 2009, there were 10% fewer visits, while GDP fell by 1.7%. 2010 saw tourist traffic again grow, this time by 3.4%, while economic growth came in at 1.3%. In 2011 the loss in the number of tourists coming to the island was made up for (with a 7.2% increase in the number of visitors, and a much more modest 0.4% rise in GDP).

According to the World Travel and Tourism Council (WTTC), Cyprus' tourism industry is responsible for approximately 7% of the country's GDP. The tourism economy, which also takes into account the tourism multiplier effect, accounts for 17% of GDP. If, however, the tourism-induced effect is included in the estimation, tourism was behind a full 22% of the island's GDP in 2014 [Travel & Tourism Economic Impact 2015]. Unfortunately, the data on the labour market in tourism in Cyprus provide little cause for enthusiasm. Employment in the tourism industry decreased significantly and did not return to pre-crisis levels (Fig. 3). According to the WTTC, 31 thousand people were employed in the industry in 2007, a number that fell to 27 thousand a single year later, and all the way to 23 thousand in 2009. In 2010 the figure bounced back to 25 thousand. Although the number of foreign tourists returned to pre-crisis levels, the same cannot be said of employment – the crisis seems to have permanently reduced employment. Analysis of the relative employment figures – namely, the share of tourism-related employment to total national employment – shows that the share of the tourism industry in GDP declined to 6.5% can be observed in 2009–2010 (it was 7.5% in 2008). 2011 and 2012 witnessed a return to 7% of GDP while in 2013 it was 8%. It is worth noting that unemployment in Cyprus has grown very dramatically in the last few years: the number of unemployed increased by 121% between 2009 and 2014, and the 2014 unemployment rate came in at 16.4% [Cyprus Tourism Market Report 2015].

Figure 4 presents the value of foreign tourist spending and day visitors visiting Cyprus in the years 2000–2013. Cyprus is included in the group that did not return the volume of expenditure before the global economic crisis. In 2013 expenses were 10.5% lower than in 2008.

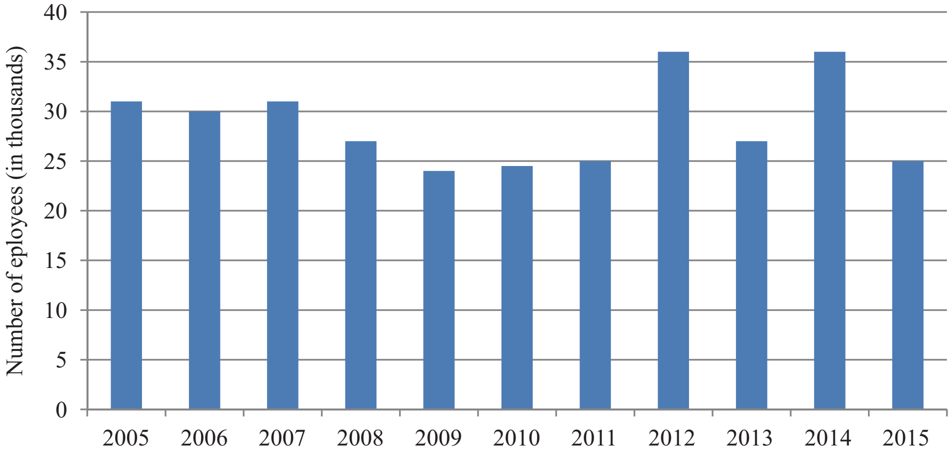

FIG. 3. Employment in the tourism industry in 2005–2015

Source: the author's own elaboration on the basis of Travel & Tourism Economic Impact [2015].

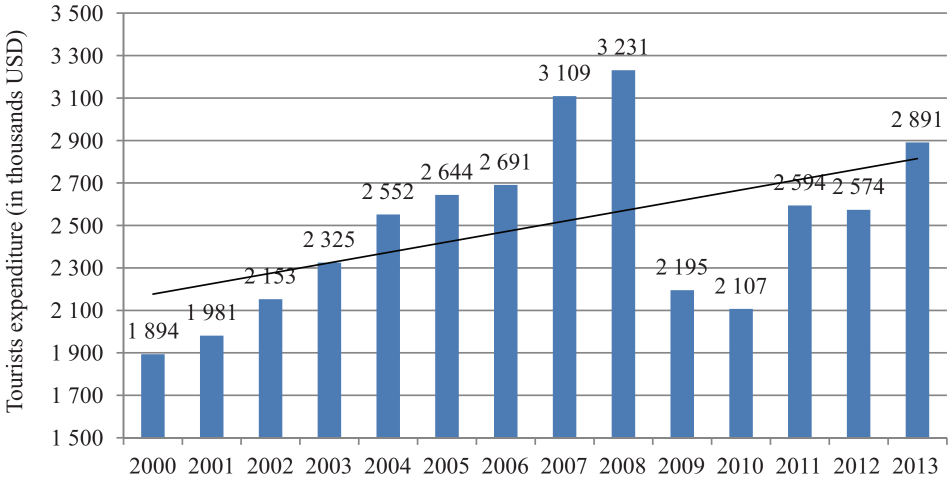

FIG. 4. Expenditure of foreign tourists with a trend line, 2000–2013

Source: the author based on: www.unwto.org [accessed: 10.09.2015], Compendium… [2003], Compendium… [2009].

Calculated with Pearson's correlation, the correlation ratio was 0.359 (n = 81) for the changes in the number of visitor arrivals to Cyprus and changes in the value of the GDP in the sending markets in 2008–2011. This is a positive, low but noticeable and statistically significant correlation. The changes in foreign tourist arrivals in Cyprus from main markets and changes in GDP in country of tourist origin from 2008 to 2011 are shown in Figures from 5 to 8.

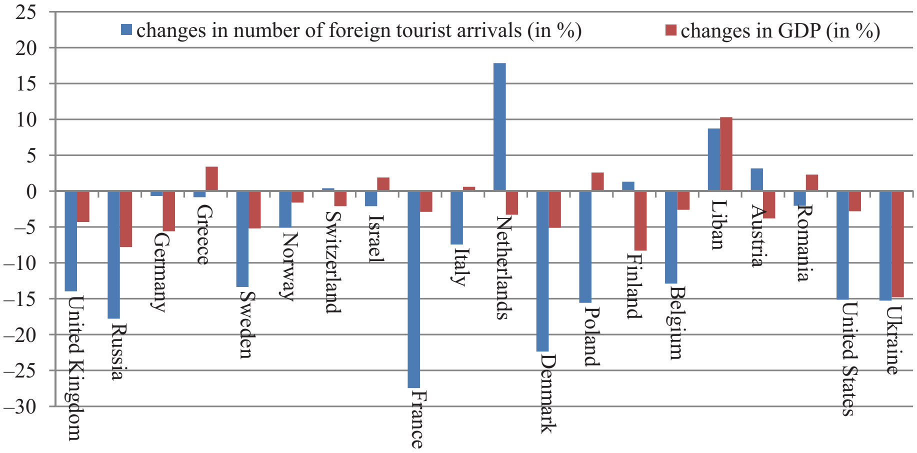

FIG 5. Changes in foreign tourist arrivals in Cyprus from main markets and changes in GDP in country of tourist origin in 2008

Source: the author's own elaboration on basis of data about tourist movement, available at www.mof.gov.cy [accessed: 13.12.2015], data on changes in GDP from World Bank, available at www.worldbank.org [accessed: 13.12.2015].

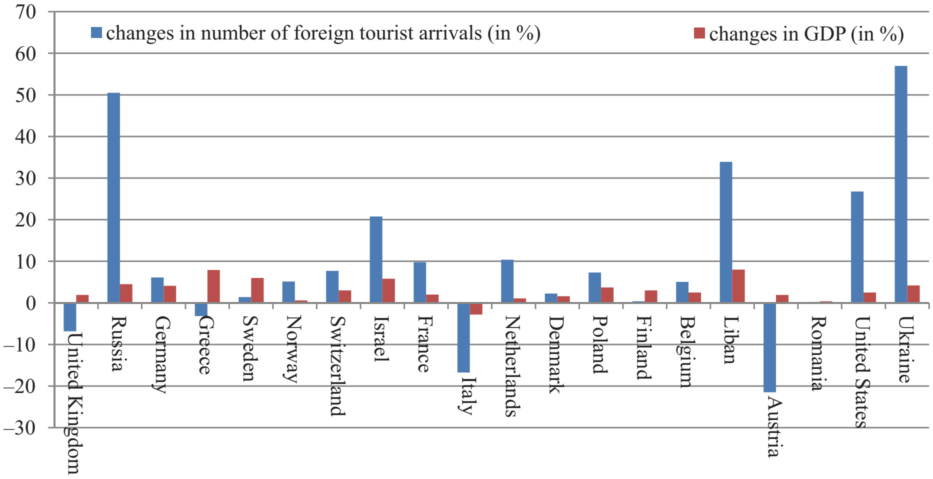

FIG. 6. Changes in foreign tourist arrivals in Cyprus from main markets and changes in GDP in country of tourist origin in 2009

Source: the author's own elaboration on basis of data about tourist movement, available at www.mof.gov.cy [accessed: 13.12.2015], data on changes in GDP from World Bank, available at www.worldbank.org [accessed: 13.12.2015].

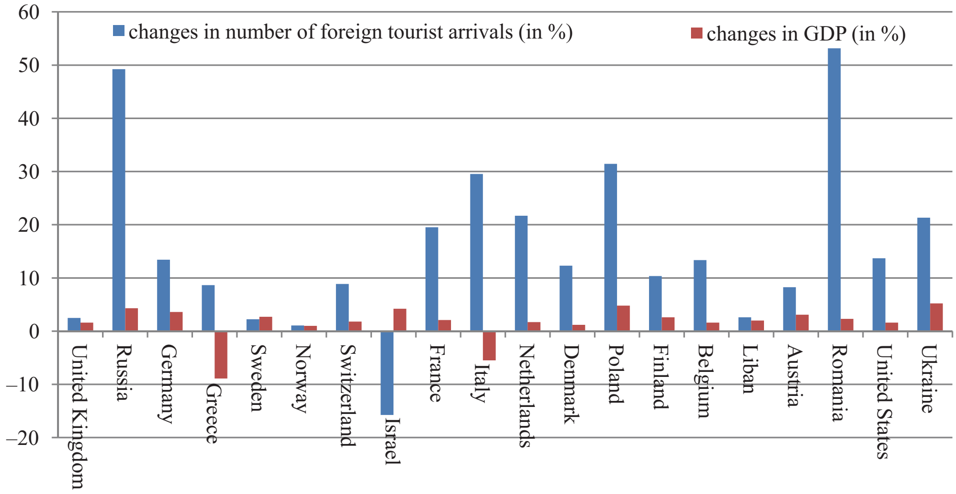

FIG. 7. Changes in foreign tourist arrivals in Cyprus from main markets and changes in GDP in country of tourist origin in 2010

Source: the author's own elaboration on basis of data about tourist movement, available at www.mof.gov.cy [accessed: 13.12.2015], data on changes in GDP from World Bank, available at www.worldbank.org [accessed: 13.12.2015].

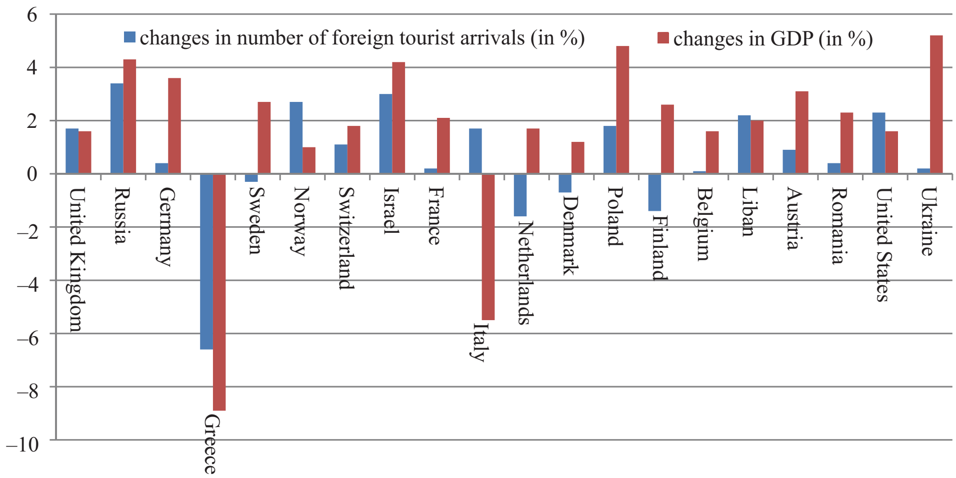

FIG. 8. Changes of foreign tourist arrivals in Cyprus from main markets and changes in GDP in country of tourist origin in 2011

Source: the author's own elaboration on basis of data about tourist movement, available at www.mof.gov.cy [accessed: 13.12.2015], data on changes in GDP from World Bank, available at www.worldbank.org [accessed: 13.12.2015].

