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INCENTIVE METHODS OF REGULATION IN NETWORK INDUSTRIES

Alena BAŠOVÁ

Abstract

Incentive methods of regulation provide appropriate incentives for regulated monopolies that provide them with return on the investments and protect all consumers from unwarranted increases of energy prices. Consumer protection has become one of the main policy objectives in Europe. This paper aims to characterize regulation in energy sector in EU. Most of European countries use two basis incentive methods of regulation: price cap and revenue cap, which set maximum of price or maximum of revenues for provided goods or services. These two methods are stimulated method. Price cap sets the price according to price cap index, which reflects the rate of inflation within society and increasing in input prices. This method allows regulated entities to retain profits made when they cut costs and improve efficiency. It is a method that uses a system of incentives - rewards for efficient behavior of monopolies or on the contrary a system of penalties where monopolies do not reduce their costs and do not follow society-wide goals.

Keywords

regulation, incentive regulation method, price cap, revenue cap, energy sector, provided goods and services.

JEL Classification: G31, G38, G33

Introduction

Regulation in general we can define as the control, guidance and of steering economic activities of the private sector, by State, to ensure economic efficiency, justice, security and health. This is basically an effort of state through legislative measures to prevent unwanted the enforcement of activities of companies, or on the contrary encourages certain activities. Incentive methods of regulation provide appropriate incentives for regulated monopolies that provide them with return on the investments and protect all consumers from unwarranted increases of energy prices. Consumer protection has become one of the main policy objectives in Europe. Protect the most vulnerable consumers, apply each Member State individually, taking into account the specific conditions of the member country.

Theoretical approaches to regulation

Aim of regulation is the correction of negative influence of natural monopolies in a market economy so that it designed the regulatory rules for the reduction of energy inputs.

As the authors Baldwin, Scoot, Hood reported:

1. Widest concept of regulation includes all the mechanisms of control of the company,

2. The regulation is seen as way of governing (governance), while the government agency taking care of the control and management of the economy,
3. Regulation as a specific form of government, with the use of a summary of the rules in solutions to the economic problems.

Baldwin states that the reasons for the economic regulation are: externalities, transaction costs, asymmetric information, monopolies, scarcity of goods, the need to provide public goods and, finally, the need to protect the interests of future generations. Regulation on macro level is an application of macro-economic elements of planning which are in market economies known as indicative planning.

Regulation on micro level aims to create business rules and their subsequent control. The aim is to create a legislative framework for business activities and eliminate information asymmetry in the relationship between the producer and the consumer, further support the competitive environment, preventing abuse of dominant monopoly position by applying the subsequent penalties for their illicit behavior.

In theoretical level a new point of view on the regulation introduced Stigler (1971) that he analyzed the benefits of the regulation. To Samuelson's conception of regulation in the public interest, or in the interest of regulator, Stigler adds the interest of the regulated subjects. The most widespread form of regulation is the regulation of the public interest, which is aimed to correct market failures, eliminating

information asymmetries and limit the impact of powerful interest groups.

The theory of public interest intertwined with the Olson's theory, which analyses interest groups or the theory "regulatory capture" which was elaborated by Stigler, Peltzman and others. The theories which are based on an analyze of the interests is developing by Chicago's school,. In Europe this point of view represents the Toulouse School - the main representative is Laffont whose refuse the regulation because it is a tool to gain political power.

This problem is solving by the institutional economics, which is oriented on social relationships and institutional arrangements. The theory of transaction costs is connected with problem of asymmetric information, as Allen refers. In this case, the regulator has a different level of information as regulated enterprises (information about costs, revenue, and demand) and the effective regulation must set up the new rules for providing adequate information from regulated companies. The negative consequences of regulation are: Regulatory Capture, information asymmetry and regulatory risk.

Regulatory Capture

The biggest danger of regulation is the possibility of abuse, control of the regulatory body by regulated, monopolistic companies. These regulated companies deform the aim of the regulatory policy according their own interests. Regulated entities, enterprises offer closure of tacit agreements and regulatory regime is adjusted for their benefit, while sometimes also offer remuneration to staff of the regulatory body, Next problem of the effective regulation are cross-subsidies and unclear, obscured costs. Large companies their losses from unprofitable activities compensate from more profitable services and therefore their costs are unclear.

Information asymmetry

Truthful information is the basis for the correct setting of regulation. While the regulated subjects have information predominance because they know their cost conditions more detail as the regulator, they can earn monopolistic profits from these unclear information. The reason is that the same regulatory

conditions must be offered to all enterprises and thus the firms with lower unit cost earn more than others. The solution is to find a compromise between allocative efficiency (when the price is close to marginal costs) and reducing the "information profits."

The regulatory risk results from these factors:

1. If monopolistic company expects further entry of competitors to the industry and assumed that the creation of prices will be closer to marginal costs, the monopoly company's is discouraged from a new investments to new technologies and innovations, because the rate of return of these costs is is threatened .
2. Stricter rules to protect the environment.
3. Restructuring of monopoly companies to increase competition in the sector. The regulator may recommend the restructuring of monopoly companies to more divisions or more companies and according to activities or regions - horizontal or vertical separation.

These dangers in the regulatory process require new rules for effective regulation. In economic literature, as I have mentioned, there are four main reasons why state interferes to economy. There are:

1. The existence of public goods
2. Externalities (the polluted environment, development of transport infrastructure, etc.)
3. The information asymmetry (as a single economic entity prevails over the other in decision making)
4. The existence of natural monopolies.

The aim of optimal regulation is profit maximization of regulated firms (π). Net profit of the company is:

$$\pi = p * q - TC(q),$$

where:

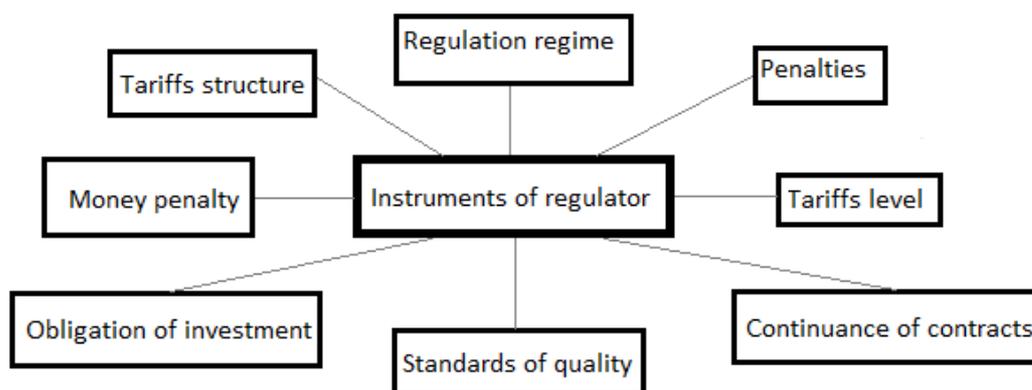
p = unit price of production

q = quantity of production

TC = total cost of production.

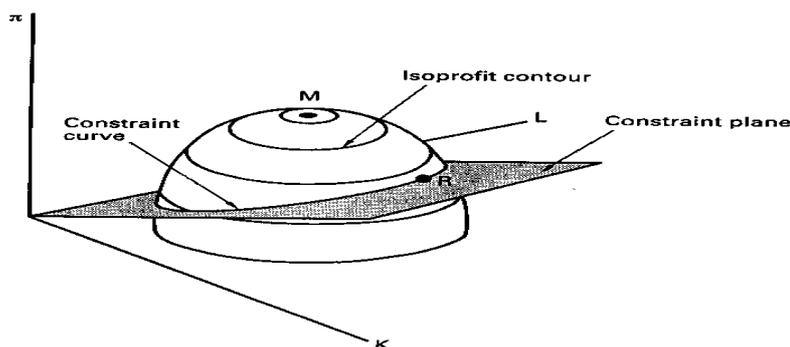
The main objective of the regulator is achieved through partial objectives: eg. ensure the fullest possible coverage of the territory of a given service at the lowest price and in the shortest time. Achievement of these objectives leads the regulator to the application of various regulatory tools.

Diagram 1: Tools the regulator



Source: own processing according to studied literature

Chart 1: Constrain plane



Source: Train.K.E.:*Optimal Regulation. Theory of Natural Monopoly.* University of California, Berkley.s.36. 1995. p 33 .ISBN 0-262-20084-8

Regulator to achieve their goals used mainly price regulation which tools can be divided into three groups:

1. The cost regulation of services (rate of return regulation or direct price fixing)
2. Regulation - based on incentives ("incentive regulation").

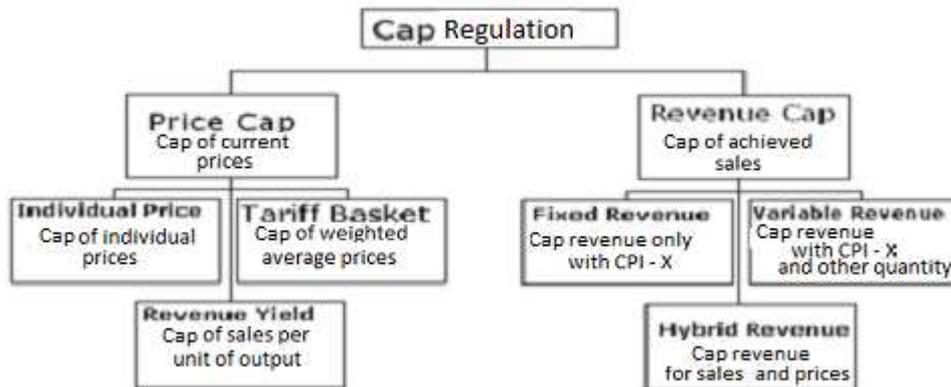
This includes:

- Cap regulation - the determination of ceiling for prices
 - Yardstick regulation - Regulation of standards
 - Performance regulation - regulation based on performance
 - Franchise regulation - regulation under the concession.
3. The hybrid control modes.

The most widely used cost regulation is the regulation of the Cost - ROR - Rate of Return Regulation, which belongs to the Non stimulant methods of regulation. Income of the company is defined as a allowed percentage of invested capital or total cost. In this method of regulation is secured return on investment and the creation of a reasonable profit, which does not exceed specified limit controller. The disadvantage is that it does not stimulate the regulated company to save.

The maximum allowed profit is located on the constrain plane and it is the point A. The company can achieved profit, which is below the constrain plane. Regulation based on incentives (incentive regulation) arose as an alternative to the previous cost regulation. It is a type of regulation that determines the upper limit. For the first time was applied in the UK in the 80s of the 20th century for companies providing public goods. The diagram of this regulation is below.

Diagram 2. Cap Regulation



Source: own processing according to studied literature

Price cap regulation has several forms, but for purposes of this article we will describe by Acton a Vogelsang, who consider the Price Cap (regulation ceiling) subject to the following conditions:

- State or his nominee regulatory authority determines the maximum price that can be realized in the market.
- upper maximum limit is determined for the basket of consumer goods and services,
- maximum limit prices are exchanged at regular intervals = regulatory period,
- After determining the maximum price should not change the way pricing.

Where:

q_{ij}^{t-1} = quantity sold (provided) goods, of services ij in period t-1

p_{ij}^{t-1} = price of goods ij in period t-1

p_{ij}^t = price of goods ij in period t+1.

Method "Revenue Cap" (maximum yield) can be:

$$R_t = R_{t-1} * ((\alpha * (O_t/O_{t-1}) + \beta * (C_t/C_{t-1}) + \theta)^{\pi} * (1 + CPI_t - X_t)).$$

Price Cap determines: Price cap determines:

1. The unit price of products or services according to the formula

$$P_{ti} = (1 + CPI_t - X_t) * P_{t-1i},$$

Where P_{ti} is the price per unit of the i th of services (production) in the previous regulatory period.

2. The aggregate price of all products or services, use the following formula :

$$(1 + CPI - X) \geq \frac{\sum_{i=1}^n \sum_{j=1}^m p_{ij}^{t+1} q_{ij}^{t+1}}{\sum_{i=1}^n \sum_{j=1}^m p_{ij}^t q_{ij}^{t-1}}$$

Revenue cap - fixed - determined by the maximum individual revenues of goods or services by the formula

$$R_t = (1 + CPI - X) R_{t-1}.$$

Revenue cap – variable:

Where: R_t = revenues in period t

R_{t-1} = revenues in period $t-1$

Q_t, Q_{t-1} = the quantities of product made in period $t, t-1$

C_t, C_{t-1} = selected cost items in period $t, t-1$

α, β, δ = formula parameters that express the weight of indicators such as the number of delivery points, amount of the harvested of the product, losses.

Table 1: SWOT analyze of Price cap

STRONG	WEAK
Reliability Orientation of companies to reduce costs Increasing the efficiency of the invested capital Higher profits Benefit of consumers (lower prices) Benefit of the shareholders (dividends above)	Declining quality of goods and services The problem with setting the X factor Preference short-term investments
OPPORTUNITIES	THREAT
Prices stable in the regulatory period Appropriate determination X Factor Compliance with quality standards	Undercutting of productivity growth Unclear formation of prices

Source: own processing

Conclusion

The widest concept of regulation includes all the mechanisms of control of the society, while some authors state that the most important form of regulation is economic one. The reason for economic regulation are a few, are the most important externalities, transaction costs, asymmetric information, natural monopolies, scarcity of goods, the need to provide public goods and, finally, the need to protect the interests of future generations. The most widespread form of regulation is to regulate in the public interest, which monitors the welfare of all citizens, focusing mainly on correcting market failures, removal of information asymmetry and mitigate the effects of powerful interest groups.

One of the possible negative consequences of regulation is information asymmetry, when the controller has a different level of information than a regulated entity, such as information about costs,

revenues, demand. Another problem of the effective regulation are cross-subsidies and unclear, obscured costs. Consequences of the information asymmetry are mainly used by large companies that losses from unprofitable activities compensate from the more profitable services, and therefore their costs are unclear. So effective regulation must establish rules for the provision of sufficient information from regulated entities. In order to increase competition in the sector, the regulator may impose a monopoly on the division of more companies and by activity or regions.

For setting the effective regulation is important also regulatory mode, while the EU prefers incentive regulatory methods that bring economic effects for also regulated entities in the form of return of investment. It brings Benefits for consumers of this form of regulation are overview of energy consumption, the possibility of changing supplier as well as continuous price reductions.

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GLOBAL LOGISTIC CLUSTER: THE FUTURE SUPPLY CHAIN WITHOUT HUMAN INTERFERENCE

Valentas GRUŽAUSKAS, Rusnė JEGELAVIČIŪTĖ, Mykolas NAVICKAS

Abstract

Globalization has dramatically changed the competitiveness environment. In the past, the competitiveness environment used to be more stable and did not require the supply chain to be resilient. The disturbances have caused the supply chain to increase costs and lead-time. Moreover, the consumer trend for high quality products, with minimal costs and just on times limits the competitiveness of the supply chain. The majority of research recommends to implemented logistic clusters to minimize these negative effects and maintain competitiveness; however the research does not consider the management part of the logistic clusters. The authors indicate that a concept of cyber-physical systems can be used to limit the trade-offs in the logistic cluster management. The main finding is that these technologies enables the supply chain to gather information, process it and utilize the information by using innovative technologies such as autonomous vehicles. The developed methodology based on these trends can be used to implement a global logistic cluster without human interference. The created methodology could minimize the trade-offs in the supply chain, which are necessary with the current understandement of supply chain management.

Keywords

Supply chain, logistic cluster, industry 4.0, self-driven vehicles, innovation

JEL Classification: L91, P25, O32

Introduction

History has revealed the need of innovation and technological development. In the past our ancestors gathered herbs, later started growing crops and breed animals. In the 18 century, the industrial revolution began. New types of manufacturing processes appeared which minimized the production costs dramatically. Today due to developed innovative technologies (e.g. internet) it's necessary to change the way of thinking like in the industrial age and to start thinking innovative as it should be common an information age. The rules that worked in the 20 century are not working today, because new concepts developed – Internet, Internet of Things (IoT), autonomous vehicles, e-platforms, robotics etc. These innovative technological developments are heading towards a fully industry 4.0 concept which still is developing and currently is only a scratch of the surface. Many people might argue if technological innovation will really reach higher peaks, however the lessons provided from the history can prove it.

The whole economic cycle is based on expenditures, income, credit and how fast everything is done. Newer production methods, processing types, information flow are increasing the productivity, which directly influences the growth of economy, therefore innovations, which increase productivity are inevitable. The best innovative technology, which made a huge impact to the world's economy is internet. Internet allowed to distribute information

much faster and cheaper. The result of that is globalization, which pressure every enterprise is feeling. The internet allowed all people to easily access products and services from around the globe. Companies like Amazon, Uber would have been not possible in the past. Uber is the world's largest taxi company, which owns no vehicles. Facebook is the world popular media owner, which creates no content. Alibaba is the most valuable retailer, which has no inventory. Companies with minimal owned capital are growing rapidly. Currently the competitiveness advantage shifted from cheap production to distribution of services, information and products. Production costs has gone down dramatically in recent years, however the supply chain still needs optimization.

The innovative approach indicates are shift of business models in the industry, however innovative technologies implementation in the supply chain can also cause the industry to adapt to the information based businesses. The necessity to innovate the supply chain can be also recognized from the food industry's case. By 2050 it is estimated that the world population will reach 11 billion people, which the majority of them living in urban regions (Parfitt et al. 2010), (Food and Agriculture Organization 2015). The current supply chain is ineffective and produces a lot of food waste, therefore the current supply chain must be changed. The authors' literature analysis indicates the most influence technologies for the supply chain, which connects information gathering, processing and

utilization concepts is cyber-physical systems. The implementation of these systems together with a global logistic cluster can provide efficacy to the current supply chain. The created methodology recommends forming a global logistic cluster, which management would be controlled through technologies. This approach could change the current supply chain and provide more sustainable supply chain management. Currently many researchers urge to make trade-offs in supply chain management, however by using innovative technologies the trade-offs can be minimized and low costs and low environment impact can be achieved.

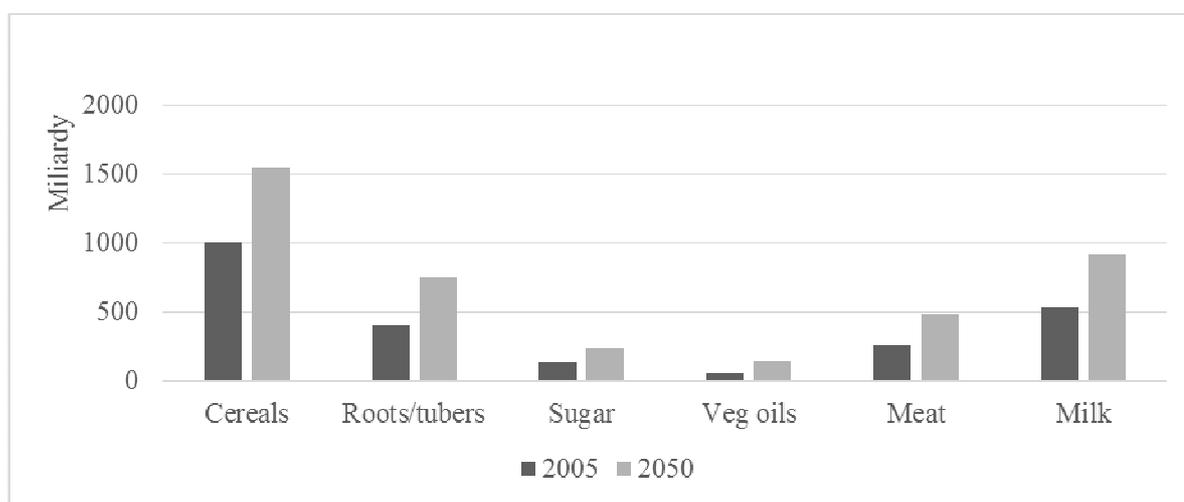
Therefore, the goal of the paper is to develop a methodology for global logistic cluster by using innovative technologies for management aspect. To accomplish this goal several objectives must be accomplished:

1. Identify the problematic areas of the current supply chain;
2. Identify the most influence innovative technologies to the future's supply chain;
3. Model a methodology for a global logistic cluster implementation.

The Necessity to Innovate the Food Supply Chain

One of the key industry's which will face challenges in the future is the food industry. The consumer is demanding for qualitative food, which would be organic and would fit their needs. The obesity problem is rising dramatically, especially in the USA. Unfortunately, the problem is still not solved and in the future, it can get even worse, because of several reasons. Firstly, the world's population is expected to reach nine billion by 2050 (Parfitt et al. 2010), which will increase not only the food demanded but the necessity to reduce lead-time. "As the entire farm to fork cycle is being squeezed to provide short lead times and efficiency, supply chain designs have to rely heavily upon logistics and warehousing functions that provide temperature conditioned transport and storage, and increased use of advanced information and communication technologies. Recent research states that in perishable-product supply chain design, a trade-off should be made between transportation costs, shortage costs, inventory costs, product waste and expected shelf-life losses and quality decay" (Dani 2015).

Figure 1: Food consumption, major commodities (kg/year)



Source: own processing by Food and Agriculture Organization, 2015

Consumers not only need a variety of food, but also organic with as less as possible of chemicals and pesticides. The demand of food demand will increase dramatically (see. figure 1) due to population growth. Currently there a huge problem in the food supply chain, because the lead-time and clarity is not sufficient, therefore there is a lot of waste of food. "Between the farm and the fork, roughly a quarter of food calories are lost or wasted" (World Resources Institute 2013). The lack of infrastructure in many

developing countries and poor harvesting/growing techniques are likely to remain major elements in the generation of food waste (Parfitt et al. 2010). Another difficulty that awaits the food industry is urbanization level. Urbanization will continue at an accelerated pace, and about 70 percent of the world's population will be urban (compared to 49 percent today) (Food and Agriculture Organization 2015). The urbanization will cause huge problems to the supply chain. Currently, the urban logistics costs consist of 28%

from the total logistic costs, which makes the largest part (Lau 2014). The consumers not only demand for quality and fresh products, but also delivery to their doorstep, because everyone lacks time now. This problem can be solved by promoting the small-scale farmers, which should fulfil the food demand. "Small-scale farmers produce over 70% of the world's food needs (Nations 2015)". These trend will cause the supply chain to be even more complex and increased complexity will limit the supply chain's ability to cope with disturbances. In the future disturbances to the supply chain will increase even more due to decreasing population density and changing climate. Christopher and Holweg (2011) stated that current supply chain management models emanate from a period of relative stability, and second, that there is considerable evidence that we will experience increasing turbulence in the future (Christopher & Holweg 2011). For the supply chain to be effective in the future collaboration and open data must be promoted, however then many difficulties awaits, which must be solved by using computers and not human interference. Otherwise, it will be impossible to reduce food waste and maintain high quality level. Therefore, it is necessary to promote innovations to secure economic growth and better life quality.

Innovative Technologies Influencing the Supply Chain

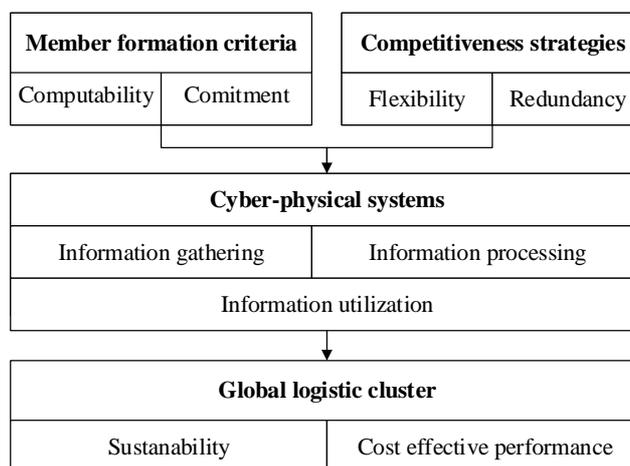
In the past enterprises had 1 accountant for 3 people, however today due to technological growth the cost of communication has decreased dramatically. The world's the GDP per capita, which increased approximately 10 times due to technological growth. Innovations in the supply chain has also optimized the whole process of management. Internet of Things allows to gathered transportation information in real time. The gathered information is analysed by using the big data concepts, which allows making micro decisions in the business process, which were not possible in the past. Some people may think that this is already an industry 4.0 concept, however it is only the scratch of the surface what will be possible with a fully autonomous supply chain (pwc 2016). The autonomous vehicles already are being tested as a public transport method to replace taxis, buses etc. (Bloomberg 2016). People can order autonomous vehicles to pick them up and to drive them where needed. This will utilize the roads, vehicles and time even better than traditional transports. A similar situation will be possible with the supply chain. The newly developed autonomous trucks will change the industry, as we know it. Recently an autonomous truck made its first delivery in the USA (Bloomberg n.d.). These all innovative equipment will influence the current supply chain. A concept, which includes

information gathering, processing, utilization and management, most, be overviewed in order to model a proper methodology for supply chain management. The concept, which combines all these aspects is called Cyber-physical systems (CPS). This systems combines several functions, which helps to not only connect the physical world to the internet, but also allows for the system based on the processed data make decisions. These functions are integration, sensors, information and data processing, automation and control, networks, actors, adaptability. Firstly, it is important that all the supply chain members can have a certain integration level, which would provide visibility to the chain. This can be achieved through sensors, which can gather information from the whole supply chain. Visibility improves decision-making, however data processing is essential to increase the efficiency of the supply chain. The current technologies focused on decision support systems, however today with automation and control the system it can make decisions instead of human's e.g. autonomous vehicles. For the system to be effective, everything must be connected in to a network with certain actors, which helps to manage and process all the information. Lastly, the system must be adaptability - have the ability to change itself based on previous experience. The CPS concept is being analysed by various institutes around the world. For instance, the research for CPS in Europe is multi-dimensional with several European actors - European Union, the Joint Technology initiative (ECSEL) and International Test and Evaluation Association (ITEA). The EU estimated the impact of CPS for economic growth and increase in employment of around 250,000 jobs with more than 100BEuros of additional investment (Commission 2013). It might seem that these systems will remove human interaction in the supply chain, however it is simply a shift of skills. Frazzon et al. (2013) identifies that even though CPS strongly rely on technological advancements, the creativity, flexibility and problem solving competence of human stakeholders is strongly needed for their operation (Frazzon et al. 2013). The CPS concept can also reduce costs in terms of maintenance. Rise of cyber-physical systems (CPSs) and smart, connected equipment paves the way for additional opportunities for the service business among the lifecycle and pivots of traditional maintenance, repair and overhaul (MRO) service business (Herterich et al. 2015). Oborski (2016) also identifies that connection of technical systems, machine tools and manufacturing processes monitoring with advanced information processing seems to be one of the most important areas of near future development. It will play important role in efficient operation and competitiveness of the whole production system. It is also important area of applying in the future CPS that

can radically improve functionality of monitoring systems and reduce the cost of its implementation (Oborski 2016). Trappey et al. stated that CPS is the core technology enabling the transition from Industry 3.0 to Industry 4.0 and is transforming global advanced manufacturing (Trappey et al. 2016). However, for supply chain management this concept

must be implemented not in an organization scale, but in a region, or country scale. Tachizawa et al. suggests that smart cities and big data alone have limited capacity of improving supply chain management processes, but, when combined, they can support improvement initiatives (Tachizawa et al. 2015).

