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Social Entrepreneurship and Socio-Economic Development

edited by
Remigiusz Gawlik



Cracow University of Economics
Faculty of Economics and International Relations
Centre for Strategic and International Entrepreneurship

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Social Entrepreneurship and Socio–Economic Development

edited by

Remigiusz Gawlik

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Editorial: Social Entrepreneurship and Socio–Economic Development

Socio-economic development can be understood in a number of ways. Jaffee (1998, p. 3) defines this term by saying that it “*refers to the ability to produce an adequate and growing supply of goods and services productively and efficiently, to accumulate capital, and to distribute the fruits of production in a relatively equitable manner*”. This definition seems to be the most accurate because it combines both leading and sometimes competing approaches to socio-economic development: economic (production, accumulation, efficiency) and sociological (social transition and change and relatively equal distribution of welfare).

At the same time we can observe a growing number of situations when governments fail in their redistributive and stabilizing role, in many cases because of the lack of tools that would prove effective in a globalised world. Most, if not all, of such measures at national level prove to have a limited outreach because of the international character of economic occurrences that bear influence on local environments. Therefore an urgent need arises for the creation of new instruments or regulatory mechanisms that would provide social stability without harming economic growth. More and more economists see such potential in social entrepreneurship. E.g. Koch (2010, p. 17) states that “*social entrepreneurship can be viewed as a bottom-up model of socio-economic development that seeks to overcome government and market failures*”.

Social entrepreneurship in the shortest possible way can be described as an attempt on solving societal issues through entrepreneurial means. Abu-Saifan (2012) discusses the origins of this term by deriving it from the traditional understanding of entrepreneurship (in the views of Schumpeter, McClelland, Kirzner, Shapero, Carland & others, Kao & Stevenson and Timmons & Spinelli) and enriching it further with social perspective. Additionally, this author provides a critical analysis of existing definitions of social entrepreneurship itself (quoting Bornstein, Thompson & others, Dees, Brinckerhoff, Leadbeater, Zahra & others and Ashoka) and finally proposes his own definition of a social entrepreneur. It states that “*The social entrepreneur is a mission-driven individual who uses a set of entrepreneurial behaviours to deliver a social value to the less privileged, all through an entrepreneurially oriented entity that is financially independent, self-sufficient, or sustainable*” (Abu-Saifan, 2012, p. 25).

Every analysis of social occurrences and entrepreneurial attitudes has to be rooted in morality, an issue discussed by Geoff Goldman and Maria Bounds in their piece on ethical conduct in business organisations in the eyes of management students of the South African Gauteng Province.

Wahibur Rokhman and Forbis Ahamed describe the role of social and psychological factors on entrepreneurial attitudes and intentions between Islamic Indonesian students.

The significance of social welfare attitudes in entrepreneurial intentions of the youth has been addressed by Teemu Rantanen, Agnieszka Pawlak and Timo Toikko.

Paweł Ulman and Erik Šoltés show the monetary and non-monetary perspective on poverty using the example of Poland and Slovakia.

As socio-economic development is subject to a strong regional differentiation, Agnieszka Witoń focuses on spatial diversity of the issue in question in Sub-Saharan Africa.

The success stories of Tanzanian women entrepreneurship programs in alleviating poverty are presented by Mwajabu Mbaruku and Darlene Mutalemwa, with a deeper insight into the WORTH program.

Małgorzata Adamska-Chudzińska uncovers the link between work-related prosocial orientation and its influence on professional capability of employees.

Maria Urbaniec analyses the system of indicators measuring sustainable development in Poland in order to provide an external evaluation leading towards growth of its efficiency.

Jolanta Zombirt searches for innovative sources of financing in order to allow the participation of the banking sector into new modes of entrepreneurial activities.

Finally, Sławomir Dorocki, Anna Irena Szymańska and Małgorzata Zdon-Korzeniowska analyse the role of Polish family agritourist enterprises as one of potential pillars of a balanced socio-economic growth.

As the editor of this issue of *Entrepreneurial Business and Economics Review* I am deeply convinced that the scientific papers included here do contribute to a bigger goal: restoring the Science of Economics to the service of humanity and therefore provide stable ground for a sustainable and socio-economically balanced development of individuals and societies.

Remigiusz Gawlik
Issue Editor

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Ethical Conduct in Business Organisations: The Opinion of Management Students in Gauteng

Geoff Goldman & Maria Bounds

ABSTRACT

Objective: This study investigates the perceptions that business and management students have towards ethical practices of businesses organisations in terms of the environment, their employees, community, regulators and competition.

Research Design & Methods: This study employed an exploratory survey design to collect primary data via a self-administered questionnaire. Data were collected from 251 business and management students at a national university in Gauteng, South Africa. Apart from reliability statistics and descriptive statistics, one sample t-tests were employed to test stated hypotheses.

Findings: The findings showed that students perceived certain aspects of organisations' ethical conduct in a relatively negative light.

Implications & Recommendations: As the study concluded that business and management student perceived the ethical conduct of business organisations in a somewhat negative light, organisations should take heed and better outwardly promote the interests of all stakeholders.

Contribution & Value Added: As more than 75% of the students surveyed had working experience, they represent also the opinion of people in the working world. This study reiterates the fact that what whilst organisations profess to act ethically, this does not necessarily seem to be the case. As more research on this issue reaches the same conclusion, this groundswell should effect change in due course.