Additionally, Cyprus' role as a tax haven for many European Union countries was important for the the island's local economy. There were 130 banks operating in Cyprus in 2014. However, a new law requiring the value of deposits exceeding 100 thousand EUR to be taxed took its toll on the island's reputation as a tax haven, and may also have contributed to the lower tourist traffic from European countries during the crisis.

TOURISM DEVELOPMENT STRATEGY IN CYPRUS AND THE GLOBAL ECONOMIC CRISIS

At the end of the 1990s revenues from tourism in Cyprus were equivalent to 40% of the island's exports. Tourism began to be seen as a growth engine of the Cypriot economy, though it is seasonal: 25% of tourist visits occur during the tourist season, while 16% occur beyond the tourist season. A decrease in length of stays on the island has also been recorded. Two strategic documents have been issued during the past 15 years: *Strategic Plan for Tourism Development 2003–2010* and *Tourism Strategy 2011–2015*. The main objectives of the latter document were to increase the number of tourists, raise the quality of accommodation facilities and improve price competitiveness. As the development strategy emphasises, Cyprus needs to develop specialised tourism products, because there are currently too few interesting places for tourists [Yiannakis 2009 after Strategic Plan for Tourism 2000–2010]. One proposal for diversification is to develop tourism based on a variety of sports [Yiannakis 2009].

The strategy for the years 2003–2010 indicated that high priority markets for Cyprus included the United Kingdom, Russia, Greece, Germany, Ireland, and France. Medium priority was given to countries in the Persian Gulf and Middle East, Israel, Belgium, Sweden, and Austria [Strategic Plan for Tourism Development 2003–2010]. The market segments the strategy laid out as essential for development were: leisure tourism[7], cultural tourism, business tourism, wedding tourism, sightseeing cruises, active tourism and nautical tourism.

The Cyprus Tourism Organisation currently has 15 foreign offices spread across the UK, Germany, France, Sweden, Greece, Italy, Switzerland, the Netherlands, Russia, Israel, Poland, the United Arab Emirates, and Ukraine (www.visitcyprus.biz, accessed: 15.01.2016). According to the Market Research and Consulting Study for the Development of the German Market to Cyprus, the German market is assigned the highest priority[8]. Its status is also reflected in the budget for promotional campaigns. Leisure tourism is very popular in Germany [Market Research... 2004]. The results of a survey conducted among tourists by PricewaterhouseCoopers confirmed the high quality of tourist services in Cyprus [Opening… 2013]. The study also confirmed that the main reason for travelling to Cyprus is to partake in the island's leisure tourism and cultural tourism.

Table presents the changes in the number of tourist arrivals from the major priority markets in 2009–2012 and the measures taken to develop inbound tourism.

[7] Leisure tourism is called sun and sea plus in the document.
[8] The German market is "a market given absolute priority".

TABLE. Changes in the number of foreign tourist arrivals from main markets (changes 2012/2009) (top 10 countries)

Country	Market			Actions concerning inbound tourist movement	
	below 0%	0–5%	more than 5%	Is there a Cyprus Tourism Organization agency in the country?	high priority markets (++) average priority markets (+)
United Kingdom	–10%			+	++
Russia			+219%	+	++
Germany			+16%	+	++
Greece		+1%		+	++
Sweden			+8%	+	+
Norway			+15%		
Switzerland			+21%	+	+
Israel			+26%	+	
France			+37%	+	++
Italy			+121%	+	
All markets		+15%			

Source: the author's own elaboration on the basis of Strategic Plan for Tourism Development [2002], available at www.mof.gov.cy [accessed: 13.12.2015].

The data on new markets reveals that, paradoxically, the crisis in Ukraine and Russia did not adversely affect the number of foreign tourists coming from those markets (www.etabornews.com, accessed: 16.01.2016). Promotional activities there also involved negotiations with the airline companies, which were encouraged to create new flight connections to the key markets.

According to the World Tourist Organization data, the Cyprus Tourism Organisation's budget was 79.9 million EUR in 2008 and increased to 102 million EUR in 2009 [Budgets of National Tourism Organizations 2008–2009, 2010]. The National Tourism Organization of Cyprus had 126 employees in 2007 and 113 in 2008 and 2009. The number was subsequently reduced despite the fact that the Organisation's budget rose. This improved financial capacity and allowed for investment in promotional campaigns. In 2009, 745 thousand people per month visited the national promotional websites, which makes it an important channel of communication with potential customers [Budgets of National Tourism 2010].

CONCLUSIONS

Cyprus is an expensive tourist destination, but one that becomes competitive when uncertainty hits other tourist markets (e.g. due to the risk associated with traveling to Arab countries, terrorist attacks), as the island is considered to be a safe destination for tourist trips. However, the protracted global economic crisis (2009–2011) limited the number of foreign tourists to the island. The article sought to answer the following questions: Was it possible during the global economic crisis to observe a relationship between changes in GDP of emitting markets and changes in the number of tourists from these markets? Did the measures taken by the tourist administration of Cyprus in the course of the economic crisis bring the results expected? To answer that question, I sought to determine whether the priority markets recorded an increase in the number of tourist arrivals during the crisis. Finally, was there a link between changes in the number of foreign tourists and changes in GDP in the years 2000–2014.

The hypotheses were verified in the article and only a weak correlation between economic growth on the emitting markets and the increase in the number of tourists from these markets in the years 2008–2012 was proved. In addition, the measures taken during the global economic crisis by the tourist administration did not always bring the results it desired. For example, in 2009–2012, there was a decrease in the number of tourist visits from the United Kingdom, which was highlighted as a high priority market in the *Strategic Plan for Tourism Development 2003–2010*. Greece, also a priority market, registered an increase of only 1% in the number of visitors for the same three years. On the other hand, the number of people visiting from Norway actually increased in the same period, even though it was neither a high nor medium priority market, and there was not a single representative of the Cyprus Tourism Organisation in the country. The last hypothesis has been partly confirmed: there was only a weak correlation between the increase in the number of foreign tourists and economic growth in the years 2000–2013, and not a strong one, as previously assumed.

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Summary. The Global economic crisis had an impact on tourism movement all over the world and especially on island territories. However, some island territories coped better with the effects of the crisis than others. Cyprus was one that saw tourists visits return to pre-crisis levels. The main aim of the article was to examine how Cyprus dealt with the global economic crisis. Three questions were here posed: First, is there a correlation between the changes in the GDP growth rate in the main markets that send tourists to Cyprus and the changes in the number of tourist arrivals from these markets? Did the actions taken by the National Tourism Administration and National Tourism Organisation, during the global economic crisis, increase the number of tourist visits to the island? Was there, during the period analysed, a correlation between foreign tourists arrivals and Cyprus' GDP growth rate? The methods used in the article included statistical analysis as well as analysis of the literature and of strategic documents. A correlation between the changes in GDP from the main markets and the number of tourists visiting Cyprus from these markets was observed. Moreover the actions taken by the National Tourism Administration were only partly effective. The correlation between the changes in foreign tourist arrivals visiting Cyprus and the changes in Cyprus' GDP was estimated as a weak.

Key words: Cyprus, tourism economy, global economic crisis

JEL: L83, Z3, P25

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SURVIVAL ANALYSIS OF NEWLY FORMED COMPANIES IN THE YEARS 2009–2013

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INTRODUCTION

Enterprises, next to farms and households, are a fundamental component of the economic system and have a significant impact on the functioning of the entire socio--economic system. At the same time, the conditions in which they operate are constantly changing, which means that businesses (especially those just starting up) have to respond quickly to changing realities in order to remain competitive and stay in business. Those which fail to do so disappear from the market.

Survival analysis of newly formed companies has been the subject of studies by different institutions. One of them is the Enterprise Europe Network (EEN), the world's largest network supporting micro-, small- and medium-sized enterprises in internationalisation. The EEN's analysis of data from the years 2001–2004 confirms that the first year in business is the most difficult to survive. In fact, 40% of companies bankrupt; 43.8% of the companies created in 2004 did not encounter any barriers; another 38.8% of companies encountered demand side difficulties, while 13.9% experience both – demand and supply-side challenges and only 3.5% strictly supply-side problems. Among the various types of difficulty on the demand side, companies most frequently point to competition on the market. Slightly more than 50% of companies indicated two other obstacles: price-cutting by competitors (a frequent occurrence in highly competitive markets), and customers' insufficient financial resources. Insufficient company funds and difficulties in obtaining a bank loan were two less frequently mentioned supply barriers (www.een.org.pl, accessed: 14.04.2016).

Similar analyses have also been conducted by CRIF Group, whose research results suggest it is not the first year of operating, but the third, that is crucial to a company's future. Based on data from the years 2006–2013, CRIF research suggests that businesses shut down most commonly between the 25th and 36th months of operation. In the first year, the company usually has the financial resources it needs to function and pick up customers. However, companies that fail to take care of that early customer base and product portfolio eventually encounter problems – and it is, unfortunately, often too late to change strategy[1].

The PARP report shows that among companies established in Poland in 2011, the first 12 months of operation lasted nearly 86% of companies survived the first 12 months, 70% the first 24, and 54% the first 36. The survival rate after the fourth and fifth years was 47 and 44%, respectively (www.parp.gov.pl, accessed: 15.02.2016).

Company survival is crucial for the economy, but because of the constantly changing external environment, the data need to be constantly updated, and analyses carried out in order to properly assess the current condition of enterprises.

PURPOSE AND METHOD

The aim of the article is to analyse the survival of Polish enterprises and the most common causes of bankruptcy. Statistical data and studies prepared by the Central Statistical Office as well as the Ministry of Economy were used. To ensure reliability, the most up-to-date data from the five last years were used. The 2009 recession and global crisis had a significant impact on companies, which is why the analysis starts from that year.

NEWLY CREATED COMPANIES IN POLAND IN THE YEARS 2009–2013

Analysis of the number of newly established enterprises in Poland, starting from 2009, shows ups and downs, with a slight decrease in 2011 and 2013. At 94–95%, the vast majority of newly established enterprises were run by single individuals, while the remaining 5–6% are legal persons. In 2009, 275,307 new companies were registered, while the number fell to 268,404 in 2013 – a 3% drop in five years. Table presents data on the number of start-ups in 2009–2013, along with number of entities involved in a range of sectors and activities. Most enterprises for the period were established in business services. In 2009 there were 83,443 such companies, which accounted for a full 30% of all the companies created; in 2013, both numbers fell: 75,299 business services companies accounted for 28% of the total created. The second biggest category of new industry was construction, accounting for about 17% of all emerging players in 2009, and about 15% in 2013.

The smallest number of new businesses created was in cultural activities, entertainment and recreation. In 2009 the total number established was only 2,086 entities, which accounted for nearly 1% of all business start-ups. Only slightly more – 2,411 – set up in real estate in 2009.

Variation in the number of individual industries certainly is associated with the ease with which a company can run its business, and then keep it on the market. The business services industry is the least burdened by licenses and permits to be acquired and various legal provisions to be met.

[1] Material derived from CRIF Group.

TABLE. Number of new entities registered in the years 2009–2013, overall and by type of business

Specification	Year				
	2009	2010	2011	2012	2013
Industry	25 575	26 192	25 419	25 524	24 385
Construction	46 232	49 189	45 549	45 225	40 862
Business services	83 443	85 802	79 103	78 938	75 299
Transport	16 023	15 818	16 488	15 182	14 361
Hotels and restaurants	12 540	11 139	11 309	12 142	9 717
Information and communication	11 073	12 747	11 755	13 070	13 404
Finances and insurance	4 766	4 433	4 812	4 787	4 594
Real estate	2 411	2 732	2 776	2 854	2 824
Professional, scientific and technical	25 224	28 960	28 217	28 969	31 991
Administration and support	10 569	12 050	11 634	13 274	14 015
Education	8 115	8 033	7 452	8 116	7 921
Health care	13 508	12 570	15 011	14 403	13 444
Cultural activities, entertainment and recreation	2 086	2 125	2 037	2 059	2 114
Other services activities	13 742	14 413	12 894	14 189	13 473
Total	275 307	286 203	274 456	278 732	268 404

Source: the author, based on Central Statistical Office in Poland data, available at www.stat.gov.pl [accessed: 15.02.2016].

RESEARCH RESULTS

Together with the annual decrease in the number of newly founded companies, the enterprise survival rate after a year of operation also decreased. About 77% of companies established in 2009 were still operating after a year, while only 74% established in 2013 survived as long, a 3 percentage points drop over the five-year period, or about 9 thousand fewer companies (see Fig. 1).