Figure 2: Global logistic cluster formation methodology



Source: own processing

To effectively use the cyber-physical systems a logistic cluster should be formed. Fig 2. Identifies the key criteria, which should be considered when formatting a logistic cluster. Firstly, the members for the cluster should be chosen based on computability criteria and commitment. The members should be compatible and should be working in a common industry. In addition, they should decide on a proper commitment level, which is necessary for a useful logistic cluster formation. Mainly, there are two approaches to have competitiveness advantage for a supply chain. The supply chain can be flexible, have an ability to quickly adapt to changes in the chain or have redundancy, anticipate and be prepared to deal with upcoming disturbances. The management of the cluster and the best combination of these approaches can be obtained through cyber-physical systems. Then the logistic cluster can maintain sustainability and cost effective performance, which would lead to a long-term competitiveness advantage.

Implementation Possibilities of the Global Logistic Cluster

The benefits of collaboration and logistic cluster formation has been widely researched. Nie and Sun (2015) identified that search costs are an extremely important factor in the formation of industrial clusters that can give rise to industrial clusters in certain industries (Nie & Sun 2015).

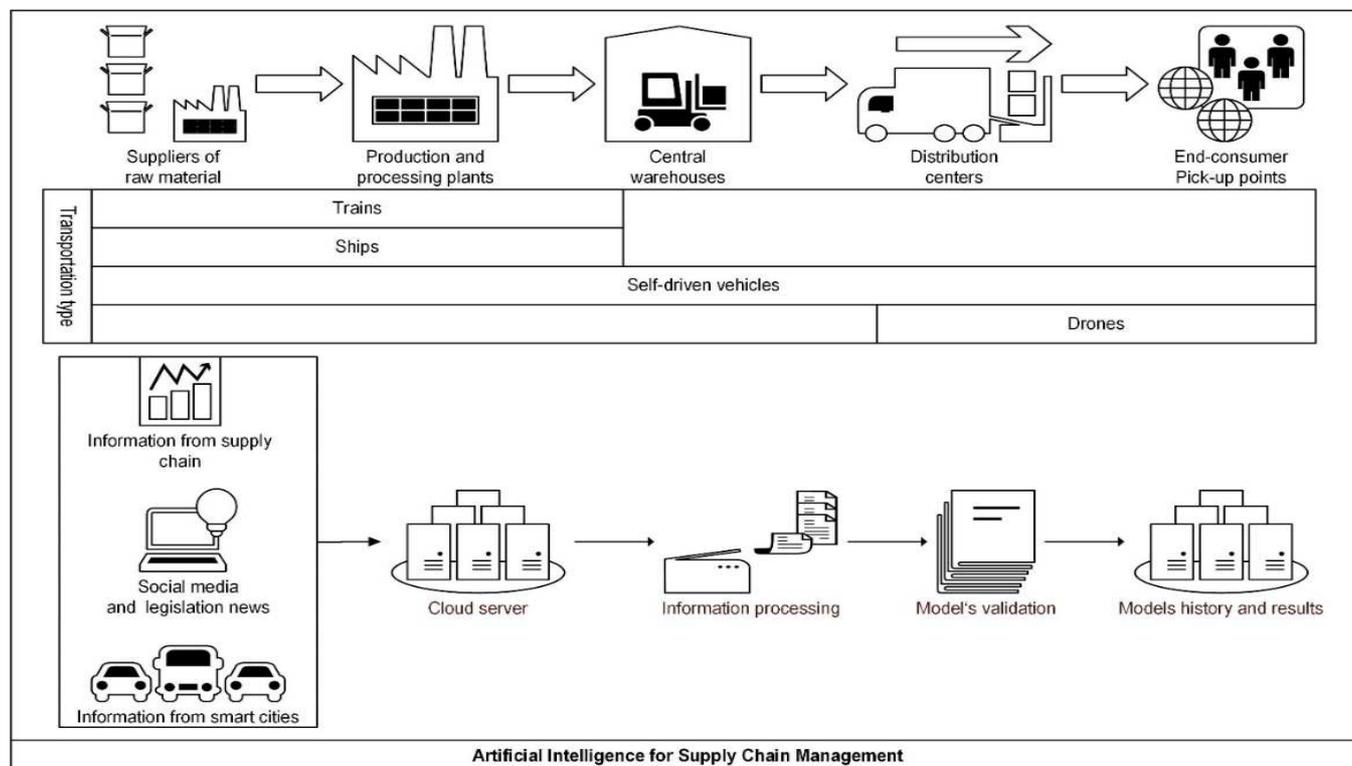
Industries located in a strong cluster register higher employment and patenting growth. Regional industry growth also increases with the strength of related clusters in the region and with the strength of similar clusters in adjacent regions. We also find evidence of the complementarity between employment and innovation performance in regional clusters: both the initial employment and patenting strength of a cluster have a separate positive effect on the employment and patenting growth of the constituent industries. Finally, we find that new regional industries emerge where there is a strong cluster (Delgado et al. 2014). Buxmann et al (2008) identified that the centralized coordination scenarios usually lead to superior results compared with different decentralized approaches in the field of procurement planning and distribution planning (Buxmann et al. 2008). Lee et al (2014) results show that collaboration visibility positively influences overall supply chain performance, as measured by operational performance (Lee et al. 2014). However, only a limited amount of research amplified the management aspect of collaboration.

To successfully implement the innovative technologies in the current supply chain a world-wide logistic cluster should be implemented. The main idea is to share information between the members of the cluster, to process it and to utilize the information by using self-driven vehicles. To accomplish this multiple warehouses should be developed in the continent, between which self-driven vehicles would

drive continuously. By gaining enough members, the trucks should always be full by gathering partial freight. Later, from the central warehouse the cargo would be distributed across the region, which smaller

trucks or drones. However, the practical implementation possibilities of this approach has many limitations.

Figure 3: Global logistic cluster methodology



Source: own processing

Imagine a possibility that a large number of enterprises can communicate together through a platform, place orders, which would be picked up with autonomous vehicles, they would be delivered to consolidation centres and then distributed around the region. Small quantities would be delivered with drones, while larger ones with smaller autonomous vehicles. In addition, computers would do all of this – artificial intelligence (see fig. 3). The process of human thinking still needs to be reproduced by the computer, however even today there are super computers developed, which shows tendencies towards a full artificial intelligence. Watson is a super computer, which can describe and answer complex questions, which are creative and has a hidden meaning. The computer system was specifically developed to answer questions on the quiz show Jeopardy!. In 2011, Watson competed on Jeopardy! Against former winners Brad Rutter and Ken Jennings. Watson received the first place prize of \$1 million (IBM 2012). Imagine similar computers like Watson can make business decisions instead of people. Can a fully autonomous supply chain without human interference be a reality in the future? I would say that defiantly, and that it is a necessity to do so,

there are various sources to prove it (DHL Trend Research 2014). However, there are many limitations in the practical implementation of the fully autonomous supply chain concept.

The current technological level still has limitations, which must be addressed. Autonomous vehicles must communicate with everything around them, to do so extremely short information transmission time are necessary for trucks to communicate together when they meet each other in a crossroad. Elon Musk is planning to launch satellites which would cover the whole globe with Wi-Fi, therefore these limits are only temporary (The Guardian 2016). Many cities infrastructure lacks the concept of smart cities. Internet of things concept has developed dramatically, however it still lacks adaption to current infrastructure. The smart cities concept allows to optimize energy efficient, but also provide useful information to such kind of distribution systems, however they still lack a lot of capital and restructuring. However, many cities are starting to see the potential and change their environment to fit the need of the upcoming industry. E.g. Singapore, USA, Netherlands. Artificial intelligence based business decision making involves a lot of risk and is

not guaranteed. Business decision-making process is complex and it is even harder to reproduce the process with artificial intelligence, however there is already a lot of computerized processes, which enables real-time business decision making. However, a fully autonomous supply chain still lacks the correct level of artificial intelligence. The combination of information gathering, processing and utilization is just developing. The next difficulty when infrastructure, data and algorithms will be available will be a difficulty to combine everything together. Currently the cyber-physical system concept is being used in the production area, however the supply chain still is under development. The biggest problem would be to store every information in a server and based on that information an artificial intelligence should learn and teach itself how to make better decisions. The data can be gathered and algorithms are available which could start making decisions, unfortunately the storage devices must still be developed, to maintain all the data that could be generated through the supply chain. The government still lacks policy related to open data. For this kind of model to work data must be available from everything and to everyone. However, people has mind-set that you need to compete and not share information. However, speaking about optimization possibilities it is necessary to share information in order to fully utilize the autonomous vehicles. Currently a lot of trucks must stop and rest, which does not increase the efficiency of the supply chain. Moreover, regarding the food supply chain, during this time the pollution to the environment is also increase, because the refrigerator must run all the time. A discussion is also about the safety of autonomous vehicles. Who will be responsible after accident? How can we limit the potential danger of the vehicles? What kind of problems can we face with hackers? Lastly, there will be a lot of social and economic change, when the whole industry 4.0 concept will be implemented in the economy. Development of autonomous technologies will lead to many social and economic difficulties. A lot of people usually faces change in a negative way. Because they feel secure and think why should I change? However, these kind of technology development will destroy a lot of working positions which currently may seem impossible to live without. E.g. accountant, expeditors etc. (Bureau of Labour 2015). However, technological innovation is not a bad thing. Many opportunities arise due to the change and

Literature

Bloomberg, 2016. Uber's First Self-Driving Fleet Arrives in Pittsburgh,
 Bloomberg, 2016. World's First Self-Driving Taxis Debut in Singapore.

people simply need to change their habits, skills and mind-set. Those who will adapt to the changes will thrive and other might wait too long, but it is necessary to understand that is better to dig a well before the water runs out. Due to technologies, fewer and fewer people can generate the same value as hundreds of people in the past. The result of that is growing economy and growing unemployment rates.

Conclusion

The current supply chain management strategies has been conducted based on previous experience. Previously, the business environment did not change so drastically and there were no problems dealing with disturbances. However, now the changed in competitiveness environment and customer trend for high quality services, just on time with minimal costs drastically changed the current supply chain. The authors identified that innovative technologies development can limit the negative effect of the competitiveness environment. The importance of logistic cluster has been widely researched in the past, however the management aspect was not amplified as much as needed today. The authors of the paper determined the main technologies, which must be adapted in the management process of logistic cluster. By using cyber-physical systems for the management of logistic cluster long-term competitiveness advantage can be achieved. These findings are requiring to conduct future research which would provide new strategies for supply chain management. From one side the authors promote the necessity to make trade-offs in the supply chain management, however due to innovative technologies this is not necessary. Innovative technologies can help gather real-time information and increase visibility of the supply chain. Decision support systems were used in the past, which consisted of information processing possibilities. The main identified novelty and new aspect, which was not possible in the past, is information utilization possibilities due to self-driven vehicles in the supply chain. The identification of these trends must be addressed in future research by conducting a supply chain simulation to determine the necessary combination levels of logistic cluster and innovative technologies usage. Moreover, the negative aspects should be addressed in future research such as social, unemployment and so on.

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SOME REMARKS ON PARADOXES IN MANAGING COMPANY - SELECTED AREAS PERSPECTIVE

Iwona GORZEŃ-MITKA, Monika SIPA, Andrzej SKIBIŃSKI

Abstract

The globalization is challenges in every organization. Undoubtedly, today's organizations face the necessity of dealing with a growing number of various tension and risk factors-generators. Nowadays, as stressed many researchers, management studies referring to paradox theory offer new and vital insights into an array of organizational tensions. Paradoxes has been widely researched in the science literature, nowadays also in the management literature. The authors of this publication have taken into account a wide range of international research literature. The aim of this paper is to theoretically refer to the problems of paradoxes in selected areas of management. The authors indicated the contradictions emerging in the areas such as: risk management, innovation and demography. The literature on paradox theory suggests the existence of four different types of paradox: namely, the paradoxes of organizing, performing, belonging and learning

Key words

paradoxes, risk management, innovation, demographic processes

JEL Classification: D81, G32, M21, J20

Introduction

The first studies exploring problems of organizational tensions and processes of paradoxes appear in the late 1980s (Quinn, Cameron 1988; Smith, Berg, 1987). The literature on paradox theory suggests the existence of four different types of paradox: namely, the paradoxes of organising, performing, belonging and learning (Jarzabkowski et al., 2013; Lewis, 2000; Humphrey et al. 2017) that may be found at different levels within an organisation. The paradoxes that appear contribute to the creation of innovation, both at the time of the release of tensions and of limiting them. Tensions may apply to the conflicting objectives, activities and processes, as well as to the significant restrictions. The settlement and the decision require a prior solution that would help maintain the balance between the contradictions and the intention of achieving an objective (Urbanowska-Sojkin, 2016).

In the field of strategic management, De Wit and Meyera (2007) point to the need of shaping the tension between the two opposites which are difficult to reconcile due to their mutually exclusive nature. These opposites include: logic and creativity, deliberateness and spontaneity, revolution and evolution, markets and resources, reflex and synergy, competition and cooperation, subordination and free choice, control and chaos, globalization and regionalization, as well as profitability and accountability. Those behaviors and features that

maximize the likelihood of a company's major success also maximize the likelihood of a total disaster. Raynor (2007) points out that this peculiar paradox of strategy can be resolved by separating the management of permanent choices from the uncertainty management, in accordance with the principle of the required uncertainty and the strategic flexibility.

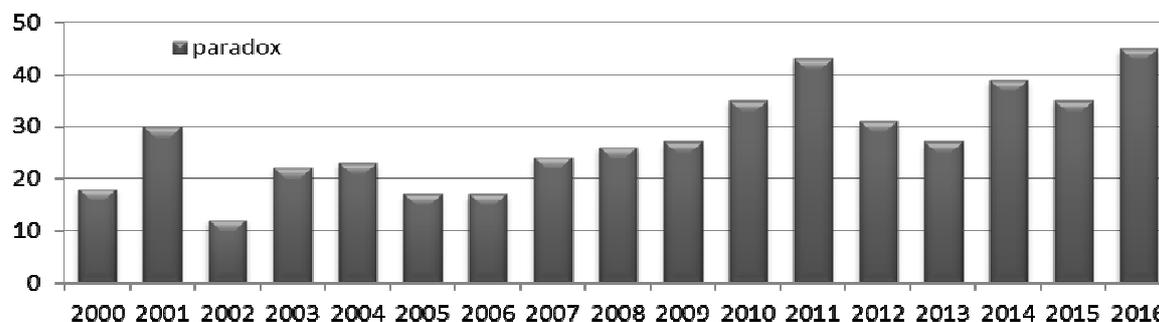
The phenomena are occurring in the enterprises environment are very important, especially in the context of aging and shrinking of potential labour force (Tupá, 2013). The demographic paradox refers to the proposition that there is an inverse relation between the number of children that people in the developed countries, but also the in the developing and emerging countries, actually have and could afford to have in view of their constantly rising real income. The term paradox results from the notion that greater means would necessitate the production of more offspring as pointed out by Thomas Malthus (Wail, 2009). The conclusion is that nations or subpopulations with higher GDP per capita are observed to have fewer children, even though a richer population can support more children.

Criticism of risk management as a result the global financial crisis and contradictions in this area (by academics and practitioners point of view) became the foundation of research in this area from the paradox theory perspective (Power 2011, Mikes 2009).

The aim of the paper was to theoretically refer to the problems of paradoxes in selected areas of management. The authors indicated the contradictions emerging in the areas such as: innovation, risk management and demography (fig. 1).

The remainder of this paper is organised as follows. Building on the existing literature, in first section we illustrate current trends in risk management research from the tension perspective. The next sections reviews the literature on paradox in innovations and demography. Discussion of our key findings and a conclusion complete the paper.

Figure 1: Number of academic literature in paradoxes



Source: by Science Direct journals database

1 Risk management from a paradox perspective

As stressed in the introduction, the issues of paradoxes in risk management is a study subject addressed by many researchers (Power 2011; Mikes 2009; Gorzeń-Mitka 2007, 2015, 2016, 2017; Tylec 2007 and others). Based on Lewis (2000) concept most of researchers define paradox as contradictory yet interrelated elements that exist simultaneously and persist over time. Describing the concept of paradoxes in risk management, researchers highlight its specificity and complexity, which are inherent characteristics of the process itself (Sytze Kingma 2015; Gorzeń-Mitka, 2016, 2017; Humphrey et al. 2017; Mesjasz-Lech 2012). Using division of paradoxes proposed by Lewis (2000) and extended by Smith, Lewis (2011) and Jarzabkowski et al. (2013) we can talk on paradoxes in risk management context as following:

- organising paradox - an entity seeks to create overall systems to manage conflicting goals and tensions between different parts of the same organisation (Lewis 2000, Jarzabkowski et al. 2013; Sytze F. Kingma 2015);
- performing paradox - reflects the contradictions of being required to be both productive and creative, efficient and effective, or to delegate but also to control; may arise, or be aggravated by performance management and incentive systems which encourage potentially contradictory behaviour (Humphrey et al. 2017);
- belonging paradox - arises when individuals face a conflict between their personal and social

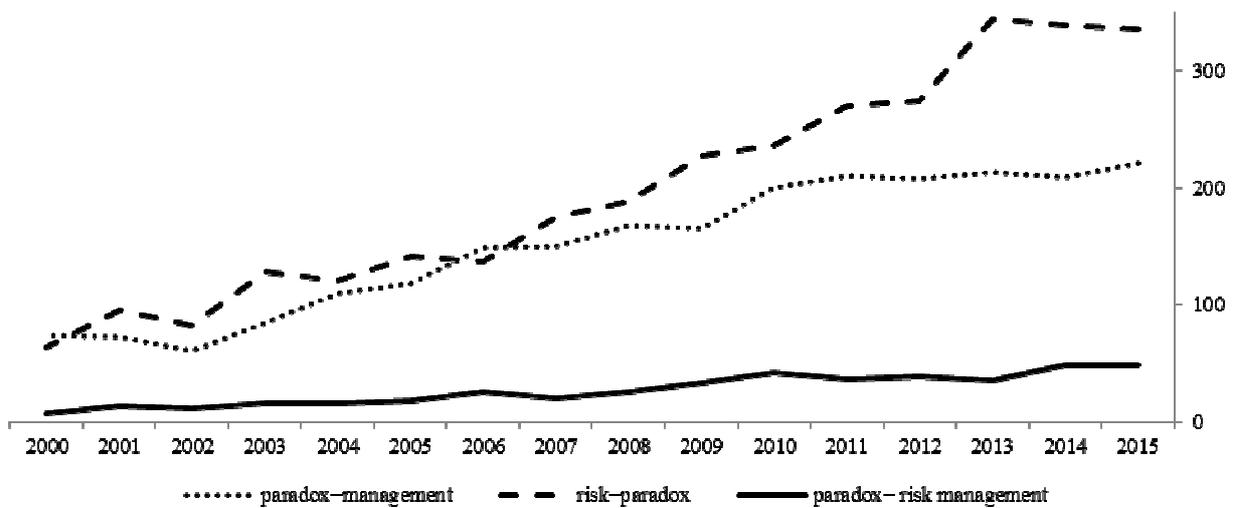
identities in the work place; may be useful in gaining a better understanding of risk management failures (for example risk manager may see a mismatch between their own, personal risk preferences and the team or group's risk culture (Humphrey et al. 2017; Gorzeń-Mitka 2017)

- learning paradox - comes from contradictions between building on existing knowledge and creating new knowledge (Smith, Lewis 2011); especially relevant to risk management as techniques and practices evolve in response to new regulations and as new financial products are created to meet changing market demands (Humphrey et al. 2017).

It is important to stress that all four forms of paradox may coexist, interact and cascade down through an organisation - from the organisational level, through to functional and individual levels (Smith, Lewis 2011; Jarzabkowski et al. 2013).

Although various aspects of paradoxes have been analysed in recent years, nowadays research on contradiction in management is one of intensively developed area. It is confirmed by, among other things, the number of scientific works that analyse problems in this area. In leading databases covering management literature (SCOPUS, Emerald, Elsevier, Google Scholar) there is an increase in the number of publications addressing issues concerning on management, risk, risk management in tension context. For instance, the number of papers on the subject discussed included in the Scopus database increased almost threefold between 2000 and 2016 (Figure 2).

Figure 2: Number of academic literature in paradox and risk management area



Source: by <https://www.scopus.com/results> [02.04.2017]

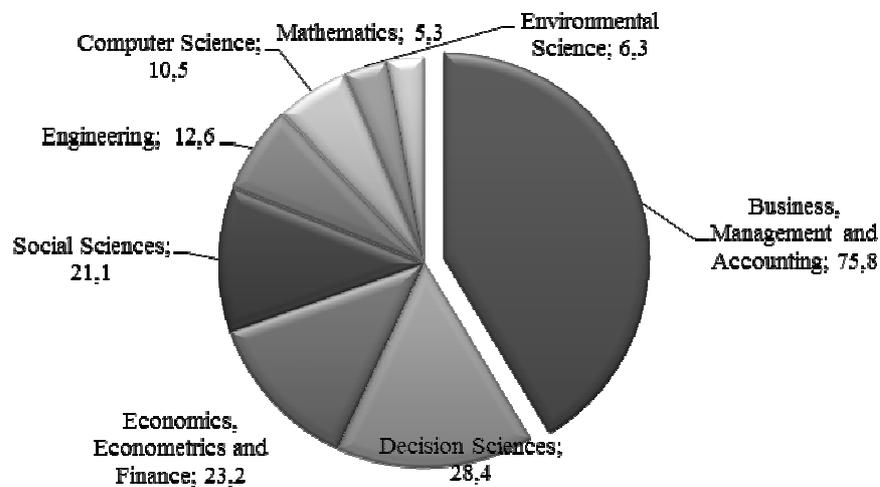
Note: the combination of words "paradox+management", "paradox+risk" and "paradox+risk management" has been searched in the title, summary and key words.

Analysis (Figure 2) showed dissection of the number of publications depending on the adopted combination analyzed words. According to the search words "paradox" an almost sixfold the number of publications than in the case of search "paradox+risk" and fourfold - "paradox+management". The last combination provides the lowest number of publications. This indicates, on the one hand, considerable interest in the issues of paradox and risk in other areas than management, on the other hand, this matter on the basis of management science is in

the initial phase of the interest of researchers. It should be stressed that in the period there has been a threefold increase in the number of publications in the analyzed area.

Paradox perspective in the risk management occurs most often in conjunction with the analysis of problems in economics, business and social sciences. Further in the order they are issues of decision-making and economics, econometrics and finance. Detail is presented in Figure 3.

Figure 3: Top subject areas in academic articles on paradoxes in economics, business and social sciences (selected by title, abstract, keyword) published between 2000-2016)



Source: by <https://www.scopus.com/results> [02.04.2017]

The context of tension in risk management most often appears in connection with analysis of such problems as: organizational culture especially risk culture (Gorzeń-Mitka 2015,2017), heterogeneity of management system or environment. The context of tension in risk management most often appears in connection with analysis of such problems as: organizational culture especially risk culture (Gorzeń-Mitka 2015,2017) or heterogeneity of management system (Mikes 2009).

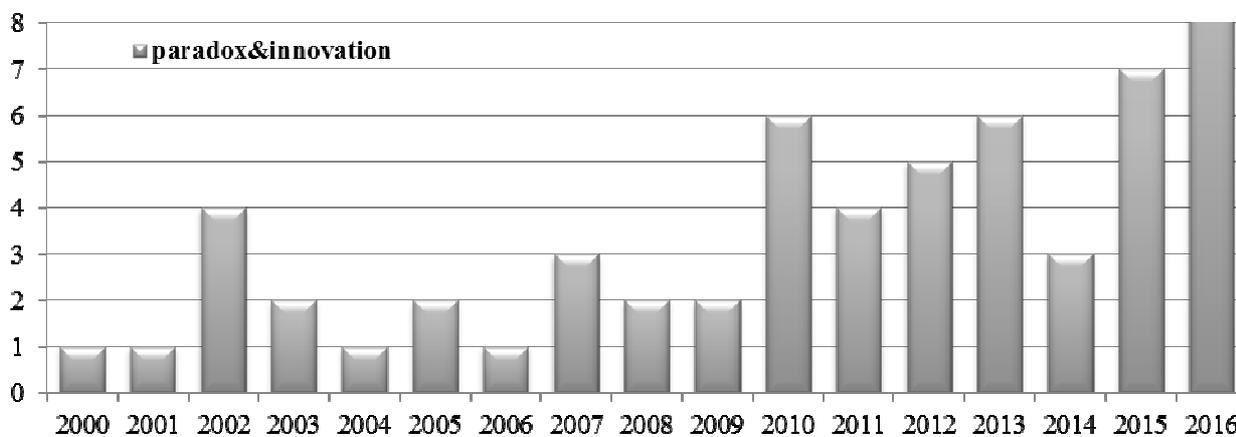
2 The paradoxes in innovations

Innovations are an inseparable element of the contemporary world. There are many authors who indicate that innovations are the determining factor for the international competitiveness of enterprises (J.Kay, G.Hamel, M.Porter, C.K.Prahalad, P.F.Drucker, et al). They define the competitive position of both countries and countries' unions (EU) as well as the smallest regions which create them. Innovativeness is necessary, it manifests in many ways, and allows to achieve various goals. The proper course of innovative processes depends, to a large

extent, on their active participants – the innovators. The rapidly growing complexity of global markets and value chains, contribute to the fact that innovativeness is not only the most important growth factor, but also a key factor impacting the management of the supply chain. (Deloitte, 2005) A paradox appears also in the field of managing innovations and innovativeness. The growing interest in these issues can also be seen for example in the growing number of publications concerning this subject. (since data base - Since Direct) (fig.2)

Innovativeness is related to long term planning, and creating innovations is expensive and includes the risk of failure. (Kay, 1996; Gorzeń-Mitka. 2007) What is most important, the effects of efforts undertaken in this field are not immediately visible. An innovation strategy constitutes the long term plan prepared in order to carry out an innovation. It is a part of a development strategy and is strictly related with it. Innovation strategies are usually complex functional strategies that should be determined on every level of the companies' strategy, independent of its scale and the range of the companies' activity.(Igartua et al., 2010; Pomykalski, 2001)

Figure 2: Number of academic literature in paradoxes



Source: by Science Direct journals database

According to Deloitte (2005) ‘‘the paradox of innovation is defined as the unwillingness or inability of a production businesses to handle actions, in terms of the accepted strategy, which create operational capabilities necessary for innovation‘‘. These actions aim at ensuring profitability and growth. It has been shown that in the production industry there is a significant profit barrier resulting from the failures of introducing most new products and services to the market. This paradox results from a few important reasons, including: insufficient information on the client’s needs; capabilities of suppliers; reluctance to allocate additional resources in R+D activity, and an

incoherent approach to innovation in terms of actions related to products, clients, and the supply chain. To be stressed that just having a formulated innovation strategy is not a guarantee of success. Successful implementation is greatly dependent on the degree of business preparedness, and in particular, on the appropriate engagement of the management team (entrepreneuriers, CEO’s) (Skibiński&Sipa, 2015).It is them, who by undertaking short and long term decisions, impact the development of the company. CEOs must determine the priorities and balance the requirements of today with the needs of the tomorrow. They must care for contemporary profits, at the same

time remembering to carry out innovative strategies for the future. Innovation is the last link in a long chain of dependencies – a problem with any preceding links results in the lack of the expected effect. Considering the problem of contemporary company structures and leadership styles, Buekens (2013) brings up other key paradoxes of innovation. He lists: the paradox of flexibility; the paradox of failure; the paradox of business success; the paradox of knowledge; the paradox of strategic alignment.