Article type: research paper

Keywords: business ethics; corporate citizenship; exploratory research; ethical conduct; stakeholder theory

JEL codes: A13, L26, M21

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INTRODUCTION

For some time now, business ethics has been viewed by some as something of a contradiction in terms (Rossouw & Van Vuuren, 2006). Ethical behaviour of organisations could potentially be viewed as insincere and nothing more than just a pretence for customers (and other stakeholders) to see and feel at ease with and to be reassured that the individual organisation is “doing the right thing” (Harvey, 2002).

On the other hand, some authors, such as Abratt, Bendixen and Drop (1999) are of the opinion that business people in general do desire to do what is ethical and right. Harvey (2002) supports this notion and adds that most organisations participate in legal, honest, right and fair dealings each day. The motivation for acting ethically is in enhancing the organisation’s reputation, which in turn contributes to the firm’s performance and shareholder value (Simms, 2006; Rushton, 2002).

Many authors (Baker, 2011; Kenexa Research Institute, 2010; Paramasivasn, 2010; Garriga & Mele, 2009; Rossouw & Van Vuuren, 2006; Simms, 2006; Harvey, 2002; Abratt *et al.*, 1999) suggest that organisations’ desire to do what is ethical in order to be successful, boils down to the reputation of the organisation and in what light stakeholders perceive the behaviour and intentions of an individual organisation. However, years of training within business organisations have led the authors to different insights as far as the rank-and-file employee is concerned. Inevitably, this has raised questions regarding the bona fides of organisations in this regard.

This paper argues that organisations do not necessarily act as ethically as they would like their external stakeholders to believe. The literature review interrogates the aspect of ethics from a general point of departure through to a specific look at ethics in the business context and addresses the question of why it is important for organisations to act ethically.

LITERATURE REVIEW

Ancient Greek philosophers were arguably the first to study ethics (Rosenstand, 2005). Ethics stems from morality, which tries to differentiate between what is right and what is wrong. Morality is not the same as ethics; ethics endeavours to establish guidelines according to which one can differentiate between right and wrong. Ethics can, therefore, be considered as “the science of morality” (Nieman & Bennett, 2006). Ethics has long been part of the philosophical discourse, as philosophy is concerned with Mankind’s purpose in the universe. As such, philosophy inevitably questions why and how we behave as sentient beings, it questions what values we have and makes us provide reasons as to why we agree with certain things and not with others (Rosenstand, 2005).

Ethics is defined by Grobler, Warnich, Carrell, Elbert and Hatfield (2006, p. 32) as: “the discipline dealing with what is good or bad, or right and wrong, or with moral duty and obligation.” Dart (2004) is of the opinion that ethics is a rule or set of rules that govern activity or conduct and that “moral” implies conforming to established codes or accepted views of what is right or wrong. Duty, as Dart (2004) points out that ethics can be viewed as tasks, functions or services that are obligatory and arise from the position that a person holds. Although these sentiments are divergent, it is noticeable that morality, right and wrong, is a central notion here. Furthermore, the emphasis on

discipline in both points of view highlight that ethics involves a choice that should be enforced. This, as Dart (2004) rightly points out, differs from duty. Duty refers to an obligation one has, something involuntary, whereas ethics implies a choice.

Being ethical therefore involves:

- doing what is honest, right, and good (Harvey, 2002);
- integrity (defined as uncorrupted, and therefore honest (Bradley & Schrom, 2004);
- values (the worth and usefulness of ideals and customs (Bradley & Schrom, 2004) that do not change over time and differ according to different circumstances. Moral values include aspects such as fairness, honesty, and responsibility (Brandl & Maguire, 2002).

Business ethics is a particular context to which ethics can be applied. According to Nieman and Bennett (2006, p. 239), business ethics becomes apparent “...where the moral duties of ethics apply to the activities and goals of an organisation.” Therefore, business ethics is the discipline that deals with the values and rules of behaviour of society, while pursuing the objectives of an organisation. Bradley and Schrom (2004) describe business ethics as rules that govern the conduct of the profession that a person pursues. However, much more emphasis is placed on profession-specific norms of behaviour than on business ethics.

Hertz (2006) states that organisations have a duty to regard all those affected by decisions it takes. Ethically questionable behaviour may have enabled organisations to acquire a competitive advantage in the past, but today such practices are frowned upon on a societal level. As mentioned, competitive pressures could result in dishonesty, focusing on short-term benefits, and compromising quality in return for expediency (Harvey, 2002). Simms (2006) also indicates that too little attention is being paid to the long term, due to extreme demands on people in organisations. Behaving ethically has a very important place in business operations and performance. However, focusing on the short term, cutting corners, and placing short-term financial gains above all else may be regarded as the breeding ground for unethical behaviour.

Ethical codes, compliance officers, and ethics departments are established in organisations to avoid the bad publicity that follows ethical blunders (Harvey, 2002). In the end, however, ethical behaviour begins and ends with the individual. Therefore, organisations must be cautious as to who they employ and with whom they form relationships (Monaghan, 2005). Brandl and Maguire (2002) mention that guaranteeing ethical behaviour is a huge challenge, but organisations cannot afford to ignore this challenge, as ethical behaviour contributes to long-term sustainability.

Friedman (1970) postulated that the only responsibility an organisation really has is toward its own shareholders. Friedman’s Shareholder Theory purports that managers (who, in turn, represent the organisation) should manage the organisation in the best interests of the shareholders by maximizing their return on investment (Rossouw and Van Vuuren, 2006). With increased emphasis on the rights of employees, protection of the natural environment and fair competition, this view has come under scrutiny, as the environment within which the organisation operates has evolved since Friedman presented his declaration in 1970.

