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REASONS FOR SATISFACTION AND DISSATISFACTION OF BANK CUSTOMERS. STUDY FROM SLOVAKIA AND THE CZECH REPUBLIC

Jaroslav BELÁS¹, Lenka GABČOVÁ²

ABSTRACT

The satisfaction of bank customers presents an important area of building long-term relationships with the client, which significantly determines the financial performance of commercial banks through successful business. This article presents the current situation in the banking sector in the Czech Republic and Slovakia. The aim of this article is to measure the customer satisfaction, its development in time, then to determine the main satisfaction and dissatisfaction attributes and finally to compare the situation in the Czech Republic and Slovakia. To measure all these elements, standard statistical methods have been used. The observed overall satisfaction rate of the Czech and Slovak clients is very similar. The main reason for the satisfaction of bank customers in both countries is ability to use electronic banking and most important reason for their dissatisfaction is long-term high prices of products and services.

KEY WORDS

commercial banks, customers' satisfaction, attributes of customers' satisfaction and dissatisfaction

JEL CLASSIFICATION

G 21

INTRODUCTION

The customer satisfaction should be perceived as the basis of the financial performance of a bank. It is probable that satisfied customers will continue purchasing its products or even recommend this bank to other potential clients.

As a result, it is particularly important to maintain customer satisfaction in relation to a financial performance and competitiveness of commercial banks.

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According to Ernst & Young (2011, p.3), the overall confidence of clients in the banking industry has been significantly reduced thus the contacts with their clients through the improvement of bank products and services have to be re-established by banks. It is important for banks to find an effective way to pay attention to clients individually and be able to distinguish and analyze financial needs of clients.

In this context it is essential to analyze the development of customer satisfaction in banks and individual attributes of client satisfaction or dissatisfaction in the Slovak banking sector at the time of intense impact of various critical factors. In this article, the results from Slovakia have been compared with the current situation in the Czech Republic.

1 IMPORTANT ATTRIBUTES OF CUSTOMER SATISFACTION IN A COMMERCIAL BANK

Munari, Ielasi and Bajetta (2013), Chavan and Ahmad (2013) indicate that the customer satisfaction is becoming a stable goal of banking market policies, an important element for strengthening corporate reputation and the most critical aspect to corporate banking success.

Many authors such as Croxford, Abramson and Jablonowski (2002) examine satisfaction attributes of bank customers and consider that the dominant attributes are service quality, brand and price. In this context, Wruuck (2013) states that prices play a central role for customer satisfaction and profitability. Especially in the current situation, marked by cost pressure and changing customer expectations, pricing is thus of particular importance. The satisfaction with product pricing does not automatically mean the overall and complete satisfaction, but it is only one of the most important requirements.

According to Berry (2005), dominant attributes of customer satisfaction are an understanding of client financial needs, an active offer of attractive products and feeling to be appreciated in a bank. Chakrabarty (2006) defined four factors of customer satisfaction related with the branch (speed of service, attitude of employees, privacy, opening hours), economic satisfaction (level of charges, interest rates), satisfaction with remote access (dial-up or internet banking) and availability of ATMs.

Lages and Piercy (2012) argue that customers require a high level of acceptance of their own needs and accurate provision of services from the bank employees.

Chavan and Ahmad (2013) state the eight most important attributes of customer satisfaction:

- individual attention to every customer,
- staff behavior leading to trust,
- attractive environment in a bank branch,
- outstation cheques free of charge,
- error-free records,
- online banking possibilities,
- safety of transactions,
- employees' willingness to answer the questions even during the busy periods.

Choudhury (2013) state that customers distinguish four dimensions of service quality: behavior, reliability, tangibles and convenience.

Maddern, Maull and Smart (2007) examined the relationship between customer satisfaction depending on employee satisfaction and a service quality in the banking sector. Results of this study confirmed a high correlation between employee satisfaction and customer satisfaction.

Baumann, Elliott and Burton (2012) examined the loyalty of bank customers which was based on the overall satisfaction, emotional attitudes towards banks, service quality, perception of the market situation (costs and benefits of the change) and customer characteristics.

Mandahachitara and Poolthang (2011) indicated that customer loyalty is crucial because gaining new customers entails more costs and vice versa, longer duration of a relationship with a customer brings higher profitability to a bank. Loyalty is thus a key element of long-term profits for any company, including banks. According to the research of Fraering and Minor (2013) held in the USA, satisfied, cognitive, affective and active loyalty are positively related to fortitude.

The profit and a company growth are primarily stimulated through customer loyalty which is directly formed by their satisfaction. Customer satisfaction is determined by service quality that creates satisfied, loyal and productive employees (Gelade and Young, 2005; Saura, Contrí, Taulet and Velasquez, 2005). Seiler, Rudolf, and Krume (2013) found out that the service value has no significant direct effect on customer loyalty; the impact of service value on customer loyalty is completely mediated by customer satisfaction.

However, there are also papers arguing that neither customer satisfaction nor loyalty have a significant impact on the financial performance of banks, while the remaining factors have indicated unprecedented results (Keisidou, Sarigiannidis, Maditinos, and Thalassinou, 2013).

Dimensions of service quality are employee behavior, tangibility and information technology. Dimensions of service convenience are decision convenience, access convenience, transaction convenience, benefit convenience and post-benefit convenience. (Kaura, 2013)

The survey of Ernst & Young (2012) indicates that banks do not really recognize customer needs and do not adjust bank products to these needs according to customer opinions. The reason to suggest so is that only 44% of respondents worldwide believe that their bank adjusts their products to their needs. The most important impulse to change the bank is the amount of charges as 53% of European clients would change their main bank precisely because of this fact. The second most important reason is bad experience in a bank's branch.

According to Deloitte research (2012), only 17% of respondents in the Czech Republic and 12% of clients in Poland changed the bank in the past or they have their accounts in two different banks. In comparison, 52% of respondents of the same survey conducted in Slovakia have moved their accounts to another bank (28% in Hungary and 42% in Romania). Ernst & Young (2011) argues that European bank customers change their banks primarily because of poor quality services (48%) and because of high prices (43%).

Judging from all these findings measuring the customer satisfaction and its development together with their purchasing habits could be considered as crucial for improving of the performance of a bank.

In our opinion, it is important to continue carrying out research on these aspects of the development in the banking sectors of Slovakia and the Czech Republic and to compare the findings. These two countries are closely linked: they have common history and cooperate in creating the legislation of their banking sectors. As a result, they are compared in numerous international comparisons.

2 RESEARCH OBJECTIVES AND USED METHODOLOGY

The aim of this article is to measure the customer satisfaction, its development in time and the number of purchased banking products, then to determine the main satisfaction and dissatisfaction attributes and finally to compare the situation in Slovakia and the Czech Republic.

The research of customer satisfaction has been conducted by a questionnaire survey. The survey has been developed on the basis of results of foreign studies and our own knowledge of this issue (Chakrabarty, 2006; Berry, 2005; Croxford, Abramson a Jablonowski, 2002).

Random sampling method was used in the data collection process.

Our first research on customer satisfaction in Slovakia was conducted in 2008 on the sample of 298 respondents. Four years later, in October 2012, the research was carried out again. The research included a total of 320 respondents of which 55 % were women and 45 % men. The age structure of respondents was as follows: 23 % of respondents were in the category up to 30 years, 59 % were between 30 – 50 years and 18 % of them were more than 50 years. 89 % of respondents were employed, 5 % were unemployed and 6 % were retired. The educational level of respondents was as follows: 6 % of them had primary education, 48% reported high school education and 46 % reported a university education.

The same questionnaire was distributed in the Czech Republic, where 323 respondents have been approached. 37.46 % of them were males and 62.54 % were females. The age structure of respondents was as follows: 31.58 % of them are under the age of 30 years, 50.46 % are at the age of 30 to 50 years and 17.96 % of them were respondents above the age of 50. The education structure of respondents was as follows: 0.93 % - primary education, 61.61 % - secondary education and 37.46 % - university education.

In 2014, responses were received from 459 respondents, of which 44 % were men and 56 % were women. The age structure of those respondents was as follows: 39 % of respondents were aged under 30, 44 % were aged from 31 to 50 years and 17 % of them were customers over 50. The education level of respondents was as follows: 3 % had primary education, 54 % had secondary education and 43 % were university educated bank customers.

In this last research, three scientific hypotheses have been set. By determining the quantitative criteria, the method of expert estimate has been used.

H1: The overall level of satisfaction of bank customers in Slovakia has decreased during the financial crisis and it was not different from the overall level of satisfaction of bank customers in the Czech Republic in 2012. The overall satisfaction of bank customers in the Czech Republic has not changed between 2012 and 2014.

H2: The main attribute of satisfaction of Slovak bank customers has changed during the crisis. The most important attribute of satisfaction has become the possibility to use electronic banking. This attribute was more important in the banking sector of the Czech Republic in 2012 in comparison to Slovakia.

H3: High prices of products and services have remained the most important attribute of dissatisfaction of Slovak bank customers. In the banking sector of the Czech Republic, the situation was similar.

The associations in contingency tables were analyzed by Pearson statistics for data count. In the cases, where of asymptotic requirements for the test were violated; series of 5000 Monte Carlo replications from original data has been conducted.

P-value is being compared with the standard 5% confidence level. If P-value lower than the confidence level this leads to the rejection of the null hypothesis. The null hypothesis claims there is no association between variables. Calculations have been performed in statistical packages XL Statistics and R.

3 RESULTS AND SHORT DISCUSSION

The development of the overall customer satisfaction in Slovak banking sector during the crisis and the current situation in the Czech Republic are shown in Table 1.

Table 1. The development of the overall customer satisfaction in Slovakia (SR) and the Czech Republic (CR)

Question: Are you satisfied with provided bank products and services?	SR 2012 in %	SR 2008 in %	CR 2014 in %	CR 2012 in %	p-value
1. Yes	61	64	66	62	0.5182* 1.0000** 0.2819***
2. No	23	21	16	26	1.0000 1.0000 <0.01
3. I do not know	16	16	18	12	1.0000 1.0000 0.0275
$\chi^2=0.6930/2.2823/14.2141$		p-value=0.7293/0.3195/<0.01			

Note: p-value* - comparison of the results in 2008 and 2012 in Slovakia, p-value** - comparison of the Czech Republic and Slovakia in 2012, p-value*** - comparison of the results in 2012 and 2014 in the Czech Republic

By using a test of dependence in pivot table ($\chi^2=0.693$, p-value=0.7293), the change of overall level of customer satisfaction in Slovak banking sector has not been proved.

Based on results of our research it can be stated that the overall satisfaction in both countries does not differ significantly ($\chi^2=2.2823$, p-value=0.3195) in the year 2012.

The research in 2014 showed that the overall satisfaction of the Czech bank customers have not changed within the last two years. Thus the validity of H1 has been confirmed partially.

According to results of our research, the overall level of the satisfaction of Czech customers is at European diameter. These results are comparable to some published results of the satisfaction of banks' clients. For example, the average value of the satisfaction was 62% in the Great Britain in 2012 (www.dailymail.co.uk). According to results of the research of Deloitte (2012), the overall level of the satisfaction in the Czech Republic, Slovakia and Poland is 50% and more.

Table 2 shows the contribution of various attributes to the overall satisfaction of bank customers in Slovakia and the Czech Republic.

Table 2. Attributes of customer satisfaction in Slovakia (SR) and the Czech Republic (CR)

What are you most satisfied in the bank with?(you can specify up to 3 reasons)	SR 2012 in %	SR 2008 in %	CR 2014 in %	CR 2012 in %	p-value
1. Fast service at the branch	28	22	12	14	0.1040* <0.01** 0.3770***
2. The possibility to use the electronic banking	67	49	79	75	<0.01 0.0308 0.1900
3. Quality products and services	22	17	17	18	0.1433 0.2520 0.9500
4. Comfortable and friendly service at the branch	20	25	21	17	0.1636 0.3850 0.8140
5. The availability of branches	53	45	51	50	0.0565 0.4999 0.7910
6. Developed network of ATMs	28	54	42	40	<0.01 <0.01 0.6670
7. Other (quality consulting, services without charges)	4	21	5	0	<0.01 <0.01 -

Note: p-value* - comparison of the results in 2008 and 2012 in Slovakia, p-value** - comparison of the Czech Republic and Slovakia in 2012, p-value*** - comparison of the results in 2012 and 2014 in the Czech Republic, - value could not be calculated.

The values of the test criteria have shown that the attributes of customer satisfaction in Slovakia have changed. In 2012, the majority of customers declared that the main attribute of their satisfaction is the possibility to use e-banking in the interaction with their banks. The results of the test of proportions have shown a statistically significant growth of importance of this factor during the times of the financial crisis. The major attribute of satisfaction of Slovak bank clients in 2008 was the developed network of ATMs. As the Table 2 shows, the significance of this factor has substantially decreased during the crisis.

As for Czech bank clients, the major attribute of satisfaction was also the possibility to use electronic banking. Compared to the situation in Slovakia, Czech bank clients increasingly indicated this possibility in 2012 (p-value=0.0308). The structure of the attributes did not change dramatically in 2014 in comparison to the year 2012 in the Czech Republic. Electronic banking remains the major driver of the customer satisfaction in both countries. Hypothesis 2 was thus confirmed.

On the opposite, Table 3 shows the development of attributes of customer dissatisfaction in the Slovak and Czech banking sector.

The drivers of customer dissatisfaction in the Slovak banking sector have not changed significantly during the reported period. High prices of bank products and services remained the most important reason of client dissatisfaction. P-value has not confirmed a significant change of this reason in the reported period.

Table 3. Attributes of customer dissatisfaction in Slovakia and the Czech Republic

What are you most dissatisfied in the bank with? (you can specify up to 3 reasons)	SR 2012 in %	SR 2008 in %	CR 2014 in %	CR 2012 in %	p-value
1. Slow service in the branch	38	36	19	23	0.6664* <0.01** 0.2180***
2. Poor e-banking facilities	3	8	4	2	0.0103 0.6093 0.1142
3. High price policy of products and services	63	59	64	65	0.3490 0.8782 0.7241
4. Poor availability of branches	11	8	6	10	0.2581 0.8782 0.0910
5. Impersonal approach	19	16	15	14	0.3822 0.0996 0.5944
6. Low acceptance of my needs	8	11	17	13	0.2557 0.0597 0.1933
7. Others (personnel arrogance, abuse of financial illiteracy of clients)	3	6	18	0	0.1068 - -

Note: p-value* - comparison of the results in 2008 and 2012 in Slovakia, p-value** - comparison of the Czech Republic and Slovakia in 2012, p-value*** - comparison of the results in 2012 and 2014 in the Czech Republic
- value could not be calculated.

Our research has shown there is no statistically significant difference between the values of the most important reasons of dissatisfaction (prices of products and services) in the Czech Republic and Slovakia in 2012.

The level of the dissatisfaction with high prices of products and services remained stable in the Czech Republic within the two last years. Other factors have also kept similar levels, except for the “other” possibility. 18% of the respondents in the research in 2014 declared their dissatisfaction with another attribute than one of the proposed. Some of these were low interest rates or pushy marketing at the branch.

Judging from all the mentioned above, we can accept H3.

According to research by Ernst & Young (2012) a definite number one impulse for change of bank is the amount of bank charges. 69% of the Czech bank clients would change their main operational bank because of high costs (compared to a European average of 53%).

Due to the financial crisis customers prefer transparency and simplicity, which applies not only to the products themselves, but also for their price. Since customers currently have a strong need to

search for information themselves, a bank that offers something to them in a clear and accessible form, gaining a competitive advantage. (Wruuck, 2013)

CONCLUSIONS

The research on customer satisfaction in Slovak banking sector proved that the perceived level of overall satisfaction slightly decreased during the crisis and it is comparable to the situation in the Czech Republic. During the reporting period, there were no significant changes in the overall satisfaction of bank customers in Slovakia and Czech Republic detected.