According to Hall and Smith(2013) the paradox of innovation is the result of the complexity of reality. It is especially apparent when in order to introduce innovation, CEOs need to execute many actions, some of which seem to contradict each other, or contradict the assumed style of leadership. Here, a contradiction appears in terms of priorities, important for the development of a company and for the stakeholders, which most often expect immediate effects – looking ahead no further than 2 years(Dawidson, 2011). The paradox of innovation includes also the efforts of a CEO in terms of mobilizing the company and employees to be open for what is new and unfamiliar; motivating an efficient flow of knowledge and rewarding the best ideas, reconciling the execution of basic tasks, at the same time engaging proper human resources to projects; ensuring freedom of creativity for the employees, at the same time maintaining control in these terms. They must also promote innovations, not exposing the company to the risks of losing its profitability and market position(Hall&Smith, 2013).

It is also important to mention the paradox concerning imitation and innovation. In terms of globalization no one is safe from the pressure of competitive actions. However, introducing groundbreaking innovations, providing a long term advance over the competition, seems to be something much more difficult to achieve in the contemporary world. As Drucker (2001) stresses out, the biggest benefits deriving from the increase of productivity are related not as much to initial innovations but the improvements appearing later. Imitators may provide not only a perfected product but also one which is much cheaper.

Great technological leaps and taking advantage of more modern technologies, allow imitators to get ahead of innovators. Creative imitations focus on creating imitative products but including new functions. These imitating products include benchmarking, strategic alliances, and large investments in research and development (Brondoni, 2013).

As Krzakiewicz and Cyfert (2016) point out, imitation and innovation are not mutually preclusive, but create an integrated system of complementing

features including a synergistic effect, which means that imitation should not be regarded as an obstacle but rather as a stimulator of a properly organized process of innovation.

In the contemporary world, the omnipresent pressure of innovation means that carrying out innovations should be treated as an ongoing and constant process. However, it can be seen that among some companies which achieved the so called “optimal state”, innovation in further stages of development has been given up. This state is related mainly to two issues. The first one results from the fact that on one hand innovations are a chance to survive and develop (are a necessity), but on the other hand stand for changes of the current state of being (meaning that the contemporary reality is still not perfect). The second aspect in favour of renouncing the implementation of changes in the current activity of a mature business, is the fear of reducing profits. A businessman searches mainly for process and organizational innovations, allowing to perfect the company’s manner of management and functioning, as well as improving its image. At the state of maturity, a business achieves a sort of stabilization in terms of its financial situation, employee efficiency, and the uncertainty of tomorrow. Searching for changes and implementing them should be regarded as an ongoing process(Targalski, 1999).

Scott Francisco (2010) also mentions the paradox of innovation, by noticing a conflict between today’s innovations and the innovative process. He points to the development of paradoxical relations (dependencies) between the innovations widespread in the contemporary form and the social-spatial context of innovativeness, necessary to stimulate the process of innovation. Innovations are a result of a “feedback between the technical capabilities and needs, as well as the interaction between technique, science, and the implementation actions within a company”. Innovations may be carried out at any stage, thanks to the possibility to take advantage of the camouflaged knowledge, at any time. This knowledge may be borrowed from the outside, as a transfer of technique in the form of: a licence agreement, a know-how agreement, purchasing technical machines and devices which may stimulate imitation, shared scientific and production actions, employee exchange which contributes to exchanging experiences and trainings (Bogdanienko, 2004).

Francisco (2010) suggests too, that the rapidly growing amount of information (systems for accessing and manipulating information) contributes to a lower interest in development of knowledge and creativity, which constitute the base for solving problems and creating innovations. A non-reflective striving for digitalization, improvements, increasing efficiency

and consumption, results in becoming distant from human experiences, behaviours, and values, which are the source of innovation. A negative loop of these phenomena is defined as the “paradox of innovation”.

3. Paradoxes in demographic processes.

Theories that explain the shaping of demographic processes, for example: the fertility decline theory by Caldwell, Easterlin's theory and hypothesis and the economic theory of human behavior by G.S. Becker or numerous theories of migration have become the inspiration for researches (Tupá 2013). Therefore the paradoxes in demographic processes can be found in numerous scientific researches in this scope (Skibiński 2017). The results of the study support the existence of the demographic and economic paradox, which is described that nations or subpopulations with higher GDP per capita are observed to have fewer children, even though a richer population can support more children (Balan, 2015).

There are many ways in which fertility inversely impacts economic outcomes. In the international literature Brander and Dowrick (1994) examined the effects of population growth and fertility on economic growth for 107 countries covering 1960-1985 periods. They concluded, that high birth rates cause the reduction of economic growth by means of investment effects and capital dilution.

In turn Li and Zhang (2007) examined the impact of birth rate on economic growth using a panel data set of 28 provinces in China for the period 1978-1998. Using the generalized method of moments estimator, the empirical findings of Li and Zhang (2007)'s study showed that the birth rate has a negative impact on economic growth. This finding is interpreted by the authors in the way that it supports the view of Malthus and China's birth control policy is indeed growth enhancing.

According to Luci and Thevenon (2010) investigated whether there is a convex relationship between economic development and fertility for 30 OECD countries over the period 1960-2007. They found an inverse J-shaped pattern of fertility along the process of economic development. They concluded that there is a clear shift in the relationship between the two variables from negative to positive.

Whereas Somayeh et al. (2013) examined the effects of total fertility rate, life expectancy at birth, mortality rate and capital stock on the economic growth in 16 developed countries and 14 developing countries using panel data analysis over the period 1990-2010. Their researches showed that capital stock and life expectancy have a statistically significant positive effect on economic growth, while mortality

rate has a statistically significant negative effect on economic growth in both groups of countries. The influence of fertility rate on economic growth differs for developing and developed countries. For example to developed countries, fertility rate has a statistically positive effect on economic growth, while it has a statistically negative effect for developing countries.

Social and economical transformations have recently stimulated political debates and policies on the integration of migrants in most Western and East European countries. While transnational migration studies have documented migrants' cross-border activities there have been few empirically grounded efforts to theorise these developments in the framework of integration and status theory. Nieswand (2011) indicates based on a case study of Ghanaian migrants, integration processes and develops a theorem of the status paradox of migration, which explores the interaction between migrants' integration into the receiving country and the maintained inclusion into the sending society. It describes a characteristic problem for a large class of labour migrants from the global south who gain status in the sending countries by simultaneously losing it in the receiving countries of migration. This transnational dynamic of status attainment, which goes along with specifically national forms of status inconsistency, is what is called the status paradox of migration. By bringing together two modes of national status incorporation within one framework, the status paradox provides an innovative perspective on migration processes and demonstrates the usefulness of a transnationalist integration theory (Nieswand 2011).

Silva et al. (2006) discuss the so-called paradox of ageing process, with respect to the members of the age group 55-64 years of age. This generation is currently too young to retire, despite the length of their working lives for some in excess of forty years and high earnings, yet is too old to continue working, since employers prefer to hire younger, more flexible and less expensive workers. Furthermore, official statistics show that the longevity of this generation is higher than its predecessors, an evolution that would apparently call for a gradual increase in the retirement age.

It is worth point out on the research of "Conditions of reproductive behaviour" by Kotowska (2014). The more parting and informal relationships, the easier it is to replace generations. In countries where marriage is not a priority and where a high number of divorces are quoted are generally higher in fertility. States where the traditional approach to the family predominate have a demographic problem. Most children are born in liberal France and in Sweden. It can be concluded that the knowledge about

paradoxes in demographic processes are becoming more important for each organization especially in the face of population ageing.

Conclusion

Paradoxes may be found in various fields, both of human behaviours as well as actions of business units. Paradoxes have become the subject of descriptions and discussions in terms of many scientific research, also in reference to the behaviours of specific entities.

Undoubtedly, paradox in risk management context is a notion that resists clear classification. With respect to the conducted analyses, one should emphasize the fact that this problem has not been sufficiently explored in the area of management sciences; nevertheless, the analysis of the number and impact of leading publications indicates a growth of

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- As Rokita (2007) emphasizes, contemporary organizations may be efficiently managed when managers understand the dynamics of social-cultural processes in terms of business, and solve problems in accordance with the following algorithm: identification of paradoxes – analysis of conflict, searching for a synthesis – a new paradigm – new goals and strategies – new ways of solving problems.
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HUMAN CAPITAL AS A SIGNIFICANT FACTOR OF THE QUALITY OF SERVICES*Anna MARHEFKOVÁ***Abstract**

The aim of the article is to highlight the need for quality human capital in enterprises services that significantly affect their success. An important prerequisite to fulfilling the company's success and customer satisfaction is effective communication, motivation and communication skills . Communication among employees and customers, employees themselves as well as employees and employers help to increase the effectivity quality of services. Quality of service from the customer's perspective is also expressed through personal qualities, knowledge and motivation. In a service business, employees must perform work on its fulfillment of the requirements personality and professional. The attention is dedicated to the communication with the customers as an innovation factor and the suggestions for the increasing of the quality services and customers' satisfaction, also internal and external communications, categories of workers in the provision of services.

Key words

human capital, quality of services, communication, customers' satisfaction, motivation

JEL Classification: J24, M12, E21

Introduction

In everyday practice we can observe how big is the responsibility of the companies providing services for the population in the selection of a quality human capital. Demand factor for this differs in accordance with their alignment and particular activities. In the current society, being globalized and dynamically developed, it is necessary to conform the company function to the requirements of a demanding customer.

Communication and motivation are considered the significant factors of companies' prosperity. Communication is understood to be mutual cross connection and combination of external and internal communication on all the levels as well as among them respectively.

Services demand a quality human capital disposing knowledge to be able to flexibly and effectively react to changes and requirements of the market. Motivation of employees to reach a high performance is considered an added value, an asset contributing to higher productivity and effect of the companies providing services that is why investment in training and employees carrier planning as well as creating opportunities of promotion is necessary. What is more, goal-directed employee selection means less demanding training of rented employees, and faster adaptation to company culture. Regular comparison on the basis of competences regulates their further development. (Kordoš, M.,Karbach,R. 2014).

Human capital is considered a capital invested in society, and therefore income is expected. Continuous

training is such an investment. A loss can be brought only by random, non managed training which does not refer to long term continual company strategy. Thus the conception of human resources management and human capital exploitation is getting more important and involves several factors and procedures.

1. Communication in a company providing services.

Communication is one of the most significant elements in every company. It is an irreplaceable means of cooperation and connection of employees and managers in their common effort to reach the aimed vision, function and goals. Work in a company providing services is very variable. The employees mostly come in contact with customers. Customers included in the system of work are one of the key factors which make these companies different from manufacturing ones. Communication with customers and meeting their requirements is a part of the process of providing services, that is why it is directly at the same time projected in customers' satisfaction.

There are high exigencies for the employees providing services, concerning not only their proficiency, but also personal qualities. Their role is to communicate with customers on one side and with management staff on the other side.

It is very important that employees take a customer as their business partner and try to fulfill their needs and requirements in the best quality possible. These kind of knowledge is necessary to be transferred inside organizations as a suggestion for

discussion and consequent changes. (Pict.1). According to the frequency of the contact with

customers we can distinguish four groups of employees in services. (Mateides, A., Ďaďo, J. 2002).

Picture 1: Categories of employees in the process of providing services

QUALITY OF SERVICES			
CONTACT WITH CUSTOMERS	Frequent or regular	Direct	Indirect
		Contact employees	Serving employees
	Rare or none	Conceptual employees	Support employees

Source: Mateides, Ďaďo, 2002.

Contact employees – they should be well trained, motivated and prepared to provide services for customers in maximal quality every day. They should be communicative, psychically strong, able to notice and satisfy customers’ needs and react to their requirements.

Serving employees – they work at porter’s lodge, reception, as ushers, informers, etc. They need to have good communication abilities and positive approach to customers. Their work is not so qualification demanding but contributes to increasing value of the offered service for customers.

Conceptual employees – they apply to conceptual questions, their contact with customers is rare, they help at creation and development of company strategy, development of new products, they must be creative employees.

Support employees – their activity influences all the company activities. They include purchase department workers, workers of human resources department, market research and database creation. Managing their psychological endurance and motivation is very important at this group of employees.

Exigencies at recruiting the right member of staff are very high . Every company has different representation of particular positions according to its function and size. In some big companies providing services are these positions closely specialized and employees can focus on their own activity. In smaller companies it is common that employees can alternate at several positions which increases exigencies for their training, skills and flexibility. This work organization is more demanding in term of management, of managing the time and eventually it is less efficient because the employees must span more acts simultaneously and they are less focused on the activity which they are performing.

1.1 Internal communication

At the current demanding market, ensuring quality services is possible only by effective interconnection of quality human capital and capability of employees e.g. of team work. Benefit of this work is above all in creation of higher number of ideas and projects, using of brainstorming, excluding wrong decisions and thereby preventing from needless losses. Team work results depend in large measure on the quality of communication ties inside the team. The communication level also influences the speed and effectivity of introducing innovations which is consequently reflected in customers’ satisfaction.

The goal of communication should understand. To reach understanding, it is necessary to meet the requirements of so-called STROM, where giving information is specific, on term, realistic, acceptable on both sides and measurable. (Nenadal, J a kol. 2008)

Communication level has direct impact on efficiency of executed activity that is why it should be as much as simple and understandable as possible. Any information without communication is priceless. Management is responsible for internal communication as well as interconnection and building formal and informal communication relations. If internal communication is well coordinated by management, all the staff members must know company goals, will be interested in their fulfillment, know company culture rules and try to keep them and improve them. Quality of organization as a whole and at the same time quality of internal environment is reflected outwards to customers who are eventually demonstrated by their satisfaction.

1.2 External communication

Contact workers should be well trained, motivated and prepared to be helpful for customers

every day. Besides professional knowledge about providing services they should team with personal qualities concerning communication abilities, empathy and psychical endurance. They must continually able to notice and satisfy customers' needs and respond to their requirements.

Communication in services is irreplaceable means of increasing the number of customers and keeping existing satisfied customers. It is effective at communication with customers to:

- describe the service, its range, availability and timeliness
- ensure customers' consideration about their share in the service quality
- explain the correlation of the service, its providing and expenses.

Therefore communication with customers, their understanding and subsequent securing their requirements is the basis for the company's survival at the market. (Michalová, V. a kol. 2001)

Emphasis is placed not only on technical side of services, but also on approach and behavior of employees in services. That is why the quality of services depends on human qualities and properties. Not only must the companies provide their clients with services but also their employees with proficiency. For permanent success must the management of the company providing services fulfill the function of their employees' personal development. In the company providing services, the following two aspects in human potential management are crucial:

- ensuring of recruiting the right staff, their employing and using their human capital
- securing trainings, seminars, carrier planning and providing better use of natural skills for employees

The company should identify the needs and expectations of its employees, because of their appreciation, job satisfaction and personal growth. Such an approach of the company helps to ensure that employees' involvement and motivation are on a high level. Providing services is demanding of technical equipment, internal and external arrangement, personal contact and mutual inclination are still important factors for evaluation the quality of

provided services. This holds above all for those services where the quality delivered to the customer basically results from how the people act in relevant situation. Employees' performance, where is a high level of freedom in decision-making to influence a specific situation, is a key factor for determining quality and productivity. Positive or negative results of individuals have a big and immediate impact on how individual customers apperceive the services quality. Services provided by company's workers to external customers are generally realized in terms of so-called interactively oriented processes. The degree of importance of interactive process as an element of services quality can be differenced in accordance with duration, intensity and integrity of external factors. The level of accommodation of employees' qualification profile to the contact with customers has a crucial importance for a company's quality evaluation.

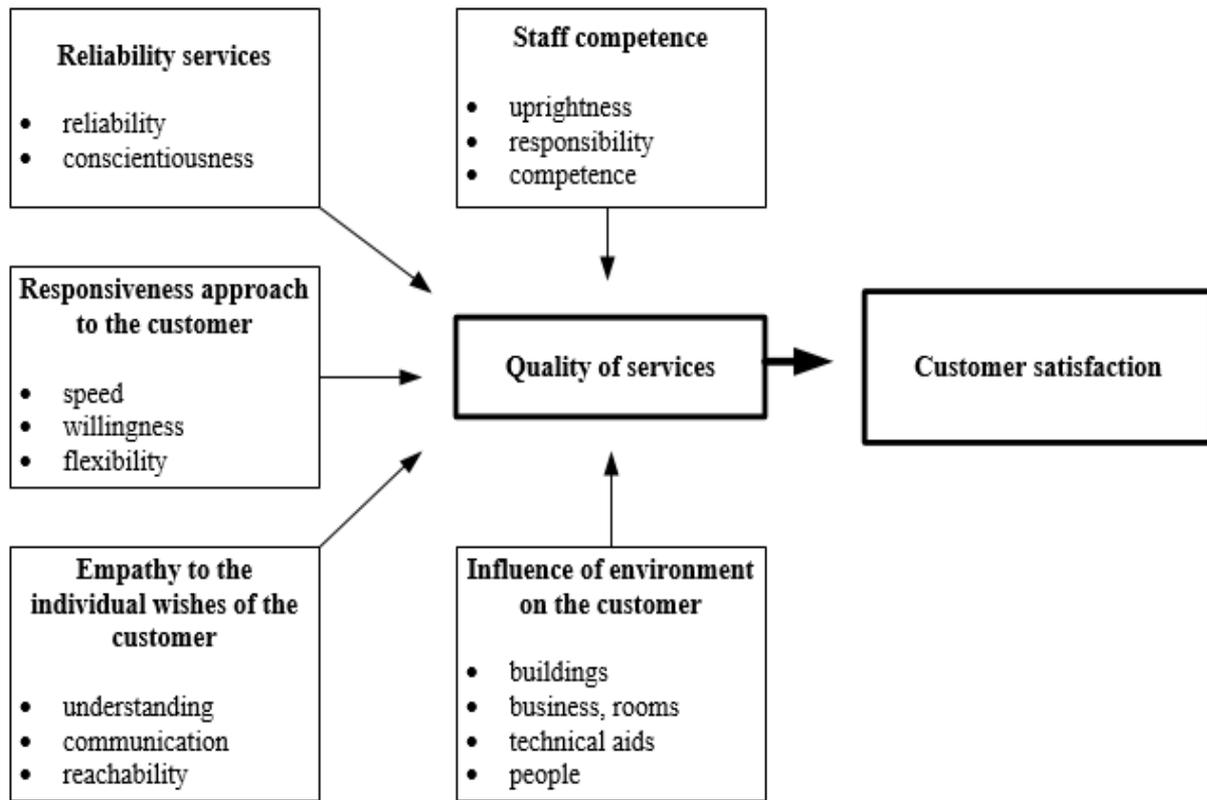
2. Quality of service.

Basic dimensions of service quality by analyzing ordered in Parasurama, Zeithamlová and Berry in 1985, they should help to clarify the quality of service provision (Mateides, Dado, 2002): Communication with customers' comprehensible language, competence of staff, courtesy, trustworthiness, reliability promised services. Sensitivity and responsiveness, security and safety, feasibility potential quality, understanding and knowledge of the customer's environment and the impact on the customer. These dimensions result from empirical data.

Great importance is reliability, which in the process of providing intangible services is transmitted mainly on human resources. (Mateides, Dado, 2002)

For services were provided five basic dimensions of quality (Fig. 2), which should be part of the evaluation of customer satisfaction. These facts may serve as an incentive to provide feedback to external customers. When the research service quality through customer satisfaction can be an incentive to draw up a questionnaire and delimitation dimensions of service quality in a particular organization.

Picture 2: Quality of service from the customer's perspective



Source: Mateides, Ďad'o, 2002.

3. Motivation of employees

The term of motivation represents an internal process, the process of psychological starting of the reasons of people's acting and behavior. These reasons are the motives, internal premises, and internal stimuli leading to certain behavior. Motivation process is thus a process of internal premises activation of human capital directing human activity to certain goal of his endeavor. It is important for the company to understand why an employee behaves in a certain way and what influences their behavior. Understanding motivation reasons, getting to know the possibilities of

its influence, or knowing methods of directing or changing it, is therefore very important for effective staff management.

Term incentive is an internal process, the psychological process of starting up the causes of human action and behavior. These causes are motifs internal assumptions, internal stimuli leading to a certain target behavior. Trial motivation is thus activating the process of internal forecasts, the guidance human activity on specific target its efforts (Nakonečný, 1992).

Picture 3: Processing of external stimuli



Source: : Nakonečný, M.,1992.

Behavior is the result of people's reaction to instigation, customer's demand. The theories of people's behavior bring many findings, sometimes they differ a lot. Several approaches prefer just a relation of stimulations and reactions; others contemplate about what is going on inside a person. However, behavior is not only a reaction to stimulus; we know that different people react differently to the same stimulus. Behavior is the result of internal procedure of processing instigation in the psyche of a person. Crucial motives of human behavior are:

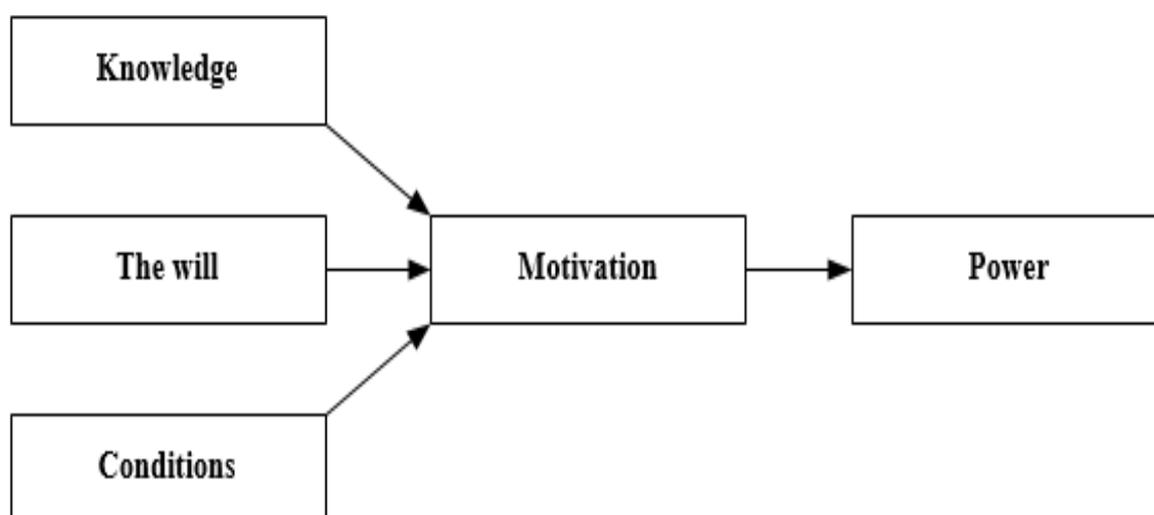
- instincts, primary needs
- secondary motives, personal goals, aspirations, values, ideals

- internal and external influence (social group, wider background)
- trying to merge with or differ from a certain group

Work motivation is directed to a certain working performance, a certain requested behavior, behavior corresponding to the needs of working place or company goals. Basic expectations and conditions of effective work performance are the following:

- knowing the goal
- knowledge, skills, experience
 - creation of suppositions and conditions to use them for requested performance
 - internal need to give the expected performance

Picture 4: Influence of main suppositions on person's performance



Source: Nakonečný, M.1992.

Theory of work motivation looks for principles, methods, patterns, tools for effective motivation of employees, for their activation for demanded work effort, for effective leading to reach the company goals.

Conclusion

The aim of activity of every company providing services is a satisfied customer. Increasing their satisfaction is possible by virtue of quality human capital disposing of knowledge to be able to flexibly and effectively react to changes and demands of the market and thus to reach a higher level of provided services. Their realization leads to higher customers'

satisfaction and therefore to a higher company's efficiency. The most important resource are individual employees involved whose acting and behavior directly influences the service quality. In communication with customers it is very important to keep an individual approach to every customer and to their demands specification for services. In the process of providing services, a quality human capital is necessary, even in a direct contact with customers.

The basics are mutual communication and motivation. In the companies providing services it is necessary to build flexibility, permanent increasing of the quality of human capital built on quality human relations and personal development of every employee.

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THE ROLE OF HUMAN RESOURCE MANAGEMENT IN THE RURAL AREA IN HUNGARY

Robert MAGDA

Abstract

The unemployment rate is approximately two-four percent higher in villages than in towns. Respectively, investigating those who have been unemployed for more than a year this difference is even higher which shows the actuality of investigating the problem. The required factors of production are used in varying degrees during the production process. These rates depend on the activity, because there would be labour and capital intensive businesses. In any case, we do not know any production activity which would not demand labour, or would not use a certain amount of space and resources directly or indirectly. The competitiveness of the rural areas of Europe and Hungary depend on their economic growth and the implementation of sustainability. We need to establish new complex rural and settlement strategies to stop the negative processes in the disadvantaged regions, which will result in a competitive agricultural structure and the possibility to employ the great numbers of low-qualified people living there.

Keywords

human resource, rural area, unemployment

JEL Classification: R14, R125, M54

Introduction

After the regime change the number of unemployed people increased significantly (by 400-600 thousand) in Central Europe, which – due to the crisis – has further intensified in the last period. Most of the unemployed are undereducated (25-30% of them have finished only elementary education or not even that one) which encumbers further job opportunities. The unemployment rate is approximately two-four percent higher in villages than in towns. Respectively, investigating those who have been unemployed for more than a year this difference is even higher which shows the actuality of investigating the problem.

Putting rural population at an advantage relies on the improvement of the economy of rural areas and the implementation of sustainability. Halting the negative processes experienced in the disadvantageous areas requires new and complex rural and settlement strategies that will result in competitive agricultural structures and the employment of the undereducated workforce – even if only to a limited extent – will be possible.

Going back to the last few decades in all periods Hungary was competitive only when employment and livelihood were ensured for those who live in the countryside. Agriculture and food industry had a leading role in these periods and the structure of agriculture guaranteed the employment of those who lived in the countryside. For the moment we can say that the problem of sustainability is: how to alleviate

poverty without negatively affecting the natural environment in such a way that future economic prospects suffer.

The crisis penetrated to Hungary like to most of the countries in the world – without having been prepared for it; and we see that the solutions to the problem (bioenergetics, environmental industry, research, education etc.) are mainly only predictions and there is no strategy at all (we have merely been talking about agricultural strategy or 20 years). Without definite aims and authoritative strategies we might become hopeless, futureless and losers (the North Star does not serve the purpose to reach itself either but to help orientation and show the right direction).

According to our judgment, one of the possible ways of getting out of the crisis is to utilize our natural resources and to accomplish sustainable economy. Besides the rational utilization of the natural resources and the application of renewable energy resources we have to be more effective in the field of human resources development than we are at present. On the basis of our judgment and recent experience the production and economy can obtain new and confirmative support through the relation system of research – innovation – corporate development, which help priorities to be properly defined and to have satisfactorily skilled labor force available for the works to be done. All of these require a new way of thinking, new educational policy and new future prospects.

This present crisis in Hungary is different than any crises before because after the change of regime the producing, processing and distributing enterprises, companies and financial institutions mainly belonged to foreign multinational companies – and not to Hungarian owners. These foreign companies have no interests in increasing the production of the Hungarian economy and the Hungarian agriculture by investing; much rather, according to their own interests, they either temporarily or in the long run discontinue production and financial support that help production and development. Thus present-day Hungary as a mainly raw material-producing country is exposed and if we do not act we will be in a hopeless situation.