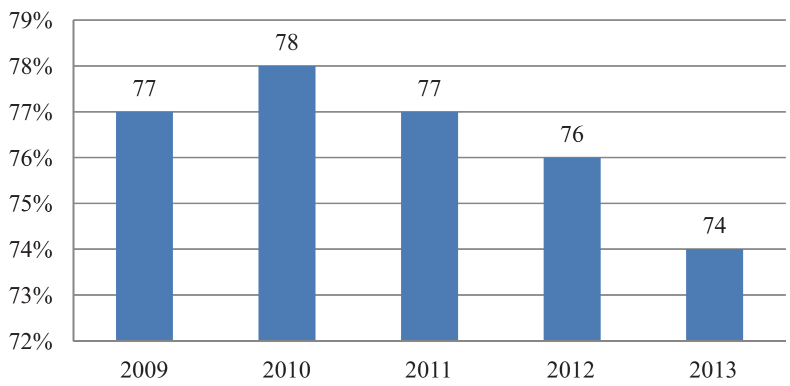

FIG. 1. The survival rate of new enterprises in Poland after a year on the market, 2009–2013
Source: the author based on GUS [2012, 2015].

The survival rate after two years is much lower than that after a year. However, during the analysis of these data we can see that over the years there are fewer companies entering the market and a much higher percentage closes down. Of the companies launched in 2009, 60% were still in business after two years (Fig. 2), while 2012 show the percentage falling to 56%. The percentage of failing companies also decreased from the previous year. Among the companies created in 2012, after a year of operations 24% had gone out of business, and 20% after two years.

The survival rate after three years was still lower. This time, however, the falling rate does not coincide with the passage of time. Figure 3 plots the decreases and increases for the three-year timeframe. In relation to the number of active companies after two years of operation, in 2011, there were only 11% fewer companies after three years.

The number and survival rate of start-ups in different time intervals very clearly show that a decreasing number of enterprises remained on the market. Over the course of the 2009–2013 period, the number of enterprises continuing operations decreased with each passing year. Discussion remains open as to the causes. Is this actually a worst situation on the market, less experienced companies, or large number of the business that have to operate only two years after obtaining the funds from the European Union. Though the

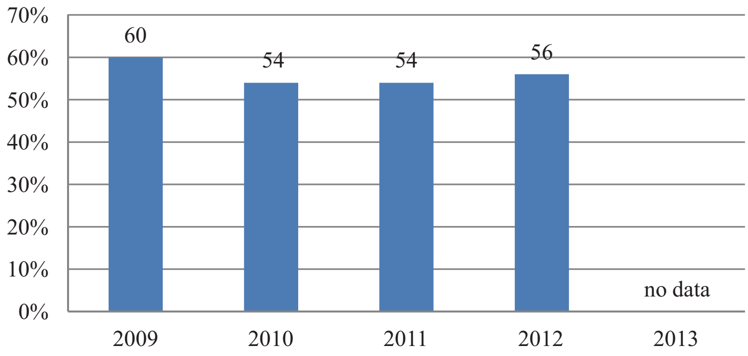

FIG. 2. The survival rate of companies in Poland after two years of opening 2009–2013
Source: the author, based on GUS [2012, 2015].

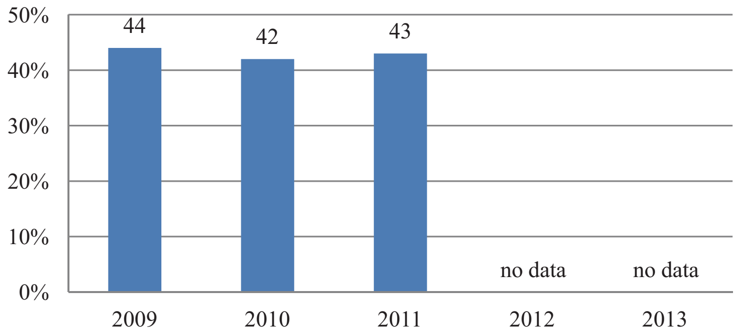

FIG. 3. The survival rate of Polish companies after three years, 2009–2013
Source: the author, based on GUS [2011, 2012, 2015].

figures show the situation is improving, relatively few companies remain on the market for more than three years. Regardless of the reasons, it is of the utmost importance that the authorities move to address the situation.

DIFFICULTIES ENCOUNTERED IN BUSINESS OPERATIONS

Analysis of the figures shows that 25% of newly enterprises closed down after a year, a number that jumped to about 45% after two years, and 55% after three. This means that companies encounter a number of difficulties during their activity at every stage of their existence. The CSO survey highlighted two main groups of difficulties, demand-side and supply-side. After a year of operating over 50% of companies indicated a lack of any difficulties in business. About 35% of them cited demand difficulties as the main barrier to remaining on the market, while only 2% indicated supply difficulties. The remaining 10% said they faced both types of barriers.

As Figure 4 shows, the barriers enterprises cited varied by percentage from year to year, but the main problems remained the same, with demand difficulties accounting for the bulk of those cited.

Figure 5 shows that, among the demand difficulties, companies pointed out four main problems, two of which were attributable to competition. The first, which over 80% of companies in 2009, and nearly 80% in 2013 cited, is that there is too much competition on the market, a problem many companies that specialise in the same type of products or services must face. Companies operating in the same area compete with each other by advertising, diversifying their offer, offering additional services or products, and sometimes reducing their price. Competitors reducing their prices is the second largest demand

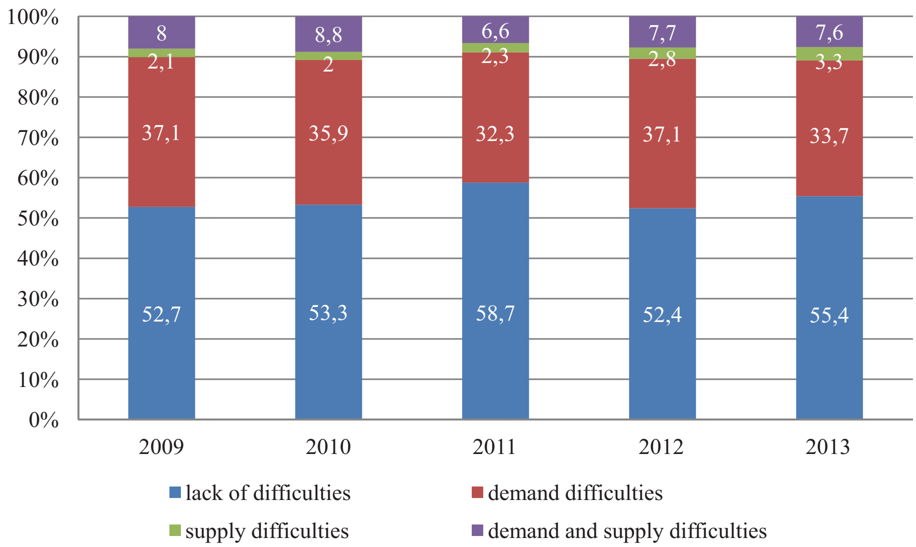

FIG. 4. Difficulties encountered by newly established companies in Poland, 2009–2013
Source: the author, based on GUS [2012, 2015].

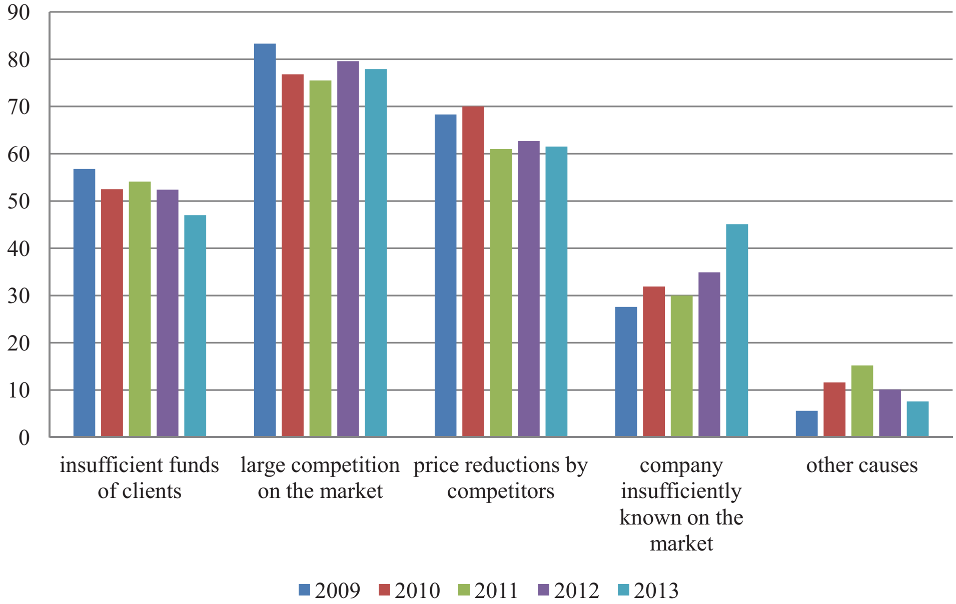

FIG. 5. Demand difficulties encountered by newly established companies in Poland in 2009–2013 (in %)

Source: the author, based on GUS [2012, 2015].

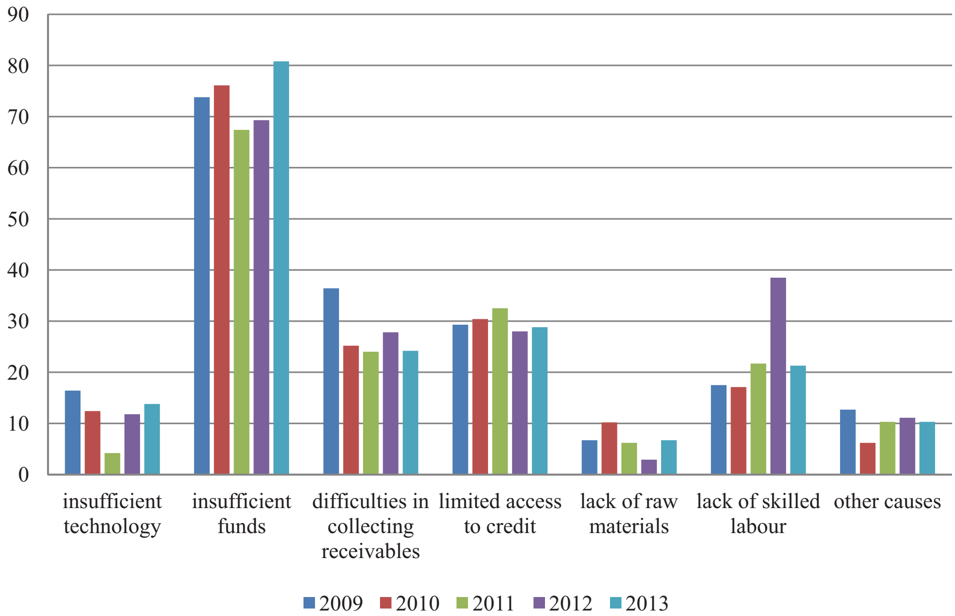

FIG. 6. Supply difficulties encountered by newly established companies in Poland, in 2009–2013 (in %)

Source: the author, based on GUS [2012, 2015].

barrier on the market. Roughly 60% of the business owners surveyed indicated as much in recent years, while in 2009 the number was close to 70%. Less frequently cited, though still significant barriers included insufficient client funds, as well as the difficulty in gaining recognition on local markets.

In addition to the demand difficulties, some companies also reported supply difficulties, which are presented in Figure 6. A much smaller group of entrepreneurs indicated that both groups of difficulties are equally important. As many as 80% of them indicated insufficient financial resources as a major barrier to remaining on the market. The companies also pointed to limited access to credit and difficulties in collecting receivables. Both problems were reported in 2013 by nearly 30% of respondents, while about 20% of companies pointed out lack of skilled labour, and about 15% a lack of technology. Just less than 10% of respondents struggled with shortages of raw materials.

Both demand-side and supply-side difficulties pose significant barriers for new companies. The full range of problems presented in Figure 6 can cause businesses to shut down. That is why it is important to find methods to overcome them, or at least mitigate their effects.

THE PROSPECTS FOR DEVELOPING ENTREPRENEURSHIP

Entrepreneurship on the Polish market has huge growth opportunities. Every year new actors appear on the market, firm in their conviction and desire to run their own business. By encountering many difficulties and overcoming barriers, many learn how to deal with the difficulties encountered. New companies do not have this knowledge, so help should be addressed especially to them.