Electronic banking has become the most significant distribution channel of commercial banks in Slovakia during the crisis. This distribution channel is the most preferred in the Czech Republic as well. Czech clients showed a significantly higher preference for this reason of satisfaction in comparison to Slovak customers in 2012.

On the opposite, the most important attribute of customer dissatisfaction remains a high price policy of bank products and services. In both countries a relatively high level of dissatisfaction with this factor was found there. The level of dissatisfaction with this factor in the observed period did not change significantly.

Our research, like other researches on this topic has been somewhat limited by the number of respondents. Nevertheless, it is expected, that it may be beneficial for inspiration of banking executives to improve attributes of satisfaction and loyalty of bank employees.

Our future research will focus on the quantification of the effects of satisfaction growth and increase of level of loyalty of banking clients to grow the financial performance of commercial banks through growth in sales of banking products to satisfied customers.

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BANK CUSTOMERS SATISFACTION SURVEY IN SLOVAKIA (AND THE CZECH REPUBLIC???)

1. **Gender**
Male Female
2. **What is your status?**
Single Married Other
3. **You are:**
Employed Unemployed Other
4. **How old are you?**
Under 30 years Between 30 and 50 years Above 50 years
5. **What is the highest degree or level of school you have completed?**
Elementary High school University degree
6. **Are you satisfied with the products and services you use in your bank/ banks?**
Yes No I do not know
7. **What are you satisfied the most in your bank with? (you can choose up to 3 reasons)**
Fast service at the branch The possibility to use the electronic banking
Quality products and services Comfortable and friendly service at the branch
The availability of branches Developed network of ATMs
Other (please specify):
8. **What are you dissatisfied the most in your bank with? (you can choose up to 3 reasons)**
Slow service in the branch Poor e-banking facilities
High price policy of products and services Poor availability of branches
Impersonal approach Low acceptance of my needs
Other (please specify):

Thank you for your time!

PROTECTION OR REPRESSION: THE IMPACT OF JUDICIARY BEHAVIOR ON SME DEVELOPMENT IN RUSSIA

Vladimir KOZLOV

National Research University Higher School of Economics

Alexander LIBMAN

Frankfurt School of Finance & Management

ABSTRACT

The paper investigates the role of judiciary behavior in the development of SMEs in Russian regions. Specifically, it looks at how repressive Russian courts are in punishing economic crime. Repressiveness of courts can be both an obstacle of business development (if it serves the predatory behavior of bureaucrats) and a factor improving the environment for business (if it reduces risks of illicit behavior on the side of SMEs' counterparts). Utilizing the differences in court repressiveness and SME development across Russian regions, we show that court behavior indeed affects the development of SMEs, at least as captured by the official statistics. For small business in the area of trade, higher repressiveness of courts in the matters of fraud seems to encourage business development, while repressiveness in corruption and illicit entrepreneurship has a negative effect.

KEYWORDS

small business, judicial behavior, Russian regions

JEL CLASSIFICATION

L26; K14

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1. INTRODUCTION

Russia is notorious for having a particularly low level of SME activity, compared to both developed and developing countries. It can indeed be seen while considering almost all statistical indicators of SME activity. For example, as of 2009 (this is the year used for empirical investigation in this paper), 92.5% of the employed population of Russia were working for hire; those employing others made out 1.3% and self-employed 5.6%. Thus, the share of entrepreneurs and self-employed (6.9%) was substantially lower than in most European countries, regarding of the level of their development (29.2% in Greece, 26.8% in Moldova, 23.0% in Portugal, 20.7% in Romania, 18.8% in Poland, 17.7% in Ukraine, 16.5% in Ireland, 16.3% in Spain, 11.6% in Italy and 11.4% in Bulgaria). The share of entrepreneurial income in the total income of the population decreased in 2011 as compared to 2000 from 15.4% to 8.6%. The share of small enterprises and micro-entrepreneurs in the total employment in Russia, as of 2010, accounted for 21.5%; even if one adds the employment in the medium-sized enterprises (accounting for roughly one quarter of the total employment), one still obtains an indicator lower than that of European countries and substantially lower than in South-East Asia and in some of the African countries (Chu et al. 2008). We have to acknowledge that these comparisons are based on official statistics, which may be particularly misleading for SMEs in the developing countries with large shadow economy. Still, the fact that the SME sector is underdeveloped has been acknowledged already in early 2000s by numerous studies (Liedholm and Mead 1999; Safavian et al. 2001). Over time, the situation is claimed to have deteriorated: for example, Berkowiz and DeJong (2011) pointed out that the contribution of SMEs to the overall economic growth, substantial in the 1990s, decreased throughout the 2000s.

The reasons for low performance of the SME sector are numerous, but the low quality of economic institutions stands out as a particularly important challenge. The Doing Business rating, which captures the quality of formal institutions, in its latest edition (2014) shows that Russia, in spite of a number of recent positive changes, still ranks 92 of all countries (as of 2013, Russia ranked 111). One of the reasons of this low performance, in addition to excessive red tape and bureaucratic burden in many areas (e.g. extremely sophisticated mechanism of obtaining construction permits), is low protection of property rights through the judiciary. The protection of foreign investors score in Doing Business data, which could be seen as partly reflecting the quality of judiciary, is very low: Russia ranked 115 in 2014, even somewhat worse than in 2013. Russian courts are notorious for lacking impartiality and having inefficient judicial procedure. While the low quality of judiciary has only an indirect impact on the SMEs operating in the shadow economy (by possibly affecting the initial choice of the entrepreneur as to whether to legalize one's business or move in the informal sector), for enterprises at least partially operating in the formal sector (i.e. those, which are captured by the statistical data) judiciary is essential. A result of the interplay of low quality of supply of judiciary, specifics of law enforcement (Taylor 2006) and demand for inefficient institutions on the side of entrepreneurs (Puffer et al. 1998; Kuznetsov and Kuznetsova 2003) is that business conditions for SMEs in Russia deteriorate.

The aim of this paper is to investigate how the judiciary behavior and, in particular, the repressiveness of the judiciary while considering economic crimes, affects the development of SMEs in Russian regions. We use the fact that in Russia bureaucratic performance and in particular behavior of courts, varies substantially across individual regions of Russia (Gimpelson et al. 2010; Yakovlev and Zhuravskaya 2013; Bruno et al. 2013). While the federal government for the last twelve years invested substantial effort into centralizing the country, it only partially succeeded – the large formal differences between Russian regions, which existed in the 1990s, disappeared, but there are still substantial informal differences in how Russian bureaucrats act. These differences are partly unavoidable due to inevitable principal-agent problems in the bureaucratic hierarchy. We will specifically focus on the performance of the general purpose courts (*sud obshchey yurisdiktsii*); Russian judiciary also includes another branch of commercial courts (*arbitrazhnyi sud*). The

performance of commercial courts is generally believed to be much better than that of general purpose courts: for example, in terms of contract enforcement (which is the main task of commercial courts) Russia ranks 10 in the Doing Business rating.

Our focus is, however, on how the behavior of courts in the area of criminal law (and, in particular, crimes potentially associated with business activity) influences the SMEs; criminal jurisprudence falls in the domain of general purpose courts. In Russia and in other post-Soviet countries it is not unusual to apply criminal law mechanisms to pressure entrepreneurs. The severity of punishments associated with criminal law (e.g. imprisonment) is obviously an effective threat against private business. But also the very way how criminal prosecution is organized can be used for harassment of private enterprises. While the most prominent examples of how criminal law was used are associated with large corporations (in Russia, the infamous Yukos case of 2004 is probably the best known one), small business is even more likely to be subject to criminal pressure, since its resources for legal representation are very small. However, severe criminal prosecution does not necessarily imply pressure on SMEs: it can also be used as a tool to restrict the predatory behavior of regional bureaucrats and possible violations of law on the side of the business partners and thus, essentially, improve business environment. Essentially, the trade-off is between repressive jurisprudence as a tool constraining private predation (which is good for business, especially SMEs with limited own capacity to protect themselves) vs. repressive jurisprudence as an instrument of governmental predation (which is bad for SMEs) (Djankov et al. 2003). In this paper we intend to test whether Russian jurisprudence focuses on protection or repression against SMEs.

The paper is organized as follows. The next section presents the key variables and the econometric model we use. The third section summarizes the main results. The last section concludes.

2. KEY VARIABLES AND ECONOMETRIC STRATEGY

Dependent variable: In order to understand how judiciary behavior affects the development of the SMEs, we use official statistical data published by Rosstat, the Russian statistical agency. Again, we have to point out that the Rosstat data should not be treated as entirely accurate while describing the SME activity; a reduction in the number of SMEs could very well be associated with their shift into informal economy (Dreher et al. 2014). Still, the Rosstat data could serve as at least a crude proxy for the SME activity in the formal sector. We use two main dependent variables. First, we look at the total number of small enterprises in the region. Second, we investigate the average number of workers per company; basically, it captures how large individual SMEs in the region are. It is possible to argue that these two indicators are better capable of measuring the SME activity than, say, turnover or profit – the last two variables may be subject to major manipulations as a tool of tax evasion or avoidance. Still, the employment data may be manipulated to a greater extent than the simple number of SMEs (to avoid responsibilities associated with social security contributions employer has to pay according to the Russian law). We investigate specifically SMEs of three sectors: trade, industry and construction. Since the requirements for the business environment and the risks are very different, it is also possible that the judicial behavior affects the SMEs in these groups in a different way.

We have to acknowledge that there are also other indicators of sub-national SME activity in Russia. For example, in 2005-2006 VTsIOM (one of the largest Russian public opinion agencies) implemented (on behalf of Opora Rossii, a large business association focusing on SMEs) a large-scale study of the entrepreneurial activity in Russian regions. It measured a number of indicators of business activity (e.g. financial status, transaction costs, motivation for business activity, security, assets, legal environment and governmental support). However, this dataset (VTsIOM 2006) seems

to rather capture the subjective perception of the entrepreneurial activity (and, to a large extent of its environment), based on a survey of owners and managers of small companies. The inability to distinguish the perception of environment from that of actual business activity could be a limitation from the point of view of our paper. The 2012 Doing Business study (Doing Business 2012) also compiled data on SME environment in Russia at the sub-national level, but it covered only 26 regions (i.e. less than a third of all Russian provinces we study), and focused on cities and not on the entire regions. RIA Rating Agency (RIA 2012) also published an indicator of ‘entrepreneurial initiative’ in Russian regions, which is an aggregate of multiple indicators of Rosstat (SME turnover, SME investments etc.), but the interpretation of this aggregated index is extremely hard.

Explanatory variable: In order to capture the judicial performance, we use the approach suggested by Libman et al. (2012), Schultz et al. (2014) and Libman and Kozlov (2012) and focus on *repressiveness of courts in criminal matters*. More specifically, repressiveness is measured as a share of prison sentences in the total number of prison sentences and conditional releases determined by the courts in the region. The Russian law (as many other legal systems) allows the prison sentence for most cases (and, in particular, for almost all economic crimes, which are in the focus of this study) to be substituted by a conditional release (suspended sentence). In this case the accused is considered to be legally sentenced to a term in prison, but does not actually serve the term – instead, (s)he is monitored by the police and (often) restricted in the right to travel and in the kind of activities permitted. The decision as to whether use the actual sentence or the conditional release depends not on the type of crime committed, but on the personality of the accused (the court has to judge how ‘dangerous’ it is for the society to leave the accused outside of prison). Thus, there is no difference in the substance of crimes, which were punished by a prison sentence or a conditional release (with some minor exceptions, again, almost irrelevant for economic crimes); the severity of punishment is, of course, very different, especially in Russia with harsh prison conditions (Oleinik 2003). Therefore, the variable actually captures how likely the courts are to use more severe punishment for comparable crimes. In Russia, looking at this variable is important for another reason – the organization of Russian legal system almost precludes judges from acquitting the accused (there are strong bureaucratic incentives to prevent the acquittal). Therefore, conditional release is often the most ‘merciful’ decision a court is capable of making (Schultz et al. 2014).

We look, specifically, at the repressiveness of courts in four types of crimes, which are relevant for economic activity: (1) fraud (*moshennichestvo*); (2) tax crimes; (3) corruption (paying bribe and accepting bribe) and (4) illicit entrepreneurship (*Izhepredprinimatel'stvo*).

- Fraud (Article 159 of the Russian Criminal Code) is probably one of the articles of the Russian Criminal Code most frequently used for harassment of entrepreneurs. The content of the legal norm is vague and provides the prosecution with ample opportunities to adjust it to cases involving entrepreneurs (see Schultz et al. 2014 for a more detailed description of this type of crimes in the Russian legal system). Even if other articles of the Russian Criminal Code (e.g. Articles 169-199.2) are more applicable, the prosecution often prefers using the fraud article, since it involves harsher penalties. At the same time, however, fraud is not only a convenient accusation to be made against private business, but also a serious risk for SMEs, which are much more sensitive to possible abuse by business partners – e.g. cases when fraud actually does occur in real life and is not merely a pretext used by governmental authorities. Increasing repressiveness is likely to increase the expected costs of committing a crime (Becker 1974); thus, in cases of possible crimes against SMEs, where expected gains are rather small, high repressiveness could deter criminal activity (as a caveat, the outcome also depends on the likelihood of uncovering a crime, which we cannot observe with our data).
- Tax crimes are another very often used tool of pressure against private business (in fact, this was the tool used in the already mentioned Yukos case) and in particular against SMEs. Darden (2008) describes what he calls a ‘blackmail state’: a system, where legal system and taxation are

intransparent and highly complex, such that behavior according to the law is impossible; the government consciously creates such a system, allowing it to attack any business actor, if it wants to do so. Darden's focus is on political implications of the blackmail state (which deters private business from supporting opposition); however, blackmail state for the SMEs implies that the intransparent and contradictory law and, more importantly, law enforcement practices make predatory behavior of governments much easier, forcing business into accepting an informal contract with the government based on graft (see e.g.. Radaev 1998; Paneyakh 2001, 2008). In Russia, where the tax law as such is relatively simple (after the major reforms of the early 2000s), it is the inconsistent application of tax law, which creates main risks for business actors (Libman et al. 2014). More repressive application of tax law is therefore likely to represent higher pressure of the government against business.

- Convictions for corruption, on the contrary, are more likely to be used as protection of private business. The overall level of corruption in Russia is very high; while the federal government has repeatedly claimed its willingness to fight against corruption (Obydenkova and Libman 2014), the effectiveness of this campaign has been extremely low. One could, therefore, expect that in the regions where corruption crimes are punished more severely, demand for corruption by public officials is lower. It is likely to improve the environment for entrepreneurs (though, as our discussion will show, more complex reaction is also possible; furthermore, accusations in giving bribes, although not so often, are used as a tool of pressure against private business as well).
- Finally, illicit entrepreneurship is typically used as a tool of pressure against business – these crimes involve, for example, business activity without necessary licenses in areas where such licensing by the federal government is required. While illicit entrepreneurship charges could also be used to protect the consumers, still, it would make the business environment for SMEs harsher, especially since in Russia allocation of licenses is, again, associated with graft and corruption. On April 9, 2010, the illicit entrepreneurship was excluded from the Russian Criminal Code (currently these crimes are classified as fraud or tax evasion), but it still is present in other former Soviet Union countries (e.g. in Belarus; Kazakhstan abolished an analogous article in its criminal code only in early 2014).