The agricultural actors of the neighboring EU member countries can manage with less living labor burdens, smaller taxes, lower interests with more

favorable rates and more moderate administration fees and their integration background is much more developed.

Discussion

Analysing the background, the first fact that must be mentioned is the changes of the agricultural land utilisation. After 1990 the Hungarian agricultural production decreased step by step and nowadays the ratio from the GDP is less than 3 % which was near 10 at the beginning of 1990-es. If we want to find the reasons of the decreasing we will have to see the changes of the agricultural land area. (table 1)

Table 1: Land area of Hungary by land use categories (hectare)

Year	Arable land	Garden	Orchard	Vineyard	Grassland	Agricultural area
1985	4,697.5	338.7	103.5	153.6	1,246.4	6,539.7
1990	4,712.8	341.1	95.1	138.5	1,185.6	6,473.1
1995	4,715.9	90.2	93.9	131.3	1,051.2	6,179.3
2000	4,499.8	101.6	95.4	105.9	1,051.2	5,853.9
2005	4,513.1	95.9	102.8	86.0	1,056.9	5,863.8
2010	4,322.1	81.5	93.7	82.8	762.6	5,342.7
2015	4,331.7	80.5	92.2	80.6	761.5	5,346.5
1985/2015	92.2%	23.8%	89.1%	52.4%	61.1%	81.8%

Source: by http://www.ksh.hu/docs/hun/xstadat/xstadat_eves/i_omf001a.html

On the basis of the table we can see the highest reduction in gardens, but the quantity was not so high than it was in the grassland. In my opinion this reduction is connected with the decreasing number of the animals. Summarising the table nowadays we use more than 1 million hectare less agricultural land than we did in the past. It means we have got free natural and human capacities which we will have to use in the future.

We have to think about the utilisation, because our energy dependency has increased in the last twenty years. In industrial activities we used and today we also use mostly fossil minerals to generate electricity. Our consumption will be hire and hire, but our stocks from these resources are limited. When we look the figures, we can see this (table 2).

Table 2: Hungarian crude oil, natural gas production and import between 1980-2015

	1980	1988	1994	1999	2010	2015
Crude oil production (Mt)	2.031	1.947	1.334	1.243	0.827	0.568
Natural gas production (Mm ³)	6.142	6.272	5.564	3.293	3.241	2.634
Crude oil import (Mt)	8.336	7.262	5.821	5.933	6.974	7.322
Natural gas import (Mm ³)	4.045	5.371	5.063	8.704	11.72	12.82

Source: Mineral raw material wealth of Hungary 2016. Hungarian Mining and Geological Office, Budapest. CD

In 1980 our crude oil production was 2.031 Mt, in contrast with the oil import (8.336 Mt). It means that the import was 4 times bigger than the

production. It was not so good, but the situation in 2015 was even worse than in 1980, because the import was nearly 13 times bigger than the production and

the price of this resource has also increased. Therefore our dependency has tripled in the last 30 years.

The situation is similar considering natural gas, but 30 years ago the Hungarian production (6.142Mm³) was bigger than the import (4.045 Mm³). After 30 years our gas import is 4.8 times bigger than our production, so the situation has completely changed.

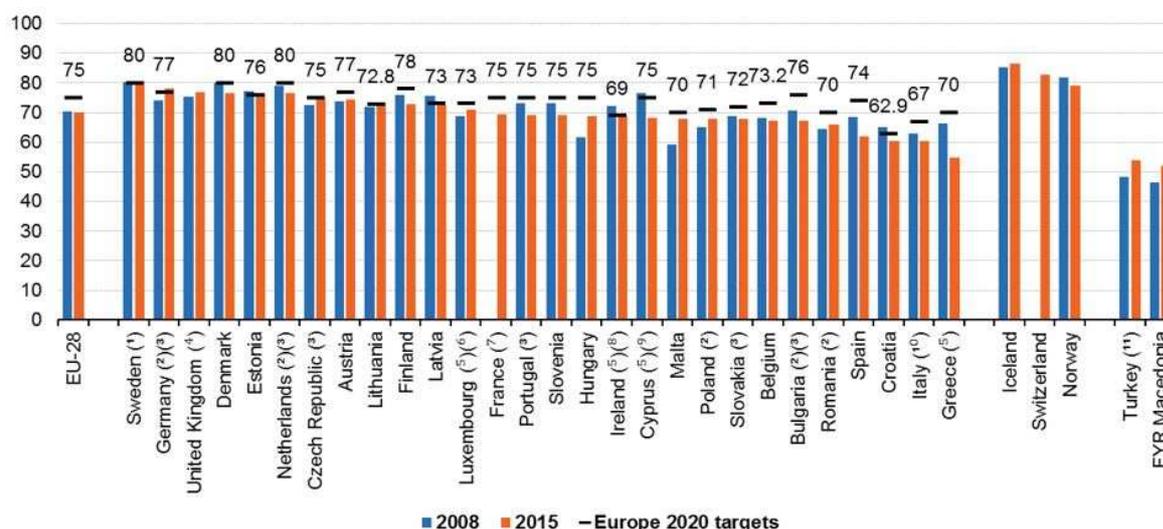
After these facts I have to mention the world crisis which started in 2008 in the USA and appeared all over the world. I will focus on the effects of the crisis on the labour market. When the crisis was suddenly appeared many people lost their workplaces, and increased the ratio of the unemployment's all over

the world. It was not different in our country. Analysing the labour market we percept changes eg.:

- Fell in employment
- Increase of the unemployment
- Changes in inactivity
- Differences by qualifications, ages and gender
- Sectorial differences.

The specifics must be presented because in my opinion they will be help us to find the solution for our problems. I have already mentioned that the crisis was perceptible in all countries. (Figure 1)

Chart 1: Employed rate in the EU



(1) Target: more than 80%.

(2) break in time series in 2010.

(3) break in time series in 2011.

(4) No target in National Reform Programme.

(5) break in time series in 2009.

(6) break in time series in 2015.

(7) No data for 2008.

(8) Target: 69-71%.

(9) Target: 75-77%.

(10) Target: 67-69%.

(11) break in time series in 2014.

Source: http://ec.europa.eu/eurostat/statisticsexplained/images/e/eb/Employment_rate_age_group_20_to_64%2C_by_country%2C_2008_and_2015.JPG

In 2010, the decrease in the number of employed people stopped, but restoring the level of employment before the beginning of the crisis will take probably longer. According to the data in 2015 the average employment rate was 70% in the EU, when the

Hungarian was 69% On the other hand we can find some country eg. Austria, Denmark, Netherlands, Germany, Sweden where this index was above 70%. The target in the EU is 75%, but it will be very difficult to reach it for every countries. In my opinion

that is the greatest problem in our country nowadays and we will have to solve this in the near future if we do not want to drop behind.

The average unemployment rate was 9,8% in the EU at the end of 2015. The Hungarian figure was 7,3%. The increasing unemployment along with the stagnating employment can be attributed to the following factors:

- The gradual rise in retirement age increases labour force supply.
- The modification of the unemployment provision system requires a more active presence in the labour market also from people who were considered inactive earlier.
- Fewer and fewer people losing their job are provided for by the social and social insurance system, so they become long-term jobseekers.

According to data the highest ratio was in Greece (25,8%) and the second was Spain with 23,7%, where the economic situation is very bad nowadays – more than triple than in Hungary. In those countries where the economy is based on stable basis the unemployment rate was not as high as in countries where it is not.

I analysed the differences between the registered jobseekers and the unemployed people between 1999-2015. During the examined period the number of unemployed was the lowest according to Labour Force Survey while the highest was among those who consider themselves unemployed. The latter one is

more real, so we will have to solve the problem of nearly 700 thousand unemployed in the near future if we do not want bigger problems than we have nowadays.

The third thing is the ratio of the inactive segment of the population. In 2013, 36.1% of the population aged 15-64 was inactive in Hungary. The average rate was nearly 10% less in the EU. The number and the proportion of inactive people, along with the increase in the number of unemployed, decreased compared to the previous year.

The decrease concentrated in the categories of pensioners and of „other inactive” (-18 thousand) who are not students and not receive any personal provision. Even so, the largest group of inactive is composed of pensioners with proportion of nearly 40%, followed by the group of full time students with nearly 30%. The number of the so-called other inactive is invariably significant (nearly 360 thousand) as well.

Having analysed the distribution of the unemployed people by gender and age I was surprised to find that the biggest segment – approximately 230 thousand, it has decreased to 150 thousand – is composed of people between 25-44 years of age (table 3). It is both bad and good at the same time. It is bad because in this age group more people would have to work, and it would be good in the future because they will be potential workers for a long time in different sectors of the economy.

Table 3: Number of unemployed people between 2000-2015 by gender and age (thousand)

Year	15-24		25-44		44-64		65-74		Total
	W	M	W	M	W	M	W	M	
2000	26,2	42,5	55,5	80,3	22,8	35,9	0,3	0,2	263,7
2004	22,6	33,3	63,1	70,8	30,1	32,5	0,3	0,2	252,9
2008	26,4	33,7	81,7	94,5	44,2	45,5	0,3	0,1	326,3
2009	31,4	47,4	98,9	124,9	55,4	59,4	0,3	0,0	417,8
2013	37,0	46,5	100,9	122,3	63,4	70,2	0,6	0,2	441,1
2015	23,5	35,3	76,7	73,4	45,4	52,6	0,2	0,7	307,8

Source: by HCSO

In what follows I will illustrate the differences by gender and qualification. In general the ratio of unemployment amongst the less qualified employees was higher than amongst the well qualified people. That was the situation in the past and it also holds true nowadays. After the first few months of the crises we could see an increase in the number of the unemployed.

The increase was higher in the industrial sector – mostly qualified workers – than in the agricultural sector where we had witnessed this process earlier. According to table 4 we can see that the number of the unemployed is nearly 200 thousand in the first two categories, and we can see the lowest number who has college or university degrees.

Table 4: Number of unemployed people between 2000-2015 by gender and qualification (thousand)

Year	Elementary School, or less		Trade School		Grammar School		College, University		Total	
	W	M	W	M	W	M	W	M	W	M
2000	33,8	54,9	29,3	65,9	36,6	32,9	5,1	10,9	104,8	164,6
2004	32,3	57,3	31,8	63,8	39,7	33,3	12,3	9,8	116,1	164,2
2008	49,3	62,3	37,7	68,3	50,4	33,4	15,3	9,6	152,7	173,3
2009	59,2	72,3	49,1	93,8	57,0	50,5	20,8	15,4	185,9	231,9
2013	57,4	69,9	51,7	94,0	67,5	58,3	25,1	16,9	201,8	293,3
2015	48,9	54,0	35,1	56,5	45,5	39,7	15,4	11,7	145,9	161,9

Source: by HCSO

How shall we find the way out?

This is a very simple question, but the answer is very difficult and complex. Thinking about the problem of land utilisation, energy dependency and

the labour force where can we find the solution: in the industry, in the agriculture or in the service sector? When we look at table 5 we can see huge decreases in the agricultural and industrial employment also, and an increase only in the service sector.

Table 5: Number and ratio of the employed people by economic sectors 1990-2015 (15-64 years)

Specify	Number (thousand)			Ratio (%)		
	1990	2000	2015	1990	2000	2015
Agriculture	697.2	251.9	203.2	15.4	6.6	4.8
Industry	1,711.0	1,299.7	1,273.2	37.9	33.9	30.2
Services	2,107.9	2,280.4	2,727.3	46.7	59.5	64.8
Total	4,516.1	3,832.0	4,210.5	100.0	100.0	100.0

Source: Own construction by HCSO

In 1990 the employment rate was higher – by approximately 700 thousand people – than in 2009, but the number of the population did not decrease so high in the same period. So we have free capacities in the different sectors which we will have to utilise in the future. What would be the solutions?

Our country is really lucky because it has enough arable land and water capacity. Without these two resources it would be impossible to produce anything. The third factor would be the not well qualified unemployment people. So our task in the future is to find types of utilisation possibilities which use all of these resources and help us to decrease our energy dependency. I believe we have already started something, but not in the most effective way.

Conclusion

In these days everybody in the world is seeking for possibilities to get out of the crisis – let it be an economically strong capitalist country or an economically less strong developing country. Hence

our task for the future is to find those ways of resource utilization with which there is a chance to decrease our energy dependence and to increase employment. Much research points to a need for an economic transformation to increase resource efficiency. While this is a major challenge, it is an achievable goal; a tenfold increase in resource productivity is possible.

Policy thus needs to be long-term and consistent and, while national policies can still be effective, given the global nature of resource consumption, internationally harmonised policy will make the task of reaching a resource efficient future a smoother operation. Research that elucidates the complexity of resource use, such as that highlighted in this issue, will help shape long-term, future policies.

The competitiveness of the rural areas of Europe depends on their economic growth and the implementation of sustainability. We need new complex rural and settlement strategies to stop the negative processes in the disadvantaged regions, which will result in a competitive agricultural

structure and the possibility to employ the great

numbers of low-qualified people living there.

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THE ROLE OF THE REAL ESTATE MARKET IN THE SLOVAK REPUBLIC WITH EMPHASIS OF HUMAN RESOURCE DEVELOPMENT

Jarmila VIDOVÁ, Peter SIKÁ

Abstract

Housing policy change after 1989 caused many other changes. One of them is the creation of real estate market, which goes through significant modifications and in recent years we have seen considerable flexibility in the real estate market. The growing interest of the population in buying properties make a room for newly discovered profession of agents for sale and rental properties, i.e. real estate brokers, which number is growing in recent years due to increasing in vision of high and quick profits. In this paper, the authors deal with real estate, which has become a sector of high-growth productivity job and increasing of value added, and which is one of the largest sub-sector of the economy. Real estate, however, does not require high education, which may be one of the negative indicator in the qualification of consultants dealing with the purchase, sale, respectively property lease. The authors of the paper outlining the need for the development and creation of new fields of study in the Slovak Republic.

Key words

Housing, work productivity, real estate, the non-financial business, real estate market,

JEL Classification: R33, R21, R51

Introduction

At present, the Slovak Republic's property market is highly active. Properties affect life in towns and municipalities, tell us about the architecture of the period, surviving several generations. The real estate market in Slovakia has seen a boom in the 90s, when there was the transition to a market economy, to the changing conditions in the housing market. There was established a number of new private realtors, which placed the real estate market as a facilitator of sale and purchase of property. A significant increase in their number was in 2008, from year 2009 there was a significant downturn due to the crisis of economic as well as on real estate. Quality of information provided to customers is debatable, however, as in the Slovak Republic there is no unified system of education of real estate brokers. Gradually are formed various educational organizations dedicated to increasing education of real estate agents, but the education system is not uniform in terms of national level.

Currently, we are coming to the stage of growth of real estate offers as a result of the demand of households respectively individuals for property mainly in the age group up to 35 years, due to the significant fall in interest rates on loans for purchase of residential property. In this article we will focus on real estate market and the factors affecting them. Also, we pay an attention to employment in the real estate market and its impact on the development of business

activities in the Slovak Republic in comparison with countries of the European Union.

1 The real estate market – theoretical background

Term market has undergone during its existence by many changes. At the same time we can characterize it as "modern tool of implementation of the exchange, based on the decisions of producers and consumers, place on their choice, respecting certain rules of the game (Brezík 1997, p. 28). In terms of the object of purchase and sales, markets are divided to of the market of goods and services, market of production factors (labor market, land market and the capital market) and financial markets (Holková, 2016). Part of the market is the real estate market. In a market economy the property is seen as a product that is so deeply embedded with the soil, it should be permanently sell or buy with a land, without a land we can only temporarily transfer it to the user.

Market (real estate market) is the area where various bodies are developing their activities with an interest to acquire or offer objects typical to this environment. In addition to seller and the buyer in the market for real estate are other entities such as: real estate agents, property developers, construction companies, investors, financial institutions, architects, planners, government bodies etc. Object of interest, whether supply or demand, is oriented to the construction objects of different physical and

technical condition for use or sites linked respectively unbound to these objects "(Romanova, 2002, p. 115).

The property market is influenced mainly by economic development. Its development and behaviour of entities in the real estate market has devoted many authors. Granel (Grenelle, 1998) in his work argues that fluctuations in the housing market cannot be considered as counter-cyclical. Based on the statistical data it shows that the housing market has a tendency to react in advance to changes in the development of aggregate economic output. During the expansion, automatically increasing credit demand not only in the household sector for procurement of a housing, residential investment, but also for loans in other sectors of the economy, causing upward pressure on interest rates. As the housing market is more sensitive to interest rate movements than other sectors of the economy, the volume of housing construction decreases sooner than economic growth. The rapid decline in housing construction may contribute restrictive nature of monetary policy, which seeks to ease the pace of economic growth to prevent overheating of the economy. Factors that influence the cyclical behaviour of the real estate market, Grenelle (Grenelle, 1998), divided into three groups, the real factors, monetary and financial factors and factors inherent to changes in the volume of production.

The real factors are demographic effects (acting partly pro-cyclical, because economic growth contributes to the growth of household wealth, leading to faster creation of new households and the increasing demand for housing), wealth effect (revenue growth is linked to economic growth and act pro-cyclically, as households have been based on the growth of their incomes tend to manifest increased demand for residential services) and the number of unoccupied dwellings (rate unoccupied housing is natural, does not create pressure to reduce the volume of new housing that occurs when the natural rate is exceeded, and did not determine whether the resulting effect will be pro-cyclical or countercyclical).

Monetary and financial factors is the cost of access to credit, the rate of return on real estate market and fiscal and monetary policy. Costs of loans availability depend on the interest rate on these loans. Interest rates have upturns during grow and during recession are declining. However, the lower the interest rate on the loan, the lower the fee to the creditor for postponing current consumption in favour of future consumption. Lenders are at low rates willing to invest in mortgage loans, which may lead to a reduction of their availability. The higher the rate of return on real estate market in comparison with the rate of return on other assets, the more investors are willing to buy properties and thus constitute a larger share of their portfolio. Besides the rate of return is

also important risks associated with liquidity and that is usually low. Use the tools of fiscal and monetary policy, the government and the central bank seeks to alleviate the economic cyclical fluctuations in the economy and affect its development in a desirable direction. DiPasquale and Wheaton (1994) looks at the real estate market as the two mutually connected sub-markets, asset market and the real estate market in the use (property market). At the asset market (capital market) is created a current price of real estate. Properties here represent only one of a wide range of options to invest free funds.

Jankovičová (2003) looks at the real estate market through supply and demand in the markets for housing and states that in most countries are subject of the same rules. For effective functioning of real estate markets it can expect faster economic development.

Real estate markets may be differentiate according different aspects, in terms of whether the investor wants to hold property owned or sell it on the user market - rental market and investment market - the market for sale of real estate. According to the nature of the real estate market, we recognize the residential real estate market and commercial real estate market (retail market, bond market, the market for industrial and logistics real estate) (Adamuščin 2010, p. 28).

The real estate market in addition operators offering a demanding property are operating brokerage businesses - real estate agencies in respect of their activities and seek to advise, span the full service real estate transfer. Real Estate Services was recently made in Slovakia is booming, in NACE Rev. Section 2 L.1

¹ Real estate activities are divided into three separate NACE groups and include:

- buying and selling own real estate (Group 68.1);
- renting (to third parties) and operating own or leased residential and non-residential real estate, including both furnished and unfurnished property; the development of building projects for own operation is also included (Group 68.2);
- appraising real estate; providing real estate agency services as an intermediary; managing property as an agent (Group 68.3).

Real estate activities do not include facilities management which is considered part of administrative and support services (Section M), nor the development of building projects for later sale which is part of construction (Section F), nor short-stay letting of accommodation (for example, for holiday purposes) which is part of accommodation and food services (Section I).

2 Real estate sector and employment in the European Union

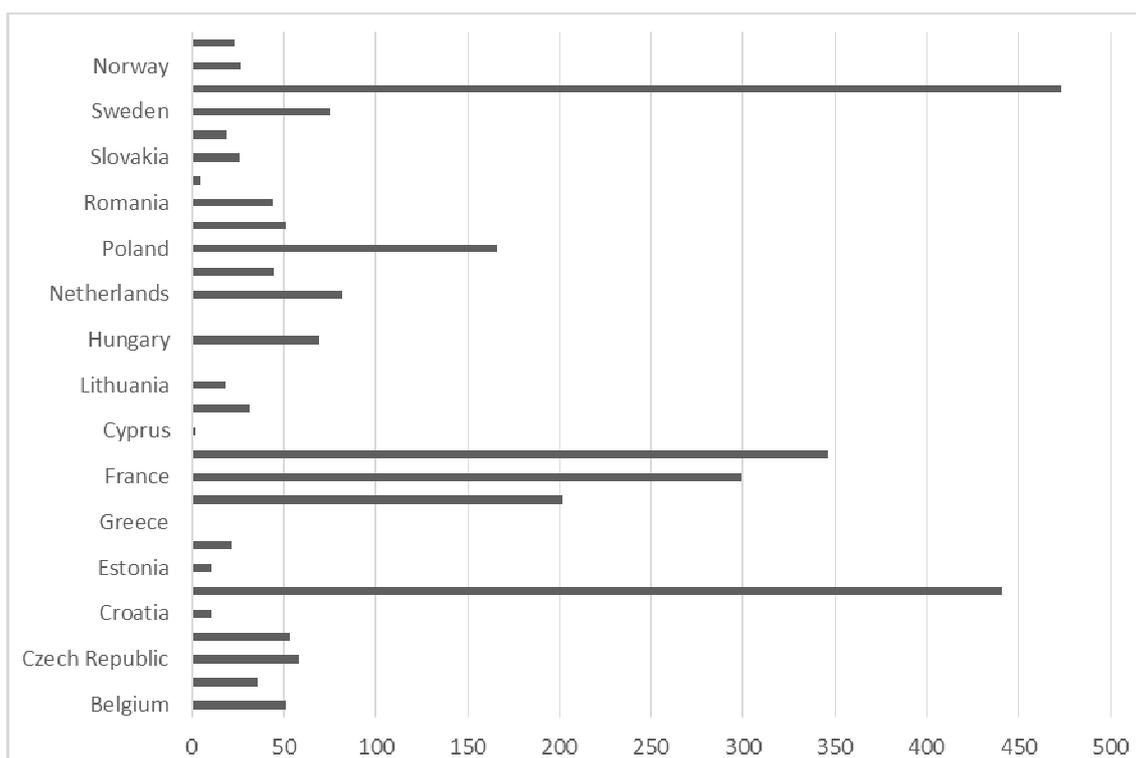
Real estate markets in Slovakia is developing dynamically especially in larger cities, despite their relatively short downturn period during the global economic crisis. This is an important market institution that paves the way for the mobility of capital, labour, finance and so on. Since the effective functioning real estate market thus partly depends on the economic development and welfare of the population (Adamuščin, 1/2011 p. 23).

The largest subsector within the EU-28's real estate activities sector in 2013 was renting and operating of real estate (Group 68.2) which accounted for above three quarters (77.4 %) of sectorial value added and employed more than half (56.4 %) of the workforce, as well as having over three fifths (64.8 %)

of the enterprise population. The second largest subsector was real estate activities on a fee or contract basis (Group 68.3) which contributed almost one fifth (18.8 %) of value added and twice this share (37.8 %) to the workforce for real estate activities. The smallest subsector was buying and selling of own real estate (Group 68.1) with a 5.8 % share of the real estate activities workforce.

The services of real estate activities are very diverse: real estate agents let (rent) or sell on a commission basis; traders buy and sell property; valuers, facilities and estate managers provide professional services; and finally owners let property. Most of these activities are related to the secondary market concerned with existing property, although some, such as property developers for own operation are active in the primary market and are therefore closely related to the construction sector.

Graph 1: Number of employees in real estate (in thousands) 2013



Source: Eurostat, 2015

Real estate activities have very different cost structures and revenue streams. As such, care has to be taken when comparing them, particularly when trying to measure the size of each subsector or their use of capital or labour. In particular, when enterprises are the owner of a good that they rent or lease, their financial costs and depreciation charges may constitute the main element of their total costs, but

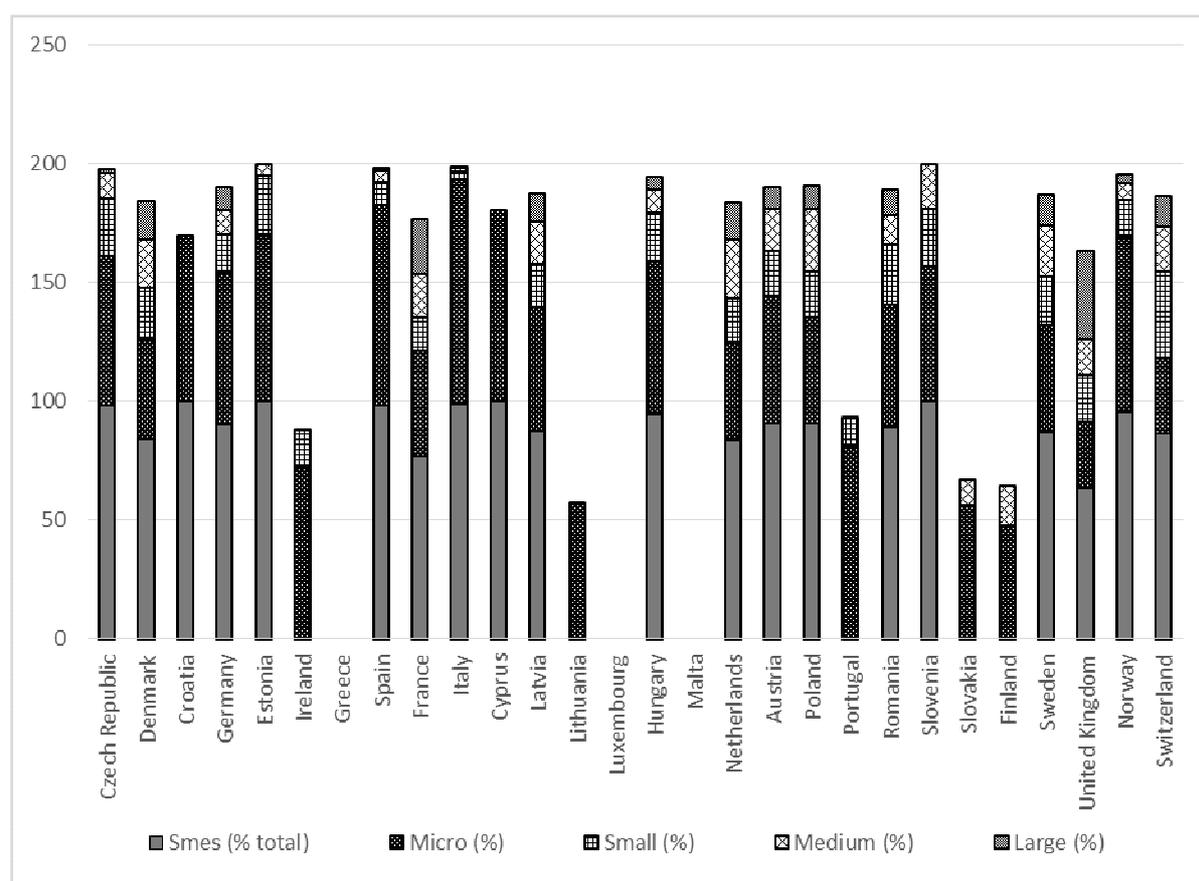
these are not considered when calculating gross value added or indicators of productivity based on this.