In reaction to Shareholder Theory, Freeman and Evan (1993, p. 76) asked: “For whose benefit and at whose cost should the organisation be managed?” What Freeman

and Evan concluded was that there were several arguments that led to a rejection of Friedman's original stance. These included:

- **Legal arguments:** Many courts have ruled that the organisation has duties towards parties other than just shareholders, and the organisation should therefore balance the pursuit of shareholder interests with the interests of other stakeholders.
- **Economic arguments:** In contrast to the 'invisible hand' argument (according to which the organisation would automatically serve the greater good by serving shareholder interests), the reality of the situation is that the modern organisation has damaged and polluted the environment and disrupted society on a collective and an individual level (Rossouw & Van Vuuren, 2006). Organisations reaped the benefits of their actions, but were not willing to take responsibility for the consequences of their actions. This led to organisations being heavily regulated, so as to prevent them from transferring the cost of their actions to society at large.

These arguments support the view that managers of organisations need to serve the interests of more than just shareholders. According to Rossouw and Van Vuuren (2006), managers:

- have an obligation not to violate the legitimate rights of others,
- are responsible for the effects of their actions on others.

Different literature sources reveal that the exact number and labelling of stakeholders differ, with some authors identifying 6 stakeholder groups, while others expand this to 11 groupings (Carroll, 1999; Griseri & Seppala, 2010; Lewis *et al.*, 1998; Volberda, Morgan, Reinmoeller, Hitt, Ireland & Hoskins, 2011). Stakeholders identified by various authors include owners (shareholders), employees, suppliers, customers, environmental groups, media, society, local communities, managers, business partners, trade unions, and government.

Carroll (1999) provided a classification of stakeholders based on the nature of their relationship with the organisation, and identifies two broad categories:

- **Primary stakeholders:** Those who have a formal, official, or contractual relationship with the organisation, e.g., shareholders, employees, suppliers, and customers;
- **Secondary stakeholders:** Those indirectly affected by the activities of the organisation, e.g., environmental groups, society at large, the media, consumer groups, and the government.

Within these groupings, one can then identify specific stakeholders.

Critique against the Stakeholder Theory centres around the diverse interests that emanate from these stakeholder groupings. Goodpaster (1993) purported that if managers view all the interests of diverse stakeholders as equal, they will be reduced to little more than public institutions, as public institutions have an obligation to act in the best interests of the broader society within which it functions. Goodpaster (1993) agreed that managers' primary responsibility is toward shareholders (a fiduciary obligation). However, this fiduciary obligation should not result in maximising profits at the expense of other stakeholders. The organisation therefore has a moral obligation towards all stakeholders of the organisation (Goodpaster 1993).

Developed from Stakeholder Theory, the concept of corporate citizenship (CC) endeavours to (Van Marrewijk, 2003, p. 98) "...a connect business activity to the broader

social accountability and service for mutual benefit.” This view equates the organisation to a member of society, with rights and accompanying obligations to which it should be subservient (Waddell, 2000). CC is a view that impresses characteristics of a person upon the organisation. “Person” does not imply a natural person, but rather a social construct. It implies legal personality, with the organisation being able to enter into legally binding contracts, negotiate, and be accountable for its actions. This, in turn, translates into rights, obligations, and responsibilities to which the organisation needs to adhere. Although Friedman (1970) did purport that the only responsibility a business organisation has is to maximise profit, he did concede that an organisation is a social construct and, as such, has characteristics associated with humans ascribed to it. He did, however, also stress that these are done on behalf of the organisation and not by the organisation.

Criticism of the suitability of the term 'corporate citizenship' aside, the notion of CC exists, whether within the organisation or in the eye of stakeholders. As such, stakeholders have certain expectations of organisations in terms of 'doing the right thing.' Certainly, one would assume that organisations are not oblivious to these expectations, but the extent to which these expectations are fulfilled is debatable.

MATERIAL AND METHODS

Purpose of the Study

From the overview of literature, it is evident that much is being done within organisations to act ethically (Rossouw & Van Vuuren, 2006; Simms, 2006; Harvey 2002). This, however, poses a problem, as seeming ethical and being ethical imply two different things. **Being perceived as** ethical implies mere compliance, embarking on ethically courses of action to be seen as being ethically correct. It implies something superficial and not sincere to win favour with stakeholders. **Being** ethical, on the other hand, implies sincerity and a heartfelt belief in doing what is morally correct, irrespective of the popularity of the action. Literature seems to be moot on this issue. It would thus be interesting to investigate whether ethical actions embarked upon by business organisations are actually perceived as such by parties external to the organisation.

Consequently, this study endeavours to answer the following research question: How do economically active people, specifically students, in Gauteng perceive the ethical conduct of South African business organisations?

To answer the stated research question, the primary objective of this study is to measure the opinion of economically active Gauteng residents, namely students, toward the ethical conduct of South African business organisations.

Much of the literature on Business Ethics/Corporate Social Investment/Corporate Citizenship focuses on what should be done, and has been done, from the organisational point of view to promote ethical behaviour. However, not much literature exists on peoples' opinions of the ethical behaviour of organisations. This study therefore attempts to shed more light on how students perceive the ethical behaviour of organisations as corporate citizens.

Exploratory Model Employed in this Study

This paper considers whether a sample of Gauteng residents¹ were of the opinion that organisations acted in an ethical manner or not. In this regard it would be prudent to consider the behaviour organisations exhibit towards their stakeholder groupings, as this would represent an obvious manifestation of their ethical conduct. From the literature review, however, it is apparent that numerous stakeholder groups exist, and that the exact number of stakeholders can differ from organisation to organisation.