Summing up, illicit entrepreneurship and tax crimes repressiveness are likely to serve as proxies of pressure against private business and thus should reduce the scope of SME activity in the region or at least shift it into informal sector. Fraud is a more ambiguous case; on the one hand, high repressiveness in the cases of fraud could be used in attacks against entrepreneurs conducted by governmental agencies and bureaucrats, but on the other hand, regions with repressive law enforcement could protect entrepreneurs from abuse by their business partners and thus improve the business environment. Corruption, evidently, is a crime directed against business, and thus more repressive regions could be associated with better business environment (again, notice that our measure of repressiveness looks at how identical crimes are treated – thus, we avoid a typical problem present, e.g. in corruption research, where high number of convictions could be an indicator of both high level of corruption and intensive anti-corruption governmental activity). We acknowledge that other articles of the Criminal Code can also be used to pressure business (or matter for protecting SMEs – e.g. simple theft can be a serious risk for small companies or individual businessmen); however, economic crimes are the most evident ones, and thus constitute a good starting point for our analysis. Furthermore, criminal cases resulting in actual conviction or conditional release in these economic crimes often attract substantial public attention and can have a major impact on the behavior of entrepreneurs.

Model and control variables: In a nutshell, we regress the indicators of development of SMEs on the level of repressiveness in the region, as well as a set of control variables. The sample we use covers almost all regions of Russia: it excludes Chechnya (due to the lack of reliable data); the City of Moscow (the economic development of the Russian capital is often substantially

different from that of other regions); and the so-called autonomous okrugs (Russian regions with lower-level status, for which data availability is also limited). All variables we use are for 2009 or 2010, depending on data availability. We estimate cross-sectional regressions using OLS.

The set of controls includes the following variables. First, SME development obviously depends on the economic development of the region; thus, we control for the income per capita, as well as urbanization (share of urban population in the total population of the region), as well as total population. SMEs gain from qualified labor force; improved education also may stimulate demand for goods and (in particular) services offered by SMEs; therefore, we also control for the educational level in the region (since in Russia secondary schooling covers almost the entire population, we look at the share of regional population with a university degree, which we extracted from the census data of 2002). Finally, we also control for the distance between the regional capital and the city of Moscow, since the former could serve as a good proxy for the specificity of regional economic and political development, as well as could capture the extent of access to markets in other regions (Russian transportation system is highly centralized, with almost all regions accessing markets in other regions only through Moscow). For each of the dependent variables we estimate five regressions: four, where repressiveness indicators for four types of crimes are included one by one (to avoid multicollinearity), and the fifth one, where all four indicators are included simultaneously.

Table 1 reports the descriptive statistics for the main variables used in our investigation. As expected, trade SMEs are substantially more frequent than SMEs in industrial production and in construction (there are on average almost four times more trade SMEs than SMEs in other sectors). However, employment of a trade SME is on average smaller than of a construction SME and in particular of an industrial SME (which has the average employment twice as high as the trade SME). Fraud seems to be characterized by the highest overall level of repressiveness (consistent with the argument presented above), followed by corruption. It is interesting to notice that illicit entrepreneurship is associated with substantially lower repressiveness levels than fraud (the repressiveness indicator is almost three times lower). Tax evasion is associated with very low repressiveness levels – it is likely that in this case real convictions follow only high-profile cases, attracting public attention and serving as a signal to the entrepreneurial community in the region.

Table 1 **Descriptive statistics**

	Mean	St. Dev.
Dependent variables		
Number of SMEs, '000 (trade)	6.9475	9.7133
Average employment per SME, people (trade)	4.8954	1.4029
Number of SMEs, '000 (industry)	1.8438	2.2714
Average employment per SME, people industry)	10.0890	3.1034
Number of SMEs, '000 (construction)	2.1038	2.5285
Average employment per SME, people (construction)	8.2805	3.9022
Control variables		
Monthly income per capita, RUR	16482.1400	6085.4020
Education, share of population with university degree	0.1703	0.0292
Distance from Moscow, '000 km	2.4028	2.7179
Population, '000 people	1626.0370	1281.7510
Urbanization, %	69.5725	12.6124
Repressiveness indicators		

Illicit entrepreneurship	0.0775	0.2168
Corruption	0.1855	0.1902
Fraud	0.2500	0.4357
Tax evasion	0.0458	0.1504

3. FINDINGS

Tables 2 and 3 report the results of our estimations for SMEs in the area of trade. We find that repressiveness has a contradictory effect on the SME development. Repressiveness in the matters of fraud is associated with a growing number of SMEs. However, regions with more repressive tax evasion, corruption and illicit entrepreneurship litigation were characterized by lower employment per SME and (in some specifications) lower number of SMEs. In terms of fraud, the results indicate that high repressiveness, although occasionally used as a tool of bureaucratic predation directed against private business, rather matters for SMEs because it limits the business risks they encounter in dealing with their business partners (trade firms are likely to have a particularly broad set of business partners and thus be very sensitive to fraud). Repressive behavior encourages entrepreneurs and constraints possible criminal behavior. For taxation and illicit entrepreneurship – i.e. crimes associated with violations of governmental regulation rather than directed against business partners – SMEs are more interested in less repressive jurisprudence; repressive behavior of courts does not reduce business risk and merely serves as a tool of predation.

Table 2 Impact of repressiveness on the number of trade SMEs

	(1)	(2)	(3)	(4)	(5)
Income per capita	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Education	134.726* *	123.786 *	125.498 *	125.182 *	136.929* *
Distance from Moscow	(65.093)	(69.025)	(69.776)	(69.352)	(60.857)
Population	0.103 (0.154)	0.026 (0.189)	0.027 (0.183)	0.027 (0.185)	0.096 (0.160)
Urbanization	0.004*** (0.001)	* (0.001)	* (0.001)	* (0.001)	0.004*** (0.001)
Repressiveness: fraud	4.256* (2.181)				6.075** (2.971)
Repressiveness: tax evasion		-3.247 (2.331)			-4.295* (2.348)
Repressiveness: corruption			-0.736 (2.437)		-6.846 (4.150)
Repressiveness: illicit entrepreneurship				-0.952 (1.686)	-1.752 (2.036)
Constant	-33.002** (13.174)	- 30.139* *	- 29.743* *	- 29.977* *	- 32.253** *
No. obs.	80	80	80	80	80
R ²	0.748	0.715	0.713	0.714	0.769

Note: robust Huber-White standard errors in parentheses. *** significant at 1% level, ** 5% level, * 10% level

Table 3 Impact of repressiveness on the average employment per a trade SME

	(1)	(2)	(3)	(4)	(5)
Income per capita	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Education	20.999*** (4.350)	21.384*** (4.232)	20.445*** (4.572)	20.852*** (3.994)	20.968*** (4.319)
Distance from Moscow	-0.01 (0.065)	-0.009 (0.065)	-0.011 (0.064)	-0.01 (0.066)	-0.012 (0.066)
Population	0.000*** (0.000)	0.000*** (0.000)	0.000*** (0.000)	0.000*** (0.000)	0.000*** (0.000)
Urbanization	-0.011 (0.017)	-0.009 (0.017)	-0.013 (0.017)	-0.009 (0.017)	-0.01 (0.017)
Repressiveness: fraud	-0.192 (0.285)				0.176 (0.289)
Repressiveness: tax evasion		-1.609*** (0.544)			-1.363** (0.662)
Repressiveness: corruption			-1.140* (0.670)		-1.051 (0.820)
Repressiveness: illicit entrepreneurship				-1.130*** (0.425)	-0.889** (0.413)
Constant	8.271*** (1.099)	8.058*** (1.033)	8.507*** (1.131)	8.142*** (1.038)	8.293*** (1.095)
No. obs.	80	80	80	80	80
R ²	0.208	0.231	0.228	0.234	0.269

Note: see Table 2

Probably, the most unusual finding is that corruption has a negative effect on business development.³ As we have hypothesized, repressive jurisprudence in the area of corruption was expected to encourage business activity, making business environment more attractive. Our findings indicate the opposite: the less likely the courts are to severely punish corruption crimes, the better it is for business. It could be explained by the fact that we, as mentioned, look at crimes associated with both bribe-paying and bribe-taking: SMEs frequently are forced to pay bribes as a simple condition of survival of their businesses, and thus repressive jurisprudence in this area increases risks for business. Furthermore, it is also possible that punishments of bureaucrats are risky for businessmen as well – they distort the informal corruption networks, which have been established in the region (Pleines 2001), require a (possibly costly) adjustment to new bureaucrats, increase other legal risks (which were previously covered by the informal corruption contract between the bureaucrat protecting the firm and the firm paying bribes to the bureaucrat). Somewhat simplified, the existing corruption networks create better environment for business activity than high level of uncertainty in the bureaucracy associated with repressive jurisprudence for corruption cases.

If that is the case, the result we observe fits into the established discussion on the so-called institutional traps (Polterovich 1999). An institutional trap is typically defined as an equilibrium institutional norm, which is inefficient (i.e. there exists another norm, which could be a Pareto-improvement, but is not an equilibrium). For corruption, institutional traps work as follows: if business is heavily involved in corruption networks, it is getting used to the particular business

³ We have to point out that the coefficient for this variable is significant only at 10% level, and the findings are not robust to specification – hence, caution is required in interpreting the results.

practices (involving corruption) and reduces demand for anti-corruption activities. In particular, it happens because in Russia, if a corrupt official is punished, (s)he is often replaced by a new corrupt bureaucrat, merely increasing the activity associated with rent-seeking. In Russia established corruption ties to bureaucrats actually serve as a competitive advantage; as Bardhan (1997, 2006) shows, in countries with high level of corruption companies more actively involved in corruption networks perform better than companies refraining from using corruption tools. Our findings may fit results reported by other studies: Yakovlev (2013) shows that Russian business does not perceive corruption as a priority obstacle (though the level of corruption in Russia is very high); numerous studies (Paneyakh 2001; Olimpieva 2009) look at the ‘demand for bad institutions’, including corruption practices, in Russian business.

There is an alternative explanation for the finding we reported: we may merely observe what is typically referred to as ‘grease the wheel corruption’ (Leff 1964). Economics literature has speculated that under certain conditions corruption has a positive effect on economic performance of a country and may even attract FDI (Bardhan 2006; Meon and Weill 2010): economic growth under military dictatorship in South Korea is sometimes believed to be an example of this mechanism. Specifically, if a country or a region is characterized by extremely inefficient bureaucracy the business finds very hard to deal with, corruption may be, although suboptimal, a preferred alternative allowing overcoming the barriers created by the bureaucratic red tape. If bureaucrats behave according to the law, and the law is contradictory and, generally, designed in a way not suited for demands of the business, honest bureaucracy following the legal acts up to the letter may be less attractive for the business than a dishonest bureaucracy willing to take bribes and thus allowing to ‘overcome’ the existing barriers. It could explain the results of our regressions. Furthermore, our findings are more consistent with the picture of a centralized corruption, where corruption networks are organized in a hierarchical way. An alternative to this outcome would be the decentralized corruption case (e.g. observed in Indonesia after the fall of Suharto regime or in the post-Soviet countries in the 1990s), associated with multiple competing bureaucrats attempting to extract bribes from the business activity. It is typically associated with much higher level of predation and low reliability of transactions based on corruption.⁴ The fact that in Russia only high-profile cases of tax crimes typically result in ‘real’ prison punishments also may serve as indirect evidence of centralized corruption model (at least at the regional level).

Tables 4 and 5 report the results of our regressions for industrial SMEs, which are substantially weaker. As in case of trade SMEs, number of businesses increases if repressiveness in the matters of fraud is higher; in some specifications, number of SMEs goes down if repressiveness in tax evasion is higher. There is no effect of repressiveness on the employment indicators; it may be because for industrial companies requirements of technology do not allow changing employment as freely as for trade companies (fixed costs are higher). For construction (Tables 6 and 7) we also find less clear results. Again, repressiveness in the matters of fraud increases the number of SMEs. Repressiveness in the matters of illicit entrepreneurship decreases the employment indicator (it is possible that for construction licensing is particularly important, as it is for trade). In one of specifications we find that repressiveness in the matters of fraud is associated with lower employment, but the result is not robust to specifications and significant only at 10% level.

Table 4 Impact of repressiveness on the number of industrial SMEs

	(1)	(2)	(3)	(4)	(5)
Income per capita	0.000	0.000	0.000	0.000	0.000

⁴ Note that in this case we refer to a setting where multiple bureaucrats hold veto-player positions and, basically, extract rents from the same group of entrepreneurs. In a setting where, for example, there is a competition between corrupt bureaucracies of different regions for the inflow of capital, the outcomes are very different and could be associated with decreasing pressure of corruption (see e.g. Allen et al. 2012).

	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Education	28.792**	26.624**	26.985**	26.999**	29.055***
	(11.410)	(12.220)	(12.407)	(12.353)	(10.731)
Distance from Moscow	-0.035	-0.05	-0.049	-0.049	-0.036
	(0.037)	(0.046)	(0.044)	(0.044)	(0.038)
Population	0.001***	0.001***	0.001***	0.001***	0.001***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Urbanization	0.030**	0.028**	0.027**	0.027*	0.029**
	(0.013)	(0.014)	(0.014)	(0.014)	(0.012)
Repressiveness: fraud	0.825**				1.119**
	(0.384)				(0.521)
Repressiveness: tax evasion		-0.726			-0.980**
		(0.604)			(0.491)
Repressiveness: corruption			0.023		-1.141
			(0.487)		(0.751)
Repressiveness: illicit entrepreneurship				0.049	-0.102
				(0.311)	(0.329)
Constant	-				
	6.592***	-6.042**	-6.014**	-6.007**	-6.475***
	(2.323)	(2.442)	(2.407)	(2.452)	(2.102)
No. obs.	80	80	80	80	80
R ²	0.839	0.817	0.815	0.815	0.851

Note: see Table 2

Table 5 Impact of repressiveness on the average employment per an industrial SME

	(1)	(2)	(3)	(4)	(5)
Income per capita	-0.000**	-0.000**	-0.000**	-0.000**	-0.000*
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Education	37.937***	-36.225**	-36.311**	-36.021**	-37.040**
	(14.053)	(14.357)	(13.767)	(13.996)	(14.074)
Distance from Moscow	0.024	0.037	0.03	0.04	0.026
	(0.162)	(0.153)	(0.151)	(0.153)	(0.162)
Population	0.000	0.000	0.000	0.000	0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Urbanization	0.037	0.041	0.034	0.04	0.031
	(0.032)	(0.033)	(0.031)	(0.032)	(0.031)
Repressiveness: fraud	-0.740				-0.575
	(0.664)				(0.859)
Repressiveness: tax evasion		0.192			0.128
		(1.638)			(1.799)
Repressiveness: corruption			-1.844		-1.598
			(1.300)		(1.797)
Repressiveness: illicit entrepreneurship				1.266	1.744
				(1.926)	(1.982)
Constant	15.993***	15.438***	16.072***	15.414***	16.403***
	(2.524)	(2.495)	(2.538)	(2.462)	(2.526)
No. obs.	78	78	78	78	78
R ²	0.186	0.175	0.188	0.183	0.205

Note: see Table 2

Table 6 Impact of repressiveness on the number of construction SMEs

	(1)	(2)	(3)	(4)	(5)
Income per capita	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Education	31.921** (15.282)	29.404* (16.301)	29.595* (16.522)	29.728* (16.527)	32.444** (14.803)
Distance from Moscow	-0.028 (0.039)	-0.047 (0.048)	-0.046 (0.047)	-0.045 (0.046)	-0.029 (0.038)
Population	0.001*** (0.000)	0.001*** (0.000)	0.001*** (0.000)	0.001*** (0.000)	0.001*** (0.000)
Urbanization	0.032** (0.016)	0.029 (0.018)	0.029* (0.017)	0.028 (0.017)	0.030* (0.016)
Repressiveness: fraud	1.058** (0.513)				1.371* (0.721)
Repressiveness: tax evasion		-0.406 (0.856)			-0.801 (0.633)
Repressiveness: corruption			0.102 (0.595)		-1.440 (1.040)
Repressiveness: illicit entrepreneurship				0.500 (0.448)	0.286 (0.526)
Constant	-7.614** (3.112)	-6.883** (3.265)	-6.897** (3.199)	-6.867** (3.280)	-7.407** (2.891)
No. obs.	80	80	80	80	80
R ²	0.798	0.766	0.766	0.767	0.808