Lower % of home ownership in the country has an impact on the real estate sector, which can be seen on the example of Great Britain, Germany, Italy, France and Spain. The lower the % of home ownership the greater demands on the number of employees in the sector (Graph 1).

The high wage-adjusted labour productivity ratio recorded for the EU-28's real estate activities sector in 2013 was pulled up by the ratios recorded for renting and operating of own or leased real estate (402.0 %) while the ratio recorded for real estate activities on a fee or contract basis (144.0 %) was just above the non-financial business economy average (143.1 %). By contrast, the gross operating rate for real estate

activities on a fee or contract basis (24.4 %) was well above the non-financial business economy average (9.5 % in 2013), although considerably lower than for the renting and operating of real estate (51.3 %), which was the highest gross operating rate across all non-financial business economy activities at the NACE group level.

Graph 2: Employment in real estate by size of enterprise (%)



Source: Eurostat, 2015

EU-28 real estate activities sector in 2013 were classified as micro enterprises (Graph 2). These micro enterprises dominated the real estate activities sector as they accounted for 98.1 % of the total number of enterprises in the real estate activities sector, while providing employment to the majority (58.6 %) of the real estate activities workforce and also generating more than half (57.4 %) of the added value. Indeed, micro enterprises within the real estate activities sector recorded the second highest contribution to sectorial employment and the highest contribution to sectorial value added across any of the NACE sections

that compose the non-financial business economy.² This pattern was repeated across most of the EU Member States, as micro enterprises frequently accounted for more than half of the total number of persons employed in the real estate activities sector in

² The main size classes used in this article for presenting the results are:

- small and medium-sized enterprises (SMEs): with 1 to 249 persons employed, further divided into;
 - micro enterprises: with less than 10 persons employed;
 - small enterprises: with 10 to 49 persons employed;
 - medium-sized enterprises: with 50 to 249 persons employed;
- large enterprises: with 250 or more persons employed.

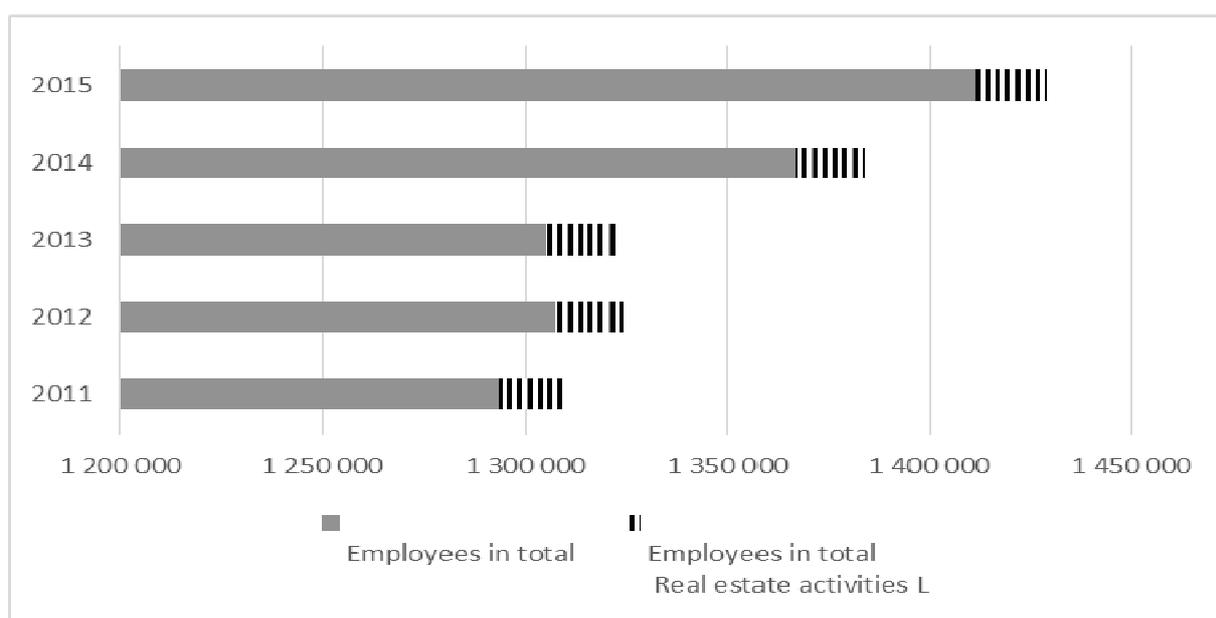
2013, peaking at 95.1 % of the total workforce in Italy and 85.3 % in Belgium. By contrast, Poland, Sweden, the Netherlands and the United Kingdom reported that less than half of those employed in the real estate activities sector worked for micro enterprises — although micro enterprises still had the highest share (among the four size classes analysed) of the real estate activities workforce in each of these countries. The United Kingdom was the only EU Member State where micro enterprises did not provide employment to the highest share of the workforce within the real estate activities sector, as large enterprises (employing 250 or more persons) had a 32.3 % share of sectorial employment, compared with a 28.7 % share for micro enterprises. In Switzerland, small enterprises (employing 10 to 49 persons) accounted for the highest proportion of the real estate activities workforce, some 32.9 %. In terms of value added, the relative importance of micro enterprises was often even higher (than for employment). For example, micro enterprises accounted for the highest share of added value in the real estate activities sector in the United Kingdom (41.6 %), and for the majority of value added in all of the remaining EU Member States for which data are available other than in France (45.2 %), Poland (19.0 %) and the Netherlands (25.1 %). The Netherlands was the only country where micro enterprises did not record the highest share of sectorial value added, as medium-sized enterprises (employing 50 to 249 persons) accounted for 30.6 % of value added for Dutch real estate activities.

3 Employment in real estate Slovak Republic and the development of human resources

The current state of the labour market in Slovakia is characterized by its high imbalance between labor supply and labour demand. The labour market is essentially that what goes in all policies, with a view to high employment, that is to ensure a high level of domestic production and consumption and its equitable distribution among the population as a whole. These contributing factors manifests itself through the GDP as in household consumption and in the formation and structure of fixed capital and the amount and structure of consumption in the public sector (Rievajová, E. Klimko, R., 2015, p. 40). The situation on the Slovak labour market has recently recorded positive changes. There is an increasing number of workers and reduced the number of unemployed. The problem remains the long-term unemployment, which is failing as intense as to reduce the overall level of unemployment on file.

Impact real estate market is visible in the growth of employment in the intermediation of sales respectively. rental. Since 2011, the number of employed in this sector increases. Similar developments occurred and employment from 2005 to 2008. As the real estate market has an impact on employment, the impact on the creation of business activities. Graph 3 shows the number of employees in enterprises by size.

Graph 3 Employment in real estate SR (number of employees)

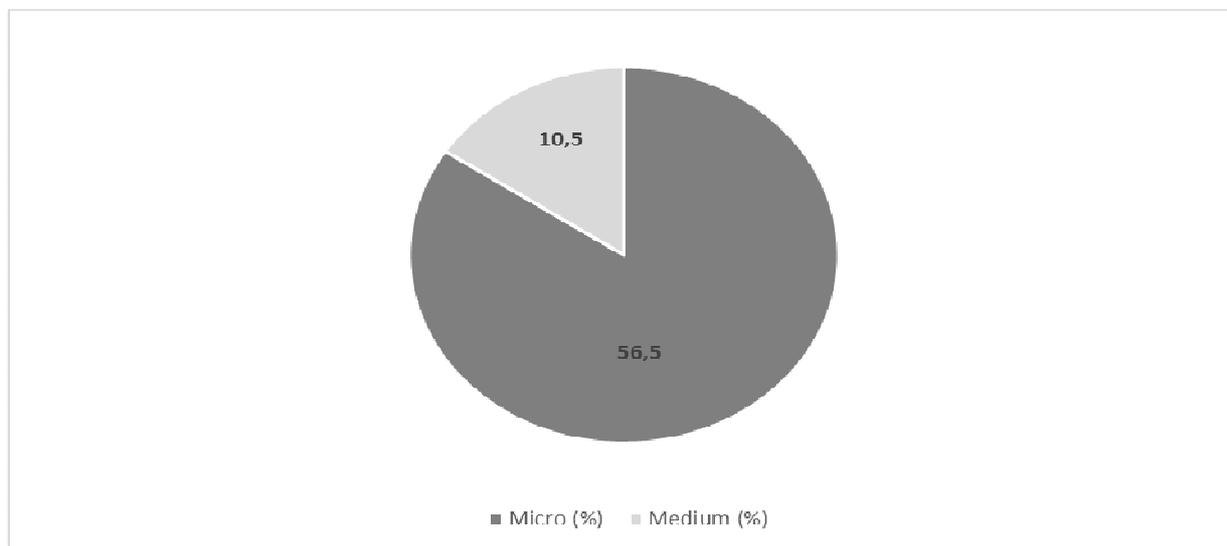


Source: Regional statistics SR, 2016

The Slovak Republic has implemented activity in real micro enterprises with a share of 56.5% and medium-sized enterprises with a share of 10.5% (Graph 4). The number of persons are micro largely only jednoosobové. It is associated with setting up a

business in the family and at the time owned the boom, for example, married couples and three real estate agencies. With the current developments in the real estate market situation in 2008, when many businesses have been canceled, may be repeated.

Graph 4: The share of employees in micro enterprises in real estate in Slovakia (%)

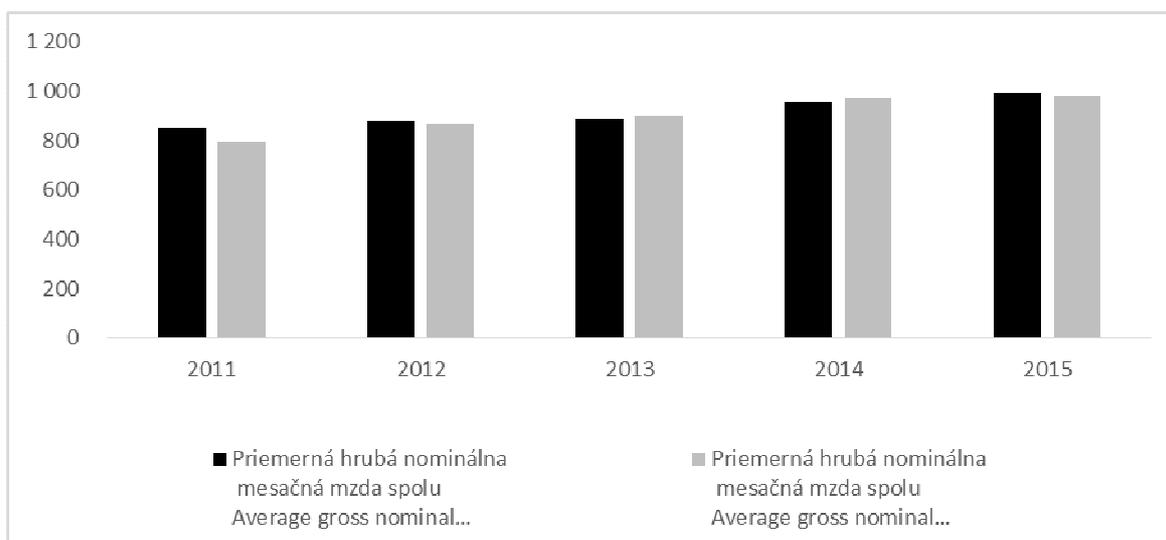


Source: Eurostat, 2016

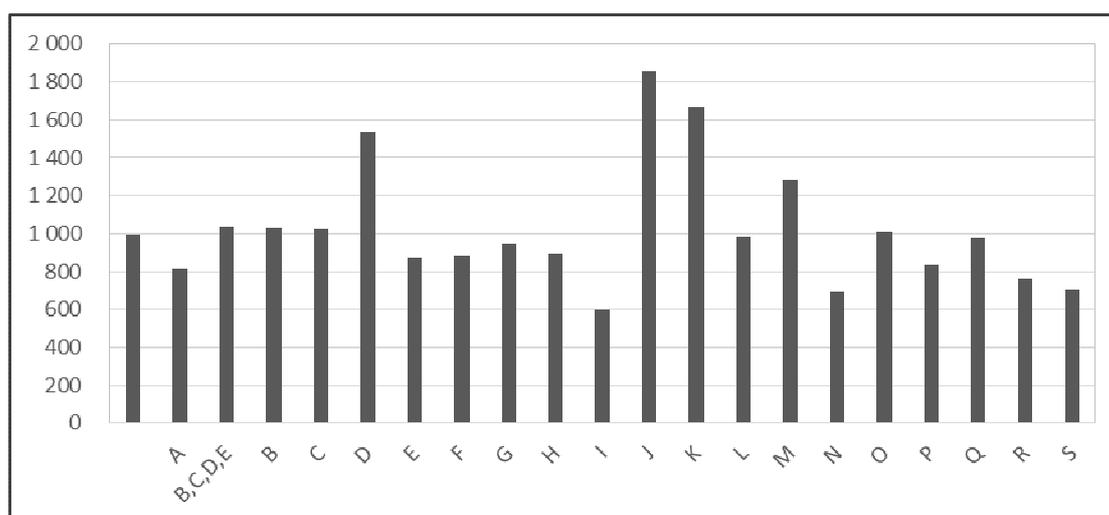
Demand to work in real estate is influenced by the amount of wages. In Figure 5 is shown the average wage in the national economy and real estate in Slovakia. Compared to the average wage in other sectors it is higher. Positive development of

fundamentals continued to the wage growth and reducing unemployment is not reflect through demand pressures into faster growth in prices of market services (NBS, The Game February 15, 2016, p. 1).

Graph 5: Comparison of the average wage in the national economy and in real estate in €



Source: by the Regional statistics SR, 2016.

Graph 6: Comparison of the average wage by sector NACE – 2 in €

Source: by the Regional statistics SR, 2016.

Regulatory approaches in the real estate sector vary significantly from one country to another. Since most countries have identified similar risks, it is necessary to examine the reasoning behind such substantial differences in regulation. A number of countries put forward historical traditions, differences in civil law and differences in the organisation of the profession, as well as recent trends in property markets as well as an economic context in order to explain the individual shape of each regulatory regime.

According to the International Standard Classification of Occupation (ISCO)³, real estate agents and property managers arrange the sale, purchase, rental and lease of real property, usually on behalf of clients and on a commission basis. Tasks performed by real estate professionals usually include obtaining information about properties to be sold or leased, the circumstances of their owner and the needs of prospective buyers or tenants; showing properties to be sold or leased to prospective buyers or tenants and explaining terms of sale or conditions of rent or lease; facilitating negotiations with tenants and owners on rents and fees; drawing up leasing and sale agreements and estimating costs; arranging signing of lease agreements and transfer of property rights; collecting rent and bond monies on behalf of owner and inspecting properties before, during and after tenancies; ensuring the availability of workers to perform maintenance of the properties.

Directive 2005/36/EC on the recognition of professional qualifications¹, as amended by Directive 2013/55/EU sets out a transparency exercise and a mutual evaluation of all regulated professions. Article 59 of the revised Directive 2005/36/EC introduces an

obligation for the Member States to notify the professions they regulate (including the activities reserved to qualified professionals) and to assess the justification and the proportionality of existing entry restrictions. In addition, the Communication on evaluating national regulations on access to professions lays down a methodology and work plan for carrying out this process. The mutual evaluation exercise requires each country to review national requirements on access to professions and to share its findings with the others.

The profession of real estate agent was selected by a majority of Member States for in-depth discussion among the first cluster of professions (including Business services, Construction, Manufacturing, Real estate, Transport, Wholesale & retail) considered to have the greatest potential in terms of level of employment and degree of mobility. For the purposes of the mutual evaluation exercise, under the generic name of the profession “Real Estate agent/Real estate agency manager/Administrator/Director” are grouped activities related to the provision of intermediary services in respect of real estate transactions and real property assets. Many countries have reported more than one profession regulated in the real estate sector.

Conclusion

In view of current status, the real estate activities must still improve and that the work of real estate brokers level and thus meet the needs of sellers and purchasers, it is necessary to constantly be given to the training and development of human resources. In

Slovakia, as well as in other countries, the investment in real estate is still considered as a safe investment that, depending on the type of real estate, can bring some revenue. Intermediary in the real estate market (i.e. Agents) is an independent intermediary of real estate business, representing interests of the customer who entrusted the team (with high professional care) as well as the client's on other side. This requires personal and professional competence and professionalism.

Real estate agent professional represents client and accompanies him during the whole process of implementation of the business case, which brings its original contribution and guarantee the delivery of services to that client. This is particularly the negotiation of the sale, purchase and rental properties (apartments, houses, land, office, warehouse, retail space and objects, etc.), thus creating a good

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opportunity to realize real estate transactions, according to the potential of available resources and tools.

From the information submitted is not always clear as to whether the profession of real estate agent is subject to an exclusive reserve of activities or a shared reserve with other professions. However, the Commission would ask countries to be mindful that national legislation requiring real estate agents to carry out that business exclusively, with the exception of other activities, such as management of property, is considered not to be in compliance with Articles 49 TFEU and 56 TFEU by the European Court of Justice.

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AGREEMENT ON IMPROVING EMPLOYEE QUALIFICATIONS – ONE OF THE EMPLOYEE STABILIZATION TOOLS IN THE WORKPLACE

Jana PŠENKOVÁ, Monika GULLEROVÁ

Abstract

Employee qualification is currently the focus of both employers and employees. Employees who raise their qualification improve their prospects in the labour market. Highly-qualified employees mean a competitive advantage so many employers are willing to invest in employee education programs. On the other hand, employers investing in employee education programs want to benefit from their highly-qualified employees. In the paper, the methods of analysis, logical and grammatical interpretation are employed to discuss the legal basis related to agreements on improving employee qualifications – the so called employee stabilization tool obliging employees to remain in the employment relationship. The quality and quantity of employee work contribution affects the volume of employer fulfilments, in particular fulfilments regarding the remuneration for the work done.

Key words

employee, employer, employee education, qualification, agreement on improving employee qualification.

JEL Classification: J53, J32, K31

Introduction

Employee education is provided by employers under their company welfare policies. A company welfare policy is a part of employment-law relations, in which the key characteristic of differentiation is not present. The legal status of individual employees affects the differentiation regarding the implementation of subjective rights and legal obligations. The quality and quantity of employee work contribution is the main criterion for differentiation. The quality and quantity of employee work contribution affects the volume of employer fulfilments, in particular fulfilments regarding the remuneration for the work done. As already mentioned, in issues related to company welfare policies under which education and learning activities are organized, the principle of differentiation is not applied.

Currently, the company welfare policies are regarded as an instrument of collective and individual human resource development in relation to achieving economic goals. The main goal of the welfare policy in an organization is to develop human resources and to create a good economic conditions and welfare at work (Masárová, Sika, Španková, 2011).

Laws on employee education are critical not only for the personal growth of employees, but also for employers. Employers attend to deepening or improving employee qualifications. Employers negotiate measures on deepening or improving employee qualifications with employee representatives.

Today, education must focus on the concept of human capital, which encompasses expert professionalism, well developed individual skills, intellectual potential, and professionally relevant personality characteristics (Strunz, Vojtovič, 2014).

Creative education focuses on developing creative abilities of man, consolidating his/her professional growth, as well as on innovations and analysing problems and various activities. Creative education supports self-awareness of facts, self-knowing of individuality, knowledge transformation to the potential of thought and self-development (Krajňáková, Vojtovič, 2015).

A great number of employers are willing to invest in employee education. Employers investing in enhancing employee qualifications want to benefit from their highly-qualified employees. The authors of the paper employed the methods of analysis, logical and grammatical interpretation to discuss the legal basis related to agreements on improving employee qualifications – the so called employee stabilization tool obliging employees to remain in the employment relationship.

Deepening and increasing qualification

Employee qualifications are currently the focus of both employers and employees. Education policies and education programs are primarily aimed to have skilled, educated and capable people available in order

to meet the current and future needs of an organization.

Education of today is designed to develop human personality, to which the content of education, i.e. knowledge, skills and habits, intellectual abilities, attitudes and specific characteristics required for the inclusion into society, is adapted. In addition, the concept of education has certain time limits, within which individuals shall prepare for their future, while lifelong learning is a must for a continuous development of individuals (Révészová, 2010, p. 825).

Corporate education refers to learning activities organized by a company, encompassing in-house learning activities, courses outside the company and on the job learning (Skopal, 2011).

Investing in human capital brings about improvement of performance, flexibility, and productivity, and enhances the ability to innovate, which naturally follows from continuous enhancement of qualification as well as skills and expertise of staff (Grenčíková, Vojtovič, Gullerová, 2013).

Investment in human capital refers to all the activities leading to increased quality of the work offered. These activities should then have permanent or at least repetitive impact, either monetary or psychical in nature (Vojtovič, Krajňáková, 2014).

In order to explain the role of education and expertise in building prosperity and economic growth, economists such as for instance Theodore Schultz and others used the metaphor of "capital" - the age-old economic concept. They claimed that people invest in their training and education to create a stock of skills and competences (capital) that can deliver long-term profitability. Such investments can be beneficial for the national economy in promoting economic growth (Štefančíková, 2015, p. 33).

Education of employees is regulated by the fundamental employment law in Slovakia – Act No. 311/2001 Coll. Labour Code as amended (hereinafter referred to as „Labour Code“). The terms of increasing and deepening qualifications are used, yet not defined in the Labour Code.

Deepening of qualification also includes its maintaining and refreshing. Qualification is deepened when deepening, maintaining or refreshing qualifications are done in the same qualification level obtained by completing appropriate education. It is a permanent upgrade the professional skills of employees that are necessary to perform the work under the employment contract (Barancová, 2012, p. 793).

Qualification is increased when the level of qualification achieved is higher, such as getting new

qualifications or obtaining qualifications by those who were not qualified before.

"Education – path to prosperity" is one of the most common slogans found in a number of materials, documents, and heard in seminars and conferences on human resource development. Prosperity mostly indicates increased consumption and competitiveness of countries / regions, low unemployment rates, etc. The strength of action of this approach, according to which education is a means to maintain and further develop economic prosperity is so great that it makes education policy both in individual countries and regions, as well as in multinational organizations and structures, as well as in the European Union. The current view of education as a means for maintaining and developing economic prosperity made countries and regions, as well as supranational corporations and the European Union adapt their educational policies accordingly (Grenčíková – Španková, 2012, p. 35).

Innovations and innovation policies and strategies implementations are one of the most important aspects of current international economics and business development issues. It is the key not only to creating more jobs and improving quality of life, but also to maintaining companies' competitiveness on the global market and states' economies' competitiveness enhancement within the international economics system (Kordoš, 2016).

Employees starting an employment relationship without qualifications can be provided trainings and/or tuitions by their employers. Upon training or tuition completion, employers will issue a certificate on training / tuition completion to respective employees. Training and tuition are short-term ways of getting qualifications, they do not take the form of continuing training for the occupation.

Employers are obliged to retrain the employees who are assigned to a new workplace or to a new job, when necessary, especially when reorganizing or downsizing. The issue of retraining is regulated by the Act No. 5/2004 Coll. on employment services and on amending and supplementing certain laws. In this case, employers shall conclude a written agreement with employees in question. Retraining takes place during working hours and is an obstacle on the part of an employee, for which he/she shall get a wage compensation in the amount of average earnings. Retraining outside the working hours is performed only if necessary regarding its provision. The respective Office of Labour, Social Affairs and Family may provide the employer, upon a written agreement, a financial contribution for the employee retraining.

An employee is obliged to systematically deepen his/her qualification for the performance of work as stipulated in the employment contract. An employer is

entitled to oblige the employee to participate in continuing education in order to enhance his/her qualification. Participation in education is the performance of work for which employees are to be paid a wage.

It follows that "deepening of qualification" as opposed to increasing qualification is an employee legal obligation. Thus, pursuant to § 154 section 3 of the Labour Code, employees are obliged to deepen their qualification, including its maintenance and deepening, necessary for performing their work, especially when tasked by employers" (Löwy, 2012).

Zamestnávateľ je teda oprávnený nariadiť zamestnancovi prehĺbenie kvalifikácie, a to nariadením účasti napr. na kurze alebo školení. Ak zamestnávateľ nariadi zamestnancovi účasť na ďalšom vzdelávaní za účelom prehĺbenia kvalifikácie a zamestnanec tento príkaz odmietne, resp. ho nesplní, je možné takéto konanie klasifikovať ako porušenie pracovnej disciplíny. Následkom takéhoto porušenia pracovnej disciplíny môže byť napríklad skončenie pracovného pomeru výpoveďou, prípadne mzdové opatrenie voči zamestnancovi (nepriznanie odmien a podobne).

Further education is understood, pursuant to §2 section 3 of the Act No. 568/2009 Coll. on lifelong learning and on amending certain laws, as "education in educational institutions of further education following previous school education. Further education allows to get a partial or full qualification or amend, renew, extend or deepen the qualification or to satisfy interests or to acquire ability to participate in society and civic life. Successful completion of further education does not mean getting an educational degree"

Agreement on improving qualifications

Agreement on improving qualifications or the so called stabilization agreement is a bilateral legal act between an employee and an employer. In order to conclude such an agreement, the expression of will of both an employer and employee is required. It has, however, to be noted employees cannot legally claim employer assistance in improving their skills. The legal claim arises upon concluding the agreement and its extent is specified in the agreement.

Agreement on improving qualifications has the functions related to:

- stabilization (employees are obliged to remain working with their employers),
- reimbursement (employer's obligation to reimburse employee costs for improving their qualifications),

- qualifications (the purpose is to improve employee qualifications).

Employers may, but are not legally obliged to, conclude with their employees an agreement on improving qualifications. Upon its conclusion, employers are obliged:

- to provide their employees days off,
- to provide their employees wage compensation,
- to reimburse other costs associated with the study.

The employer costs in connection with the conclusion of the agreement on improving qualifications include mainly employee wage compensation for the time off, as well as other expenses related to studies, such as for instance tuition fees, travel expenses, accommodation expenses, study literature, etc., whereas employers expect employees to pay back their investment in the form of stabilization commitment. This means that employers will be able to make use of the employee increased qualifications as a competitive advantage for at least the agreed period of time.

Employee stabilization commitment, resulting from the agreement on improving qualification, obliges employees in question to remain working with their employers after completing their studies or to pay the costs associated with the study, even when employees terminate their employment before completing their study. The agreement must be concluded in writing, otherwise it is invalid.

Agreement on improving qualifications must include the following information:

1. type of qualification and way of its increase (form of study),
2. field of study and school credentials,
3. the period for which the employee commits himself/herself to remaining in the employment relationship with the employer,
4. type of costs and their total sum that the employee shall be obliged to repay to the employer if he/she do not fulfil his/her commitment to remain in the employment relationship with the employer for the duration of the agreed period.

Expenditures on employee education and retraining and own educational establishments are employer tax expenditures pursuant to § 19 par. 2 point. c) Section 3 of Act No. 595/2003 Coll. on income tax, tax expenditures, which are applicable only to the extent and under the conditions laid down in this Act, i.e. on condition that they are used to generate, ensure and

maintain the employer income. On the part of an employee, pursuant to § 5 par. 7 point. a) of Act no. 595/2003 on income tax, exempt is only income specified as "the amount spent by the employer on employee training, which is linked to the activity or business of the employer; This exemption does not apply to the amounts paid to the employee as compensation for loss of taxable income. "

An employee is bound to remain with the employer for an agreed time up to five years. If an employee fulfils his/her obligation only in part, costs to be paid shall be reduced proportionately.