Consequently, the decision was made to collapse certain groupings together and to use stakeholder groups loosely based on the Strategic Stakeholder Grouping classification presented by Post, Preston & Sachs (2002). According to this classification, stakeholders are categorised on the basis of their strategic environments. This, in turn, provides the organisation with direction in terms of how to deal with different stakeholders. The Strategic Stakeholder Grouping classification proposes three groups of stakeholders (Post *et al.*, 2002):

- Core stakeholders: Those vital to the existence of the organisation, such as investors, employees, and customers;
- Competitive environment stakeholders: These stakeholders define the company's competitive position in a particular industry and market, e.g., business partners, unions, competitors, and regulatory authorities; and
- External environmental stakeholders: These stakeholders challenge the company to foresee and respond to developments as they arise, e.g., social and political actors.

For the purposes of this study, five stakeholder groups were used:

- The environment (including environmental groups), an external environmental stakeholder group;
- staff (encompassing employees and managers), a core stakeholder group;
- the community at large (encompassing society and local communities), an external environmental stakeholder group;
- regulatory bodies, an external stakeholder group,
- competition (focusing on the whole competitive landscape), a competitive environment stakeholder group.

Shareholders were not included as one of the stakeholder groups in this study, as the core of stakeholder theory and corporate citizenship revolves around the way an organisation treats the stakeholders towards whom the organisation has a moral obligation. It is implicit that organisations act responsibly toward shareholders. The decision to extract three distinct groupings from the external environmental stakeholder group of Post *et al.* (2002) was born out of:

- the increased emphasis on environmental issues,

¹ It must be noted that all conclusions learned from the study apply only to the sample and cannot be extrapolated to the entire population, because the sample is not representative on the national level. However, as an exploratory study, the findings of the paper are valuable.

- the increased emphasis on social accountability and the impact of the business on society,
- the increased emphasis on governance and fiduciary responsibility.

From the groups identified, the study endeavours to test the following hypotheses:

- Ethical conduct towards the environment (ENV).
H1: Organisations do not act in the best interests of the environment.
Alternative: Organisations act in the best interest of the environment.
- Ethical treatment of staff (STA).
H2: Organisations do not act in the best interests of staff.
Alternative: Organisations act in the best interests of staff.
- Ethical conduct toward the community at large (COM).
H3: Organisations do not act in the best interests of the broader community.
Alternative: Organisations act in the best interests of the community.
- Ethical conduct toward regulators (REG).
H4: Organisations are not committed to being good corporate citizens.
Alternative: Organisations are committed to being good corporate citizens.
- Ethical conduct in competition (COP).
H5: Organisations do not compete fairly.
Alternative: Organisations compete fairly.

These constructs can be portrayed as shown on Figure 1 below:

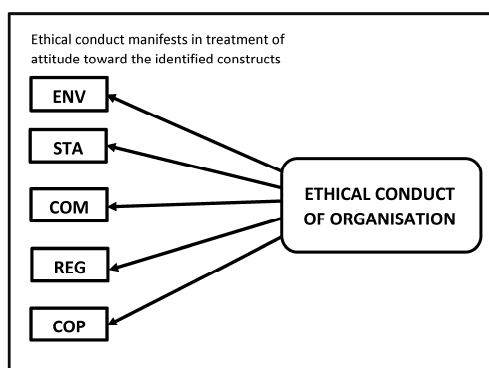


Figure 1. Conceptions of ethical behaviour by organisations

Source: own study.

Research Design

A positivistic paradigm was adopted in order to satisfy the aim of this study. Positivism is associated with deductive reasoning aimed at inferring universal principles applicable to a certain research population from a representative sample (Collis & Hussey, 2003). This study employed an exploratory survey design to collect primary data. As mentioned, not much work has been done on how students view the ethical conduct of organisations. Consequently this study endeavours to deepen our understanding of this issue.

The research population comprised business and management students at the University of Johannesburg. As the authors are academics, the student population is, of

course a convenient outlet for conducting research. However, it was felt that certain parameters needed to be imposed. Firstly, it was decided to target students who are studying toward a qualification in commerce, as so doing, they would be familiar with the concept of business ethics on a theoretical level. Secondly final year and post-graduate students were pursued in this study. This decision was very important as, firstly, third year (and above) students would have more theoretical knowledge on the issues under investigation. Secondly, and most importantly, there is a greater probability that senior and post-graduate students will be employed, and therefore will be able to comment on the ethical conduct exhibited by business organisations. Non-probability sampling, in the form of a convenience sample, was employed. A target of at least 250 respondents was decided on.

The study employed a customised measuring instrument that was developed by the authors. The items that measured how students perceived the ethical conduct of business organisations derived from literature and were measured on a 6 point Likert-scale. The choice of a six-point scale was deliberate so as to attempt to discourage notions of central tendency from respondents. The measuring instrument collected demographic data (Section A) and data pertaining to the five constructs that comprise the conceptual model (Section B – see Appendix A). The questionnaire was distributed in March 2010 amongst University of Johannesburg students. Student participation was voluntary and surveys were administered directly to lecture venues by a student assistant.

Data analysis consisted of reliability tests, descriptive – and inferential statistics. Cronbach-alpha reliability tests were performed on each construct to measure the internal reliability of each of the constructs employed. "Reliability" relates to the extent to which a particular data collection approach will yield the same results when used on separate occasions (Lancaster, 2005). The Cronbach-alpha computation provides an index that is scored between 0 and 1, with a score of 0.7 or higher being deemed reliable, according to Burns and Burns, 2008. Exploratory factor analysis would also be employed to assess whether the stakeholder groupings that were identified in literature do in fact appear in the data. This would bolster the validity of the findings.