Note: see Table 2

Table 7 Impact of repressiveness on average employment per a construction SME

	(1)	(2)	(3)	(4)	(5)
Income per capita	0.000* (0.000)	0.000* (0.000)	0.000* (0.000)	0.000* (0.000)	0.000* (0.000)
Education	35.198*** (11.336)	32.188*** (10.409)	31.689*** (10.082)	32.772*** (10.102)	34.740*** (10.793)
Distance from Moscow	-0.234* (0.133)	-0.210* (0.125)	-0.218* (0.124)	-0.218* (0.121)	-0.237* (0.130)
Population	0.001 (0.000)	0.000 (0.000)	0.000 (0.000)	0.001 (0.000)	0.001 (0.000)
Urbanization	-0.073 (0.059)	-0.068 (0.060)	-0.074 (0.060)	-0.065 (0.057)	-0.071 (0.060)
Repressiveness: fraud	-1.480* (0.841)				-1.119 (0.933)
Repressiveness: tax evasion		-0.455 (1.985)			0.626 (1.846)
Repressiveness: corruption			-2.321 (1.433)		-0.466 (1.719)
Repressiveness: illicit entrepreneurship				-3.352*** (1.266)	-2.893** (1.321)
Constant	17.274*** (3.672)	16.203*** (3.348)	16.982*** (3.517)	16.245*** (3.232)	17.218*** (3.734)
No. obs.	80	80	80	80	80

R ²	0.127	0.101	0.113	0.135	0.152
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Note: see Table 2

4. CONCLUSION

It remains to summarize the main findings of the paper. Repressive behavior of judiciary (i.e. its likelihood to impose harsher penalties in comparable cases) has an ambiguous effect on SME development in Russian regions, which depends on particular area of law. If government is more likely to punish fraud severely, it seems to be perceived by entrepreneurs as a positive feature of the business environment. However, severe punishments in the area of corruption and illicit entrepreneurship have a negative impact on the SME development. The effect is stronger for trade SMEs than for SMEs in the areas of construction and industry. We have to acknowledge that the fact that we mostly used 2009 data may have affected the results – 2009 was the year when the global economic crisis had a particularly pronounced impact on the Russian economy; it is possible therefore that the number of SMEs observed was relatively low and also that some of the SMEs were in fact shell firms used for tax optimization. However, it is unlikely that the crisis affected the judicial behavior we observe; most of the crimes considered by courts in 2009 actually happened in 2008, or even earlier.

While our paper demonstrated that judicial variation at the sub-national level does affect the behavior of SMEs, we did not explore the specific reasons for the existence of this variation. A recent literature has looked at the determinants of behavior of Russian courts, focusing on the low independence of judges (Pozdnyakov 2014), dominance of the prosecutor, specifics of organization of litigation and reporting of court activities, as well as informal ties between judicial actors (Schultz et al. 2014). Bureaucratic incentives created by these formal and informal relations in the judiciary, combined with own interests of judicial actors (prosecutors and judges) may have an important influence on the judiciary behavior (Titaev 2011; Volkov 2012) and, in particular, affect the variations in the level of repressiveness we observed in Russian regions. It is plausible to hypothesize that these informal rules of the game in the judiciary are known to the entrepreneurs, who therefore react not on observed repressiveness, but rather base their decision on their knowledge of how regional judiciary functions. This topic constitutes an interesting avenue for further investigation.

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FAMILY BUSINESSES: A DIAGNOSIS AND SELF THERAPY MODEL

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ABSTRACT

Family businesses are complex systems which require good strategy, leadership, and committed personnel in order to thrive. Compared to other businesses family businesses are characterized by two dynamic and sometimes conflicting reference systems, the family (the emotional) and the company (the professional). Succession is mentioned in the literature as one of the four main categories of problems, along with problems of strategy, of the conflicts that can arise between family members and the problems of the daily management. The management of conflict and communication frequently determine the effectiveness of the family business.

The “Family Business in the New Economy: How to Survive and Develop” (FAMBUS) project aims to develop a model for diagnosis and self-therapy (diagnostics – therapy, including conflict resolution, modernization, adoption to environment, to globalization etc.). The model aims to promoting healthy personal relationships and building high performing teams, as well as to serve as an outside resource that brings objectivity and direction to a certain situation in family businesses. It may unfold unfinished or unspoken issues and help the family business members to work toward their own unique solutions.

The creation of the model is based on the results of the quantitative study (a survey comprising a structured questionnaire completed by 200 Finnish and Greek family businesses) and qualitative study (Personal site visits and interviews comprising 20 interviews in both Finland and Greece) for obtaining deeper understanding of the research problem and to support the design of the diagnosis and self-therapy model.

The most important contribution of this work is anticipated to be the novel family business diagnosis and self-therapy model and subsequent electronic tool in three languages, English, Finnish and Greek, for identification of potential problem areas and potential activities for their solutions. The aim of the model is to aid family businesses to avoid difficulties at an early stage and to serve as a self-therapy model.

KEY WORDS

Family Businesses, Diagnosis and Self Therapy Model, Sustainable development, the FAMBUS project, Greece, Finland

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INTRODUCTION

Family businesses have strong historical presence and extensive prevalence in today's society and economy. In fact, the family is the oldest and longest running social unit in our world. Families, sustained themselves by self-sufficient means long before commerce began (Ponzetti, 2003). Today family businesses contribute significantly to economic and social sustainability and welfare and the impact on local and national economies is huge. Family businesses are the majority in most economies worldwide (Brice and Richardson, 2009; Villalonga and Amit, 2010). Nevertheless, the family business, as a field of academic study, is recent and still emerging (Heck and Stafford, 2001; Heck and Trent, 1999). Scholars have begun to recognize the importance of family businesses and their connection to entrepreneurship (Rogoff and Heck, 2003; Zachary and Mishra, 2011). Conceptually, after years of studies centered on the entrepreneur as an individual, the entrepreneur is re-examined through a wider lens. Today a broader and more comprehensive view of entrepreneurial activity through the role played by the family system is recognized (Cramton, 1993; Danes et al., 2008, 2009).

There is no common, widespread definition or understanding of what constitutes a "*family business*" that is generally applied across Europe for political, economic as well as academic purposes at the same time (Mandl, 2008). This makes it difficult to provide

- i. a valid characterization of family businesses;
- ii. a valid analysis of their economic importance;
- iii. potential (public) support instruments for family businesses to overcoming the challenges they are confronted with in their daily activities.

Family businesses compared to other businesses are characterized by two dynamic and sometimes conflicting reference systems, the family (the emotional) and the company (the professional). The dynamics and characteristics of the family, that owns the business, have been investigated only marginally (Michael-Tsabari and Lavee (2012). Family members may have competing goals and values, which may spring from complex conflicts and family dynamics that arise from a psychosocial history of the family (Dyer, 2006). Many of the family business members may also have several roles (e.g., owner, employee, parent, child, sibling) causing role ambiguity and inter-role conflict (Sundaramurthy and Kreiner, 2008).

The family unit brings together and creates the forces enabling the emerging and sustained entrepreneurial behavior in family businesses (Zachary, 2011). The conceptualization of the family business must include a multidisciplinary and comprehensive perspective of the dynamic and complex phenomenon of business that is owned and operated mainly by family members. The importance of the family system and the development of the company are essential in our understanding of the current state conceptualization and theory building. Hence, the role of the family system in the conceptualization of the family business / family entrepreneurship is critical to our understanding of how family businesses emerge and sustains through their interactions with the environmental contexts in which they operate.

Historically, the capability to grow in size and strengthen in market power has been a process of

evolution of the family business. Survival is considered the most significant manifestation of success for a firm, in particular for a family firm (Colli, 2012). The survival of a family-owned firm confirms the persistence of control by the same family over time. Longevity on the contrary is measured in terms of the age of the enterprise, independently of its ownership structure.

The failure rate of family-owned business to pass successfully from generation to generation is around 70 per cent (Tucker, 2011) and the professional advices have to take into account the unique issues facing the family in business.

Only 30% of family businesses have a second-generation perspective. Many researchers have studied the succession process in family businesses as well as the reasons why there is such a high rate of failure. The predominant approach among researchers is that there is strong connection between planning and successful transfer of family business. Planning seems to be the magic formula. According to Lansberg (1988) “*the lack of succession planning has be identified as one of the most important reasons why many first-generation family firms do not survive their founders*”. Recently a new approach has emerged. Several researchers (Aronoff, Astrachan, Keating & Little) have highlighted that there is no connection between planning and successful succession. Instead, the succession process requires the perspective of a multigeneration time frame. In between, Lambrecht and Donckels (2006) argue that the transfer of the family business to the next generation is “*a lifelong, continuing process*” in which planning is an intrinsic part. In other words, planning is a necessary but not a sufficient condition for a successful transfer of the family business to the next generations.

Due to the importance of family businesses in the economies of nations it is important that they receive as much support a possible. There are three reasons the family business consulting (supporting) experience is different from consulting in other businesses, namely:

- i. Consulting family businesses is more personal than consulting businesses in general due to the two conflicting reference systems;
- ii. Family dynamics, emotions and conflict seem to contaminate the business environment;
- iii. The balance between the family and the business concerns is fragile. This area includes such issues as:
 - The presence of family members in operating positions for which they are not qualified;
 - The influence of family members who are not in an operating or ownership position;
 - Inter generational goal ambiguity;
 - Conflicting roles.

Family businesses have to cope with specific challenges not inherent to non-family businesses. European politicians have started to design and implement institutional structures and support instruments favoring the development of family firms. However, more knowledge is needed about the characteristics and circumstances of family businesses for effectively initiation and further development of a “*family business-friendly environment*” (Mandl, 2008).

The existing literature in the field of family business research has clearly shown that the objectives of family firms often display a strong preference toward non-economic outcomes in addition to financial performance (Zellweger and Nason, 2008). From a stakeholder viewpoint, this is a natural consequence taking into consideration the presence of many actors and the multiple roles of family members within the same family firm. The concept of performance and value creation becomes incredibly complex, in particular when the chronological dimension is taken into consideration (Colli, 2012). Family businesses struggle, not only with performance and value creation questions, as all firms do in these days of financial crises, but also with family relationships and succession

issues. Due to the high percentage of family owned businesses they deserve a special attention in order to survive and develop.

Trucker (2011) states that most family business advisers come from legal, accountancy or business advisory professions, without possessing all the skills needed to work successfully with family business clients. He proposes that collaborative working is the way of ensuring that family business clients receive the most effective professional support. Our motivation for the “*Family Business in the New Economy: How to Survive and Develop*” (FAMBUS) project has built on this observation and considered that an electronic tool available on the internet for diagnosis of problem areas and subsequent advice(s) for self-therapy would support family businesses in their strive for sustainability and thrive.

In order to understand the challenges family businesses meet and the role they play in the new economy an extensive literature review was carried out. Two countries, namely Finland and Greece, with a high percentage of family businesses were selected as representatives for the qualitative and quantitative research carried out on a selected unbiased sample of family businesses in order to deepen the understanding of the particularities family businesses face. Greece is the country in Europe with the highest percentage of family businesses (Kyriazopoulos and Samanta-Rounti, 2008). Percentages between 52% (EOMMEX, 2007) and 80% (Agapitou and Theofanides, 2006) have been mentioned. Similarly with Greece also Finland has a high percentage of family businesses. According to a EU expert group (Stenholm, 2008) 80% of all Finnish enterprises can be defined as family enterprises when optimistic estimations and a broad definition are used. Nevertheless, the presence of family businesses has been rather visible during the last decade in Finland. The role of family businesses as employers has often been emphasized due to the fact that family businesses employ more than half of the workforce within the private sector and produce 40% of the total turnover of all businesses.

The main contribution of this study is the development of a model for diagnosis and self therapy (diagnostics – therapy (modernization, adoption to environment, to globalization etc.)), including an electronic tool to be used by family businesses for identification of potential problem areas and potential activities for their solutions. The broad aim is to raise awareness of the challenges and opportunities related to family business context especially from the point of view of success, well-being and longevity in the society at large.

1. BUSINESS TRANSFER: EXAMPLES OF PRACTICAL SUPPORT TOOLS

All viable organizations are at some point in their existence confronted by executive succession. In many companies, transfers in both leadership and ownership tend to be seen as phases in the life cycle and part of managing continuity. The transfer of a family business is a once-in-a-lifetime event of which the proprietor has little or no experience. It is a complicated matter which concerns many stakeholders and calls for expertise in a wide spectrum of fields.

Haag (2012) proposes that succession is not just about handing the business over from one generation to the next but evolves as family members are socialized, engaged and trained through the daily activities of the family business. She considers that engaging in the family business as part of developing it is fundamentally different from joining because transfer of leadership and/or ownership is needed. She suggests the idea of succession as a purpose in itself and a shift from “*taking over*” to “*being part*”. However, the succession may not be as smooth as described by Haag (2012). The succession may create considerable conflicts in the family business.

Various forms of support is provided in different areas from many bodies such as accountants, banks, chambers of commerce, tax experts, lawyers, consultants and academics. Business transfers should be given at least the same degree of importance as start-ups. According to an Austrian research project by the Austrian Institute for Small Business Research, 96% of successful business transfers survive the first five years after transfer when the chances of survival for start-ups and for the same length of time, are 75% (Voithofer, 2002).

A reason of major problems in business transfers to the next generation is that the planning for the transfer process has started too late. Raising awareness about the need to prepare for the transfer a long time in advance is the starting point for a successful transfer. Once entrepreneurs have been made aware about the necessity, they need information and support to prepare the transfer (Voithofer and Mandl, 2004). The potential successor needs also information about the process. This type of support should give an overview of what steps need to be taken, what kind of more specific advice is available and where to get it. Below we highlight a number of examples of good practice for supporting the transfer of businesses created in three EU countries, Italy (kit.brunello), Finland (passing the baton) and Netherlands (from single project to a path of overall support) (European Commission, enterprise publications 2003).

“Kit.brunello” is a self-analysis check-up for Small and Medium Sized Enterprises (SMEs), specifically focused on family business transfer processes (Brunello, 2002). This tool is available in five languages and contains 100 questions to help entrepreneurs understand the strong and weak points of the transfer of businesses. Kit.brunello covers not only technical aspects (financial, fiscal, legal, organizational etc) but also emotional, psychological and leadership issues. The Finnish Employment and Economic Development Centers offer a business advice service entitled “*passing the baton*”, that helps to manage the generation shift. This service consider suitable candidates for succession, determines the financial worth of the enterprise, clarifies tax and judicial aspects and accesses the alternative forms of financing. In Netherland the Council of Entrepreneurship in cooperation with a bank and an accountancy firm developed a support structure for succession in family businesses called “*from single project to a path of overall support: Towards an integrated method of information and advice on the transfer of family businesses*”.

A similar support model of diagnostics and self therapy in Greece would help considerably the transfer of family businesses to the next generation especially today when because of the fiscal crisis alternative employment opportunities of the younger family businesses' members are very limited.

2. RESEARCH METHODOLOGY

2.1 Motivation and perspective

This study is motivated by three important issues, namely:

- i. *The observation that family businesses have a significant role to play in the strength and dynamism of the European economy and long-term stability.* Across Europe around 70-80% of all enterprises are family businesses and totally they comprise employment around 40-50% (Mandl, 2008). In Europe the family business sector is dominated by SMEs and particularly by micro enterprises with less than 10 employees. Family businesses are active in all sectors of the economy. Most of the family businesses can be found in traditional and labor intensive sectors. However, a shift towards more modern industries is taking place.
- ii. *The importance of family businesses in both the Greek and the Finnish economy.* Despite the differences in economic structure and culture both Greece and Finland are small countries in the outskirts of Europe with a high percentage of family businesses. Greece

relies on the service sector and in particular on tourism, whilst Finland counts on a highly industrialized manufacturing sector and is one of the economically and politically most stable countries in the world. Culturally Finns are known to be hard-working with an introverted nature and direct communication style, compared to Greeks who are more outgoing and highly value personal relationships and networks.