The agreed time does not include the following:

- performance of extraordinary service during a state of crisis or alternative service during wartime or in a state of war
- maternity and parental leave
- absence from work due to execution a sentence of imprisonment or detention, where an employee was legally sentenced to such.

An employer may conclude with an employee an agreement on increasing qualifications also with regard to reinforcing a qualification, if the expected costs amount to at least EUR 1,700. In this case an employee cannot be set reinforcement of his/her qualification as a duty.

The obligation of an employee to repay costs shall not arise, particularly, if:

- the employer during the course of increasing qualification ceased to provide time off from work and wage compensation, because the employee, through no fault of his/her own, became long-term incapacitated to perform such work for which he/she was increasing his/her qualification,
- the employment relationship was terminated by way of notice given by an employer for reasons pursuant to § 63, section 1, letter a) and b) of the

Labour Code or agreement for these same (the so called organization reasons),

- the employer is unable, according to medical opinion to perform the work for which he/she increased his/her qualification, or if he/she lost the long-term capacity to continue performing to hitherto work for reasons pursuant to § 63 section 1 letter c) of the Labour Code,
- the employer did not utilise, for a period of at least 6 months in the preceding 12 months, the qualification that an employee increased.

Conclusion

The issue of investment into human capital development under corporate welfare policies has become central for employers. Employee education takes both time and money. Employers may also opt for providing employees with a possibility to get qualifications they did not have before. In this case, employer support includes mainly providing employees in question a paid time off for the purposes of study and reimbursement of charges connected with the study. Undoubtedly, employers investing in raising their employee qualifications want to benefit from their newly acquired qualifications. One of the ways to guarantee that employees with increased qualifications do not leave their employers who supported their further education is to conclude an agreement on improving employee qualifications. Upon its conclusion, an employee is bound to remain with the employer for an agreed time up to five years. Therefore, such agreement is perceived as a stabilization agreement or one of the tools of employee stabilization in the workplace.

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PUBLIC ADMINISTRATION IN THE TERRITORY OF THE SLOVAK REPUBLIC AFTER 1990

Jana MASÁROVÁ, Eva KOIŠOVÁ, Jozef HABÁNIK

Abstract

Following 1989, major changes occurred in political, social and economic spheres in the Slovak Republic. A new system of public administration reflecting the ongoing economic and political changes in society started to be built in 1990. There were also changes in the territorial and administrative organization of Slovakia. The former three-level system of national committees was abolished. The reform of public administration resulted in separate state administration and local self-government. Local self-government and regional self-government were established. The organization of state administration was changed, too. Regional and district national committees were abolished and state administration powers were transferred to newly established district and sub-district offices, later to regional offices. Finally, district offices were restored and regional offices were abolished. Recently, much attention has been paid to having efficient and up-to-date system of public administration and to providing adequate services to citizens and private sector by local state governments.

Key words

Public administration, District, Region, Municipality, Regional self-government, ESO programme.

JEL Classification: H70, H83, N93

Introduction

The events of November 1989 ushered in a period of major changes in the political, social and economic areas. The changes also included the new territorial and administrative organization of Slovakia as part of the Czecho-Slovakia. As stated by Nižňanský and Hamalová (2013), a new system of public administration reflecting the ongoing economic and political changes in society started to be built in 1990. The origins of creating a modern and democratic model of public administration in Slovakia are linked to laying the foundations of a dual system under which the local self-government was restored and strengthened, and a new subsystem of territorial state administration was established.

The former centralized system was replaced by the principle of *subsidiarity*, i.e. the management and administration of public affairs at the closest possible level to citizens. Machyniak (2013) states that the idea of transferring competences to lower levels is a global trend; being apparent in the so called principle of subsidiarity, but its actual implementation cannot be ensured absolutely since it often is in contradiction with the intentions of political elite in power.

1. Development of the public administration system and territorial division of Slovakia after 1990

In 1990, foundations for a new democratic model of public administration were laid in Slovakia. These changes were intended to overcome and eliminate the shortcomings of centralized control of state administration. (Kosorín, 2003) The former three-level system of national committees in which state power and administration as well as part of *local self-government* were concentrated, was abolished in 1990. The public administration reform separated the state administration from the local self-government. Under the Act No. 369/1990 Coll. on Municipal Administration, local self-government was made up of municipalities – territorial and administrative units. Pursuant to the Act on Municipal Administration and the Act No. 518/1990 Coll. on Transition of the founding function from national committees towards municipalities, central bodies of state administration and local state administration bodies, the rights and obligations of the former local national committees in designated areas were transferred to municipalities, and the basic functions of municipal self-governments were defined. The Act on Municipal Administration made municipalities equal (excluding Bratislava and Košice). It follows that regardless of their size, municipalities have to fulfil the same tasks, which causes problems especially to small villages in terms of personnel, organization and finance. The first municipal elections were held in 1990. Municipalities became independent self-governing units which were not subjected to state bodies, but their activities could only be performed within their own budget, whereas a substantial part of their revenue was made up of the

proportionate amount of collected taxes allocated to them by the central level. During this period, however, no significant change towards the decentralization of state administration to local self-government has taken place.

Changes in *state administration* were governed by the Act No. 472/1990 Coll. on the Organization of Local State Administration. Under the Act No. 472/1990, regional and district national committees were abolished and state administration competences

were transferred to newly established district (okresné) and sub-district (obvodné) offices. District offices were established in seats of former district national committees, and thus 38 district offices were set up (Figure 1). Districts were subdivided into 121 sub-district offices that performed state-administration duties. In addition to these general state administration offices, specialized state administration offices were set up at district and sub-district levels.

Figure 1: Districts of the Slovak Republic (1990-1996)



Source: https://sk.wikipedia.org/wiki/Administrat%C3%ADvne_%C4%8Dlenenie_Slovenska_v_rokoch_1990_%E2%80%93_1996

According to Mesíková (2008), the system of local self-government bodies was highly complicated in this period of time, and the efficiency of the system performance was questioned. This was when the idea of constituting a more efficient model of local state administration was born. It was intended to integrate horizontally some local bodies of state administration (e.g. school administrations, environmental offices, Fire protection Corps, etc.) into a single unit/office that would perform the substantial number of state administration duties within its territory.

Slavík, Klobučník and Šuvada (2013) refer to this phase of changes in the territorial and administrative organization of Slovakia as a transitional stage in which two levels of artificially created spatial units (completely different from the traditional and natural system of small districts) were combined. The authors maintain that the establishment of sub-district offices was too complicated and costly. In addition, the specialized state administration was created over the years 1991-1993 through gradual disintegration of several state administration offices which performed

their duties without any coordination. By separating the specialized state administration from the general state administration, the local state government was performing its duties and responsibilities in a very complicated and obscure manner for an ordinary citizen. This process resulted in a changed spatial and vertical structure of bodies.

In the following years, efforts to decentralize the public administration were no longer made since the relations between the Czech and Slovak Federative Republic became of primary concern. Different political views on the future functioning of the Czecho-Slovakia led to its demise and the emergence of two independent states.

2. Changes in the territorial and administrative arrangement of Slovakia after 1996

Slovakia became an independent state on January 1, 1993. The public administration system did not change until the Act No. 221/1996 Coll. on

Territorial and Administrative Organisation of the Slovak Republic was adopted. The act introduced a new local state administration system, under which regions and districts became new administrative units. Three proposals for a new territorial and administrative arrangement were developed. The first proposed to restore the system of former counties, the second one proposed to establish the system of eight areas (regions), and the third one proposed to restore the system of large regions. While several experts argue that the county option was the most suitable, the second option was chosen and Slovakia was divided into 8 regions (Bratislava, Trnava, Trenčín, Nitra,

Žilina, Banská Bystrica, Prešov, and Košice) and 79 districts (Figure 2). Compared to the previous system, the number of districts increased considerably and the cities of Bratislava and Košice were divided into 5 and 4 districts respectively. The state power was exercised by regional and district offices which were set up in the regional and district cities. In this process, bodies of specialized state administration were (only partially) integrated. In this period of time, state administration enjoyed a stronger position than the self-government that was exercised at the municipal level. The second level in the system of self-governing bodies was still missing.

Figure 2: Administrative arrangement of Slovak Republic after 1996



Source: <http://www.minv.sk/?uzemne-a-spravne-usporiadanie-slovenskej-republiky>

The principal stage of the public administration reform commenced after the elections in 1998. First, a government plenipotentiary for the public administration reform was appointed. He set up work teams that were in charge of preparing the public administration reform. Very inspiring were found the discussion fora on the reform of public administration organized for experts as well as in individual Slovak regions. The outcome was the *Strategy of the public administration reform of the SR* adopted by the Slovak Government in 1999 and subsequently the *Concept of Decentralization and Modernization of the Public Administration in the SR* was adopted by the Slovak Government in 2000. (Kolektív, 2012)

In 1999, Slovakia signed the European Charter of Local Self-Government. The Charter is an international treaty laying down principles of local self-government, thus acknowledging the importance of local government as one of the main foundations of any democratic regime. (Ministry of Interior)

The government continued in decentralizing and deconcentrating the state administration and committed themselves to reconsider the scope, efficiency and structure of district and regional offices, and to put forward a new system of organization of local state administration. The processes were aimed to strengthen the role and responsibilities of local self-government in providing services to citizens by decentralizing public finance,

strengthening tax revenues of municipalities, and determining tax revenues of higher territorial units. The reform pursued the following objectives: to regulate the relationship between the state - region - municipality - citizen so that problems were solved at the level where they could be addressed most effectively. In addition, the reform was designed to alter the administrative division of the SR, to introduce a three-tier model of public administration; to strengthen the autonomy of local government authorities through the transfer of state competences; to introduce a new system of financing, as well as to strengthen the financial independence of local self-governments; and to increase the accountability of self-governments for efficient operation of public administration and regional policy. Having implemented the public administration reform, the Slovak Republic became a decentralized state with a horizontal division of power and vertical division of competences.

In this period of time, independent offices were established within the state administration, system, e.g. school inspection, veterinary administration, fire protection, public procurement, cadastre administration, etc. Bušík (2005) states, that this was a response to strong tendencies of the respective central bodies to atomize state administration as well as the wish for acquiring higher prestige. Some of the state administration duties could be performed by other legal entities, for instance state budgetary organisations (directly controlled by ministries) that were assigned with technical and purposeful tasks. Kosorín (2003) argues that rapid development was observed in the establishment of public corporations as part of the specialized authorities and advisory boards of various types and levels.

The second level of territorial self-administration envisioned by the Slovak Constitution of 1992 was enacted by law – the Act No. 302 of 2001. As of 2002, eight higher territorial units – self-governing regions were established and started to work within the region borders as set in 1996.

According to Vrbinčík (2012), the establishment of 8 regions disrupted the natural regional differentiation of Slovakia. Instead of establishing economically homogenous units, heterogeneous ones were created, which had negative effects on the internal integrity of natural Slovak regions.

In 2001, the Act on Municipalities was substantially amended, whereby the autonomous status of municipalities was significantly strengthened. In addition, acts on public officials were adopted (Act on Public Service, Act on Civil Service). The Act No. 312/2001 Coll. on Civil Service and on the amendments to certain Acts stipulated for the first time the legal relations in the Slovak civil service

performance. The Act regulates the rights and obligations of the state and civil servants resulting from the performance of the civil service or in connection with the implementation of the civil service. Staroňová, Staňová and Sičáková-Beblavá (2014) write that the Act on Civil Service provided the legal framework for the civil service and was aimed to establish professional, impartial, politically neutral, efficient and flexible civil service. The Act made a clear distinction between political (minister, state secretary) and apolitical posts (head of office, directors general of the sections, directors of departments and other civil servants at ministries). The Civil Service Office was set up and was responsible for the implementation of the Act (abolished in June 2006).

The Act No. 313/2001 Coll. on Public Service regulated the performance of work in public interest and of work related to the territorial self-government. In addition, specialized laws, which established the civil service of soldiers, policemen, customs officers and firefighters were adopted. In the following years, several legislative changes were made, which meant a gradual demise of the basic principles regulating the law on civil service. (Staroňová, Staňová, Sičáková-Beblavá, 2014)

The Act on Public Service was replaced by the Act on execution of work of public interest in 2003, and was amended several times in the following years (similarly as the Act on Civil Service). Significant changes occurred in this area mainly in 2006 and 2009.

Over the years 2002-2004, within the first stage of fiscal decentralization, selected competences of the state administration were gradually transferred to municipalities and higher territorial units in order to ensure their effective performance. They were mainly competences related to education, healthcare, social services, regional development, road communications, tourism, etc.

Simultaneously, the system of financing municipalities and higher territorial units was changed. The purpose of fiscal decentralization is to make local self-governments decide with utmost responsibility themselves on issues of local nature, whereas making the best use of resources for the benefit of their citizens. Fiscal decentralization was to strengthen the financial position and independence of self-governments and higher territorial units. Kosorín (2003), however, says that the process of decentralization did not bring any significant improvements since the local self-government shared majority of its competences with state administration. Financing of municipalities and higher territorial units depended on central government and they had no direct say in the process of adopting laws.

3. Public administration reforms in the Slovak Republic since 2004

A number of systemic changes were made in the state administration of the Slovak Republic during the years 2003 and 2004. By the government resolution No. 371/2003 of May 14, 2003 the Concept of Organization of Local State Administration was approved. In line with the process of decentralization, district offices of integrated local state administration were abolished. More than 400 state administration competences were transferred to municipalities and higher territorial units to improve effectiveness and quality of state administration management.

From 1 January 2004, separate bodies of general state administration and specialized state administration were set up at the level of regions (8) and district offices were replaced by sub-district offices of state administration (44-50). Thus, regional bodies acted as service offices in relation to persons performing state and public service not only in the scope of district offices but also sub-district offices

within its territorial scope. Sub-district offices were established as local state administration bodies, but had no legal personality. Sub-district offices carried out duties related to general internal administration, sole trading, civil protection, crisis situations, excluding war and state of war. (Mesíková, 2008, p. 93) Specialized district and sub-district offices for road transport (8+46), regional and sub-district land offices (8+44), regional and sub-district forest offices (8+40), regional and sub-district offices for the environment (8+46), regional building offices (8), regional school offices (8) were established. The scope of activities of specialized sub-district offices normally covered the area of several former districts. Districts ceased to be the direct carriers of the territorial state administration, although in most of their seats (as well as in other municipalities) permanent or temporary sub-district offices were established. (Nižňanský, Hamalová, 2013, p. 7) Table 1 shows bodies of specialized local state administration by sectoral scope of activities as of 1 January 2004.

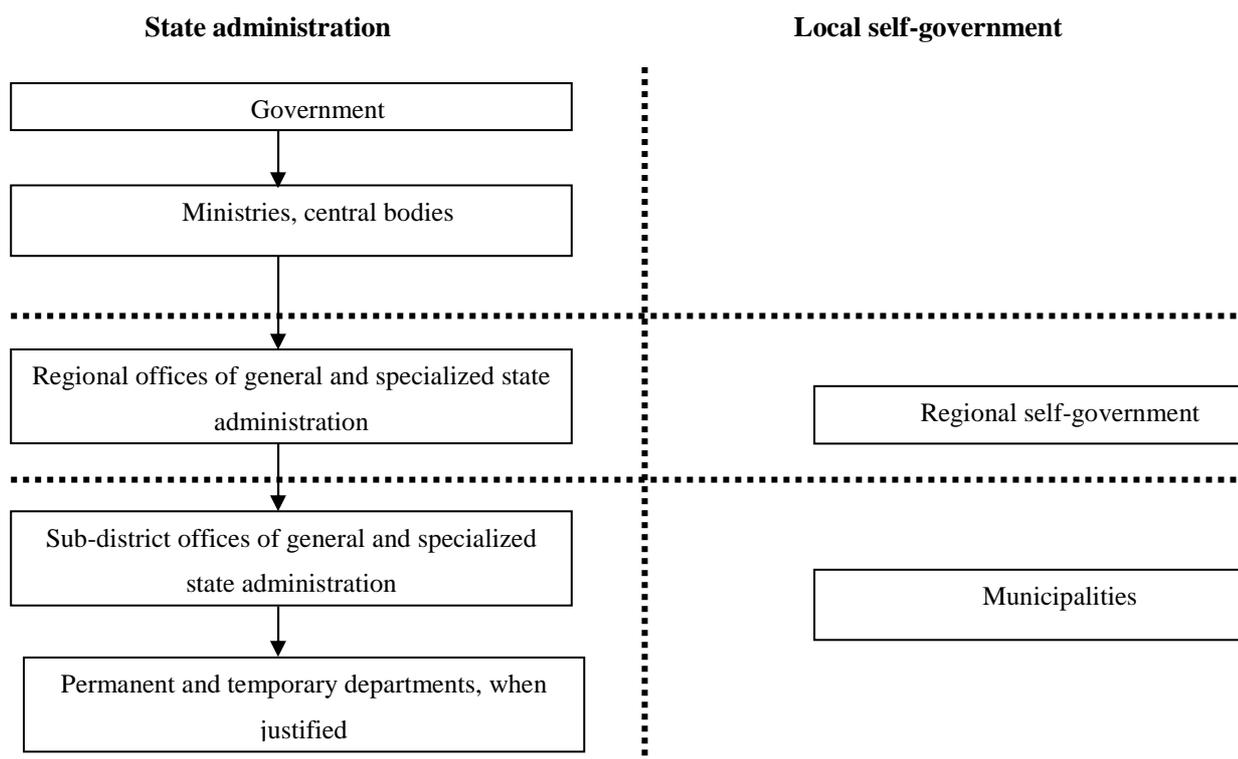
Table 1: Bodies of specialized local state administration by sectoral scope of activities as of 1 January 2004

Ministry of	Name of the specialized local administration body	Number	Name of the specialized local state administration body	Number	Established by Act No. / Coll.
Interior	Sub-district Office	50	District Office	8	515/2003
Transport	Sub-district Office for Road Transport and Communications	46	District Office for Road Transport and Communications	8	534/2003
Agriculture	Sub-district Land Office	44	District Land Office	8	518/2003
	Sub-district Forest Office	40	District Forest Office	8	
Environment	Sub-district Office of the Environment	46	District Office of the Environment	8	525/2003
Environment			Inspectorate of the Environment	8	525/2003
Health	Regional Office of Public Health	36			578/2003
Labour, Social Affairs and Family	Office of Labour, Social Affairs and Family	46			453/2003

Source: Elaborated according to Volko and Kiš (2007, p.66)

A too large number of specialized state administration bodies resulted in the fragmentation of the state administration and lack of transparency in the organizational structure of public administration for citizens. Under this system, the costs for administration of public affairs were higher, legitimate procedures were not transparent, and law enforcement was not effective.

From 2004, executive power was exercised by the *Government* (Figure 3). According to the Competency Law, ministries and other central state administration bodies shared executive competences and responsibilities for the execution of state administration. In addition, Ministry of Interior was responsible for coordinating local state administration within regions. In terms of self-government, however, municipalities were not subordinate to regions.

Figure 3: Organization of public administration as of 1 January, 2004

Source: elaborated according to Volko and Kiš (2007)

Municipalities have legal personality at the level of local self-government. They own property, have their own budget, are independent in terms of personnel and finance, may do business, collect local taxes and fees. They may participate in activities related to international, cross-border and national cooperation. Self-government is performed by elected bodies, voting by citizens, local referenda, and public meetings. Within their self-government competences, municipalities may issue generally binding regulations and statements. Additionally, municipalities ensure the exercise of the transferred scope of activities of state administration.

The entry of Slovakia into the European Union had a significant impact on municipalities as the role of self-governments in the system of public administration was strengthened. Thus, municipalities were not only able to start cross-border cooperation, ratify international documents related to local self-government, but they were also competent to make targeted allocations of EU structural funds as well as those of community programs for municipalities and associations of municipalities.

In the context of fiscal decentralization, changes also affected the funding of municipalities building on the comprehensive tax reform and a flat tax on profit (19%) from 1 January 2005. The changes were intended to strengthen fiscal autonomy of municipalities in terms of property and local taxes,

and redistribution of transfers from the state budget using a formula considering the structure of transferred competences.

Higher territorial units also have legal personality. They own property, have their own budget, may do business, and collect administrative fees. They may participate in activities related to international, cross-border and national cooperation. Self-government is performed by elected bodies and referenda. Within their competences, higher territorial units may issue generally binding regulations. Self-government of higher territorial units has self-governing (original) competences, however, they also perform some tasks transferred to them from the state administration (e.g. some competences in areas of education, health, road transport).

Fiscal decentralization, as mentioned above, built on the reforms of 2002 – 2004 when the first stage of fiscal decentralization was completed as a part of transferring competences to municipalities and self-governing regions. During the first stage, a special and temporary regime of financing the transferred competences was used (the so called decentralization subsidies from the state budget). (Kozovský, 2005). This method of financing caused several problems. For instance, in terms of decentralization subsidies, changes in the transfer of tasks from the state administration to local self-government were not considered, such as payments to employee insurance

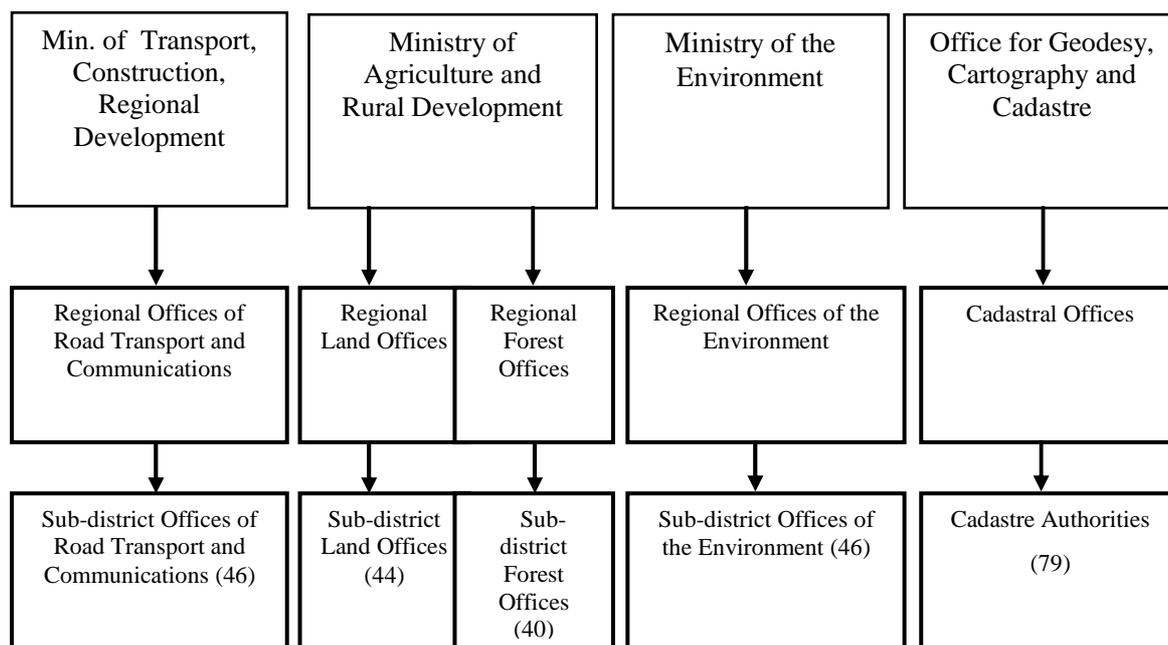
schemes, property insurance, etc. Local self-governments took over not only the tasks but also deficiencies caused by the mismanagement of state property without any financial compensation, such as unsettled properties, lack of documentation or inspection reports, unfinished buildings, etc. Another problem was that the state transferred competences to all municipalities, but the volume of funds transferred amounted to that of fulfilling the tasks in 79 district offices. Moreover, the state did not allow self-governments to manage the assets in a rational and efficient manner as they were obliged to maintain the original purpose of assets handed over (Nižňanský, 2005). Since the problems were not overcome, the issue of funding had to be addressed. Therefore, as of 1 January, 2004 the purposeful subsidies were replaced by the so called global subsidies – capital and current expenditures. Bodies of higher territorial units are in charge of allocating the subsidies. Tasks performed on behalf of the state (transferred competences) remained to be financed by purposeful subsidies. The process of fiscal decentralization continued in its second stage of 2005 in order to improve the financial independence of territorial self-government, increase pressure on more efficient expending one's own revenues, and last but not least, the interconnectedness of range and quality of services provided by self-governments and their effect on tax burden of population. (Kováčová, 2010)

Within the second stage of the fiscal decentralisation, revenue budgets were decentralised. Powers related to the generation of financial resources were transferred to municipalities and higher territorial units. Thus, the financial independence of self-governments was strengthened. As stated by Horváthová (2009), the issue of tax revenue played a critical role in public budget making. Thus, the tax powers and tax determination were divided to individual levels. This applied especially to solid base taxes raising regular and sufficient revenue. Seven local fees turned into local taxes, whose revenue was included in the budget of municipalities. Real estate tax was collected by municipalities, road tax (tax on motor vehicles) became a regional tax, and the income

tax of legal persons was collected by the state. The income tax of legal persons was a proportionate tax, the yield of which was distributed to municipalities, higher territorial units and the state in the ratio of 70.3%, 23.5% and 6.2% respectively. The government regulation set the criteria for further distribution of the income tax to villages and higher territorial units (population, area, population density, population social and age structure, altitude, number of pupils in elementary schools of art and other school facilities, road length). Thus, budget making of self-governments became more transparent and it was easier to plan their revenue and expenses.

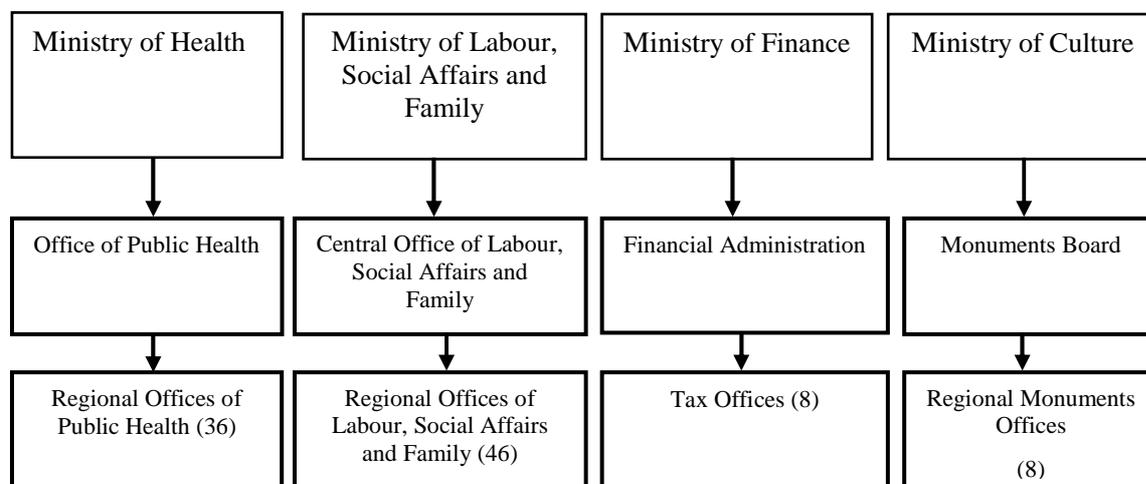
The follow-up *reform of 2007* built on a series of reforms implemented after the admission of the Slovak Republic to the EU in 2004. Pursuant to the Act 254/2007 Coll., regional offices of the sectoral scope of the Interior Ministry were abolished as of 30 September, 2007. The scope of their activities was passed to the sub-district bodies and relevant ministries, i.e. all the rights and obligations were transferred to sub-district offices based in regions with adjusted conditions. (Marišová et al. 2013, p. 77) Thus, the independent position of sub-district offices was strengthened since they became legal entities. Additionally, they became budgetary organizations and financially linked to the budget of the Slovak Ministry of Interior. Sub-district offices were led by mayors who were appointed to and removed from the office by the Slovak government upon the proposal of the Minister of Interior. Mesíková (2008, p. 24) states that some responsibilities related to civil registries, public collections and national symbols were also transferred to sub-district offices (50). The matters regarding the issuance of special licenses and vehicle markings for the disabled, integrated rescue system, civil protection and crisis management were handled by 8 sub-district offices. Part of responsibilities regarding the citizenship procedures, registries and sole trading were transferred to the Ministry of Interior. Concerning the scope of activities, some ministries were to exercise a two-level state administration (Figure 4-6).