Descriptive statistics were compiled to assess the nature of the normal distributions of each construct. This would illustrate how commerce students perceived the ethical behaviour of business organisations – positive or negative – in terms of the identified constructs. Here, the mean value of each construct would be analysed against the average value of the measuring instrument. As the scale was coded from 1 = Always through to 6 = Never, the average value was 3.5. Therefore, 3.5 was an objective "midway" in determining whether opinion was negative or positive towards a given construct (lower than 3.5 would be positive and higher than 3.5 would be negative). Due to the fact that the mean value of each construct would be crucial to the analysis of the data, it is also imperative to describe the nature of the distribution of the data, as this will determine how relevant the conclusions are that can be made. One sample t-tests would also be performed to test the hypotheses derived from the conceptual model.

RESULTS AND DISCUSSION

The survey realised 258 survey questionnaires, of which 251 were usable. Table 1 reflects the demographic data applicable to the sample. 72.5% of respondents were employed at the time of completing the questionnaire. This is crucial, as the respondents had working experience and could express valid opinions about the ethical behaviour of organisations. In terms of experience, 78.4% of respondents had work experience. This underscores that the sample surveyed were in a position to express valid opinions concerning the ethical conduct of organisations.

Table 1. Demographic data

Variable	Answer variants	Number of questionnaires
Total usable questionnaires		251
Gender:	Male	117
	Female	134
Age:	Under 20	6
	21 – 30	188
	31 – 40	45
	41 – 50	10
	Above 50	2
Highest Qualification:	High School	30
	Post School Certificate / Diploma	43
	Degree	139
	Post-Graduate degree	33
	More than one post- graduate degree	6
Employment status:	Not employed	69
	Part-time employed	55
	Permanently employed	127
Employment History:	No experience	54
	Less than 5 years' experience	107
	Between 5 and 10 years' experience	45
	More than 10 years' experience	45

Source: own study.

Reliability of the Measuring Instrument

Table 2 indicates the Cronbach's Alpha values per construct. With the exception of "Ethical conduct in competition" (COP), the Cronbach's Alpha values range between 0.63 and 0.79. This is satisfactory for exploratory research (Scheepers, Bloom & Hough, 2008). Althayde (2003) and Nunally (1978) are also of the opinion that $\alpha > 0.5$ is acceptable for exploratory research and this notion was applied to the data. As the scales were made up of a low number of items (4 – 6), Cronbach values could be low. Therefore, the mean-inter item correlations have also been scrutinised. Here, a range of 0.2 to 0.4 indicates internal consistency. Most of the mean inter-item correlations do fall within the specified parameters (Table 2). The notable exceptions are "Ethical conduct toward regulators" (REG), but here the alpha value is high enough to warrant the construct reliable, and COP.

Table 2. Reliability statistics

Construct	Number of items	Cronbach's Alpha	Mean inter-item correlations
Ethical conduct toward the environment (ENV)	5	0.63	0.27
Ethical conduct towards staff (STA)	4	0.69	0.40
Ethical conduct toward the community (COM)	6	0.74	0.34
Ethical conduct toward regulators (REG)	5	0.79	0.49
Ethical conduct in competition (COP)	5	0.32	0.08

Source: own study.

As a result of an alpha value of 0.32, the construct COP was discarded as this construct seems to have evoked inconsistent responses. In summary, all constructs (except for COP) are reliable for this study.

Descriptive Statistics

Descriptive statistics, such as the mean, median, variance and standard deviation were calculated for the survey. The mean for each construct is of importance, as this indicates the opinion of respondents toward a construct.

Table 3. Summary of applicable Descriptive Statistics

Construct	Mean	Mean std. error	Dev. (from 3.5)	Median	Std. dev.	Range (out of 6)	Skewness
ENV	4.154	0.0410	-0.654	4.200	0.650	3.35	-0.287
STA	3.475	0.0468	0.025	3.333	0.740	4.00	0.140
COM	3.427	0.0447	0.073	3.500	0.707	4.67	0.306
REG	3.651	0.0475	-0.151	3.750	0.752	4.25	0.159

Source: own study.

Five items (B1, B3, B11, B13 and B21)² constituted "Ethical conduct toward the environment" (ENV). The ENV mean value was 4.154, a 0.654 "negative" deviation from the measuring instrument average of 3.5. A "negative deviation" implies that the opinion of the respondents toward this construct was negative (albeit slightly), therefore respondents were of the opinion that organisations did not behave in the best interests of the environment. "Ethical conduct toward staff" (STA) comprised four items (B4, B6, B8 and B10). The STA mean was 3.475, a 0.025 deviation to the "positive" side of the scale. "Positive deviation" implies that the opinion of the respondents toward this construct was positive (albeit very slightly), thus respondents were of the opinion that organisations behave in the best interests of their staff. "Ethical conduct toward the community" (COM) consisted of six items (B12, B14, B16, B20, B22, B23). The COM mean value was 3.427, a 0.073 "positive" deviation. "Ethical conduct toward regulators" (REG) consisted five items (B7, B9, B17, B18 and B24). The REG mean was 3.651, representing a 0.151 deviation to the "negative". COP was deemed internally unreliable and was discarded. No further statistical analysis was applied to this construct.

² See Appendix A for the wording of the items in section B of the questionnaire

When viewing the nature of the distribution of the data, one can see that the median and average (mean) for each construct are very close together. Variances for each construct are also small. Furthermore, skewness per construct is smaller than 1. All of these are indicative of a relatively normal distribution of data. As can be expected, data is quite diverse in terms of distribution of responses, but there is a marked concentration of 50% of the responses around the median and mean, indicating a spike in the distribution around the mean and median. The concentration of responses is quite important, as this shows that the mean is representative of a large percentage of the responses.