It is essential to carefully analyse the range of barriers cited by start-ups and to find ways to enable enterprises to overcome them. This may come in the form of special funding, training, or assistance programmes that would map out potential further steps companies may take. Today in large cities there are institutions – the Polish Agency for Enterprise Development, Academic Business Incubators or Labor Offices, to name three – which advise individuals on how to start and run a business. Such services should be expanded to the country's other regions to promote interest. Very often entrepreneurs, especially those from small- and medium-sized enterprises, have no idea about the existence of such institutions in their area.

In addition, businesses should be supported primarily by local authorities, which depend to a great extent on the development of entrepreneurship. Companies are the backbone of the entire economic system, though most operate locally, in their immediately surroundings, which helps the region they call home to develop.

CONCLUSIONS

Creating a new company that will survive and develop depends on many factors, not the least of which is the entrepreneur himself, with his enthusiasm and aptitude, and the entire external environment pressing him. It is external factors and demand barriers that entrepreneurs usually identify as the most troublesome. However, despite the difficulties, from year to year the survival rates were slightly less favourable. Figure 7, which compares the three types of indicators in recent years, indicates as much.

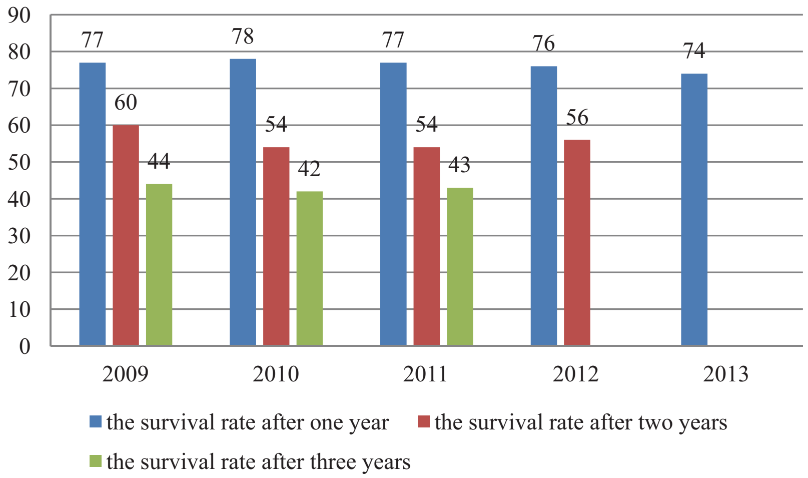

FIG. 7. Survival rates after one, two and three years from start up, 2009–2013 (in %)
Source: the author, based on GUS [2012, 2015].

The hardest year to survive is the first, while in subsequent years the survival rate drops considerably less drastically. The longer a company exists on the market, the more experience and ways of overcoming difficulties it develops. The implementation of appropriate measures to help overcome these barriers will certainly contribute to more companies surviving.

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Summary. New companies are an opportunity to develop a region, increase its employment and GDP, and push a country's economy forward. However, only some of them survive the barriers and vicissitudes the economy throws up before them. Analysis of data on Poland allow us to assess whether the country's economy enables newly formed companies to survive more than a year or two, or if tends to close the door on them before they can fully develop their activities. The article also shows the types of barriers that are most burdensome for newly formed companies, and what should be changed so that Polish enterprise can grow.

Key words: analysis, company, barrier

JEL: D21, D22

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TALENT MANAGEMENT PROGRAMMES IN THE RETAIL INDUSTRY DESIGNED FOR UNIVERSITY GRADUATES

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INTRODUCTION

Organisations that must adapt to a changing environment are more and more often deciding to introduce talent management to work toward their objectives. There is a demand for gifted specialists and managers eager to realise company objectives and strategy arising both in response to the "talent war" companies wage against one another and to the organisation's development generally. To identify and choose the most gifted individuals means to invest in the company's capital. As Bogusz Mikuła insisted, the pursuit of talent needs to serve as the organisation's main strategy. Or, as Tadeusz Listwan has said, talent management is a set of actions concerning the most gifted people, taken to achieve the company's development, efficiency and goals [Listwan 2005].

From a market analysis perspective, organisations more often target university graduates as their source for talented people. Companies offer development programmes that prepare employees to move into the position of specialist or a manager.

The assumption that the candidate's developmental potential as well as the ability to quickly acquire knowledge serves as the basis for this kind of offer. Graduates are usually attracted by corporations that allow them to participate in interesting projects, often in an international environment, and career paths which allow for autonomy. Development programmes offered by an organisation enable one to choose a quick career path and gain access to people supporting the process of accumulating knowledge and experience. Development revolves not only around acquiring knowledge and experience but also around improving social skills. Concentrating on interpersonal skills makes it easier to communicate within the company and promotes the formation of effective relationships with the environment and, ultimately, improved company performance. This kind of situation provides a framework to build a brand based upon values, in particular the development of others.

The aim of this study is to establish a universal training programme for preparing graduates to hold their first specialist and managerial positions within an organisation.

This goal is realised through the analysis of a case study which looks at the key competencies required by an organisation. The paper also describes organisational factors and conditions which have an impact on the development of young people in the programme.

Based on data collected from in-depth interviews conducted among development programme participants, critical analysis has been provided. I achieve my goal in the paper thanks to a case study analysis of a corporation with a chain of stores across the country. The organisation employs a few thousand individuals in a variety of positions and locations. For the company to succeed and achieve its goals, employee succession has to be taken into account.

Insight gained from analysing the case study allows me to define key factors and tools essential to prepare graduates for new positions. The analysis follows the pattern elaborated by Agata Kaczmarska and Łukasz Sienkiewicz. The talent management programme is holistic and based on the correlation of many processes including planning, employing, selecting and keeping employees (together with motivational systems), potential development, results assessment and career planning [Kaczmarska, Sienkiewicz 2005]. As one personnel strategy states, it is important for organisations to employ proper people and to provide them conditions to develop in order to retain as many talented people as possible [Groysberg et al. 2008]. Furthermore, talent should be sought both within and outside the company. As Tadeusz Listwan (2005) proposes, talent management is "a collection of actions concerning talented people, taken in order to develop them and their abilities and to achieve the aims of the organisation". It can be divided into [Listwan 2005]:

- actions taken to come into the organisation (bringing talent into the organisation);
- transitioning employees (through career management processes, improving employee qualifications, developing employee competencies);
- quitting (talented people leaving the company as well as measures taken to retain them).

However, the company's action should concern not only an external search for talented people. It should also have a plan of action for all employees and define the criteria to become one of the most talented. It is highly important to use employee competencies for the organisation's needs [Kacprzak et al. 2012]. The identification of such people within the organisation should be based on definitive criteria that all employees are aware of. Based on the case study, such assumptions can be seen as the correlation between potential assessment, understood as a prediction, of how an employee will work out if he or she is moved into a more developed position, and the results he or she would achieve in the process of accomplishing the tasks and needs of the given position. Thus it is necessary to think of the factors and conditions which influence the competencies development in conjunction with defining the skills required by the organisation and preparation of a congeneric development plan.

DEVELOPMENT PROGRAMMES ADDRESSED TO UNIVERSITY GRADUATES

The process of employing talented candidates among graduates starts a long time before the recruitment process. There is a good deal of co-organising and co-financing of conferences and seminars as well as funding of scholarships for the best students. Further, many measures are taken to improve a good employer's image through contacts and meetings with employees of job market institutions, government and non-governmental administration, media, and influential individuals from the business and non-business world. Companies invite students for meetings to visit and explore the organisation and observe technological processes with the use of modern equipment and software [Mikuła, Morawski 2008]. Internet communication through interactive company portals with fora to ask specialists about uncertain issues is important to the young generation. Another option is to create a website for organising competitions, exchanging ideas, and chatting with members of management [Morawski, Mikuła 2009]. This paper's case study analysis indicates that a successful step is to maintain permanent contact with universities and student scientific associations. The process is realised via lectures, meetings with potentially talented people and participation in job fairs where company representatives present their development programmes. A set of free training sessions where students can improve their social competences is one example of an innovative initiative. The programme is used in Poland and is often combined with academic curricula. There is also a number of examples of development programmes for graduates on the market. Some exemplary cases are presented in Table 1.

To identify the most talented candidates is to invest in the company's human capital. For employers that bear the costs of starting up, recruiting for and implementing development programmes, it is essential to find and choose the most talented people. Market analysis shows that organisations decide to conduct a multiphase recruitment process in

TABLE 1. Development programmes for university graduates

Name of company	Description of the development programme
Auchan	Development Programmes prepare individuals to hold a position in management
Jeronimo Martins	Management Trainee programme is arranged for MA graduates and last year students. It prepares individuals to move into responsible positions in the Jeronimo Martins group in the near future
Leroy Merlin	Kuźnia Talentów (Smithy of Talents) is an intensive development programme dedicated to university graduates interested in trade. They have an opportunity to develop in the company in specialist and manager positions, both in stores and the head office
Lidl sp. z o.o	There are dual studies offered within a programme dubbed "We believe in young people". A participant studies at one of two German universities and after preparation holds the position of Regional Trade Manager International Management Development Programme prepares individuals to take positions in management Lidl Brand Factory searches for talented young people and employs them in the head office to create new brands and introduce them on the European markets
PKN Orlen S.A	The Young Talents programme finds and trains talented individuals to become employees. There is also the Akademia Biznesu PKN (PKN Business Academy), "a mini-MBA", the graduates of which are offered individual development plans
Tesco Poland sp. z o.o.	Program Menadżerski Ekstraklasa (Top League manager programme) prepares individuals to hold the position of manager

Source: the author, based on promotional materials published in companies' websites.

order to minimise the risk of miscalculation. Identifying the best candidates is closely correlated with defining what talent means for the organisation. Talented individuals can be defined as those with a remarkable potential and a high level of required competences [Listwan 2005] but also "creative and enterprising employees with high development potential who will serve to lift the company's value" [Borkowska 2005]. After defining the appropriate model, it is advisable to think of the competencies needed to achieve this pattern and what can be done to implement the model.

KEY MANAGER COMPETENCIES

The attempt to describe the key manager competencies leads to many various decisions and possible ways of placing them in a hierarchy. Because it is difficult to improve all competencies, every company should identify the key ones for the organisation's performance according to the managers' orientation [Kacprzak, Król 2014]. Analysis of the market shows the consistency of defining interpersonal skills required by the organisation and the people investigated in the recruitment process within a given business. However, "the occurrence of a variety of management positions and people being managed causes difficulties in describing them in a universal way, and all attempts to normalise are considered illegitimate" [Kacprzak, Król 2014]. The organisation I studied for this paper concentrates on the ability to cooperate, understood as working with people in order to realise business goals effectively.

The awareness of a common goal can appear in various areas: in the organisation as a whole, in a team, or even a single conversation. Behaviours observed in collaboration revolve around employees sharing ideas and knowledge as well as giving feedback constructively. Understanding the other person's perspective and recognising his/her emotions are the key elements. Active listening allows one to work efficiently. The needs can be described in many contexts: from the point of view of employees, clients and local societies. The ability to see the needs of other people within the team leads to effective reactions. Understanding the needs of "clients" gives one the ability to offer them exactly what they want and in the way they expect it.

Another element is understanding the environment in which the organisation fulfils its business goals; that is, understanding the needs of local societies the company functions in. It can be said that empathy is the key to realise what matters both inside and outside the organisation. It provides perspective on what is important for others at the moment. A company also requires an employee's proactive attitude to be built on proper reactions to everyday challenges. Such activities can be also understood broadly, as flexibility in thinking, openness to change and efficient decision-making.

Other behaviours that should be highlighted include the ability to determine proper priorities, acting according to them and being goal-oriented, and being engaged and enthusiastic. Innovation understood as the ability to observe the environment in order to find inspiration to change and improve is a major factor for an organisation's activity. It is the capacity to not only follow market changes and see opportunities to develop business, initiate innovations and improvements but also to create an environment that approves ideas and new solutions. A precious competence is to balance all areas of life – to take care of yourself, be in good shape and, thanks to this, achieve better results. Taking all of these competences into account, the factors that create an innovation-friendly environment are cooperation, empathy and proactive actions undertaken with a sense of harmony between all areas of life.

THE PROCESS OF RECRUITING CANDIDATES AND ASSESSING THEIR POTENTIAL

The recruitment process in the organisation analysed here begins from the preliminary selection of applications. Here the candidates' foreign language ability, experience gained during internships or trips abroad and education are all verified. Candidates that qualify for the next step are invited to take part in competency tests. Finally, an assessment centre is organised. It is a popular and effective way of conducting evaluations. To underline the multidimensionality of the process, it can be stated that "a group of participants that takes part in various exercises is observed by a team of trained people who assess every participant, taking some previously established behaviours connected with the position into consideration. Next, using the collected data, the decisions are made" [Ballantyne, Povah 2000].