- iii. *The need for in-depth research about the dynamics of family businesses, the difficulties they face (strategy, succession, internal conflicts etc.) and factors influencing their survival (endurance) and sustainability.* Despite the fact that family businesses contribute significantly to economic activity and employment, comparatively little research has been carried out to identify the needs, aspirations and challenges of European family businesses. The family businesses involve three overlapping elements that make them different from other types of business, namely the family, the business, and the ownership. Although many of the challenges family businesses face, also concern SMEs in general, some affect family firms more specifically, and others are exclusive to only them. Some challenges stem from the environment in which the firms operate (inheritance, taxation etc.), others are connected to the family firm's internal matters, such as balancing the business, family and ownership aspects, succession and internal conflicts between family members and ascertaining professional business management. Private and personal interests may be transferred to the company and vice versa. As the same persons may have different overlapping roles in the family business it is not easy to find balance at times.

2.2 Research Question

The research question in this study is to what degree the family businesses are similar or different in Finland and in Greece.

To answer this we need to know:

- i. Percentage of family businesses in Finland and in Greece;
- ii. Type of family businesses in Finland and in Greece;
- iii. Characteristics of family businesses typical in both countries.

Some other questions arise:

- i. What are the factors that influence the creation and sustainability of family businesses in respective country?
- ii. What are the similarities and the differences of family businesses in the two countries?
- iii. What are the success factors of family businesses in respective country?

In addressing these questions certain measures and interim models were developed to improve understanding and to form the basis for the assessment of family business characteristics both in Finland and in Greece. The data has been correlated with family business characteristics drawn from the literature. The results allow for the identification of a number of cultural factors that have a bearing on the successful functioning and operation of family businesses both in Finland and in Greece.

2.3 Research objectives and hypothesis

Very little is written about family businesses, especially regarding family business characteristics in Finland and in Greece. The literature also provides contradictory evidence regarding the performance of family-owned firms identifying four main issues influencing the performance of a family business, namely industry, firm governance, firm characteristics and management (founder) (Dyer, 2006).

Objectives

The main objectives in this study are to:

- i. identify characteristics that have a bearing on successful implementation and operation of family businesses. In order to investigate the research question the family business characteristics have been grouped into two categories: business characteristics and family characteristics. The characteristics are divided in six groups aiming to help identify strengths and areas in need of improvement.
- ii. construct a Diagnosis and Self Therapy model which will take family and business factors into consideration. The model will aim to diagnose potential problems and to propose solutions.
- iii. create an electronic tool/instrument of the Diagnosis and Self Therapy model.
- iv. verify the model and to test the electronic tool.

Hypothesis

According to the Oxford English Dictionary a hypothesis is «*a supposition which serves as a starting point for further investigation by which it may be proved or disproved*». The area of investigation has to be mapped out and limits have to be drawn on the topic. With the topic narrowed the hypothesis formation becomes easier. A hypothesis proposes a relationship between two or more variables according to Hoover (1992).

Following the motivation and the research question the hypothesis in this research derives: '*The family businesses face similar challenges independently of country of origin*'.

Two variables are identified: the family and the business.

Four distinct orientations stemming from the relationship between the two variables are observed in the literature (Ward 1987) and depicted in the FAMBUS typology in figure 1:

Figure 1 The FAMBUS Typology

Family Influential	<i>Family first enterprises</i>	<i>Family-Business Balance</i>
	<i>Agile enterprises</i>	<i>Business first enterprises</i>
Family insignificant	Business insignificant	Business influential

- *Family first enterprises*: family goals take precedence over business goals;
- *Business first enterprises*: business goals take precedence above everything else;
- *Balance between family and business*: Family Business enterprises that seek to balance the family and the business goals;
- *Agile Enterprises*: without a clear focus neither on family nor on business goals.

Research indicates that family businesses with common clear goals on one or the other orientation tend to perform better than family businesses without clear goals (Dyer, 2006). The third orientation, where family businesses constantly seek equilibrium between the family and the business goals, is the most challenging, but also the most rewarding when a successful balance is achieved. The fourth

orientation is consuming and requires vigilance, flexibility and agility. The family business needs to be alert and meet new requirements in a lean and swift manner. Basco and Pérez Rodríguez (2009) found that ambidextrous family businesses perform better both on the family and the business dimensions.

2.4 The contribution of the study

The creation of the FAMBUS Diagnosis and Self Therapy model is based on the results of a quantitative study (a survey comprising an on-line structured questionnaire completed by 200 Finnish and Greek family businesses) and qualitative study (personal site visits and interviews comprising 20 interviews in both Finland and Greece) for obtaining deeper understanding of the research problem and to support the design of the FAMBUS Diagnosis and Self Therapy model. The first phase included the qualitative study carried out by using a semi-structured interview instrument that triggered the interviewees to freely express their opinions. The interviews were recorded and analyzed for identification of important issues not obvious to the interviewers in the first place. When such issues were identified they were discussed by the research team and inserted into the instrument for validation and verification by subsequent interviewees. This kind of research process eliminated potential biased interview questions. Correlations and parallels were also drawn to the literature and in particular to characteristics of family businesses in Greece and Finland, which both are small periphery countries, members of the EU, where family businesses possess a dominant role in their economies. However, the business structure and hierarchy are rather different in the two countries, as well as the business conduct and culture. The comparative analysis is original and unique and is anticipated to add to the existing knowledge in the field. The parameters, drawn from the qualitative and quantitative study are grouped and presented in paragraph 3.1. These parameters are the backbone of the diagnosis and self-therapy model. However, a deeper analysis of the outcomes of the qualitative and quantitative study is out of scope in this paper, which mainly concentrates on the need of a diagnosis and self-therapy model and its description. Other publications include Siakas et al. (2014a, 2014b, 2014c, 2013), Vlachakis et al. (2014, 2013a, 2013b), Vassileiadis (2013) and Adamidou et al. (2012).

The results of the study are disseminated directly to the participating family businesses through different streams of information, such as local media and branch interest establishments. The use of social media, both as a meeting and communication platform for involved partners and for viral marketing, is also a contemporary and novel diffusion technique anticipated to bring stakeholders together for knowledge sharing and potential future collaboration.

3. THE FAMBUS DIAGNOSIS AND SELF THERAPY MODEL

When dealing with the two separate and often opposing systems of the business and the family, life in a family business can get somewhat chaotic. It is advantageous to have assistance in navigating through the labyrinth of emotions and critical incidents which can threaten the well being of both the family and the business.

Table 1 shows a table that may help to clarify and distinguish between the family and the business related goals being pursued by the family business. In order to understand the degree of alignment between the key stakeholders on desirable goals and perceived performance on the family and the business dimensions it would be helpful to ask each key stakeholder of the family business to provide information for this table. The performance position of the firm signals whether the issues to be looked into more deeply lie more on the family or the business side of the family business.

Table 1 Family Business Performance (Sharma et al. 2013).

		Importance of Goals			Performance			Overall Performance
		High	Medium	Low	High	Medium	Low	
Business	Growth in sale							
	Growth in market share							
	Return on equity							
	Return on total assets							
	Profit margin on sales							
	Ability to fund growth from profits							
	Growth in number of employees							
	Employee turnover							
							
Family	Family Harmony							
	Family wealth							
	Growth in family’s human capital (education, experience)							
	Development of next generation of family							
	Family’s reputation in the community							
							

Most SMEs, where most family businesses belong, have an informal management structure and management style standard without specific policies and practices (Schwerzler, 2011). When it comes to conflicts of interest in family businesses, Schwerzler believes these matters are more difficult to resolve, because there are three levels of interests, namely family issues, business issues, and ownership issues. He considers that every family business is unique and complex in its own way, so ‘boiler plate solutions don't always work’. We agree with this notion. However, the FAMBUS Diagnosis and Self Therapy model is a tool for creating awareness in family business members of potential problem areas. It also will propose some advices for consideration and deeper problem-solving mechanisms by the family members. We can say that the FAMBUS Diagnosis and Self Therapy model triggers family business members to find solutions to potential problems through their identification and the suggestions of therapy. The tool will trigger family business members to dig deeper in the problems and to investigate potential solutions suitable for the specific family business context. The model will to some degree act as a coach or consultant that tries to improve relationships.

3.1 Description of the FAMBUS Diagnosis and Self Therapy model

The following potential problem areas are derived mainly from the qualitative and quantitative study, but also from the extensive literature review of family businesses that was the base for the creation of the research instruments. Partial results from the study are published in Siakas et al. (2014a, 2014b, 2014c, 2013), Vlachakis et al. (2014, 2013a, 2013b), Vassileiadis (2013) and Adamidou et al. (2012).

The potential problem areas are grouped into six essential elements aiming to help identify strengths and areas in need of improvement, and are as follows:

- *Strategy*
 - Level of formality;
 - Communication of strategy (with family members, administrative personnel and other employees);
 - Decision making process.

- *Administration*
 - Allocation of roles and responsibilities;
 - Predefined mechanisms (processes, problem solving and cash-flow);
 - Decision making (top-down – council – influence of family members not working in family business);
 - Use of external consultants.

- *External issues influencing the family business thrive*
 - The motives for the creation of your family business (pull – push);
 - The business/work climate in the period the family business creation;
 - Relationships with the state and its services (taxation, bureaucracy, corruption, unclear responsibilities between different state organizations);
 - Support from (state) organizations supporting family businesses;
 - Use of Information and Communication Technologies (ICTs) & Knowledge in using ICTs;
 - Use of marketing tools & skills in using marketing tools.

- *Succession*
 - Existing plan for succession.
 - Criteria for choosing successor;
 - Agreement of plan by other family members;
 - Successor(s) suitability;
 - value – stability – change;
 - experience in the family business / other experience;
 - education / training.

- *Participation in Networks.* A network is “a specific type of relation linking a defined set of persons, objects or events” (Donckels & Lambrecht, 1995). Networks represent several advantages to those firms that are inside the network:
 - exchanging knowledge and gaining experience;
 - identifying new opportunities;
 - participation in clusters;
 - access to scarce resources (e.g. financial capital, reputation);
 - trigger for international business activities;
 - building capabilities for international operations;
 - facilitation of internationalization of operations.

- *Conflicts.* Many family businesses circle around conflict in one or both reference systems, the family or the business. Researchers have identified three forms of conflict—task, process and relationship (Eddleston 2014). Potential conflicts within a family business are:
 - The way decisions are taken;
 - The wage-levels of family members working in family business;
 - Employment of relatives in-law;
 - Generation gap;

- Gender working in family business;
- Level of education of family members working in the family business;
- Different perceptions of how things should be done;
- Different perceptions of the future of the family business.

The FAMBUS Diagnosis and Self Therapy model aims to engage in the following issues:

- *Conflicts*: Helping family businesses deal with conflicts in a more productive and healthy manner.
- *Communication problems*: Helping family business members understand their own communication style and the styles of others in order to adapt accordingly.
- *Problems involving anger and hurt*: Helping family business members learn how to forgive themselves and others so they can move forward.
- *Long term goals*: Providing encouragement and accountability so family business members can sustain their energy and focus on strategic long-term issues.
- *Vision*: Emphasizing the importance of a vision for the family and the business that all family members agree upon.
- *Behavioural styles and motivations*: Raising awareness of different behavioural and motivation styles and their impact on relationships.
- *Governance structure*: Raising awareness of suitable governance structures in different types of business. Governance of family firms is more complex than the ownership centred governance in their non-family counterparts (Gersick and Feliu, 2014). Progressive family firms often use a combination of governance structures or bodies.
- *Roles and Responsibilities*: Clearly defining roles and responsibilities.
- *Network development*: Networks are identified to be a prerequisite for profit and development (Johansson and Matsson, 1998) and involve the conduct of business among those firms that are inside the network. The ability to grow internationally depends on building network relationships abroad (Graves and Thomas, 2008). Family Businesses have been identified to have a limited number of external network ties in comparison to non-family firms (Graves and Thomas, 2008). They seem to be reluctant to form networks with foreign partners (Pukall and Calabrò, 2013), eventually as a consequence of their strong internal family related networks (Arregle et al., 2007).
- *Holistic approach*: Collaboration with consultants in the family business aims to ensure a holistic approach.

Raising awareness can cover many different activities: anything that involves people understanding, learning or doing something new; visioning the future; working out how to change something in their lives; or talking to someone else about what they have done – all are part of the process of raising awareness about the need for transition/change/improvement.

Schwerzler (2011) suggests seven rules for family businesses to follow in order to minimize potential problems:

1. *Family Members on the payroll*: Family members should not be put on the payroll if they are not working in the company or if they cannot make a real contribution to the business. It is hard to be objective about hiring relatives, especially own children. An assessment of strengths and weaknesses of family members should be done before they are brought into the business. Also clear rules and role responsibilities should be spelled out (Green and Hilbert-Davis, 2009). Schwerzler gives the following advices:
 - i. Make sure that everyone has a role and responsibilities that are spelled out and are very clear;
 - ii. Establish the title, job function, and compensation for each person;

- iii. Make sure that you have the same performance reviews for family and non-family employees;
 - iv. Think twice about offering a contract to a supplier who is a relative;
 - v. Award contracts based on merit and contribution.
2. *Two classes of employees*: Be careful not to create two classes of employees—family vs. non-family. Do not show family members special treatment. Be aware that, in a small or family-owned business, special favors given to family members and friends demotivate employees and set a bad example. Avoid making non-family members feel like a raise or promotion is out of their reach because they are not part of the family members.
3. *Abuse of family relationships*: Do not either reward or punish someone because they are a relative with whom you have personal history.
4. *Communication with employees*: Communicate honestly and openly with employees. Do not keep it a secret or hide the fact that you have relatives or friends working for you, otherwise when it eventually comes out, and it will, you will appear like you were being deceitful. The ability to have an effective communication with all members of the organization is critical.
5. *Confusion of family decisions and business decisions*. You should avoid letting family members borrow company vehicles or allowing them to ask the company's IT person to set up their home offices. Do not pass off personal expenses, such as family vacations, as business expenditures.
6. *Healthy boundaries between family and business*: Establish healthy boundaries between family and business. This especially applies to co-preneurs (husband-and-wife teams). Running a business together with your spouse is a balancing act. Agree and adhere to some kind of system. In general, it should be a rule not to work with other family members outside of the office.
7. *Use family councils to address family matters*. Some family members will share the same values but not the same vision. One sibling may want to grow the business and keep it privately owned while another sibling may want to sell it or take it public. A family council comprises members who may be owners but not company employees. They meet monthly, quarterly and/or annually for the strategic planning of the business over the next year to next 10 years. The more dysfunctional the family is the smaller the group to begin with. The council does not micro manage the business but addresses family issues or concerns relative to the business. If a family member is working in the business but needs a car this is something that the family council will address. Typically one family member of the council is appointed to report to board members or shareholders. Family business experts concede that family ownership does have its privileges. But you have to really be careful and run the business in such a way that it is fair. It is transparent and it does not hurt the company morale.

3.2 Creation of an electronic tool (instrument)

The FAMBUS Diagnosis and Self Therapy on-line tool is an electronic instrument to be used by the family businesses. The tool can be used to better understand family business characteristics and indicators, and reflect on all aspects important for thrive. The FAMBUS Diagnosis and Self Therapy on-line tool firstly makes an assessment of the current situation in the family business and provides practical, real-world strategies, tips, case studies, examples, and reflection questions in order to guide and support the family business to cultivate a culture of learning in the family business. It is called a "tool" because it is meant to help the family business grow, and it designed to be tailored according to the needs of the family business. How it is used depends on the needs, strengths, challenges, maturity, and capacity of the family business. It is not meant to be used as a device for judging the family business as "good" or "bad." The tool is intended to be used rather as a guide for making every part of the family business the best that it can be.