The deviations are quite small (ranging from 0.025 to 0.654) and, as such, can be seen to be neutral and meaningless. This argument has merit, but in the context of this study, event neutrality is meaningful, as it would represent something other than what the organisations profess in terms of ethical conduct.

Initially it was decided to perform exploratory factor analysis on the data. However, when the factor analysis results were reviewed, no clear categorisation was evident in the data and it was decided to discard these results and to concentrate more on the testing of the constructed hypotheses. The inconclusive results of the factor analysis do not suggest that the findings are invalid, but rather suggest that the boundaries between different stakeholder groupings are not clear, a sentiment portrayed in literature (Carroll, 1999; Griseri & Seppala, 2010; Volberda *et al.*, 2011).

Hypothesis Testing

To prove whether the “positive” and “negative” mean deviations are statistically significant and not the result of coincidence, the findings are subjected to one sample t-tests. This would also serve as basis for rejecting or not rejecting the hypotheses associated with the exploratory model.

Table 4. One sample t-test

Construct	Test Value = 3.5					
	T	Df	Sig. (2-tiled)	Mean difference	95% confidence interval of the difference	
					Lower	Upper
ENV	15.936	250	0.000	0.653	0.573	0.734
STA	-0.541	250	0.589	-0.025	-0.117	0.067
COM	-1.639	250	0.102	-0.073	-0.161	0.015
REG	3.183	250	0.002	0.151	0.058	0.245

Source: own study.

Table 4 indicates that, Ethical treatment of the environment (ENV) and Ethical conduct toward regulators (REG) have t-values of larger than 2 and significance levels of <0.05, indicating statistical significance for these constructs. The deviation for STA and COM from 3.5 has no statistical significance and can be ascribed to coincidence. Thus the stated hypotheses for these constructs can be neither rejected nor confirmed.

It must be noted that it was imperative to collect data from respondents who have work experience, as it was felt that this would lead to more informed responses concerning organisations' ethical behaviour. As was indicated in Table 1, 78.4 % of the

sample had some work experience, and 21.6 % had no work experience. It can be argued that the opinions of students with no work experience could skew the responses. The decision was therefore made to disaggregate the sample into those with work experience and those with no work experience and to subject each group to the one sample t-test in an effort to see if there would be any notable differences in the opinions of the two groups (see Tables 5 and 6).

Table 5. One sample t-test for respondents with no work experience

Construct	Test Value = 3.5					
	T	Df	Sig. (2-tiled)	Mean difference	95% confidence interval of the difference	
					Lower	Upper
ENV	6.905	53	0.000	0.615	0.436	0.793
STA	-0.441	53	0.661	-0.049	-0.274	0.175
COM	-0.186	53	0.853	-0.019	-0.218	0.181
REG	2.171	53	0.034	0.218	0.017	0.419

Source: own study.

Table 6. One sample t-test for respondents with work experience

Construct	Test Value = 3.5					
	T	Df	Sig. (2-tiled)	Mean difference	95% confidence interval of the difference	
					Lower	Upper
ENV	14.347	196	0.000	0.664	0.573	0.756
STA	-0.364	196	0.716	-0.019	-0.119	0.082
COM	-1.762	196	0.080	-0.089	-0.187	0.011
REG	2.463	196	0.015	0.133	0.027	0.239

Source: own study.

It is clear from Tables 5 and 6 that the results for the one sample t-test for those respondents without work experience practically mirrors the results of the one sample t-test for those respondents with work experience. Respondents with work experience responded the same as those respondents without work experience. Therefore, work experience is not a prerequisite for business and management students to be able to provide informed responses pertaining to the ethical conduct of business organisations.

Table 7. Effect sizes (Cohen's d) per construct

Construct	Effect size	Meaning
ENV	1.00	Large
STA	-0.03	Small
COM	-0.10	Small
REG	0.21	Small

Source: own study.

However, statistical significance only proves that the findings are not the result of coincidence, but this does not imply that these findings are meaningful. Again, one needs to calculate the effect size for these results to be able to deduce meaningfulness of the

data. Cohen's d was used to calculate the effect size for the one sample t -test (Cohen, 1988). To interpret the effect sizes, a value of 0.2 to 0.5 is regarded as small, 0.5 to 0.8 is medium and 0.8 and above is large³. The effect sizes are portrayed in Table 7.

With the exception of ENV, all effect sizes are small. Thus, only the opinion expressed toward organisations' ethical treatment of the environment (ENV) can be viewed as a meaningful opinion.

The following can therefore be concluded as far as the stated hypotheses are concerned:

- **ENV**: Hypothesis not rejected and alternative hypothesis not supported;
- **STA**: Statistically insignificant results;
- **COM**: Statistically insignificant results;
- **REG**: Hypothesis not rejected and alternative hypothesis not supported;
- **COP**: Inconclusive, as the construct was deemed unreliable.

Discussion of Findings

The statistical analysis for this study can be summarised as follows (Table 8):

Table 8. Summary of statistical analysis

Construct	Reliable Construct?	Opinion	Statistically significant?	Effect size
ENV	Yes	Negative	Yes	Large
STA	Yes	Positive	No	Small
COM	Yes	Positive	No	Small
REG	Yes	Negative	Yes	Small
COP	No	N/A	N/A	N/A

Source: own study.

The findings indicate that the following opinions are statistically significant:

- Respondents are of the opinion that business organisations do not act in the best interests of the environment or the community at large.