Every candidate undergoes an evaluation process conducted by a team of assessors observing particular behaviours. The assessors should hold different positions within the company. In many cases, external judges are included in the process. The key is to find a proper number of both practical exercises from among the many selection techniques that will simulate future work and tests to verify the candidates' ability to analyse data and do inductive reasoning. Such a set makes it possible to assess the candidate's potential on the basis of the observed behaviour. The assessment centre serves as the place competency levels can be diagnosed, especially social ones. Other tasks show the candidates' individual traits. Thus, the assessment centre resembles the future workplace. Tasks performed under the process of evaluation should reflect the real ones that could be encountered at work.

REALISATION OF DEVELOPMENT PROGRAMMES IN THE ORGANISATION

In the organisation that have been considered, which has a chain of stores in Poland and other European countries, there is a long tradition of development programmes for university graduates. The possibility of exchanging experience and the wide scope of operations based on the multiple roles and positions available function as a training programme. When the selection stage ends, it is important to create good conditions for employee development. That is possible thanks to the company's congeneric training programme with the appropriate structure of improvement activities. A development programme can be understood in general as a training plan with appropriate timing. It covers all planned activities, such as trainings, workshops, meetings and the gaining of experience while working, with the support of people responsible for the employee's development. The goal of the programme is to prepare the participant to hold the position of specialist or manager. It is realised according to a set schedule adjusted to the needs and abilities of the attendant. It is crucial to find a balance between gaining specialised knowledge concerning a given position, leadership skills and experience during the work itself. Moving forward, the specific amount of time to be spent on particular activities must be determined. The organisation uses the 70-20-10 chart (Fig.). According to this model, only 10% of one's time is devoted to formal learning (in workshops and trainings) while 20% is spent in meetings with people supporting the development. They give feedback and create their own solutions. The most important part of the approach is the process of gaining experience through work. It takes up 70% of the trainee's time and is dedicated to implementing the knowledge gained in trainings, workshops and meetings.

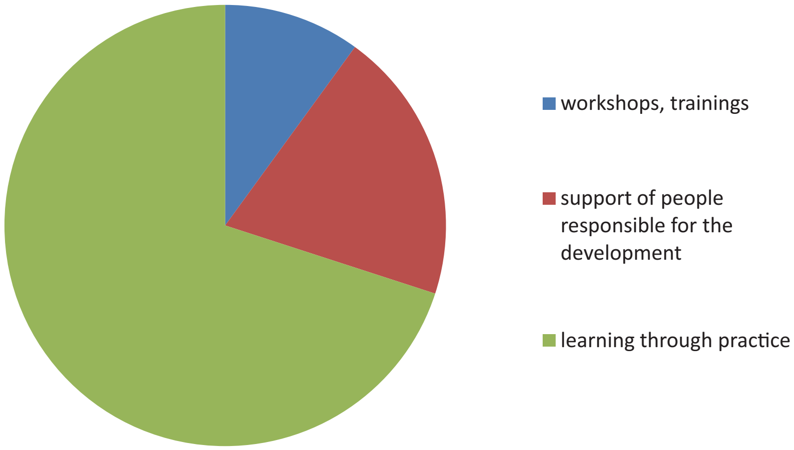

FIG. The learning model 70-20-10

Source: the author, based on international trade company internal materials.

Officially, the company's development programme can be divided into several successive phases that ought to be realised within 12 months. The phases that can be distinguished are:
– analysis of training needs;
– preparation of a development plan;
– implementation of the development plan;
– finalisation of the programme.

To match the programme with the candidate's needs, it is essential to introduce the analysis of training needs based on improving strengths and developing areas which minimise the competence gap. On this basis, the development plan is created. It includes tasks to be realised and supported through assessment meetings. It is highly important to systematically validate the given areas and ultimately to confirm the readiness for a new position. A regular and well-planned participation in assessment meetings provides full insight into the participant's progress and helps to set goals and tasks for the following weeks. The assessment meetings, which consist of feedback sessions, enable reflection on what has been done properly and which areas require improvement. According to the company's activity analysis, it can be assumed that the most important parts of the meetings include the discussion of:

– completed tasks;
– areas of success;
– areas to be improved;
– tasks and next steps to be realised.

During the meetings, the manager assesses the candidate's readiness to hold a new role by verifying the knowledge and estimating his/her abilities to fulfil a given goal. The full feedback should serve to develop and improve results. An established training plan includes regular meetings and individual conversations on identifying development needs and specific activities to stimulate development. According to Baron and Amstrong [2008], "people departments introduce new policies and practices but there are line managers who are responsible for the implementation". The effectiveness of development programmes requires "monitoring if the general policy and particular solutions concerning HRD are in line with operational requirements and active support in training participants, especially in the area of implementing and applying acquired abilities" [Matthew et al. 2008]. The programme includes holding many positions one after another, complemented by training, meetings, academy (which is a combination of conferences and workshops) and unassisted projects.

During the programme's progressive stages, the graduates gain not only knowledge and experience but also business awareness. An essential point of the programme is the participation in training sessions that improve both specialist and leadership skills. The training sessions are intended to provide knowledge and experience and also to learn proper behaviours required of a given position. It is crucial that after the training an employee should improve his/her competences and use the acquired knowledge and abilities in practice. During meetings with managers, areas of business are presented and projects are described. This provides the opportunity to think about the training and the results it will have on the company's functioning as well as about the growth in business awareness. Training makes it possible to see the organisation in a broader context, without restricting individuals to one perspective only.

In order to improve trainees' abilities, the Academy is organised. A set of training sessions, workshops and presentations, the Academy allows for a lively exchange of attitudes that arise in particular situations as well as ways of approaching everyday task realisation. Crucially, after the event, the participant should better understand his/her role and find a way to implement it in work. Apart from presentations and discussions broadening the participant's perspective, understanding the nature of particular positions is essential. Gaining that knowledge is made possible thanks to internships that can be done in other areas of business within the organisation. Exchanges allow one to experience particular tasks and the role other employees play.

One of the best ways to develop one's abilities and independence in action is to complete an unassisted project. In order to improve the form of development programmes, feedback from participants is necessary as well. It can be collected via survey research or discussion meetings with participants organised as focus group interviews at the end of the programme. During such meetings the host asks questions to several guests at the same time concerning a given topic. Participants have a chance to share their remarks and exchange views that can be further implemented in the company. At the end of the programme, the participant ought to be ready to hold a new manager position through specialised validation and experience. If a graduate completes the programme with positive results, he/she is ready to hold the position of unaided specialist or manager.

It is advisable for an organisation to follow the idea of strategic talent development described by W.J. Rothwell and H.C. Kazanas as a process of changing organisations, external partners, internal groups and employees through both planned and unplanned learning. This process enabless participants to gain the competences essential to help the company gain and maintain its competitive advantage [Rothwell, Kazanas 2003]. Rothwell and Kazanas talk about the process of learning, which can be planned or unplanned. Spontaneous learning is combined with the transfer of knowledge between groups while trying to solve the company's problems together or managing strategic projects. The most important aspect of successful development programmes is proper organisational culture, in which every group of people has a determined role, based on the notion that people are the most important factor and their attitude toward changes is the ultimate criterion for success [Tabor 2008]. It is essential to create assumptions and monitor them in order to prepare proper feedback for the participants, and at the same time to guarantee the success of money spent.

THE ROLE OF COMPANY-ORIENTED PEOPLE SUPPORTING THE PARTICIPANTS OF DEVELOPMENT PROGRAMMES ADDRESSED TO UNIVERSITY GRADUATES

In the process of educating young people to become experts, the education itself is of course essential, but so too is support from experienced employees. The process requires the roles of people supporting the development to be described and the role of motivation to be appreciated. According to the case study, we can establish the role of the tutor, the mentor, the coordinator and the participant. The tutor is a line manager that leads the process. "The manager improves people. It depends on how he or she deals with them whether it will be easier or harder for people to develop" [Drucker 2004]. The line manager establishes detailed training goals and sometimes helps participants to avoid the competence gap. He/she coordinates the work and training and shares his or her knowledge and experience on a given position. This individual also conducts meetings during which the assessment of participants takes place. Broadening perspectives cannot be underestimated. Mentoring sessions allow the manager to search for models and address and adjust the employee's way of thinking.

The role of mentor is often offered to a high level manager. During meetings, the trainee gains advice concerning current actions, basic knowledge about the organisation and roles to follow. An individual from the personnel department supports the process by monitoring the course of actions, informing the trainee of the rungs of the programme and the proceedings and supports both the trainee and the tutor. This individual is also responsible for checking the participants' progress and other people involved in the learning process and laying out the ways to achieve the abilities the company requires. He/she furthermore presents the company as an one that improves employee qualifications, as well as creating holistic training processes and advising graduates on how to best go about gaining knowledge [Tabor 2008].

The role of the trainees is the other essential aspect in this process. They take responsibility for realising the goals established and fulfilling the obligations for their position at every stage of development. Their level of engagement needs to be constantly measured and supported by people dealing with the development process. Learning depends on the attitude, way of thinking, and perception of situations people bring to the process. The model can be found in Mikuła's "tetragon of learning". Each side of the tetragon has one element: knowledge, the ability to use the knowledge, motivation and the company's internal environment. It should be emphasised that an effective talent management programme cannot exist without support from the management group. Creating a proper culture ought to be based on development support, knowledge sharing and the best models presented by management.

SUMMARY

To conclude, the analysis of the above development programmes, which is based on a goals grid, seems effective since it allows one to see how the realisation of a goal reflects other areas. The information gathered with this tool makes it possible to reflect on the following areas (Table 2):

1. Defining goals and tasks to be performed;
2. Defining resources that need to be stored;
3. Determining the things to be done and problems that may appear;
4. Determining threats that should be eliminated.

Undoubtedly, the career path offered by an organisation seems attractive for young people without any experience. A training framework allows them to gain experience in various business areas, and to take part in training sessions and meetings while at the same time receiving support from people involved in the process. Those who finish the programme successfully have demonstrated that they are prepared to move into the position of specialist or manager. The training plan enables employees to achieve the level of competence required for the work on a specialist or managerial position but is also a source of new managers who are compatible with the company's requirements and needs. Thus, development programmes are useful for university graduates just embarking on careers, for the organisation and the whole society where the organisation functions. They also provide great brand marketing for the company. When a programme is completed successfully, it gives new specialists and managers as a resource to the organisation and prepares graduates for future careers. The aspects mentioned above serve as a means of promoting learning among employees. As a result, the company is perceived as one where employees can improve their abilities, as an organisation which cares about learning and sharing knowledge.

TABLE 2. The goals grid

Do you have it?	No	1. What you want and don't have – active involvement of people supporting the development – a lot of candidates with high potential – definite prospects for people who lack the potential to hold manager positions – more time to prepare for evaluation inte-rviews and meetings	3. What you don't have and don't want – lack of trainee motivation – lack of financial resources for organising deve-lopment programmes – lack of involvement from line managers – lack of opportunity to promote people after the development programme
	Yes	2. What you have and want – defining roles of people supporting deve-lopment – a defined programme framework – preparation of tools supporting develop-ment – attractive career paths for people without experience – the given way of gaining and recruiting candidates e.g. training, workshop and meeting programmes – CSR activities for realising development programmes – new managers perceived as resources	4. What you have and don't want – high cost of gaining candidates – costly recruitment – costly organisation of training, workshops and meetings – risk of people leaving the company – lack of stable motivation of participants
		Yes	No
		Do you want it?	

Source: the author's own work on the basis of Fred Nickols and Ray Ledgerwood 2005' goals grid model.

CONCLUSIONS

It can be assumed that the proposed training programme is adjusted to the needs and expectations of university graduates who start their career. It is essential to obtain one's first specialist or manager role. It also builds business awareness and provokes thinking about social competences. It can be treated as a challenge for the young since it requires new social abilities to be developed. From the company's point of view, offering such programmes means not only preparing employees for promotion but is also seen by society as the creation of and work on the company's brand.

Perceiving a brand as unattractive creates barriers – for example, a lack of interest from the most talented graduates. To overcome the lack of interest, the organisation has to increase its activities while recruiting candidates, which leads to additional costs. Money now has to be spent on organising meetings at universities, participating in job and career fairs or other events e.g. conferences, and sharing the company's own development programmes free of charge for external entities. At least costly recruitment and conducting training programmes ought to minimise the chance of losing talented participants. All activities, such as proposing other positions appropriate to a candidate's abilities, need to be undertaken together with systematic assessment and feedback. It is crucial to present the business area and the new role for participants in detail and suggest the time they can start. To ensure employees are constantly motivated, it should be clear that both candidates and current employees can participate in development programmes.