The FAMBUS Diagnosis and Self Therapy on-line tool is organized around six essential elements, all of which come from the literature review and evidenced-based practice. Each of these methods can help identify strengths and areas in need of improvement.

4. DISCUSSION AND CONCLUSIONS

In the 80s the family firm adviser emerged as a recognized profession (Astrachan & McMillan, 2006). Since then multiple advisory roles have surfaced that provide support and act as resources for family firms. These advisers are grouped under three categories: formal advisers, informal advisers, and family firm boards (Strike, 2012). Strike (2012) carried out a review on family business advisers. He states that there are limited studies that establish links between advising activities and family firm outcomes and that there is little evidence concerning when and to what extent advisers succeed in influencing family firms. Moreover the effect of the advice on firm performance can be discussed. There is an assumption that there is a positive association between advisers and positive outcomes, but likewise there is a likelihood that advice also can result in negative outcomes. In addition consulting advisers may be rather expensive.

Due to the importance of the family businesses in today's turbulent economy we strongly believe that family businesses need some kind of support and help to overcome their potential problems and a meeting point where they can meet other family businesses.

This is also rather important for the follow reasons (Vlachakis et al., 2013a):

- Many family businesses lack a formal education to run their businesses. The founders of many family firms are self-created entrepreneurs. They founded their own business to secure work for themselves and for the members of their family. They operate more under conditions of "*necessity (push) entrepreneurship*" and less of "*opportunity (pull) entrepreneurship*";
- Family businesses tend to have greater resistance toward the impacts of the financial crises due to the family ties;
- There is a low level of extroversion due to the small size of the firms and the low availability of funds.

By providing a tool that identify problem areas (raising awareness) and propose some basic advices the family businesses can start digging on their own into their problems and find solutions. The social media meeting point in the project web-page will also help family businesses to meet other family businesses with similar problems or even potential partners for cluster building and potential customers and contacts.

The main results stemming from the FAMBUS Diagnosis and Self Therapy model are expected to be very important for family businesses that want to find an easy and cheap way of diagnosing potential problem areas and receiving improvement proposals instead of hiring expensive business consultants. Subsequently the web-page for the model/tool will also serve as a meeting/communication social media platform/forum for family businesses and other interested parts as well as a dissemination point for authorities, industry and academia.

Viral marketing (word-of mouth) techniques will be used to spread the information of the project and subsequent activities. Direct financial advantages may be difficult to be measured, but if the project is successful and several family businesses find the advices useful then the direct/indirect financial benefits will not only be evident for the family business themselves but will also have a direct financial consequence on broader local, as well as national level.

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THE INFLUENCE OF CREATIVE INDUSTRIES ON THE SOCIO-ECONOMIC DEVELOPMENT OF REGIONS IN POLAND

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ABSTRACT

In hereby study, a cultural sector was distinguished from industries of the culture and creative industries, specially taking into account the definition of these notions. On the basis of studies of the Institute for Structural Research in Warsaw, a sector of creative industries in Poland was presented. An attempt to determine the influence of creative industries on the social-economic development of the region was also made. It was pointed that the culture and creative industries drawing from it contribute to an increase in endogenous ability of the region to react to changes occurring under the influence of exogenous factors.

KEY WORDS

culture, industries of the culture, creative industries, development of the region

JEL CLASSIFICATION

R11

INTRODUCTION

Going up the path of economic development – increasingly innovative, will not be possible without using economic chances sticking in creative industries. In modern societies creative industries are a most quickly developing segment of public goods and services market, they constitute the very essential but still poorly recognised area of research. These industries create big economic chances. Because they are included mainly in branches of dematerialised production (of symbols, meanings and experiences) typical for the post-industrial era, reaching the high return, having an enormous developmental potential. It is impossible to overrate the significance of creative industries for the social-economic development of the region. On account of their innovation, permanent production of new goods and services they are one of most dynamically developing sectors of the labour market. Simultaneously they are very attractive for countries suffering from the unemployment, because the majority of them are laborious fields serving to create new professions and new jobs. The main purpose of this study is determining the influence of creative industries (through industries of the culture and the artistic creativity) on the socio-economic development of the region. Base sources of the research on the influence of creative industries on socio-economic development of regions in Poland used in the study can be to divided to theoretical and empirical ones. The theoretical base used within the framework of this study was a critical analysis of the literature on the subject. The empirical base, which had a secondary character, a fact that the sphere

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of the culture is an object of many researches was used – among others, an analysis of the data of the Central Statistical Office of Poland in Warsaw and the Institute for Structural Research in Warsaw was made.

1 THE CULTURE, INDUSTRIES OF THE CULTURE AND CREATIVE INDUSTRIES

In the research of the culture or the creative industries, a situation of lack of agreement in basic theoretical and methodological matters prevails for quite some time, which is letting know about itself at least in the diverse way of understanding of main notions, serving to describe the socio-cultural reality, its phenomena and processes. That is why it is also very important to outline in a possibly precise manner, the borders of such notions as: “culture”, “industries of the culture”, or “creative industries”.

There are many meanings of the term "culture", which is reflected in more than a thousand different definitions of culture formulated in humanistic sciences. Culture is one of the fundamental concepts of contemporary humanities, and even though, the use of the term was popularized widely only in the twentieth century, its etymological origin goes back to classical antiquity (Grad, Kaczmarek, 2005). Making a diagnosis of the impact of culture, and consequently creative industries on the socio-economic development of the region, we are forced to define the concept of culture delineating areas of characterized phenomena. This term is differently understood, and in addition, it is possible to distinguish three approaches that apprehend it. First, the broadest, is characteristic for the theory of cultural studies and social science, which defines the culture appealing to notions of the whole of human products and practices, the symbolic communication and the values shared in societies and communities (Kłoskowska, 1983). In the second, narrower meaning, the culture appeals to widely understood art (plastic arts, exhibited arts, literature and other) (Kmita, 1982). The third approach refers to the second, i.e. narrow understanding the culture, however, it is based on comprehending the sector or the industry, which is making it useful for economic analyses, and the most functional for needs of this study (Kolb, 2005).

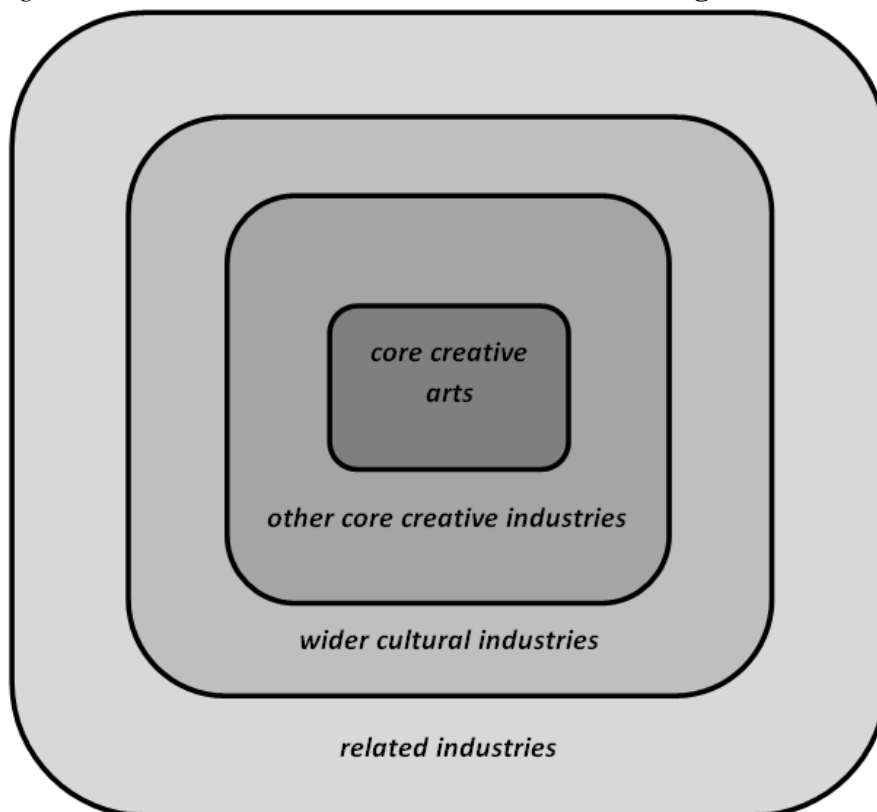
The term “industries of the culture”, for the first time appeared in "Dialectic of the Enlightenment" by Theodor W. Adorno and Max Horkheimer in 1947 and at first it was used in the context of the criticism of the modern, mass approach towards entertainment. Combination of words "culture" and "industry" was supposed to shock the recipient and to disavow the popular forms of entertainment, such as the press of low flights, the film or the music addressed to a mass audience (Adorno, 1991). At present the pejorative overtone of the expression "industries of the culture" was lost and it is used for determining these industries, which "combine creating, production and commercialisation of a product of immaterial and cultural character, and the product (its contents) are usually protected by copyright" (UNESCO, 2005). These are the branches of business set to producing different cultural goods and services, and industries which the production leans itself on industrial copying original works of authors. Among them, on the Polish market one should single out above all:

- audio-visual and movie industry,
- publishing and press industry,
- music industry.

D. Thorsby suggested the concentric model of industries of the culture (Thorsby, 2008). Activities as part of industries of the culture are divided in four ranges: core creative activities associated with the art (e.g., art, musical, literary work), other core creative activities (e.g. activity of theatres, museums, Philharmonic Orchestras), more widely understood industries of the culture (e.g. publishing, television, radio) and business activities tied together (e.g. design, advertisement, fashion). The closer to the core, the higher the cultural content of products and services created by industries of the culture, as well as the greater the demand for the artistic and creative commitment (contribution of work) of persons creating them. Artists and basic fields of art are a core of the

model (music, literature, staged and visual pieces), cultural institutions (e.g. theatres, operas, Philharmonic Orchestras, museums, libraries) are listed amongst other core creative activities. The diffusion of ideas, artistic ideas and the inspiration runs in a natural way from the core outside, reaching to business activities tied together what, with time, led to specifying creative industries (Figure. 1).

Figure 1 Model of industries of the culture according to D. Throsby



(Source: Throsby, 2008: 150)

It is assumed that in modern societies, creative industries are the quickest developing segment of public goods and services market. It is estimated, that in the United States this market (audio-visual sector, consumption of industries of the culture, software and others) constitutes over the 50% of the entire market. The concept of "creative industries" is relatively new, similarly the research on this sector constitute a new field. This notion is used from the end the 20th century, and in 2000 was popularized by Richard Caves (Caves, 2000). The very title of the book of this author already shows that creative industries act on the joint of cultural and the business activities. The notion of creative industries is a wide category, including artistic activity, cultural institutions, industries of the culture and other kinds of creative activity, based on the individual creativity, including industries using new technologies (e.g. new media) in creative activities (Klasik, 2010). The borders of this notion are drawn by the understanding of creativity and innovation, and in addition in the widest approaches these borders fade away, not letting to distinguish creative industries from other kind of intellectual activity containing a creative element, and from the innovation of all kinds, scientific-technological included. The category of the leisure time locates industries of the culture as part of the narrow definition of the culture as the art. On the other hand, in creative industries (category wider than industries of the culture), the products meeting conditions described above are also located, but the consumption of which isn't characteristic only for the leisure time, as well as activities which recipients make use of partly in the leisure time, but which on account of the profit motive, the new type of media, the privatization of the consumption, the affiliation rather to the sphere of entertainment than the art, or for other reasons, go beyond the traditional fields of art and the activity of the institutions of culture. In Poland, Central Statistical Office joined the works on

tidying up the sector of creative industries, which proposed the model determining areas ranked among creative industries. These are:

- architecture and the interiors design,
- publishing,
- the national legacy, libraries and archives,
- artistic education,
- the fashion and the industrial design,
- radio and musical production,
- programming,
- the advertisement and related activity,
- artistic handicraft,
- staged arts,
- visual arts.

Table 1 contains the division of the culture into principal areas, sectors and subsectors.

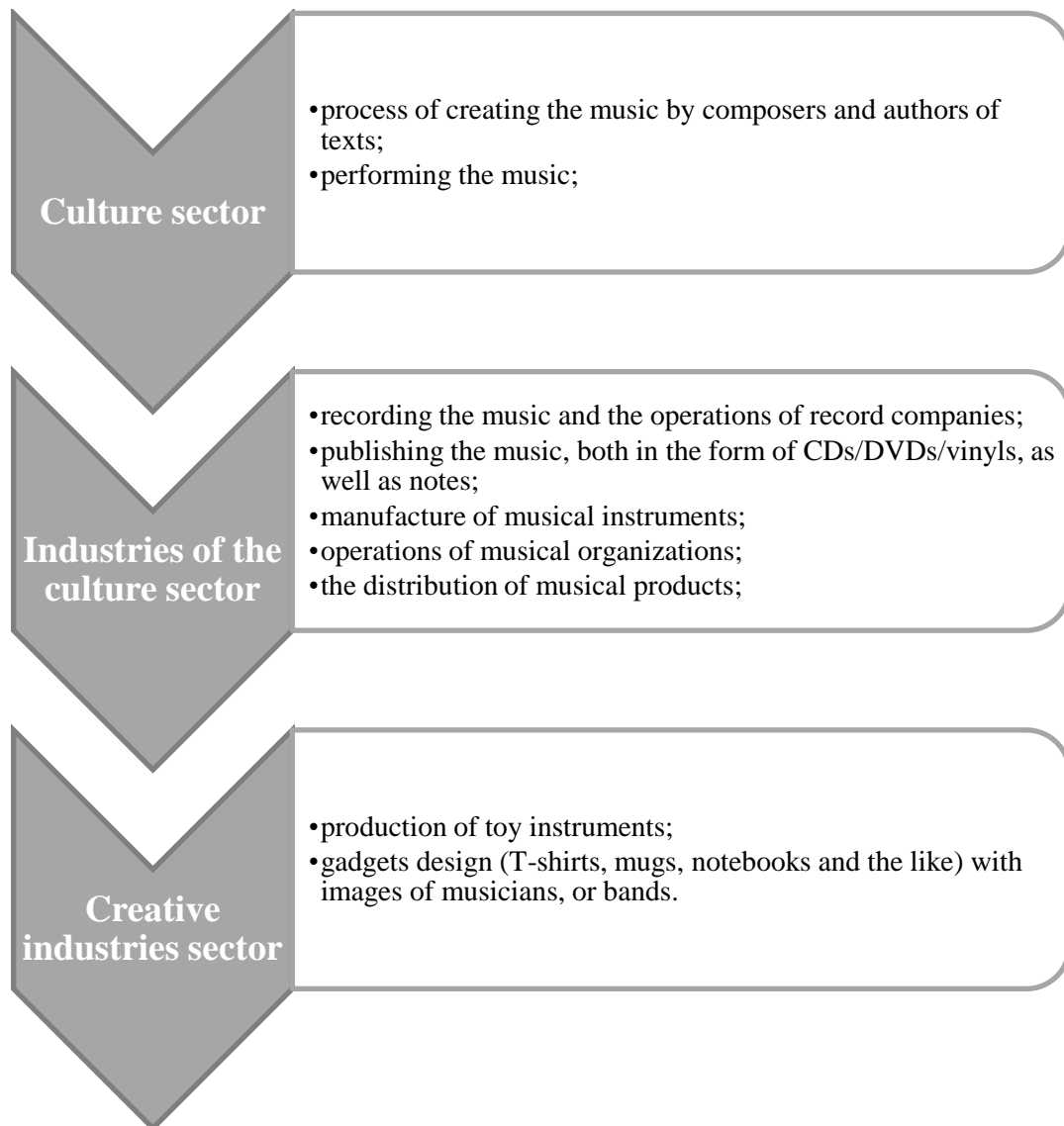
Table 1. The division of the culture into principal areas, sectors and subsectors

Areas	Sectors	Subsectors	Characteristics
Main fields of art	Staged art	theatre, dance, music, opera	Nonindustrial activities. Products are prototypes and have a "potential of securing with the copyright", i.e. are based on a creation which could be a subject of the copyright, but is not systematically protected (how it takes place in case of the handicraft or some productions from the field of staged or visual arts)
	Visual art	painting, sculpture, craft	
	Media art	artistic installations, film, digital art computer	
	Literature	lyric poetry, narrative, drama	
Industries of the culture	The film and the video		Activities of industrial character, set to the mass reproduction. Products are subjected to copyright.
	Television and radio		
	Video games		
	Music	record market, live concerts, the income from the title of the copyright	
	Books and the press	the publishing market and press	
Creative industries	Design	fashion, graphics, interiors design, functional design	Activities not necessarily of industrial character and can be prototypes. Products are subjected to copyright, but can also be a subject of other intellectual property laws (e.g. trademark), creativity(creative abilities and people deriving from the artistic environment and industries of the culture) is essential to functioning of beyond cultural sectors
	Architecture		
	Advertisement		
Related Industries	Manufacturers of computers, Manufacturers of MP3 players ,industry of mobile communications and others.		It involves a lot of various economic various sectors, which are dependent on previous "areas"

(Source: own study)

Using the value chain, introduced into economics in 1985 by Michael Porter in order to describe economic processes, is one of the points of view on creative industries. The value chain in relation to creative industries, is begun with authors and the cultural institutions, drags further through producers of different kind and distributors of cultural products and ends on recipients, i.e. a widely understood audience. In a perfect case in every chain link a value added of a kind is made, making the product better fitted to the recipient. In fact he however, it can happen, that we deal with deducting the value in the chain, rather than with adding. Figure 2 shows the model value chain for the music industry.