Also, the following opinions are meaningful from a practical point of view:

- Respondents are of the opinion that business organisations do not act in the best interests of the environment.

Therefore, in summary, two of the constructs presented (ENV and REG) seem not to reject the stated hypotheses, although one should take into account that effect sizes do not always indicate that these measures are meaningful.

CONCLUSIONS

From the above discussion, the exploratory model can be confirmed as in Figure 2.

³ The terms 'small, medium, and large' are relative, not only to each other, but also to the area of behavioural science and to the specific context and research method being employed.

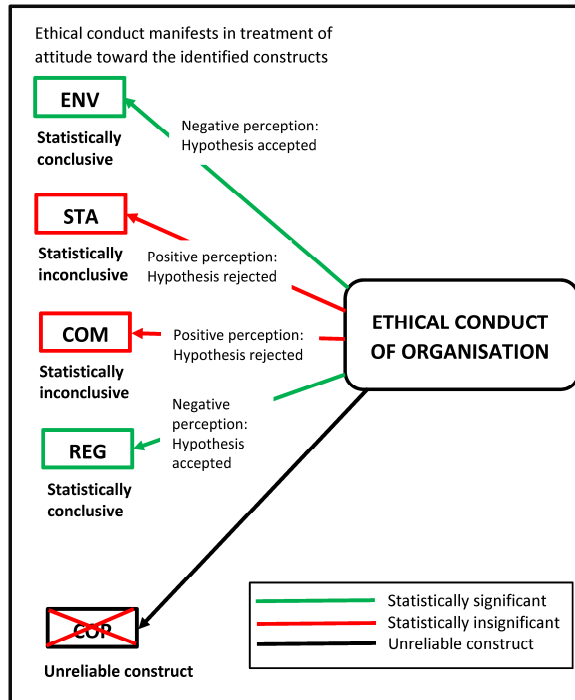


Figure 2. Confirmation of exploratory model

Source: own study.

The ethical conduct of South African organisations towards the physical environment (ENV) and their ethical conduct towards regulatory bodies (REG) are questioned by a large percentage of respondents. There is, therefore, mistrust amongst many respondents toward the intentions of organisations to comply and serve the interests of the environment legally. The findings tend to converge on the notion that organisations act in their own best interest. As far as STA and COM are concerned, findings reveal that the students surveyed have a more lenient view how organisations treat their staff and the community at large. However, these findings are not statistically insignificant. This does not mean that what was reflected is necessarily incorrect, but rather that it cannot be proven that this sentiment is more than coincidence. As already mentioned, COP was deemed unreliable. This does not imply that ethical conduct in competition is not important, but rather that the way the items pertaining to that specific construct were formulated was not properly understood by respondents.

Recommendations and Managerial Implications

Before recommendations and managerial implications are presented, it might be prudent to reiterate the fact that although the sample consisted of students, 73% of the sample were employed, and as a consequence the inferences drawn from the sample do not only represent the views of students, they also represent a view of employees, although these employees happen to be studying at the time. It is also possible that a small number of respondents are business owners, therefore employers.

From this study, it is evident that there is a disconnect between what organisations are professing to be doing in terms of ethical conduct toward different stakeholders, and how students perceive these actions, hence the following recommendations.

A business is able to sustain itself by having managers and employees who are able to act morally and ethically. Managers must recognize and acknowledge the dignity and human rights of all stakeholders. It is necessary to formulate ethical codes so as to keep employees on a sound moral course and to maintain high ethical standards. Moral values cannot be disregarded as these drive honesty and make way for strong social inclusiveness. Managers and employees need sets of values to guide their conduct and should be involved in the formulation of these codes. This needs to be collaborative process. Companies should develop sustainable partnerships with their communities and companies must honour their moral obligation to society, the environment and all other stakeholders in their business.

People often think of ethics as a list of rules, such as the Ten Commandments. The assumption is then that if something is not expressly prohibited, there is no need to worry about ethics. However moral behaviour is the obligation to look beyond self-interest and to focus on the concerns of others. Although idealistic, ethics should form an integral part of undergraduates' study in Business and Management as this would hopefully lay the foundation for moral behaviour amongst future business leaders.

The study also indicates that respondents had a negative perception about ethical conduct of business organisation, in terms of two of the reliable constructs presented in this study. Therefore organisations should highlight instances where the organisation has taken the moral high ground in their business dealings. This in turn will be a benefit and could be incorporated in the corporate marketing strategies of organisations.

Limitations and Areas for Future Research

The most obvious limitation of the study is the fact that the sample was drawn from one specific location. Therefore the findings are not representative on a national level, but reflect only the views of those who participated in the study. However, on an exploratory level, the findings remain insightful. Also, the sample was drawn from the ranks of students studying some form of Business Management qualification. It could therefore be argued that surveying respondents on a topic related to their field of study could lead to some level of response bias. Attitudes of students not studying Business Management could therefore have been different, but then again, students not in the field of Business Management might not be familiar with the notion of business ethics at all.

As an exploratory study, the measuring instrument needs refinement. Working on the reliability of the measuring instrument highlighted that certain items need to be excluded and other items need their alternatives reversed. Also, the construct of ethical conduct in competition (COP) needs to be totally redesigned. This highlights the difficulty in measuring the concept of competition, as the concept has different meanings for different people.

Also, the study needs to be taken wider, not only on a local level, but also on an international level. Collecting data from numerous countries could show the sentiment toward the ethical intentions of organisations in different parts of the world. Interestingly, the study also suggests that there is no difference in opinion between students with work experience and students without work experience. Whether this

means that all opinions are informed ones or that all opinions are naïve ones, is not known and could be the point of departure for further investigation.