Employee rivalry may be a serious threat that results in the newly employed having difficulties adapting. Co-workers can stop communicating or sabotage cooperation because of jealousy about better working conditions, among other things. Therefore, providing equal access to programmes is important because of the sense of equality the training and engagement brings. It is crucial to ensure that all current employees are highly motivated. Many often perceive participants in development programmes as "a special treatment group" which they cannot participate in, and therefore also have no access to attractive development packages and fast promotions. It is essential to treat all employees equally and establish new criteria for creating career paths together with various programmes.

But there is a danger that a participant can feel frustrated if he or she is not able to use the knowledge when there are no plans in the organisation, such as a database of positions matched with the required abilities. After going to great lengths to learn and take part in workshops, graduates should not have to face their new prospects with no plans and no idea of how to use the additional competencies. To avoid such situations, an organisation should prepare strategic plans for programme graduates with high potential. After all, such programmes cannot be used only to upgrade the company's status and present it as a modern organisation.

Yet another concern is the risk that a trainee would be lured away by a competitor. The cost of training and the knowledge about the company he/she has obtained needs to be borne in mind in these situations. To prevent such exits, organisations often decide to create a plan for leaving process management and another for creating opportunities to keep the best graduates in the company. At the same time, establishing an organisational culture that supports constant development should be a way to limit trainees from moving on. The management team should consider development as a key issue to implement the programme successfully and instil in course participants a high level of motivation during trainings. Involvement through devoting time and reflecting upon the employee's development as well as preparing feedback are the key elements of the work of managers responsible for development.

However, the situation may become complicated if the training covers various areas and positions, possibly necessitating a change in trainers during the process. Some managers may perceive the trainings as having little practical value in guiding new team members. Such managers may see the process as obstructive because of a new, "special" member in the team who requires additional attention and involvement. That is why the engagement should be constantly monitored and the management's awareness needs to be expanded. Development programmes are attractive both for organisations and graduates. But the point is that their structure and implementation should be analysed and improved to build the required management team and create effective action. Introducing development programmes establishes strong learning processes in the company, which increases the organisation's status. Most importantly, it enables the organisation to create a mentality and culture of learning.

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Summary. The article systematises issues concerning managerial skills development programmes dedicated to university graduates. Conclusions and recommendations have been collected to define key competencies and roles of people supporting participants as well as to establish a training scheme which allows graduates to move into their first managerial position. Recommendations are based on commentary from a case study done on a trade company analysed to define a development and conditioning programme for potential future managers. An important result was that such programmes reach out to young people preparing to hold a specialist or managerial position while also helping the organisation to provide good quality staff which realises the goals of the company. In other words, the analysis shows that the interests of both sides are consistent in career development. Moreover, the training programmes make it possible to realise the goals of the organisation.

Key words: development programmes, social competencies, manager competencies, trainings, mentoring, coaching

JEL: A11, A13, M50, M51, M53

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RELATIONSHIP MANAGEMENT IN EFFECTIVE SPORTS SPONSORSHIP

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INTRODUCTION

Relationship management has become an important part of business operations on the sports market. Organisations involved in the world of sport – mainly sports clubs themselves, though also enterprises engaging in sports, for example, through sponsoring – should cooperate with each other on partnership rules. This is the only approach to the subject of sponsoring that can guarantee that it is effective and that each of the entities involved is satisfied.

The article is about the principles behind the creation of relations between a team or individual being sponsored and the company sponsoring them. The aim of the article is to present the principles and conditions of cooperation that should be respected by both partners to make it effective and long-lasting. The text was written based on an analysis of the literature and my own long-term, methodical observation of the relations (or lack thereof) between Polish sports organisations established in the process of searching for and maintaining contact with their sponsors.

THE ROLE OF PARTNERSHIP RELATIONS IN THE MANAGEMENT OF A SPORTS ORGANISATION

In promoting physical education, and dealing with the dynamic changes occurring around them, sports organisations interact with various stakeholders both socially and economically. This is due to the dynamic changes happening in their closest environment and, as a result, to the expectations of cooperating entities, especially those in the business-to-business market.

The modern sports market is characterised by a bigger than ever number of connections between its participants, distance and time differences fading ever more into the background, the blurring of influence and mutual penetration areas. A consequence of this is the growing importance of partner relations and bonds developed between sports organisations and entities that might be, either directly or indirectly, interested in cooperation [Eiriz, Wilson 2006].

The relationships that should be built by every organisation can be divided into internal and external ones. Internal relationships are formed within the existing structures, among the employees of an organisation. They play a key role in building and strengthening the external relationships.

External relations concern the organisation's communication with entities including suppliers, co-operators, sponsors, local governments, public institutions, and media, to name a few. Given the large number and frequent interaction with these entities, eventually a network of relatively durable connections emerges. As a result of their qualifications and expectations, the cooperating entities engage more in the sports market. Relations with these entities can be called relative connections as, in order to be successful, they require common goals to be set and followed throughout seasonal or regular cooperation [Ford, Hakansson 2006]. A relations network shaped in such a way is the foundation upon which a culture of collaboration develops between an organisation and its stakeholders. This culture currently plays a leading role in the process of strategic management.

On the sports market the partnership relationships may have a market (business), social (socialisation) or cultural character, depending on the type of stakeholders involved and their expectations from the network relations [Mierzwiński 2014]. It is beyond discussion that it is necessary to build business relations on this market, as every organisation – sports ones included – is an open system which must react to impulses from the environment and actively exchange information, services and values, while constantly being both affected by and shaping the environment [Grönroos 2011]. A sports organisation's relationships with its sponsors are undoubtedly among the most important it maintains [Beech, Chadwick 2004].

Establishing partnership contacts with sponsors is a long process, but the mutual cooperation may be beneficial to both partners. For the beneficiary (the party being sponsored), the benefits include financial safety, simplifications within investment planning and the creation of strategy, prestige and also the possibility of concentrating on sports matters. The sponsor creates its image with the use of features that usually characterise the sport it is sponsoring. Moreover, the sponsor can be labelled a socially responsible company, is seen by a wide range of consumers and has a chance to increase its profits.

CONDITIONS OF THE DEVELOPMENT OF SPORTS SPONSORSHIP

The definition of sponsorship as the financial, service and material support of an individual or team in exchange for popularising a company's brand is an outdated one [Datko 2012]. Expecting the popularity and prestige achieved by the athlete or club to automatically transfer to the company that supports them is a narrow-minded way of understanding sponsorship and may lead to various disappointments [Ciciliano et al. 2007].

While that may in some cases happen, the transfer of the club's or individual athlete's good image onto the sponsor does not necessarily happen when the former wins. Similarly, the sponsor of a losing team does not need to worry that its record will negatively influence the public's opinion of it. Sports sponsorship today entails creating a partnership between a sponsor and an athlete or team, which may create mutual benefits thanks to both sides' involvement [Lewandowska 2015]. While the first examples of sports sponsorship can be traced back to the end of the 19th century, the phenomenon began rapidly developing in the early the 1970s, and continues to gain traction today. Lagae [2005] cites the following reasons for the increase:

– the ever greater professionalism of sport and sports organisations;
– the globalisation of sport, more and more international sports events;
– the "social acceptance" of sports commercialisation;
– the development of the media;
– the growing number of TV broadcasts of sports events;
– the decreasing effectiveness of advertisements;
– the limitations on some product advertising (cigarettes, alcohol).

Partnerships in every industry, not only in sponsorship, are built slowly over time and rely on trust, open cooperation and mutual involvement in which both sides consider their own and each other's interests [Hardy et al. 2000]. Basic theoretical conditions directly influence the practical image of sports sponsoring. The influence of knowledge about the subject, increasing at the beginning of the 21st century, is clearly seen in various forms of sponsorship cooperation (e.g. one's own, strategic, titular, co-sponsoring, naming rights) [Klimczyk 2014].

Sponsors more and more frequently want to (or at least should want to) get involved in the strategic directions of the individual's or club's development. On the other hand, the beneficiary, taking into consideration the interests of the sponsor, should generally manage his or her own activities in a way that leads to the realisation of the sponsors' aims and the achievement of mutual, long-term benefits [Irwin et al. 2002].

THE PROCESS OF BUILDING A SPONSORSHIP RELATIONSHIP

There are four main groups affected by sponsorship relationships on the sports market: sport clubs or individual athletes, sponsors, media and spectators (Fig. 1). The aim of the sports clubs is to skilfully create relations with each of the other groups. None should be favoured as they are all correlated. From the sponsors' business and the media's point of view, the most important group is the consumers – spectators (fans and supporters), who can be divided into two subcategories of fans: those who come out for game or match, and those who watch indirectly on TV.

High quality organised sporting events attract more fans, so the media are more interested in buying the broadcasting rights for these events. The large number of spectators at the venue, multiplied further by those following the TV broadcast, enables TV stations to find purchasers of commercial slots, and sports clubs to gain new sponsors. Only the professional management of partnership relations between the sports club, the sponsors and the media allows all the parties involved to benefit. When the media gets involved in a sport it fulfils its own mission of making the public familiar with information on social events. Moreover – and this should not be forgotten – they increase their own income

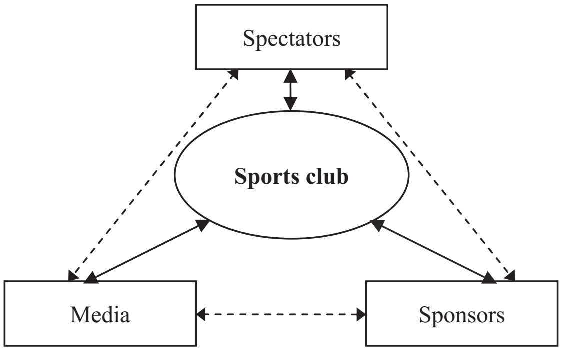

FIG. 1. The relations between the subjects involved in sports sponsoring
Source: the author's own elaboration.

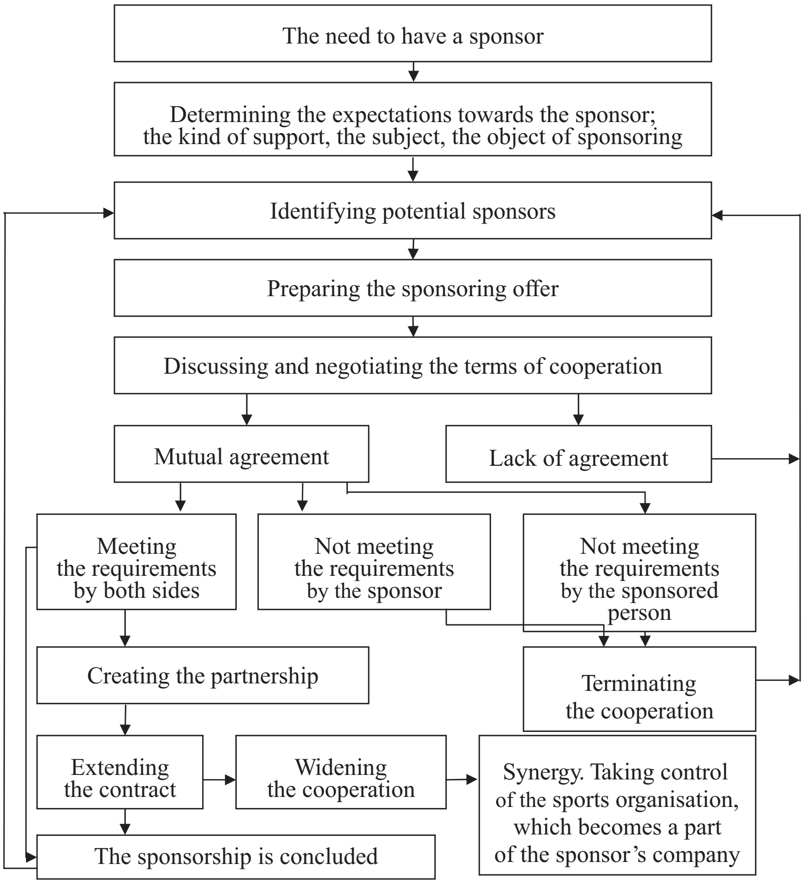

FIG. 2. Managing relations between the sport club and the sponsor
Source: the author.

(profit) from the commercials shown before, during and after the TV broadcast. Sponsors use the sports events and the TV broadcasts to quickly and efficiently create their image, which is supposed to influence sales of their products. The most important benefit for spectators is that they are given the opportunity to indirectly take part in the event thanks to the media and the attendant high quality used to present it, which is possible thanks to the greater financial resources of the sports club, which come from both the sponsors and the media.