Figure 4: Specialized state administration bodies working at regional and sub-district level under the control of respective ministries



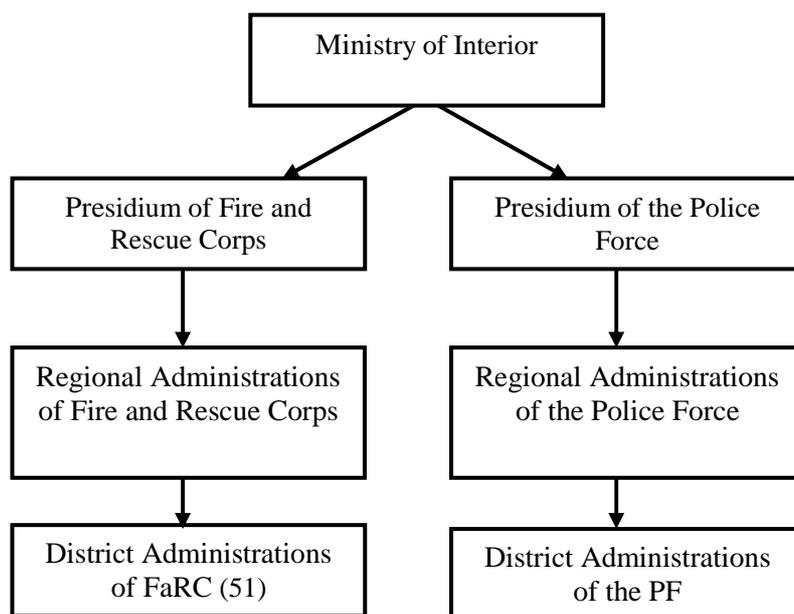
Source: elaborated according to Marišová et al. (2013, p. 78)

Figure 5: Specialized state administration bodies established at the level of central office and sub-districts under the control of respective ministries



Source: elaborated according to Marišová et al. (2013, p.78)

Figure 6: Specialized state administration bodies established at the district level under the control of respective ministries



Source: elaborated according to Marišová et al. (2013, p.79)

Figures 4 and 5 show that the local state administration consisted of sub-district offices only (the so called general ones) at regional level from October 2007. The implemented reforms placed heavy material and political responsibility on ministers and ministries. There was also a decrease in the number of offices and public employees by which the set goal was achieved, i.e. streamlining the entire state administration system at the level of regions, municipalities and villages.

Regarding changes in the system of local self-governments, the Government of the Slovak Republic took note of the Concept of modernisation of the local self-government system in 2009. Its objectives include the economization and computerization of local self-governments and human resource development. Special attention was paid to making the performance of local self-governments more efficient, and of better quality. In addition, transparency, openness, engagement and responsibility were of interest and importance. In the area of human resources development, various forms of education of local self-government employees, in particular those funded by the European Social Fund have been dealt with.

By adopting some legislative changes over the years 2005 – 2012, municipalities were assigned new duties. However, the principle of subsidiarity was not respected and major discrepancies between the municipal scope of competences and sources of their financing occurred. Several changes had a negative effect on municipal financing, e.g. decreasing the share of local self-governments in tax revenue from

income tax of natural persons, expanding the scope of exemptions from local taxes, extending the scope of state-determined compulsory municipal expenditures, etc. (Nižňanský, Hamalová, 2013)

4. Changes in the public administration system of the Slovak Republic after 2013

The public administration system has undergone further changes since 2013. The most significant ones include ESO Programme, electronic public administration, and changes in the way how self-government works.

In their Program Declaration for 2012 through 2016, the Slovak Government committed themselves to adopt measures to make public administration performance more efficient and advanced. The *ESO Programme* (Efficient, Reliable and Open state administration) was approved by the Government of the SR in April 2012. Its implementation should simplify the provision of services ensured by the state to the citizens. From the point of view of citizens and business entities, general government should be simple, well-arranged and accessible, it should work sustainably, transparently and with efficiently spent financial means. There have been three stages to achieve this target. One of the main pillars of the reform is the integration of specialized local state administration into a single state office. Pursuant to the Act No. 345/2012 Coll. on Certain Measures concerning State Administration, the existing regional

offices of specialized state administration were abolished and their responsibilities were transferred to integrated bodies in the respective territory. Pursuant to the Act implemented in the first stage of the reform, 64 specialized regional offices were abolished as of January 2013 and their competences were passed on other state institutions.

The aim of the second stage was to create a uniform system of local state administration bodies. Effective from 1 October, 2013, the sub-district offices of the Environment, sub-district offices for road transport and communications, sub-district forest offices, sub-district land offices and cadastre administrations were abolished. Pursuant to the Act No. 180/2013 Coll., the district offices of integrated local state administration were re-established in 72 locations (Bratislava and Košice had one district office each, with the territorial scope covering all the districts of these cities). Only some of the state offices in the respective territory were affected by the changes. Several of them (Police Force, Fire and Rescue Corps, Mining Office Board, Labour Inspectorate, Financial Administration, Monuments Board, State Trade Inspection, Veterinary and Food Administration) should continue performing their duties under special arrangements.

The third stage of the reform was aimed to integrate specialized local state administration bodies into a district office, restructure and transform other specialized bodies at regional level, make the performance of central bodies of state administration as well as self-government more efficient, establish client centres for citizens. *Client centres* have been established to ensure contact of the citizens with the integrated local government. They operate within the organizational structure of district offices. Their purpose is to ensure communication with the respective offices and to deliver final products to citizens.

The centres provide services according to individual agenda branches: Trade Licences; Registry; Residential; Section of Road Transport; the Environment; Documents and Registration of Vehicles; Commercial Register – extract from the Commercial Register; Offences; Education Section; Forest and Land Office; Labour, Social Affairs and Family; Social Insurance Agenda; Tax Agenda; Health Insurance Agenda. It follows that client centres provide inter-ministerial agendas. Therefore, it is necessary to optimize processes of all the institutions concerned. The quality of services will be provided in line with the Voluntary European Quality Framework.

Self-governments continued to work under fiscal decentralization processes. During this period, the ratio of the income tax of natural persons for municipalities changed several times (in 2012: 65.4%,

2014: 67%, 2015: 68.5%) and for higher territorial units (2014: 21.9%, 2015: 29.2%). From 2015, the revenue from the motor vehicle tax goes to the state budget, not to the higher territorial units as was the case before 2015. Frequent changes in self-government financing cause not only financial difficulties to municipalities and higher territorial units but also enlarge the discrepancy between the scope of powers and duties and own funding options.

Representatives of civil service and local self-governments oppose the transfer of other competencies to local self-governments in terms of the application of subsidiarity principle. A marked *fragmentation* of the Slovak settlement structure is another obstacle. Slovakia is characterized by a strongly fragmented settlement structure, and a poor structure of municipalities. As stated by Tichý (2005), the present form of the Slovak settlement structure is affected by several factors, such as broken terrain, history of settlement, development of economic activities and their concentration in selected locations, and especially the integration of municipalities under socialism and their disintegration due to the introduction of democratic elements into the administration of the state following 1990. The number of small municipalities kept decreasing until 1989, whereas there was an increase in the number of municipalities following 1990 as a result of forced integration of municipalities during the centralization period. Today, more than 65% of municipalities have a population of less than 1,000 people. Small municipalities have limited budget revenues, and therefore unable to ensure effective implementation of original and transferred competencies, and provision of local services. On the other hand (in light of effectiveness), voluntary merging of municipalities cannot be envisaged due to concerns about losing one's identity and autonomy. A partial solution to the issue of fragmentation is the association of municipalities in order to perform certain municipal functions as well as inter-municipal cooperation.

Electronic public administration

Electronic public administration refers to the application of information and communication technologies in the public administration activities, which represents a natural part of the informatisation process of society. The informatisation of public administration is referred to as e-Government. With this regard, it should be born in mind that informatization plays a critical role in the development of knowledge society. In addition, it is one of the most significant stimuli for economic growth and productivity, supporting the creation of new jobs and economic activities, increasing added

value and concentrating the best innovation potential. (Kolektív, 2012) E-Government means the use of information and communication technologies (ICTs) to execute public administration electronically. E-Government includes the following types of on-line communication:

- G2E – Government to Employee,
- G2G – Government to Government,
- G2C – Government to Citizen,
- G2B – Government to Business,
- G2A – Government to Administration.

The main task related to the development of the information society is to enhance the quality of e-Government services, increase the efficiency of public administration through the use of information and communication technologies (ICTs) in accordance with the objectives set in the Digital Agenda for Europe. Following the Strategy for the Public Administration Informatization, selected agendas were made electronic in the programming period 2007 – 2013. All the efforts were focused on providing e-services to citizens by using public administration information systems. The operational program Public Administration Electronization is designed to eliminate shortcomings and adjust the quality of processes and systems. In the previous programming period, public services failed to provide comprehensive solutions to life situations of citizens. Therefore, this issue will be addressed under the operational program Public Administration Electronization in the new programming period. Processes related to e-Government development in Slovakia by 2020 envision active implementation of the transition to a well-functioning information society and smart government. (Operational Programme Effective public administration 2014-2020).

It is essential that the e-Government infrastructure in Slovakia be able to satisfy above the average demand as the computer and Internet literacy of citizens are rapidly increasing. There are several widely used services of high priority within the strategy of e-Government services development, such as job search, filing of income tax return, motor vehicle registration, or social security.

Hvozdíková, Hošoff, Jeck (2011) say that the e-Government implementation in Slovakia shall also bear in mind the EU priorities, such as building Internet-based open platforms and standards, creating a new model for the internet administration, strengthening the EU position in international fora affecting the global ICT development and projects leading to green infrastructure.

Measures aimed at public administration streamlining were also incorporated into the Program

Declaration of the new government, which was approved in April 2016. The previous reforms continue to be carried out in 2016 (ESO Programme, e-government). The Act on Civil Service is to be adopted in 2016 in order to ensure the civil service reform and eliminate the shortcomings and problems identified by the Council of the European Union.

Conclusion

In 1990, foundations for a new democratic model of public administration were laid in Slovakia. The former three-level system of national committees in which state power and administration as well as part of local self-government were concentrated, was abolished in 1990. The public administration reform separated the state administration from the local self-government. Under the Act No. 369/1990 Coll. on Municipal Administration, local self-government was made up of municipalities – territorial and administrative units. In state administration, regional and district national committees were abolished and state administration competences were transferred to newly established district (okresné - 38) and sub-district (obvodné - 121) offices.

In 1993 Slovakia was divided into 8 regions (Bratislava, Trnava, Trenčín, Nitra, Žilina, Banská Bystrica, Prešov, and Košice) and 79 districts. The state power was exercised by regional and district offices which were set up in the regional and district cities. The second level of territorial self-administration - self-governing regions (higher territorial units) – were established and started to work within the region borders as set in 1996. Over the years 2002-2004, within the first stage of fiscal decentralization, selected competences of the state administration were gradually transferred to municipalities and higher territorial units in order to ensure their effective performance. Simultaneously, the system of financing municipalities and higher territorial units was changed. The purpose of fiscal decentralization is to make local self-governments decide with utmost responsibility themselves on issues of local nature, whereas making the best use of resources for the benefit of their citizens.

In 2003 district offices of integrated local state administration were abolished. More than 400 state administration competences were transferred to municipalities and higher territorial units to improve effectiveness and quality of state administration management. In 2007 regional offices of the sectoral scope of the Interior Ministry were abolished. The scope of their activities was passed to the sub-district bodies and relevant ministries, i.e. all the rights and

obligations were transferred to sub-district offices based in regions.

The public administration system has undergone further changes since 2013. The most significant ones include ESO Programme, electronic public administration, and changes in the way how self-government works. In 2013, the district offices of integrated local state administration were re-established. Client centres have been established to

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HOW TO STRENGTH THE RELATIONSHIPS OF THE LOCAL MUNICIPALITIES WITH THE STAKEHOLDERS?

Katarína VITÁLIŠOVÁ

Abstract

A key element for the development and construction of the living conditions in the local municipality is a participation of stakeholders and their assistance in the administration of public affairs. In democratic countries, the role of local municipality is changing during past decades. Its role is more focused on creating conditions for involvement of different actors in development activities, the creation of quality living conditions and participation in addressing issues of public life. The aim of the paper is to identify and analyse the relationships between local municipality and its stakeholders from the theoretical point of view and to verify it based on the results of research in 100 local municipalities of Slovak Republic. The first part of the paper contains the theoretical definition of relationship marketing and the relationships in the local municipalities. Consequently, we verified the composition of stakeholders in the local municipalities by the empirical research. In conclusion of the paper we propose the implementation possibilities of relationship marketing in local municipalities.

Key words

relationship marketing, local municipality, stakeholders, governance, Slovak Republic

JEL Classification: R59, R19, Z18

Introduction

The growing need to build partnerships by local municipality and to implement the managerial approach to its management is declared in several countries in Europe in national documents characterizing the position and reform of local government (e.g. UK - White Paper on Local Government, Ireland - Green Paper on local democracy). In democratic countries, the role of local municipality is changing during past decades. Its role is more focused on creating conditions for involvement of different actors in development activities, the creation of quality living conditions and participation in addressing issues of public life. The aim is to have an effective civil society, to foster cooperation and progress in the development of the managed area. One of the ways how to support the development of local municipality is an application of relationship marketing activities.

In the first chapter of an article, we will focus on the definition of the relationships of local municipality with its stakeholders and relationship marketing, in the second chapter the results of empirical research in local authority Slovak Republic are presented, which focused primarily on the characterisation of relationships in local municipalities. At the end of article the main findings of the research are summarized and we recommend the possibilities of relationship marketing implementation in the local municipality.

1. Relationships in the local municipality versus relationship marketing

In democratic countries, the reforms of public administration lead to decentralization of power and redistribution of responsibilities to the lowest possible level of government. In other words, it is closest to the citizens and other actors in the territory that are directly and indirectly influenced by its decisions. The lowest level of territorial public administration is a local municipality. From the modern local municipality is now expected to be characterized by openness, efficiency, to research the needs, to encourage active participation of stakeholders in decision-making bodies of public affairs and involve them in local community life. A key element for the development and construction of the living conditions in the local municipality is a participation of stakeholders and their assistance in the administration of public affairs (Navruz, Rose, Shelley, 2000, Council of Europe, VNG International, 2007).

Partnership and cooperation with stakeholders are the main terms connected with one of the newest approaches in the management of public sector - public governance (e. g. Bevir et al., 2003; Berry et al., 2004; Kickert et al., 1997 etc.). Public governance has developed as an alternative management approach to new public management, which takes into account more appropriate the specificities of public sector organizations (Kickert et al., 1997). This new approach to management in the public sector and the importance of co-operation are implemented in the

new program and strategic documents of the European Union for the period 2014 - 2020 (5th Report on Economic, Social and Territorial Cohesion, 2020, Territorial Agenda of the European Union 2020) and are supported at all levels of the EU, in particular by the Congress of Local and Regional Authorities and the Committee of the Regions (Council of European Local Municipalities and Regions, 2013).

The local municipality is in providing its tasks forced to build relationships not only with citizens, but also with various stakeholders belonging to the private, public and non-profit sector. Based on repeated interactions, i.e. repeated mutual active interaction of two or more subjects beyond the time required for the classical market exchange, is a relationship between stakeholders. The relationship requires at least two parties, which are in contact (Donaldson, O'Toole, 2007 Binek, Galvasová, 2008 Gummesson 2008, Egan, 2008). If the relationship between entities is developed in order to achieve a common goal, we are talking about cooperation. Entities share resources, do joint activities, share information in order to achieve mutual benefit (Čapková, 2004).

The basic and most common form of cooperation is a partnership, i.e. cooperation and seeking solutions based on common agreement and recognition of the importance of other subjects in achieving the objectives of the municipality. The object of common agreement is to determine the understanding of roles and tasks of partners, describes the common objectives with a view to obtain benefits for all stakeholders (Bušík, 2007). The basis for a successful partnership in local municipality is a participation of all subjects that affect local municipality or the local municipality influences them, i. e. participation of all stakeholders. Involving stakeholders for cooperation creates the initial precondition for the comprehensive development of the local municipality.

The local municipality can develop relationships with the various entities with various reasons. An obligatory reason of the relationship is conditioned by existing legislation, which requires cooperation with entities, for example state administration, citizens, higher territorial units etc. Local municipality should primarily create these relationships and build on contracts and legislation, in particular under the Constitution, laws governing the role and responsibilities of local government, the provision of various public services. The emergence of those relationships is conditional by the tasks arising from the fields of competence of local municipality. In terms of commitment to the legal system there are a "mandatory and transferred areas of competence. Mandatory tasks are bind; they are prescribed and are prioritized to be fulfilled. The mandatory tasks have to be provided by the local municipality, but it can

decide itself how it provides them. The local municipality cannot get rid of these obligations, and is obliged to provide the necessary material and financial resources (Krnáč, Kožiak, Liptáková, 2008, p. 172-173). Delegated area includes tasks of state administration, which were transferred to the local municipality by specific legislation.

The specific cause of the relationship we mean the creation of partnerships and relationships with entities that are crucial for ensuring the implementation of legislative and defined tasks of local municipality by its production and action in the territory of local municipality or beyond. Local municipality needs to build these relationships, to ensure its tasks in a reasonable range. It includes the relationships with businesses, nonprofit organizations, labor, and other local authorities and so on. Those relationships are developed on the basis of contracts, agreements, joint actions and events. They have different nature and level. In particular they are contractual, institutional and transactional relationships.

The core of optional relationships is a voluntary principle. It is a relationship that is often formed on the initiative of the actors in the territory and their efforts to develop relationships with local municipality, to assist its development. The relationship is based on mutual interest in its development, in which neither side is necessarily forced to build them. This includes e. g. relationships with former employees, associations operating within the municipal territory, some businesses.

In terms of the organization degree a relationship of local municipality can be as "formal and informal partnerships" (Walzer, Jacobs, 1998, p. 105, Geddes, 2005, pp. 50-51). Formal relationships and partnerships of municipality to stakeholders are officially established and have legal bases. Informal relationships and partnerships are formed naturally and voluntarily to the development of interpersonal relationships in society. Stakeholders, interaction, cooperation, partnerships, their formation, construction and eventually termination of relationships are essential components of current marketing thinking, relationship marketing.

1. 1. Relationships marketing in public sector

From 90s 20th the issue of relationship marketing is researched mainly by the foreign experts. Primary, the concept of relationship marketing was oriented on the private sector, so the key actors were entrepreneurs. They use the activities of relationship marketing to attract the loyal customers. Therefore, for the first time customer relationship marketing (CRM) has been defined as the conceptually and methodologically sophisticated new area of this kind of marketing. Gradually, the professional public has also moved and

shifted its interest to build relationships with business partners, employees, government agencies or other strategically important partner; and marketing in the public sphere has been defined as partner relationship marketing (PRM).

By the subject of research, we can distinguish three main developed thought of relationship marketing – Nordic School developed in Nordic countries, Anglo – Australian group and North American expert group where belong also the school of IMP that established the theory of relationship marketing (Donaldson, O'Toole, 2007, Egan, 2008, Harwood, Garry, Broderick, 2008). Buttle (2008, s. 50-52) also added the Asian approach - Guanxi. But this approach is possible to implement only in specific Asian countries.

The term relationship marketing appeared in the paper of American professor Berry (1983), who is a representative of North American approach. As well as Hakansson (1982), Ford (1990), Lewitt (1991) a Turnbull (1996) he developed his ideas following the theory of industrial marketing. His approach significantly influenced the next development of relationship marketing. The second stage of this school is represented by Dwyer (1987), Heide (1994), Morgan a Hunt (1994).

The Berry's approach was developed also by the Nordic School (Gummesson, 1994, Grönroos, 1997, Lehtinen 1997, and others). They developed the relationship marketing on the principles of industrial marketing, services marketing, quality management and experience in building relations and networks in Northern Europe.

The last school is an Anglo-Australian approach stressing an integration of quality and marketing of customer services, strategic partnerships and examining the nature of relationships in marketing. The representatives of the approach include Christopher (1991), Ballantyne (1994), Payne (1996).

Those approaches to the relationship marketing are different in theoretical knowledge, which became the basis for their further examination. However, all approaches agree on the expansion of the study object of relationship marketing. The primary intent was to explore the relationship with the customer, gradually started to shift attention to other stakeholders.

One of the most wide definition of relationship marketing defines it as „creating, maintaining, and enhancing strong relationships with customer, employee, supplier, community, and shareholder of a business with the goal of delivering long-term economic, social and environmental value to all stakeholders in order to enhance sustainable business

financial performance.“ (Murphy a Wang, 2006, s. 8). By our opinion this definition is the most complex one.

Implementation of relationship marketing in the public administration has not been researched yet by many foreign experts. Public administration focuses primary its activities on the citizen, and is trying to absorb the new methods of business practice. Due to the decentralization of competencies and the application of the subsidiarity principle, the local municipality took efforts to implement new trends in New Public Governance at the lower levels of government. An emphasis was put on creating the control, monitoring mechanisms to ensure transparency in the use of public funds and to satisfy the citizens. They started to create conditions for the development of competition in the provision of public goods. It is changing the approach to the personnel management in the public sector, especially to its professionalization. It is preferred to use the new information and communication technologies (Bauerová et al., 2008). By the application of managerial-oriented approaches in the relationship between the citizen and the government causes to be perceived not only as a passive transaction. Citizens have the choice of public goods and in their providing it appears the elements of customer-oriented behaviour (Schellong, 2009). The result of the application of relationship marketing in the public sector focusing on the citizen resulted in CIRM – citizen relationship management.

The New Public Management model was followed in the last decades by the approach of "democratic public governance", which was developed as a partial criticism of NPM. Its basic principles include accountability, transparency, governance based on cross-linking stakeholders, co-production of public policy implementation and combination of several management approaches (Pasquier, Villeneuve, 2012). This approach does not emphasize only the citizen as a partner, but all entities that may affect the public sector or be affected by it, we can analogically find the elements of partnership relationship marketing.

The dynamic changes in the development of marketing and growing demands of stakeholders influence also the local municipality and its marketing. Increasingly, the emphasis is on the quality of public goods, individual access to citizens and use of marketing tools to promote sustainable economic, social and environmental development of the municipality. Due to the growing competition in the market of places and product market the conceptual relationship marketing can bring new opportunities for cooperation, progress and creating strategic

partnerships that would contribute to the further development of the municipality.

By adaptation and synthesis of Nordic School approach, Anglo-Australian approach and North American approach we define relationship marketing and its holder in terms of local municipalities as follows. The key holder of the relationship marketing is a local municipality, externally represented by the elected representatives - mayor, municipal /city council, staff of municipal office, eventually the other representatives of local municipality. Relationship marketing is understood as defining, creating, maintaining and, improving the mutually beneficial relations or possible terminating unfavourable relations of local government with the stakeholder in order to achieve sustainable economic, social and environmental values for local government and associated entities

The activities of relationship marketing can contribute to develop the area and achieve prosperity, improve the well being of residents and businesses, minimize the risk associated with the entry of the place to the market and promote the territory between competing territories" (Vaňová, 2004, p. 108).

The core of relationship marketing is to define stakeholders, t. j. persons, groups or organizations which directly or indirectly affect the operation of the organization, its activities, achievement of objectives, or also retroactively affect (Marasová, 2008). In terms of local municipality based on our prior research (results of its own research grants), as well as the results of the international project "Relationship marketing in micro and small enterprises and local municipalities" (Lukášová, Bajdak et al., 2009, p. 185) has been in defined following composition of municipal stakeholders: "citizens, a key entity of relationships in local municipality, other municipalities, businesses, other entities established by a local government, deputies, political parties, employees of local municipality, financial institutions, church, organizational associations, non-profit organizations, offices of the state administration, employment offices, media, universities and other entities with direct or indirect impact on government activities.". The composition of stakeholders is also adopted in our research, which results are presented in the next chapter.

2. Empirical research on relationships in the local municipalities of the Slovak Republic and discussion

Based on the literature review we conducted primary research aimed to verify the composition of defined stakeholders of local municipality, characterize their

relationship with the local municipality as well as to identify marketing activities that can be applied in these relationships. Because of the article scope we will focus on one part of the research - the relationships of local municipalities and stakeholders, and then we outline how to implement relationship marketing.

The empirical research was carried out by the method of interview in the form of questionnaire in 100 local municipalities of the Slovak Republic. The research was done during the previous elected period in local municipalities 2010 – 2014. The quotas were a region and a size category of local municipality. The respondents were mayors or their deputies, or the heads of the municipal authorities.

At the beginning of research, we examined the awareness of local municipalities in SR in the field of relationship marketing. The concept of relationship marketing was for a large proportion of respondents' unknown term (49%). 51% of respondents are aware of the concept, and only 44.89% (in absolute terms 22 respondents) of them use the term in work. The rest of respondents know it, but do not use it (55.11%, or 29 respondents).

We researched also the knowledge about content of relationship marketing. Respondents had the opportunity to select one of the eight options and only one option was correct. The correct meaning of the term, i.e. relationship marketing contains relationships with all stakeholders in the community and beyond, was answered by 68% of respondents. Incorrect definition was marked by 29% of respondents and 5% of respondents did not reply. Of the 51 respondents who are familiar with the concept of relationship marketing, the proper definition marked 71.43% of respondents (in absolute values 35 representatives of municipalities). The proportion of representatives of local municipalities, who are familiar with the concept, and use it, can define correctly the essence of relationship marketing is 15% of the total sample of 100 local authorities.