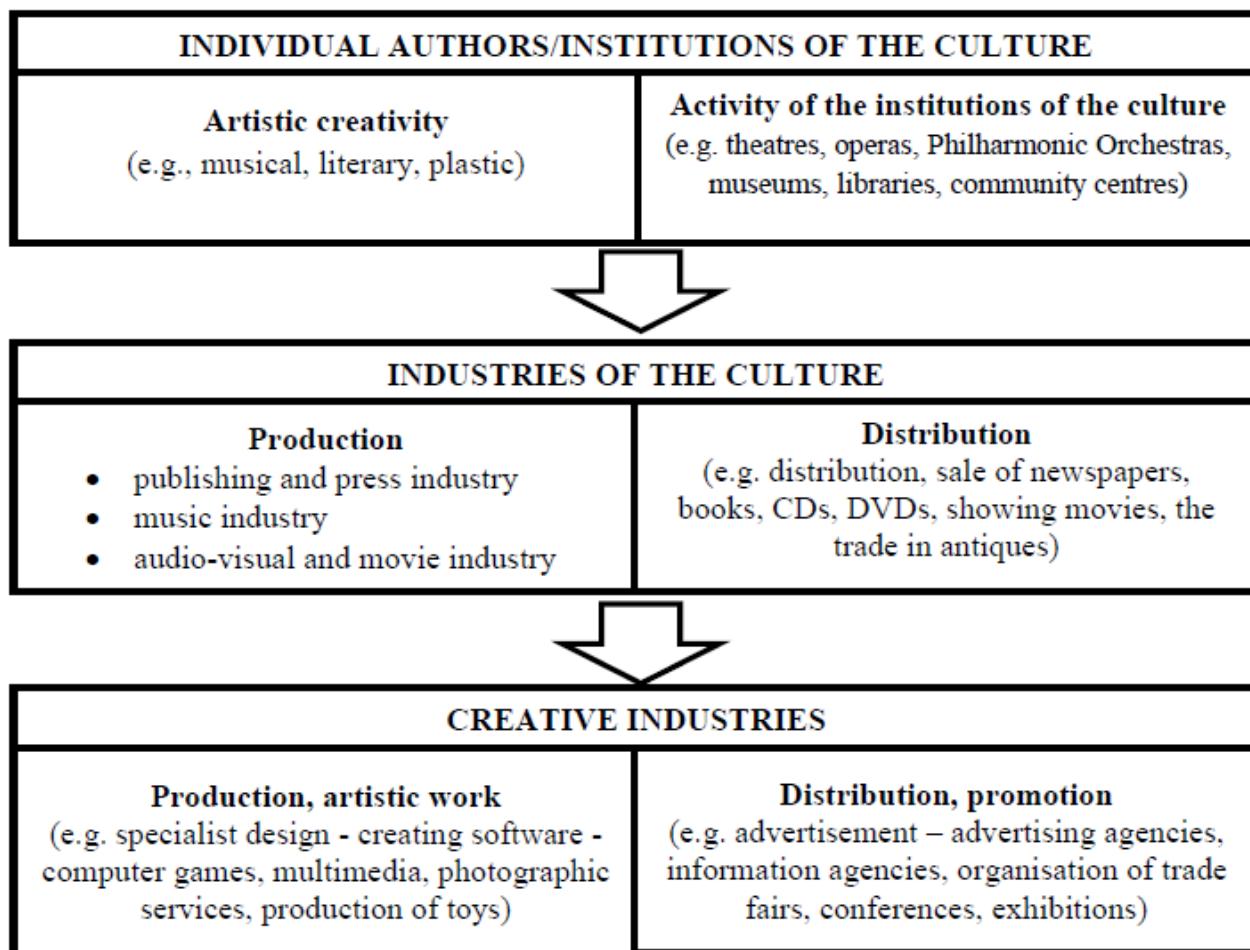
Figure 2 Value chain for the music industry



(Source: own study)

This approach assumes the commercialization of the cultural production, that – in most cases – means assumption on massive nature of recipients. Figure 3 shows relations between the culture, industries of the culture and creative industries.

Figure 3 Relation between the culture, industries of the culture and creative industries



(Source: own study)

Other way of defining creative industries is a model of the copyright (*World Intellectual Property Organization copyright model*), which is based on industries involved directly or indirectly in preparing, production, issuance and distribution of materials protected by copyright. In such approach this intellectual law is an essence of creativity in the process of manufacturing of a good or service. Depending on the form of using the copyright, three groups of creative industries contributing to the sector of creative economy, are singled out in this model (Klasik, 2010):

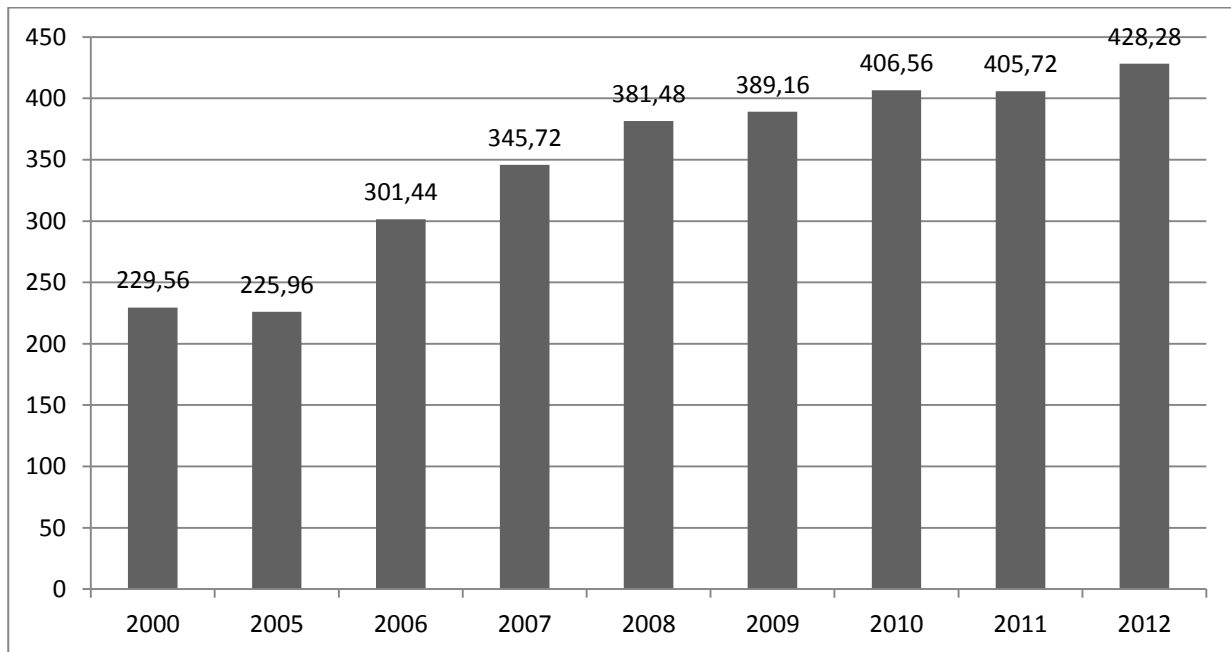
- core creative industries protected by copyright (among others, the advertisement, the film and the video, music, staged arts, the publishing market),
- interdependent creative industries protected by copyright (among others, data carriers, musical instruments, photocopiers),
- creative industries partly protected by copyright (architecture, fashion, design, toys).

2 THE CULTURAL SECTOR AND CREATIVE INDUSTRIES IN POLAND

The cultural sector in Poland is very abounding and diversified. It is characterized by not only a substantial amount of cultural entities, but also by a multitude of forms of their organization. It is possible to divide this area into three subsectors: public (national and self-government), private and non-profit. Numerous institutional and non-institutional forms of conducting cultural activities

appear. This sector gains significance in Poland every year, what is attested by an increase in household expenditure to products of the sphere of the culture (Figure 4).

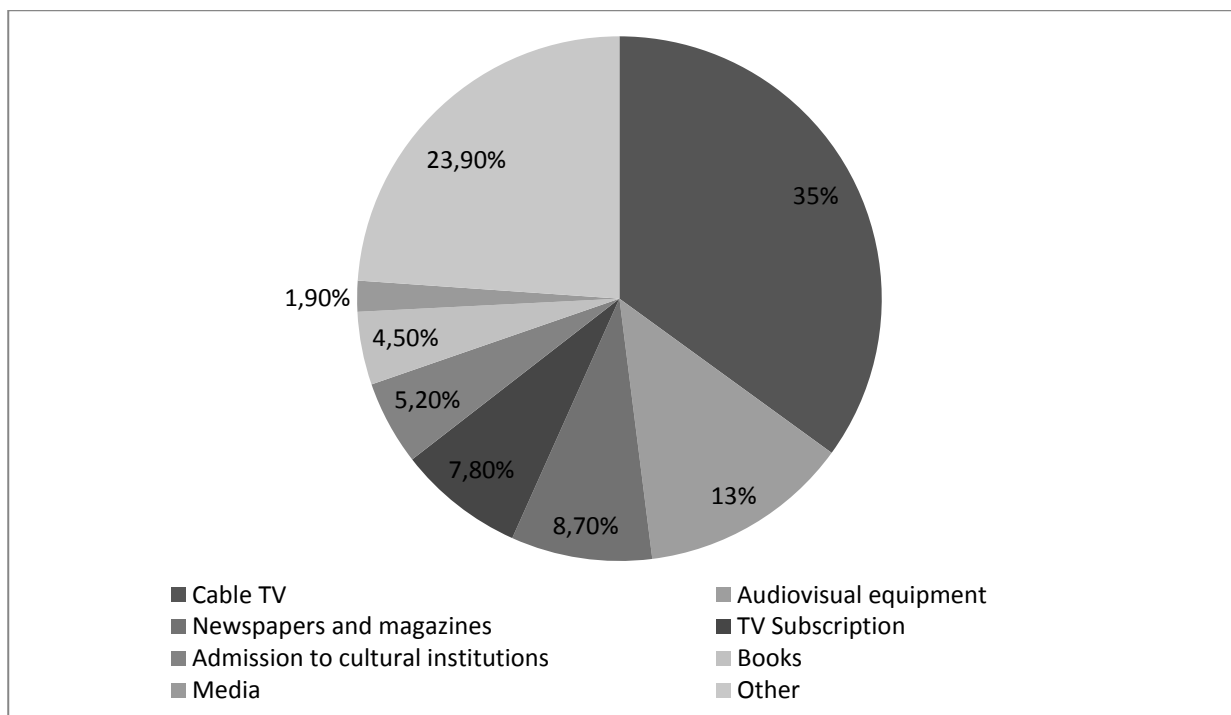
Figure 4 Average per capita expenses on culture, in Polish households in 2000-2012



(Source: own study based on „Culture in 2012 - statistical information and elaborations”, Central Statistical Office, Warsaw 2013: 115)

In Poland, industries of the culture are an important component of the cultural sector what effects in a richer and more diverse cultural offer (Figure 5, Table 2), to which an access is facilitated by the developed network of the cultural institutions, modern technologies and media.

Figure 5 Structure of expenses of households on the culture in Poland in 2012



(Source: own study based on „Culture in 2012 - statistical information and elaborations”, Central Statistical Office, Warsaw 2013: 115)

The Institute for Structural Research in Warsaw separated industries of the culture from creative industries. This separation was presented in Table 2.