For an organisation and its sponsors to forge a successful relationship, and subsequently develop a partnership, a procedural approach is required (Fig. 2). If one side fails to accomplish its goals, the cooperation may be terminated prematurely. However, sponsorships are not everlasting: Even if the sponsor accomplishes its goals it might not want to prolong the sponsorship contract [de Amorim, de Almeida 2015]. Among the reasons a sports organisation might want to forge simultaneous relationships with various partners could be the time limit of each sponsorship contract, as well as its considerable financial demands. This is why a relationship network is built – so the sponsors can be classified according to their input and have their place in the sponsorship pyramid every sports club builds [Kaser, Oelkers 2005].

If the sponsor-sports organisation relationship is to be successful, there must be an open information policy: each side's expectations must be clearly communicated, active participation in the club's activities and the club must help the sponsor meet its goals. Countless examples of prematurely terminated relationships show that a failure to do these things results in contracts being terminated or not renewed, which is a loss for both the sides.

SPONSORSHIP IN THE MARKETING COMMUNICATION STRATEGY OF THE SPONSOR

Sponsoring is a difficult marketing tool to master – it requires strong expertise about how it works and the ability to intelligently incorporate it into the company's marketing communication strategy [Westerbeek, Smith 2003]. Basing their marketing communication strategy on the relationships with sports organisations, sponsors decide on their particular aims, which may be divided into four categories [Pope, Turco 2001]:

- corporate aims, e.g. improving the company's image resulting from associating a good event and success in a sport with sponsors' social involvement;
- sales aims, e.g. increasing sales, brand positioning in a new market;
- communication aims, e.g. the creation of a brand's image, emphasising its presence on the market;
- personal aims – satisfying a manager's aspiration to become a sports patron or just because of his or her own interest in a given sport; the desire to help sportsmen.

Like promotion, fairs or loyalty programs, sport sponsorship is a marketing tool which, if it is to be effective and influence the market, must be a part of a promotional campaign and one of many means used simultaneously [Pitts 2004]. The choice of sports as a medium through which to communicate is a strategic decision, the effects of which are noticed over a long time and are difficult to measure, a fact that can discourage managers from getting involved. The decision to sponsor a team involves answering some key questions; that is to say, engaging in sponsorship planning [Stotlar 2001, Shank 2002]. Such planning consists of the following steps:

a) defining the targets the company is going to achieve by communicating with the market through sports;
b) establishing a budget, which directly affects future decisions;
c) choosing the sport – it may be professional, amateur, popular recreational, teenage or one for disabled people;
d) deciding on the reach of sponsorship, which is connected to the area of the team's or individual's sports activity – it can be regional (if the beneficiary is a third-league club), national (first-league clubs) or international (clubs, players taking part in international sporting events);
e) deciding whom to sponsor – the company may sponsor a sports club, a national representation, a player at a sports event or a league;
f) choosing the type of sport depends on the company's target market, the aims to be achieved, the associations involved in the sport, and the profile of the public that tends to be involved with the sport.

There are many factors that influence how efficacious using sports sponsorship can be for a company. They may be divided into external ones, which are those not controlled by the sponsor, and internal ones, or those resulting from the sponsor's decisions and activities.

The factors which cannot be controlled by the sponsor include:

– the popularity of the sport – some sports are a more effective means of communicating than others, which should only receive support in the form of a patronage;
– the sport's success – that is, continuously repeated sports success, not one spectacular achievement; inevitably, this is the most important factor supporting the success of sports sponsorship;
– the popularity – in the media and elsewhere – of the player, sports group or sports club;
– the media getting interested – the media influences the achievements of the sponsor's aims to a huge extent (therefore sports club should enter into partnerships with these subjects from its environment);
– a clear, original and positive image more deeply influences viewers, so such images are more often used to spread the sponsors' announcements;
– the accessibility of the sports events to the perception of the viewers – viewers prefer being fans and the media prefer broadcasting contests that can be watched from upclose e.g. football matches; on the other hand, little interest is taken in gliding flights or regatta races;
– the marketing activity of the sports club – only those clubs managed with a view to marketing and which organise events that fulfil viewers', sponsors' and the media's expectations should count on financial success.

The factors which can be controlled by the sponsor include:

– long-lasting cooperation – sponsoring may be useful as long as it is long-term and consistent; it is difficult to expect good results after financing the club for only one season of games;

- promoting the support of sponsoring, which means communicating about the fact of sponsoring – giving a particular amount for sponsorship is not enough to make it effective; it must be "supported" by other means of promotion; it is estimated that such activities should account for 50% of the entire value of the sponsorship contract;
- carefully choosing whom to sponsor – the choice should correspond to the sponsor's expectations, the target group they want to communicate with and the values they wish to transfer;
- clearly defining the expectations the company has of the sponsored subject, to prevent conflict between the parties;
- The correct use of the rights and benefits coming from the sponsorship – the dislike of sponsoring sometimes results from management's lack of knowledge about how to use these means; this pertains particularly to the ability to use the fact of sponsorship in other promotional and marketing activities;
- clearly stating the aims of the sponsorship, which should account for the sport and team or individual chosen and the kinds of their involvement.

Deciding when to stop the sponsorship is another strategic decision that will eventually have to be made. It is important not to do it too quickly, as the effects of doing so may not boost expenditures [McDonald, Milde 1999]. The following are reasons to bring sponsorship to a close [Lagae 2005]:

- the sponsor has achieved its aims;
- when sponsorship is long-term, the individual or team being sponsored may become unable to fulfil the objectives the company initially approached with;
- the strategy of the sponsor's brand has changed, e.g. due to repositioning or a change of image;
- the subject of sponsoring stops being trusted or respected;
- the cooperation with the sponsored subject becomes more and more difficult, due to the lack of understanding or rising expectations;
- sponsoring became a hobby or is being continued as a tradition ("we have been sponsoring for a long time") but it has no relation to the company's current or future promotional activity;
- other subjects have approached the company, and may be able to more ably or quickly realise the company's promotional strategy.

The presence of at least one of the conditions stated above leads to the end of the cooperation. It's a difficult situation both for the sponsor and sponsored, so the sport or club/individual should be chosen only after thorough analysis of the company's financial and image-related goals.

EFFECTIVE SPORTS SPONSORSHIP

It is said that sponsoring is effective for the company only when it achieves its aims. Assessing effectiveness can be difficult for two reasons: first, the aims are not stated directly, clearly and quantifiably by the sponsor. and second, the final result is influenced by many activities and factors coexisting at the same time [Hernandez 2002]. So it is difficult to define what portion of the company's results was achieved thanks to the sponsorship and which to other means of promotion.

Shilbury et al. [1998] name four indicators used to measure the effectiveness of sports sponsorship:

a) the presence of the sponsor's brand – the achievement of the lowest effectiveness level of sport sponsorship is stated in numbers and the amount of time the sponsor's brand is shown during a TV broadcast and/or the number and size of photos on which the sponsor's logo is visible in printed media; at issue here is viewers' and spectators' perception of brand; stadium-going fans see a sponsor's brand on billboards around the field an estimated four to seven times during a game;
b) remembering the sponsor's brand as measured in days or weeks after the sports event – the subject of the research is spontaneous recall, as measured by spectators' ability to recall who the sponsor was, or, less directly, which of a group of presented brands belongs to the sponsor;
c) associations with the sponsor's brand – the sponsor's goal is to make the receiver of its communication associate the brand with the sports event or to associate the positive image of the winners with the sponsor; whether this is actually happening can be determined by research conducted ex ante or ex post on a chosen group of fans of a particular type of sport or sporting event; the subject of the research is the power of associations based on a logical connection between company and event (when e.g. a producer of car tyres sponsors a Formula 1 race) or a loose connection (a producer of building materials sponsoring a cycling race);
d) sales volume of products labelled with the sponsor's brand – The final aim of the sponsorship activities is to change the behaviour of the people the promotional announcements address; this is why the sponsor should conduct seasonal research, the results of which should enable them to estimate to what extent the sponsorship has influenced the rise in sales.

Each of these makes it possible to measure different results, so which indicator is used depends on the goal(s) the sponsor sets.

CONCLUSIONS

The effectiveness of sponsorship used as a marketing tool depends to some extent on how carefully the individual or team to be sponsored is chosen and matched to the company's marketing strategy, but mainly on the quality of the partnership between the sides. To realise the goals established for the sponsorship contract, all involved parties must actively participate. They should also first clearly define their expectations and capabilities, and also, to the extent possible, strive to fulfil the agreements. For the team or athlete, building a partnership with sponsors is a long process compounded by the fact that, on the sports market, it is necessary to build relationships with many partners simultaneously. This is why it is essential to implement systematic solutions that increase the probability of reaching long-term, mutual benefits.

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Summary. Sponsoring on the sports market should be treated not as a promotional tool, but rather as the act of building a relationship network, which is created and developed as the partners cooperate. Such a point of view brings about new challenges connected to managing a sports organisation and requirements towards positioning sponsoring in the marketing communication strategy of the sponsor to emerge in the context of expected effectiveness of all activities. The cooperation between a sports organisation and a sponsor requires a processual approach and the implementation of rules favouring the process of building a partnership. The process of managing the relations in the relationship network should be analysed on the strategy level, and consider the business and the expectations of each partner. Because those expectations can differ, and there may be a relative lack of desire to cooperate, which is rather common on the Polish sports market, managing a relationship network is a challenge that is difficult to coordinate.

Key words: sports sponsoring, partnership relations, sports marketing

JEL: M31, M37

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AGE MANAGEMENT AS AN OPPORTUNITY TO MANAGE EMPLOYEES EFFECTIVELY IN THE LIGHT OF DEMOGRAPHIC CHANGES

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INTRODUCTION

We are living in remarkably interesting times, which have been described by sociologist Z. Bauman [2006] as liquid modernity, a social construction describing cultural processes characterised by natural instability, constant change, uncertainty and other factors [Giddens 2001]. This kind of theoretical contemplation becomes a basis of new insight into what have traditionally been very practical problems. Functioning in the liquid world motivates both management researchers and managers themselves to constantly improve traditional management as well as to think innovatively about managing problems. Informed by philosophy, humanistic management has appeared, focusing on the human as an end in himself or herself [Kostera 2015]; or as T. Mendel [2004] says, introducing trends that are compatible with humanistic ideas into management practice. This allows managers to make use of and maximise the employee's personal potential.

Combining these ideas with a contemporary prognosis for Poland concerning the age structure of human capital on the job market, it is easy to provide the reasons for the popularity of age management theory in an organisation (see section titled *Defining age management and its benefits*). The goal of this article is to present problems which may appear from the employer's point of view as a result of changes in the country's social structure. Another aim is to present the opportunities and abilities that age management policy provides. The article examines the literature on the subject and age data for Poland. The article is divided into two parts: the first presents an analysis of demographic prognoses for Poland and describes the consequences of these changes employers may face. The second part discusses the benefits employers will reap from implementing age management policy.

FORECASTED CHALLENGES FOR EMPLOYERS

I conducted research for my doctoral thesis that examined age management in companies employing more than 250 people. The majority of the companies have not implemented age management policy in a systemic way and will not do so in the next 10 years. The data, which are raw, come from the research I am doing for my thesis. The research is based on interviews with representatives of companies employing more than 250 people.

Foreign research has also highlighted the paradox: while the business community is aware of the society aging and the implications it has for organisations, they usually do not take any strategic measures to address this issue but try to act on a temporary basis [van Loo 2011, Taylor 2011]. Such carelessness is surprising, mainly because there are demographic data indicating that the future human resources age structure is not predictable in today's liquid reality. In 2014, the Central Statistical Office of Poland (GUS) released a paper titled *Population projection for the years 2014–2050*, which examines the demographic aging of both the labour force and people of post-working age. Figure 1 shows the GUS article's predictions for the age structure of human resources on the job market over the course of several dozen years. The number of immobile employees will increase from 37.5 to 51.0%, while the number of mobile employees is predicted to fall to 49.0% from the 62.5% there were in 2013 [GUS 2014]. To demonstrate the scale of the problem, the data is presented quantitatively. Between 2013 and 2050, the number of available employees aged 18–44 will decrease from 15.3 million to 9.3 million, thus there will be 6 million fewer mobile people on the job market than there are now. At the same time, the number of employees between 45 and retirement age will increase by slightly more than 0.5 million [GUS 2014].