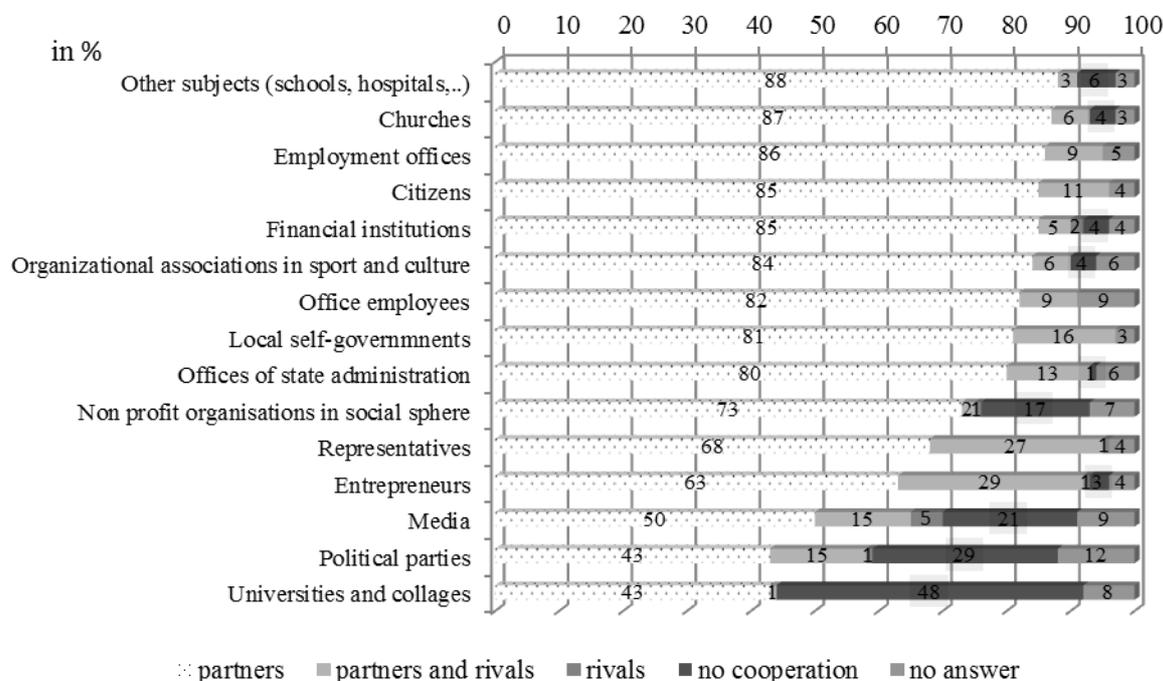
The results of these questionnaire answers point to the fact that representatives of selected municipalities in Slovakia have a partial knowledge about the new management approach that is relationship marketing. Only a minority of them will implement it in real terms. The reason may be a lack of educational qualification of local elected representatives.

In defining the stakeholders of local municipalities of the Slovak Republic and the nature of the relationships of local government with the stakeholders we followed the theoretical review (Lukášová, Bajdak et al., 2009, p. 185). Firstly, we aimed to identify the relationship between local

municipalities and stakeholders. We examined whether local municipality perceives the selected stakeholders as a partner, a partner, but also a rival, just as rival or non-cooperative subject. Additionally, we introduced also a category of "not mentioned". We

found that on the basis of our approach we covered all stakeholders of the local municipality. The stakeholders and their relationships with the local municipality present Graph 1.

Graph 1: Stakeholders of the local municipality in the Slovak Republic



Source: own processing based on primary research results.

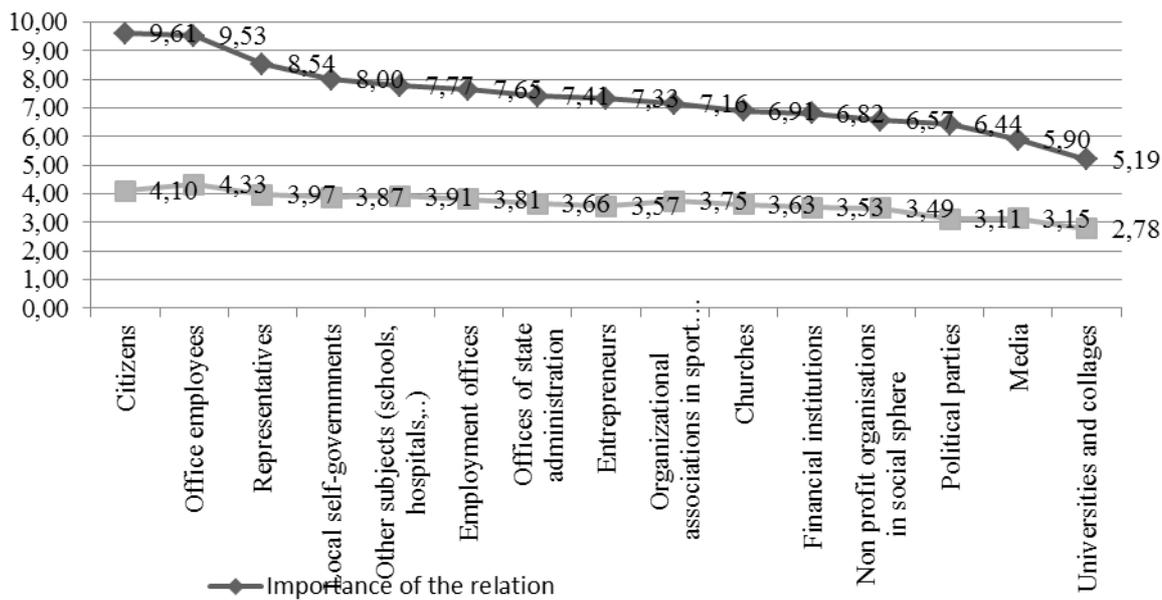
Graph 1 shows that by the respondents the local municipality developed with the researched stakeholders particularly a partnership, beside the relationship with colleges, universities and political parties. 43% of respondents consider colleges, universities as partners, but 48% of them does not cooperate with them (1% of respondents perceives them as a partner and rival, 8% of respondents did not provide the type of relations). Political parties are perceived as partners by 43% of local governments, 29% of them do not cooperate with them, as partners and rivals are they perceived by 12% of respondents, 15% did not provide any answer. Purely partnership is the most dominant in relationships with a group of stakeholders - schools, hospitals and other (88%), with the church (87%), with the employment offices (86%), with the citizens and financial institutions (85%). Stakeholders as rivals are perceived by local municipality minimally (5% in the case of the media, financial institutions 2%, 1% of entrepreneurs, other entities, non-profit organizations, associations, offices of state administration, employment offices, representatives and political parties). Local

municipality does not cooperate in the greatest extent with colleges and universities (48%), political parties (29%) and media (21%).

The list of stakeholders defined by theory was confirmed fully by the research results. We covered all relevant groups of stakeholders. However, the rate of cooperation with some stakeholders is emerging, especially in case of universities and colleges. Nowadays, when the new ideas and innovations are the drivers of economic development, it is inevitable to development the cooperation between public, private, non-profit sector and universities as a source of innovations and higher added value.

In researching the relationships of local municipalities we continued by assessing their importance and quality. The importance indicates the desired level of relationships and quality of relationships gives a realistic level of relations on a scale of 1 to 10, where 1 meant the least important relationship, respectively the least quality and 10 most important, respectively best quality of relationship. The comparison of these two studied aspects presents the graph 2.

Graph 2: Importance and quality of stakeholder's relationships with local municipality



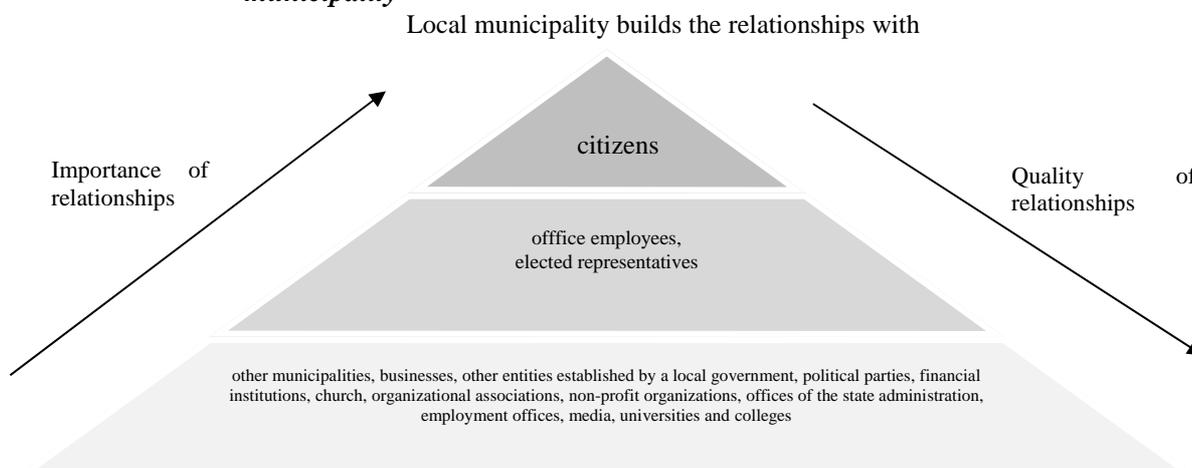
Source: own processing based on primary research results.

Graph 2 shows the order of relationship importance in the local municipalities of SR as follows: citizens; office employees; representatives; other municipalities; other entities - hospitals, schools; employment offices; state administration offices; entrepreneurs; organizational associations in sports and culture; church; financial institutions; non-profit organizations in the social field; political parties; the media; colleges and universities. In terms of quality, i.e. the real situation in the relationships in the local municipalities of the Slovak Republic, the order of stakeholders is following: office employees, citizens, representatives, other organizations - hospitals,

schools; municipalities, employment offices, organizational associations in sports and culture, state administration offices, church, financial institutions, businesses, non-profit organizations in the social sphere, media, political parties, colleges, universities.

The comparison of quality and importance of relationships with stakeholders signals the great differences in the potential and real state of art of relationships. The differences are the most dominant in the relationships with citizens, employees and elected representatives. The interrelationship between the quality and importance of relationships in the local municipality presents picture 1.

Picture 1: The interrelationship between the quality and importance of relationships in the local municipality



Source: own processing based on primary research results.

In Picture 1, we see that the key stakeholder is a citizen for local municipality. Within the relationship marketing is a dominant tool to the citizens marketing communication, which task is to provide information to citizens but also to mobilize them and to involve them participate in public affairs. To the most frequently used marketing communication activities we include event's organisation by local municipalities (e. g. Open day, St. Nicholas for children), organization of sporting and cultural events, presenting information on notice boards, websites of municipalities, informal personal communication (Petříková, 2012).

The next steps after the identification of stakeholders is to build a database of all relevant stakeholders with detail information that are necessary to build relationships systematically. The relationship marketing highlights the importance of databases, especially as a tool used to collect data, analyse them and suitably use to satisfy the needs of stakeholders. Databases of the stakeholders is in the Slovak local municipalities insufficiently addressed. There exist a central register of citizens, the local municipalities keep their own registers, but the operation systems which work with data about citizens or other stakeholders are poorly connected and inflexible. A similar situation exists in the field of e-government and the provision of electronic services. For several years, the central government presented its intentions, which should support the development of e-government and mutual interconnection of registers, but the situation has not changed significantly, by other words, just first steps in the long implementation process were done.

3. How to strength the development of relationships with stakeholders?

First of all, the local municipalities should use all legal available tools that involve the stakeholders into the municipal activities. More and more popular are various participative forms of decision making in public affairs. A good example is a participatory budgeting, where the stakeholders decide about the use of public funds. The citizens can create their own projects to develop city/town in which they live, but also can independently decide which projects will be actually funded (e.g. in Banská Bystrica). The other example is a participative planning (or collaborative planning), an approach based on involving of stakeholders to the strategic planning process from the starting point to the final stage of reaching consensus. The participation at the planning process should contribute to inform, validate and legitimize the plan. Throughout its implementation the community should be informed about the degree of plan implementation

and there are usually regular public sessions for strategic plan monitoring and evaluation. An ideal model of collaborative planning is one in which stakeholders representing the differing interests meet for face-to-face dialogue, and collectively work out a strategy to address a shared problem (Innes, Gruber, 2008).

In relationships to staff and elected local representatives local municipality should implement in terms of the relationship marketing theory the tools of internal marketing. Internal marketing is considered to be an important tool of employee's management. It is used partially and not conceptually worked out in local governments. Internal marketing focuses on development of communication, responsibility and putting through of united objectives. The basic task is to build awareness of internal and external customers and to remove functional barriers of effective organization creation (Michalová, 2004). Local municipalities should create through internal marketing the relations with their employees and elected representatives, as primary customers of local government. It is necessary to implement the perfect communication, education of employees and improvement of provided services oriented on individual approach to customer. Quality of internal structure of organization and quality of municipal management are important aspects as well. Intent of internal marketing is not only to communicate vision, mission and objectives of organization to all bodies and organizations of local government, but also to motivate employees to try to achieve and identify with them and so gradually build and constantly strengthen loyalty of employees. Result of internal marketing in public administration should be an employee who ready responds in contact with customer and diagnose him. He/she is a specialist in his/her field, is able to solve concrete situation, to understand customer's problems, is communicable, creative and capable and cares for own visage. (Petříková, Sýkorová; 2011).

In relationships to other stakeholders, local municipality uses as a dominant instrument - formal and informal marketing communication. With respect to specifics of stakeholders, e.g. non-profit organizations, sports clubs, cultural institutions, support local businesses, the local municipality can also use a price as a tool of relationship building. It can include the lower rates for local taxes, more favourable rent for premises. As well as in the relationships with citizens we see the possibility of developing relationships in the effective use of databases, their utilization in the process of stakeholder involving in the activities of local municipality and in the public affairs, but this activity is not in hands of municipality, but is strongly influenced by the priorities of national government.

Conclusions

Relationship marketing has developed in the private sector as a consequence of progress in new technologies and techniques, increasing the claims of customer and other relevant stakeholders. Gradually, there have appeared the possibilities to implement relationship marketing in the public sector including local municipalities.

Relationship marketing in Slovak local municipalities is relatively unknown and the representatives of local governments do not realise the benefits and tasks of relationship marketing in managing territories. The basis of relationship marketing is to define the stakeholders; with whose the municipality should develop the relations. We can confirm that the composition of stakeholders of local municipalities, based on the theoretical knowledge and empirical researches are the same. But there appears the great

gap in quality and importance of these relationships for the local municipality.

The most important stakeholders are citizens. That is why the core of the relationship activities is oriented on them. In practice, it includes mainly the various forms of communications. In relationships with the employees and other elected deputies the local municipality represented by mayor should implement the tools of internal marketing. The relationships with other stakeholders should be strengthening relevantly following the specifics of stakeholders and importance for the local municipality (e. g. the reduced taxes, reduced fees for renting premises). However, globally we see a great gap in the utilization of databases as a core of relationship marketing and development of electronic services.

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LANGUAGE COMPETENCES AND LABOUR DEMANDS: A COMPARATIVE STUDY ON READING COMPREHENSION IN SLOVAK AND SPANISH UNIVERSITY STUDENTS

Miquel A. OLTRA-ALBIACH, Rosa PARDO COY, Elena DELGADOVÁ

Abstract

One of the strategic objectives of the European Union is to achieve the best possible quality in the teaching-learning processes, and the ability to read is one of the most important competency for the current information society. The definition of reading competence has been subject to constant modifications to reflect changes in societies, economies, cultures and education levels. It is a complex and functional skill, covering processes related to the decoding and comprehension of the text. With this work we intend to comparative approach to the reading competence of first year students from Alexander Dubcek University of Trenčín and from University of Valencia, and to detect and identify their main problems with academic texts commonly used in their studies. We will start with a questionnaire with a series of basic questions, a work from a text and in-depth interviews with selected students, in order to obtain conclusions regarding their reading ability.

Key words

reading comprehension; language skills; classroom research; university students; literacy.

JEL Classification: M53, Z13, I25

Introduction

The notion of academic competence refers to a set of skills, knowledge, cognitive and non-cognitive dispositions that allows the students of higher education to carry out the necessary activities to graduate and succeed in their careers. The attitude of reading, along with professional academic skills, technical and others, is among essential skills in an academic environment. The definition of reading competence is subject to constant modifications to reflect the changes in societies, economies, culture and education. Therefore, the reading competence is not a simple skill that covers the processes of reading, decoding and comprehension.

Reading and writing means to develop a broader set of skills, which activate the functional use of an acquired ability (for example, language) in everyday life. So, "the reading competence refers not only to the domain of the ability of reading, but also to the ability to work with texts, communicate in writing, acquire and process the information contained in texts" (Svrcková, 2011:13).

According to Holloway (1999), reading skills are essential to the academic achievement of students in high school and in higher education.

Olson (1997) states that, today, reading competence, introduces a bias, since it gives benefits to those who acquire necessary skills. Since, written language is used as a vehicle for the rest of knowledge, literacy provides access to culture and has

an impact on the thought processes (Kern and Friedman, 2008; Olson, 1994; Pretorius, 2000); the achievement in reading competence is not only a basis for the achievement in other areas within the educational system, but also a requisite for a successful participation in most areas of adult life (Cunningham and Stanovich, 1998). Barthes (2006) claims that modern science and literacy semiotics offer to readers, against the established forms of captioning texts, more freedom in the interpretation of the text. Procházcová (2006) points out that the results of the researches indicate difficulties in study and employability in the job market. Achieving an optimal level of literacy is also a requirement for the development of skills related to academic, professional and personal development of everyone.

Among the different previous studies on reading competence in university students, we follow Gonzalez Moreyra (1998), Echevearría and Gastón (2002), Brito and Angeli (2005), and Arrieta and Meza (2005), who agree on most of their conclusions and also with those that we will get in this first approach to our project.

We believe that the reading competence is a wide set of reading skills and skills necessary to work with texts in an effective manner. This does not concern a mere reading of the speed of the words, phrases or full texts. Reading competence implies being able to understand the content correctly, find the explicit and implicit meanings, analyse the content and the information obtained; and being able to correctly interpret the content and pass it on.

First, however, is the ability to take students' own decisions about the texts, apply their contents to innovate and create new knowledge because of the information received. The ability to read is one of the key skills that are required in an academic setting, because much of the knowledge is acquired through books, monographs and written documents; and we believe that it is a basic competence in the process of transforming information into knowledge. As De Brito Cunha and Angeli Dos Santos:

At University, it is important to have adequate reading skills to access to scientific production, retrieve the information accumulated historically and use it for an efficient practice. At University is, almost always, the last formal opportunity of teaching, which can guarantee the student the recovery and development of the habit of reading and comprehension of texts, essential to the level of schooling that we propose to form (2005:4).

Goal and Methodology

The main reasons for the investigation were our own experience with students (difficult to decipher the meaning in academic discourse, low qualifications of students in exams and low qualifications of Valencian and Slovak students in the PISA evaluation (Program for International Students Assessment). There has been, however, a lot of research on the validity of such studies. Thus, found that many factors, such as translation, familiarity with the content of the items, the differences between curricula, the motivation of the student, the anxiety, the structure of languages, cultural differences, etc., can have an impact on the validity of these studies (Kreiner and Christensen, 2014) there are six types of problems, identified by Arffman (2010) that endanger the equivalence of the PISA reading texts.

To analyse the reading competence, we proposed two tasks:

- a) A series of questions (in a Likert type scale) about the habits of students when reading academic texts and their own perception with respect to reading.
- b) An identical text in the L1 of the student (Slovak, Catalan or Spanish) entitled Gender and perception of equality in relation to education, with an intermediate level of difficulty. Students had to compose an abstract of 150 words and a 8 slide PowerPoint presentation or similar.

The research sample consisted of 50 students from the University of Valencia and 49 from the University Alexander Dubcek in Trencin, in both

cases registered in the first courses. We sought then, contrasting the self-perception of students (with the initial questions) and the objective results from later textual analysis (Echevarría and Gastón, 2002:65). In a next phase of the study interviews will be carried out in depth with students, and it will also be deepened during the comparison between the results obtained in Spain and Slovakia.

Findings

1.1 University of Valencia

The results are not surprising, since reading comprehension problems are often found in an academic environment. In what refers to the speed in reading the texts, even though most of the answers are mid-point, it is important the number of students (23%) that consider they read so slowly or very slowly. In a next phase of the research, we will contrast this data with an exercise about objective reading speed.

Forcefully call attention the number of students receiving academic texts as little or nothing difficult (32%), and also the fact that none of them has claimed to find difficulty in the texts proposed from the different subjects. This contrasts strongly with the objective results that have been obtained through other systems for the collection and analysis of data. It is important to note that nearly half of students (46%) says not to use dictionaries or use them rarely. On the other hand, only 1% recognizes to use these tools to answer their doubts about lexical aspects.

When we ask them to say approximately how many words per page do not understand in academic texts, 80% declares to understand the meaning of all the words of the texts, or at most unaware one or two. We understand that it is an excessively high percentage, that could be denied by different studies and we will try to confront with the results obtained by other analysis tools.

In what refers to strategies of understanding, at this point it should be noted that one third of the respondents stated resolve their doubts by asking their peers. Also, interestingly, the high percentage (64%) claiming to use always or sometimes the dictionary, would be contradictory with the results of other questions.

Altogether, half of the students considers that the texts used by choice (fruit of their searches in libraries or on the internet) have little or no difficulty, compares with 6% who considers them quite complicated or very complicated. Again, we observe an inconsistency with what the results of other investigations show, and we will try to deal with through successive phases of our investigation.

The production of a summary on medium difficult text and the preparation of a presentation with *PowerPoint* was a problem for the 49% of students, and highlighted difficulties in:

- Summarizing the contents of a text.
- Extracting the relevant ideas for developing an effective presentation.
- Bringing prior knowledge on the subject obtained through other channels and connect them to the new information; making use of intertextual relations.

1.2 Alexander Dubcek University of Trencin

Following previous researches of Delgadová, Gullerová & Oltra (2016), the findings in the questionnaire containing self-assessment items confirm the hypotheses formulated prior conducting the research on reading literacy. Reading comprehension problems are frequently encountered with in an academic setting. It was found that 38% find their reading rate moderate, i.e. their reading rate is neither quick/easy nor slow/laborious. The results also showed that 58% of the students have some difficulties to understand the content of texts on their reading lists. Serious reading difficulties have 4% of the students.

Unfamiliar words represent a major challenge when reading academic texts. The research findings indicate that 39% do not understand approximately 3 words in one print page of their reading lists. In that respect, 46% of the students sometimes check the meaning of unfamiliar words in a dictionary and 40% always use dictionaries to deal with unfamiliar words. Concerning the use of dictionaries, 35% almost never, while additional 35% almost always use dictionaries while reading.

Regarding the *PowerPoint* presentation, 59% of the students faced problems in writing a *PowerPoint* presentation. The data found indicate that students lack a competency of reproducing main ideas as well as structure of the original piece of writing in an accurate manner.

Conclusion

Literature

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The main purpose of the work was to observe the reading competence in students of the first year of University of Valencia and the Alexander Dubcek University in Trencin, based on the aptitude for the reading as one of the necessary basic skills, not only in the academic field, but also in professional life.

In what refers to the initial questionnaire, it should be pointed out the perception of students' own reading aptitude as superior to the results obtained when faced objectively to academic texts.

It seems disturbing that almost half of the students (in other studies between 40% and 80%) presents any deficiency when faced with the usual written texts in their studies. Conversely, students presenting an appropriate level would be around 20% on average.

More activities of real practice of the language are necessary in our university students, allowing them to develop skills related to reading comprehension and appropriate to the level of demand for university studies. This contradicts, however, the idea that university students have already acquired skills related to the written language during high school. The solution to the problem involves not only teachers of languages, but the whole of the teaching staff.

Therefore, we can see that the difficulties related to literacy in PISA texts continue persisting in higher education. We deal with important skills in today's information society, since they are considered as effective tools to acquire, organize and apply the information in various domains.

However, technology and applications do not seem to favour the development of reading competence. Capabilities related to written texts are of strategic importance to survive in the information society, therefore, the ability to identify, acquire and process information, as well as to apply, improve, innovate and create new knowledge is so important. This is, however, only possible when you have an aptitude for higher level reading.

Finally, institutions of higher education should integrate different skills in word processing and strategies, as well as, the linguistic disciplines in their programmes in order to build the domain of the aptitudes for reading in their students. It is the only way to prepare students for the challenges of the future, becoming productive citizens and thriving in the global job market.

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TEXT LINGVISTICS – THE BASIS OF EACH TEXT ANALYZE

József LISZKA

Mandelíková, Lenka: *Eine theoretische Darstellung der Textlinguistik*. Wien/Berlin: Mercur Verlag, 2015. 100 p. ISBN 978-3-9504054-0-8

Wide spectrally perceived anthropocentrism covers lingvoculturology, psycholinguistics, sociolinguistics, and textual linguistics. Just the latest phenomenon - textual linguistics - Lenka Mandelíková, assistant professor at Alexander Dubček in Trenčín, has chosen as the topic of her scientific monograph. Theoretical basis of textual linguistics has become the subject of linguistic researches by the author. Author analyzes the text structure and describes its grammatical, semantic and pragmatic structure.

linguistics Mandelikova considers the understanding of language as an internally organized unit. The respected pragmatic-communicative turnaround in the direction of language research has raised questions about the exploration of language functions in social communication, and the author is fully aware of it. She has crossed the syntax boundaries and has concentrated on analyzing the area where the term text is understood as the highest unit of contemporary language. L. Mandelíková examines the text as a complex communication unit, "therefore we can integrate the text analysis into the communication process" (cited, 2015, p. 91, translation from German J. L.).

The monograph deals with the multifaceted issue of textual linguistics and provides a systematic overview of key areas of its research. The presented knowledge is developing cyclically. In ten chapters, the reader is gradually acquainted with the developmental stages of textual linguistics, the definition, function and subject of a text, textual criteria, the production and reception of a text. The reader will get to know about text-vocabulary theories - about grammatical, semantic, pragmatic-communicative and cognitive approach to text. The "pure" linguistic analysis of text has been connected with the pragmatic structure of text, because the optimal analysis requires taking into account the both

research directions. Thus, the monograph refers not only to the semantic and syntactic level of language but also to the pragmatic-communicative and cognitive concept of a text. And this is the interdisciplinary space of linguistics, especially with sociology, culture and psychology. I especially appreciate the analyzed text models that will also address the "non-linguists". In particular, communication-oriented text models have prerequisites for interdisciplinary research with the above-mentioned sciences. The author also deals with the language as a social phenomenon that contributes to the organization of a society. Thus, in the sense of its conception, the text also has a social function. I particularly emphasize the fact that the synthesis of language and non-linguistic phenomena in textual linguistics has been achieved.

Lenka Mandelíková highlights the current text-logical aspects of Germanophone linguists, but she also does not forget about the insights from the workshop of Slovak and Czech linguists. We cannot deny author the finding that "apart from the grammatical and communication theory, the following disciplines such as communication research, psychology, sociology and pedagogy have an important role how to explain the text-logical phenomena" (cited 1515, p. 91, German translation J. L.). I state that the creation of a theoretical basis for textual analysis has been achieved by Lenke Mandelikova. The monograph is the result of an extensive and qualified work of the author who confirmed her erudition in the current issue. Monograph is an asset and inspiration not only for linguists, lieutenants, but also philosophers, psychologists, sociologists and other professionals from related disciplines. I pronounce a belief that the book will become a useful tool within the text analysis.

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Mcheill, A. (2002). Correlation and dependence. Dempster, M.A.H. (ed.): *Risk Management: Value at Risk*. Cambridge: Cambridge University Press, 176–223. (kapitola v knihe)

Dluhošová, D. (2003). Performance analysis. *Business Economics, Management and Marketing*. Ostrava: EF, VŠB, s. 205–213. (článok v zborníku z konferencie)

Bartman, S. M. (2007). Corporate cash flow. *Journal of Corporate Finance*, 10 (2), 101–111. (článok v časopise)

Woolman, N. (2011). *Investment in creative industries is not high risk*. [acc.: 2012-15-11]. Available at: <http://www.thestage.co.uk/news/not-high>. (internetový zdroj)

Štatistický úrad SR. (2010). *Trendy v nezamestnanosti*. [cit.: 2012-15-03]. Dostupné na: <http://www.slovakia.culturalprofiles.net/?id=-13602>. (internetový zdroj)

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