Table 2. Industries of the culture and creative industries in Poland according to the Institute for Structural Research

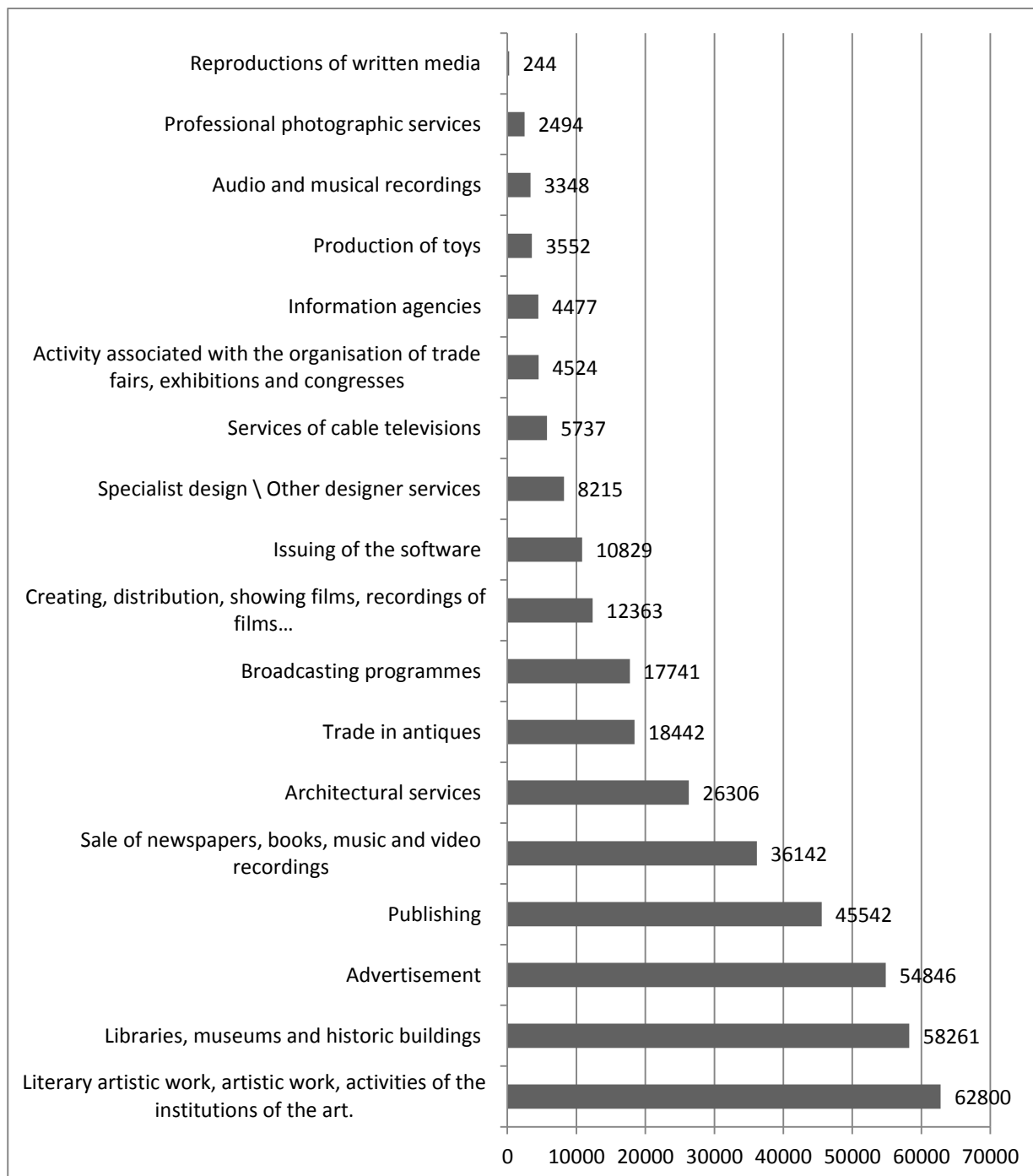
	Industries of the culture	Creative industries
Publishing	+	+
Reproductions of written media	+	+
Production of toys		+
Other retail trade - trade in antiques	+	+
Sale of newspapers, books, music and video recordings	+	+
Services of cable televisions	+	+
Issuing of the software		+
Specialist design \ Other designer services		+
Professional photographic services		+
Architectural services		+
Advertisement		+
Activity associated with the organisation of trade fairs, exhibitions and congresses		+
Creating, distribution, showing films, recordings of films and of TV programmes	+	+
Audio and musical recordings	+	+
Broadcasting programmes	+	+
Literary artistic work, artistic work, activities of the institutions of the art	+	+
Information agencies		+
Libraries, museums and historic buildings	+	+

(Source: Economic meaning of the cultural sector. Introduction to the problem analysis. Final report, Institute for Structural Research, Warsaw 2010)

The results of research conducted by the Institute for Structural Research in Warsaw show, that the biggest industries of creative sectors in Poland are: advertisement, publishing (5 bn PLN both), and

broadcasting programmes (3,9 bn PLN). As for employment, the most persons deal with the literary artistic work, artistic work, and also work at institutions of the art, in libraries, museums and the advertisement (Figure 6).

Figure 6 Employment in creative industries according to industries in Poland in 2008 (the number of people)

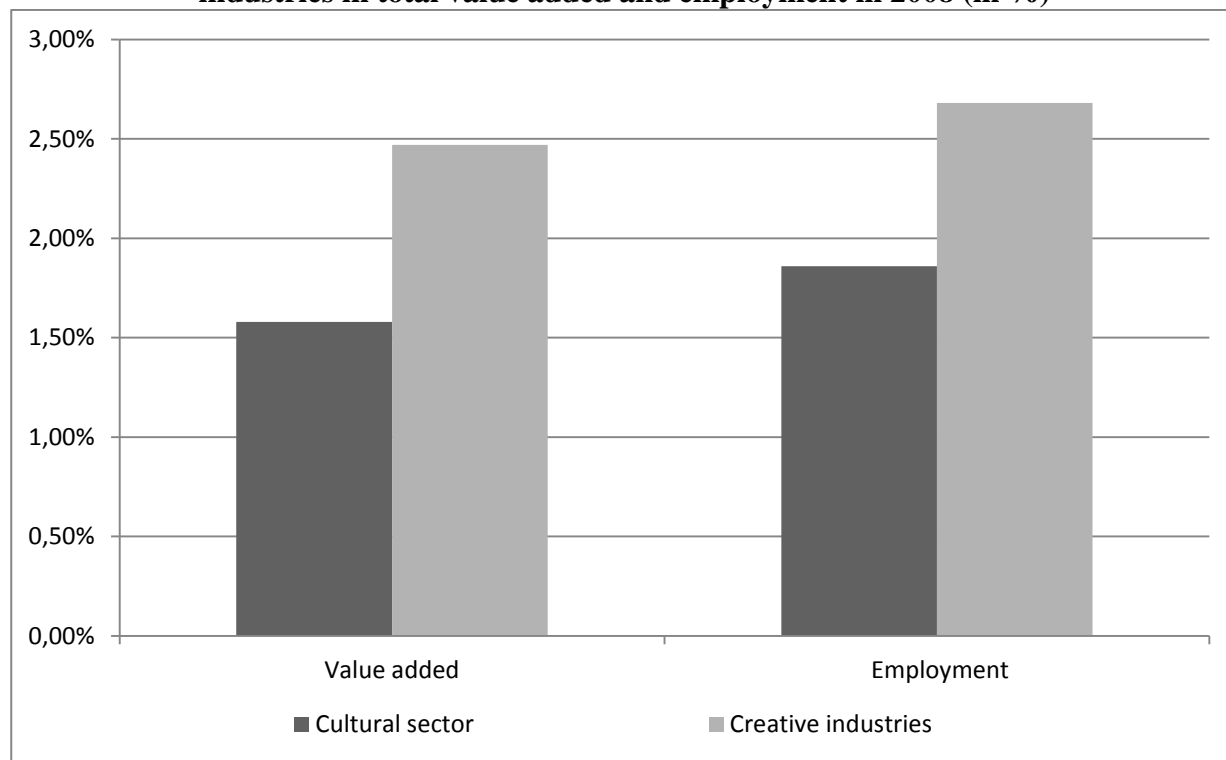


(Source: Economic meaning of the cultural sector. Introduction to the problem analysis. Final report, Institute for Structural Research, Warsaw 2010)

The participation of creative industries in creating the gross value added in 2008 is *circa* 2.5%, while the traditionally understood cultural sector has *circa* 1.5% of this value (see Figure 6). Gross value added (GVA) should be understood as the value of products and services produced by enterprises or the sector, reduced by the intermediate consumption incurred in relation with its

production. A gross value added is a measure directly connected with the gross domestic product (GVA + taxes – subsidies for the production = GDP). Creative industries compared with the cultural sector also generate more places of employment, which is very essential because of a constantly high unemployment rate in Poland.

Figure 7 Participation of value added and employment in the cultural sector and creative industries in total value added and employment in 2008 (in %)



(Source: Economic meaning of the cultural sector. Introduction to the problem analysis. Final report, Institute for Structural Research, Warsaw 2010)

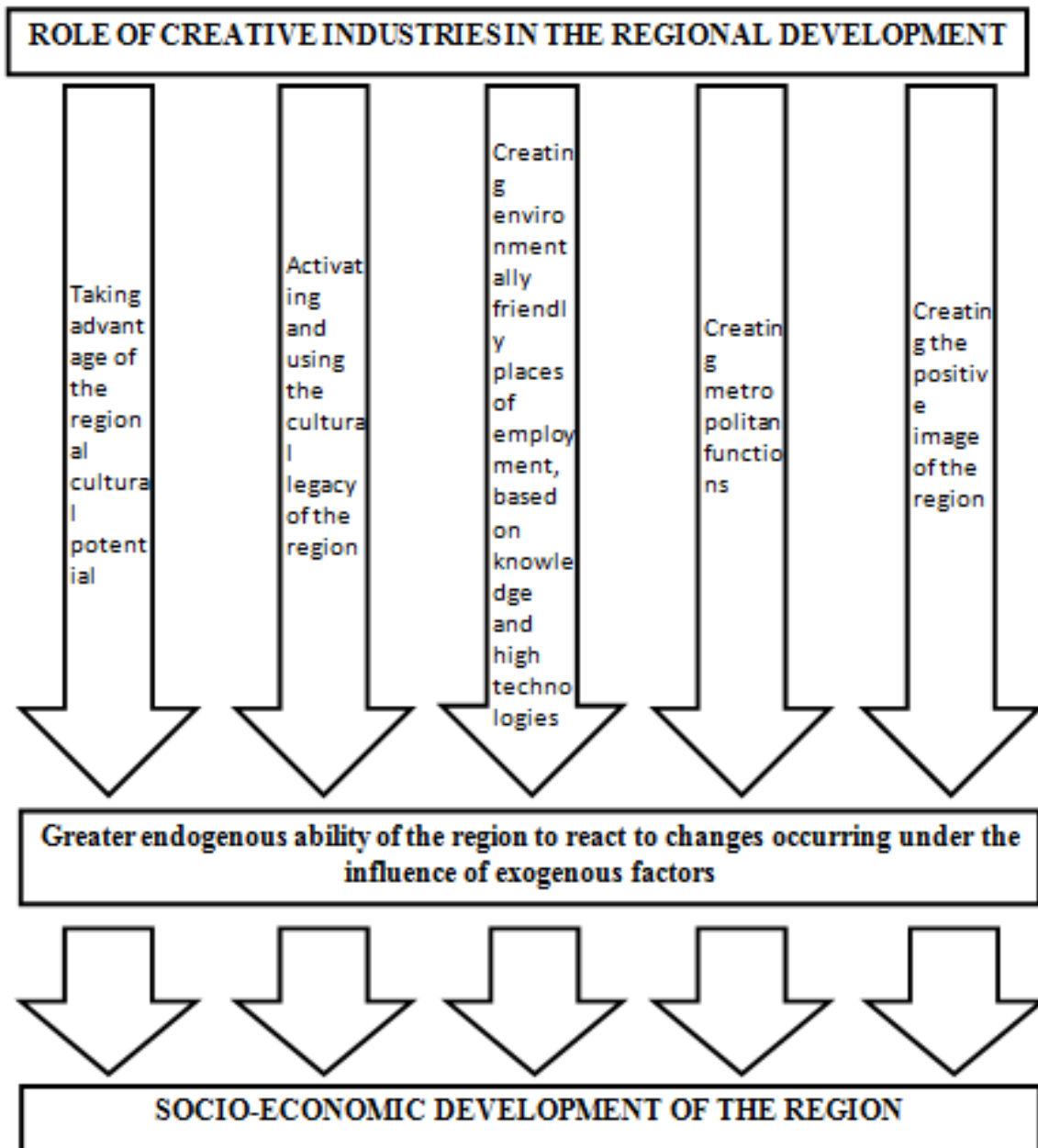
The technical potential, the management and the financial back in creative industries in Poland influence the type and character of their market offer. The superficial evaluation of this industry already however, allows to think that it is best organised and most effective sector on the Polish market of cultural goods and services. Industries of the culture, creative industries being in private hands in over 90%, are an elastic and dynamic area, quickly responding to social needs.

3 CREATIVE INDUSTRIES AS A FACTOR STIMULATING THE SOCIO-ECONOMIC DEVELOPMENT OF REGION

The estimates concerning the participation of the sector of creative industries in the economy are conducted by a lot of organizations. According to calculations of the European Commission the sector of industries of the culture and creative industries in countries as, among others, Poland, the Czech Republic, Hungary or Slovakia produces on average c 2% GDP altogether. In the entire European Union, creative sectors employ over the 3% of all employees (KEA European Affairs, 2010). Growing significance of creative industries in domestic economies including regional economies, translates both for developing enterprising and creative behaviours of residents of the region, and to the improvement in its competitive position. It also increases attractiveness of the region for current, as well as future residents, tourists and investors. It is possible to notice the positive connection between the development of creative industries and the social-economic development of the region. These industries are an analogous development driving force, to

agriculture, which was responsible for the growth in the twentieth years of the 20th century, industry in fiftieth and sixtieth years, and in the last two decades – the sector of telecommunications and computer sciences. And so, creative sectors are a generator of new solutions, which transfer to other branches of economy and are adapted or modified there (Smoleń, 2003).

Figure 8 Influence of creative industries on the development of the region



(Source: own study)

Creative industries can have a positive effect on a development of internal regional potential without any harmful effects for the culture (artistic creativity). They depend to a great extent on traditional and cultural diversity, from the know-how and innovative networks existing in Polish regions. The wealth and cultural diversity of Polish regions are a product of centuries of work of creative artists, craftsmen, technicians and their customers. Creative industries are based on this potential and at the same time, they contribute to its future development. They represent the

combination of economic sectors which, to a large extent, depend on spatial location, and for many reasons and for many reasons must pay a great attention to it. Diverse subsectors of creative industries, where small and medium-sized enterprises dominate, provide many possibilities of creating of new places of employment, which are deeply rooted in local environments and regional networks. In the age of globalization, products and services which creative industries provide, emphasize the regional profile and have a positive effect on conditions underlying the general socio-economic development.

CONCLUSIONS

Cultural sector, ranked previously among the so-called sphere of public services (creating costs, rather than economic benefits), more and more leaves this sphere. Undergoing the gradual commercialization and "industrialization" of production, it becomes an independent field of management, increasing the gross domestic product, building new profitable places of employment. An information-telecommunications revolution and new media, thanks to which costs of processes of copying and distribution radically lowered, became the driving force of this process of privatizing and industrializing the culture. It is possible to analyse the significance of the culture and the influence of creative industries on the development of the region from different points of view. In conclusion, it can be assumed that the significant and major planes of impact of creative industries on socio-economic development of the regions in Poland include:

- direct impact on the labour market by building environmentally friendly places of employment, based on knowledge and high technologies – on account of innovation, permanent production of new goods and services, creative industries are one of most dynamically developing sectors of the labour market at the moment;
- creating products for other departments (branches of economy), what contributes indirectly to an increase in the number of jobs in sectors complementary to the sphere of the culture – tourism, recreation, education. The culture works in fact for other sectors. A national legacy can be an example, which in many, also poorly developed countries, is a flywheel of the development of tourism industry;
- rise in local budget revenues, directly through the sale of goods and services of the culture on the internal and external market, and of indirect profits – property taxes, personal income taxes and company income taxes, and through profits generated in complementary industries;
- factors of investment attractiveness of the region (Bilbao effect);
- an element of the restoration and the revitalization of municipal and country space and post-industrial objects. The revitalization contributes to the improvement of quality of life of residents, and the economic boom as well as the reconstruction of social bonds;
- help in creating the positive image of the region;
- raising the level and qualities of life, what transfers into attraction of the domicile, contributes to attracting and holding creative people who have high qualifications;
- the way to fight against so-called municipal illnesses – weakening social bonds or social pathologies.

Creative industries are a peculiar area of activity of a man, which gain significance every year. Two forces meet here: culture and economics, what provokes for asking questions, in what way to draw from the culture so that it is transferred into the social-economic development of the region. Creative industries which not only contribute to the growth in the economy of the region, but participate in the direct funding of the culture, seem to be a good solution. They finance both valuable artistic events, as well as enable many authors, musical, drama authors and visual artists to realize their artistic aims. It is worthwhile to remember, that every attempt to separate the culture from creative industries gives rise to adverse effects both for the culture, and for its industries.

Interdependences between the culture subsidized by the state and industries of the culture or creative industries are based not on the competitiveness but rather on their complementary characters. Developing and supporting creative industries, industries of the culture should be included in the development program for Poland. The benefits of having a well-functioning creative industries can be seen on the example of countries such as: the United States, Germany and Austria. Unfortunately, the development of these industries in Poland is hampered by the lack of a coherent, integrated strategy for the development of creative industries at micro and macro levels. The situation is further complicated by an inadequate protection of intellectual property, extremely aggressive piracy and very strong foreign competition. However, this should not discourage taking an action; on the contrary, all adversities should be overcome as quickly as possible.

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