As Figure 1 shows, the number of immobile employees will exceed the number of mobile ones in 2035 [GUS 2014]. Companies should not wait to implement good practic-

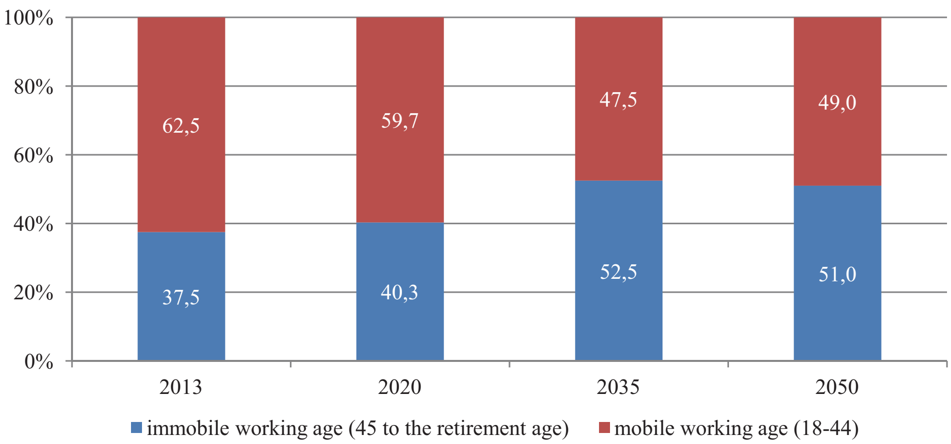

FIG. 1. Projection of human resources age structure on the Polish job market: for the years 2013––2050 immobile, working, and 45 years old to retirement age

Source: the author's own work on the basis of GUS [2014].

es in age management in order to be prepared for the upcoming changes. The demographic analysis should not be read as an emergency or destructive situation for employers but rather as a starting point to introduce changes in their human resource management. Given the prognoses, the following questions are worth considering: what challenges will the employers of the future face? What are the consequences of not implementing age management policy in organisations? What difficulties may employers encounter when the number of immobile employees increases relative to total employees?

To point out the main challenges and dilemmas entrepreneurs face, the method of projecting changes in an organisation developed by the philosopher and organisational theoretician R.F. Ackoff – namely the concept of idealised design – will be used [Ackoff et al. 2007]. In this process, the initial stage is called formulating the mess. Ackoff proposes to design changes by examining the negative aspects of organisational functioning and defining the consequences of failing to take remedial action. Hence, what can happen if organisations of the future do not introduce age management policy? There are four basic challenges (Fig. 2) organised according to the implementation schedule. Overcoming one difficulty will cause the next to appear.

Effective reaction to the first challenge would have a significant impact on a company's future. Statistical prognoses show that in the coming decades there will be a great deficit of employees aged 18–44 on the job market. Bearing in mind that an organisation's effectiveness depends on employee competencies [Rudawska, Szarek 2014], it can be assumed that because of the deficit of one group of employees, the structure of organisational competencies will change. To put it differently, when a company loses mobile employees, it also loses competency resources. According to data from the *Study of Human Capital in Poland 2012*, young employees are better educated and more eager to improve their qualifications, which is important for employers [Szczucka et al. 2013].

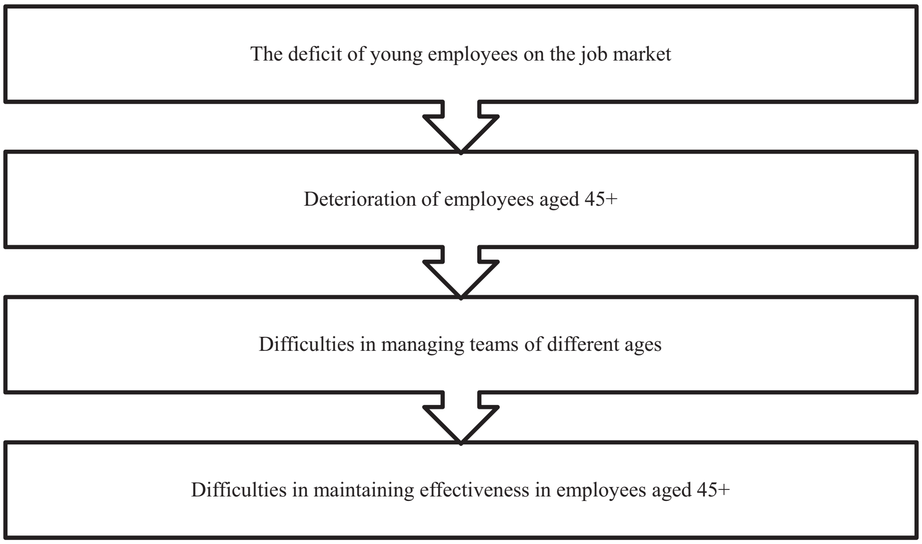

FIG. 2. Difficulties in age management
Source: the author.

The general opinion is that the young are more creative, energetic and flexible than their older colleagues, although not all studies prove that. An organisation's effectiveness in dealing with the first challenge comes down to measures to be taken in two main areas: the employer's image and the recruitment system. Changes in the structure of the job market can and most probably will effect the situation in which the candidate would be able to choose the most suitable company, not the other way round. Then, for candidates aged 45+, the main factor would be the image of an organisation as a friendly company. As Budny et al. [2013] have said, the process of affiliating should be adjusted to various age groups and it needs to concentrate on the assessment of competencies, not age. Defining abilities in a way that excludes older people ought to be avoided.

The second challenge appears when immobile employees are employed at the company. Their lack of activity can contribute to deteriorating health and physical condition. As the study shows, 30% of men and women aged 50–64 need their workplace to be modified because of health problems [Ilmarinen 2015]. Their most serious problems are musculoskeletal system and nervous system disorders. People over 50 years old suffer from the loss of physical strength: cardiorespiratory fitness and muscle strength diminish about 1–2% per year, starting from the age of about 30 [Ilmarinen 2015]. Such diminution may require a few different types of measures. Firstly, physically adjusting the workplace to the abilities of an employee is worth considering, thus looking at it from the ergonomic perspective [Szcześniak 2013]. Secondly, preventive programmes companies have introduced to concentrate on increasing the health awareness of employees are gaining in popularity. So too, and with all age groups, is the Life Course Approach, a personal policy programme focused on best adjusting working conditions to the needs and abilities of employees – from health protection to training and development policy [Liwiński 2010].

The next issue in effective age management policy is integrating employees of different ages to respond to various needs and expectations. Together with the rising number of immobile employees, their opinion is becoming more and more respected in the company. Thus the integration policy needs to be highlighted to exclude any signs of discrimination or unfair treatment. The Employment Framework Directive released in 2000 by European Communities addresses issues of discrimination [Council Directive 2000/78/CE]. It specifically forbids age discrimination (and other kinds of discrimination) in employment, vocational education, advisory services and participation in organisations. According to Liwiński and Sztanderska [2010], the application of directives may result in gradually overcoming the barriers elderly people encounter in recruitment, training and promotion situations, and eliminating stereotypes concerning older employees. Moreover, building diversified teams encourages the exchange of experience and knowledge between individuals of various age groups.

The last key challenge facing employers of immobile individuals is the difficulty they have in maintaining high employee effectiveness at work. Studies show that one of the most common reasons for an unwillingness to employ such people is the concern that the quality and efficiency of their work may be lower [Wiśniewski 2009]. In this sense, it is essential to concentrate on the art of recruitment and not treat all groups the same [Urbanik]. If the level of employee competency and the individual approach to candidates are both taken into consideration, it is easier to choose the best candidate in a disinterested and unprejudiced way.

Both scientists and managers have developed good practices and tools to overcome these difficulties. A detailed description of those methods is not included here due to space limitations. Nonetheless, overcoming barriers to the implementation of age management will help companies get ahead.

DEFINING AGE MANAGEMENT AND ITS BENEFITS

Before introducing the benefits of age management, the definition itself ought to be examined. As stated in the introduction, the foundation for the definition should be sought in humanising theories of management. An apt definition has been established by the Polish Agency for Enterprise Development (PARP). An AED document states that age management today should be treated as a set of employer actions toward the employee, which aim at improving the workplace standards and its habitat, as well as increasing the possibilities and abilities to perform tasks and duties, taking the age of employees into account [PARP 2010]. Another definition is presented by Liwiński and Sztanderska [2010]. They maintain that age management is an element of human resource management, precisely, diversity management. It is realised through various measures which allow for more rational and effective human resource exploitation through including the needs and abilities of employees of various ages.

Implementing such measures can produce measurable results, both economic and otherwise. The following are some of the key advantages of instituting age management policy in a organisation: greater senior employee loyalty, attracting competencies which clients value to the organisation, presenting the company as senior-friendly, keeping knowledge and competencies within a company and advantages of employee diversity.

Greater senior employee loyalty

As Kędziora and Łojowska note [2010], one of the merits of introducing age management policy into a company is that it leads to a higher level of loyalty among senior employees than their younger colleagues. People who work in an organisation for a long time often appreciate stability more than changes, which limits the risk that they will quit the company. Junior employees often look for new development possibilities, also outside the company. Thus it happens that an employee bears the costs of training but does not profit from it.

Attracting competencies which clients value to the organisation

Senior employees are very often regarded by clients as highly professional and reliable people. Empirical studies conducted in real companies representing various businesses bear this out. For example, patients at one Lithuanian hospital prefer being under senior doctors' care because they trust them more than young doctors [Wiśniewski 2009]. Similar experiences are visible in the banking industry (e.g. Alior Bank). The positions of consultants and account managers are more suitable for people over 40 years old since they are perceived as more trustworthy than their younger counterparts [Kwiatkiewicz 2010]. In turn, guests in a Portuguese hotel stated that senior employees created a warm atmosphere [Wiśniewski 2009].

Presenting the company as senior-friendly

As mentioned earlier, demographic changes can lead to a lack of employees on the job market in the future. That is why creating the image of a socially responsible organisation open to candidates of various ages is vital: it attracts talented candidates who would like to work in a flexible, open and tolerant environment; it also promotes the corporate image both in local communities and among clients [Kędziora, Łojowska 2010].

Keeping knowledge and competencies within a company

An important advantage of implementing good practices in age management that many often forget is that keeping competencies in-company increases company effectiveness. Recent decades have shown that know-how and employee knowledge are fundamental company resources in times of constant change. According to Muukka [2012], large enterprises are finally aware of how many unexploited resources there are within an organisation, and that these resources have the biggest impact on gaining competitive advantage. Age management promotes practices which allow the organisation to keep its competencies, mainly through sharing knowledge and pairing pre-retirement aged employees to carry out tandem tasks with their successors. Such programmes have been popular at Deutsche Bank [Wiśniewski 2009] and Sonnentor Kräuterhandels GmbH [Employers… 2012], to name two.

Advantages of employee diversity

Human resources managers more and more often see the benefits of employing people of various ages, which results in them creating age diverse teams. Thanks to the experience and viewpoints they enable, diversified organisational structures react better to changes on the market and solve problems more effectively. Liwiński and Sztanderska provide examples of companies in which creating teams consisting of employees of various ages proved more effective because of competences and the combination of individuals' potential [Liwiński, Sztanderska 2010]. Other studies show that older employees are more focused on the team's interests than on their own. That is possible because older employees tend to compete less, and the ability to build relations and cooperation increases with age [Kędziora, Łojowska 2010].

CONCLUSIONS

While this article naturally does not address all the benefits of age management policy, the ones described may form a subjective catalogue to assist employers facing challenges on the contemporary job market. The information presented in the article should compel scientists and practitioners to treat age management issues more seriously. The initial results of my own studies as well as the statistical data show that a change in organisational structure is inevitable. Thus emphasis should be placed on integration and intergenerational cooperation. Prediction difficulties that may appear in age management demonstrate that implementing this policy is not easy, but it is profitable from both a humanistic and economic perspective. It is worth considering which direction research should take to solve key social problems. There is not much on the subject in the Polish literature, and the majority of what has been written is not scholarly but rather journalistic. Further research on this topic is essential, and would do well to take ideas from humanism and radical structuralism into consideration since they assume that science should seek to improve the world and advise humans on how to live better [Burrel, Morgan 1979]. Age management requires a practical approach, and the role of science in this case should take a back seat to business.

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Summary. The goal of this article is to analyse the main threats and benefits that accompany the implementation of age management policy, a method that enables workers aged 45+ to be highly effective. The article presents a demographic prognosis on the changing structure of human capital in the labour market, which determines the growing importance of age management in enterprises. The text contains an analysis of the key threats arising from a lack of employer action on age management, and the benefits that may be gained from age management policy. The article also examined the inevitability of changes, which will appear in the age structure of Polish people in the labour market and in companies. These particular changes will determinate plenty of consequences, mostly for employers, because the new personnel will require a slightly different management approach. My intention is to adapt the work to the requirements of the scientific community, as well as to the needs of labour market experts and business practitioners. This is why the paradigm of radical humanism was chosen for the article.

Key words: age management, older workers, labour market

JEL: J14, M54

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