There are many reasons why businesses may act unethically. Greed and the total disregard for business codes of conduct are but two reasons. In Africa, some managers are simply not willing to transform their enterprises in terms of ethical practice, and thus disregard what is in essence managerial wisdom in practice. According to the United Nations, corruption is rife in most African countries and this fact undermines the prospects for economic investments on the continent by foreign firms. Further research should be undertaken as to the implementation of good ethical principles.

Final Remarks

It would seem, from this study at least, that there is evidence to suggest that people perceive the ethical conduct of organisations in a negative light. This does not bode well for organisations in an era when the role and function of the organisation, as an entity that can contribute positively to society, has been seriously questioned. Rossouw and Van Vuuren (2006) quote six myths as far as business ethics are concerned. These include the myth that the organisation pursues profit at all cost. However, based on what has been revealed in this study – although exploratory – evidence suggests that this myth can perpetuate if South African business organisations do not realise what their stakeholders actually think of them.

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Appendix A: Items constituting Section B of the measuring instrument

1. Organisations are serious about protecting and caring for the environment
2. Society perceives organisations as competing fairly
3. Organisations dedicate a lot of resources to eliminate wastage and pollution
4. Organisations require staff to perform tasks that they are not comfortable with
5. Organisations actively consult with their communities concerning their business activities and the impact thereof on these communities
6. Society perceives organisations to act in the best interests of their employees
7. Organisations are “citizens” of society and, therefore, act as good citizens
8. Organisations value the efforts of their staff in terms of the work they do
9. I trust organisations’ intentions of acting ethically
10. Organisations care about the well-being of their staff
11. Society believes that organisations act in the best interests of the environment
12. Organisations commit time and resources (i.e. take action) to the social challenges society faces (such as crime and HIV-AIDS)
13. Organisations will only act in the best interest of the environment if it promotes their business
14. Society perceives organisations to act in the best interest of society
15. Profit is of primary importance to an organisation
16. Organisations commit time and resources (i.e. take action) to the economic challenges society faces (such as unemployment and the impact of poverty)
17. An organisation is only accountable toward its shareholders
18. Organisations are truly committed to being good corporate citizens
19. An organisation has to put everything on the line to outsmart its competitors
20. Organisations are aware of the social challenges society faces (e.g. crime and HIV-AIDS)
21. Organisations put the interests of the environment above the interests of their shareholders
22. Organisations care about the difficulties faced by their communities
23. Being a good corporate citizen enhances organisational learning which, in turn, enables the organisation to understand the market it operates within much better
24. People in general trust organisations’ intentions of acting ethically
25. Organisations are aware of the economic challenges society faces (such as unemployment and the impact of poverty)

All items were measured using the six point scale below:

Always	Very often	Often	Seldom	Very seldom	Never
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The contribution share of authors is equal and amounted to 50% each of them.

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The Role of Social and Psychological Factors on Entrepreneurial Intention among Islamic College Students in Indonesia

Wahibur Rokhman, Forbis Ahamed

ABSTRACT

Objective: This study explores the influence of social and psychological factors on entrepreneurial behaviour among students studying at Islamic college of Kudus, Central Java, Indonesia.

Research Design & Methods: Three hundred undergraduates that represent four faculties were selected using cluster-sampling technique for the investigation. Descriptive statistics and multiple regression technique were used to analyse data.

Findings: Results revealed that both social factors such as family background, education system and social status and psychological factors like need for achievement, propensity to risk and locus of control are quite prominent and significant indicators to become entrepreneurs.

Implications & Recommendations: The study discovered that all the social attributes have impacts on entrepreneurship intention. University students who are properly trained can obviously play a leading role in this regard. This study is useful in identifying suitable students for any entrepreneurial activity in future. With the support of government, they can promote entrepreneurial culture in the country.

Contribution & Value Added: Research on student entrepreneurship has intensified in some countries, but few have explored Islamic students in Indonesia.

Article type: research paper

Keywords: social factors; psychological factors; entrepreneurial intention

JEL codes: A13, L26

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INTRODUCTION

Since the beginning of the 1980s, the interest in entrepreneurship has been growing around the world (Klofsten, 2000). Entrepreneurship is becoming a very relevant instrument to promote economic growth and development in different regional and national economies. The main factors contributing to this interest was the suffering of industrialized countries from economic recession, high unemployment rates and fluctuation in international trade cycles which most of these countries have not experienced before. This situation has tended to increase the attention paid to the potential role of entrepreneurs (Garavan & O’Cinneide, 1994) as one of the possible solutions to the problems faced by most of the countries because the growth of entrepreneurial activities can help in creating jobs for the society and reducing the unemployment rate (Azhar, Javaid, Rehman & Hyder, 2010).

The economic function of entrepreneurs allows us to highlight their important role as development agents. The entrepreneurs are responsible for the promotion of enterprises and businesses; they infuse dynamism in economic activity, manage organizational and technical changes and promote innovation and learning culture. Entrepreneurship is an attitude that reflects an individual’s motivation and capacity to identify an opportunity and to pursue it, in order to produce new value or economic success (Ajzen, 1991).

However, social scientists have not still agreed on the determinants of the decision to become an entrepreneur. Early research in this regard has been focused on psychological characteristics and traits of individuals as antecedents of new venture creation and factors of venture success. Moreover, the most scholars mention educational systems, socio-cultural and economic factors as having a strong influence on the development of entrepreneurial behaviour of a given society.

Lerner and Pines (2011) emphasise five perspectives and the demographic variables, which refer to the individual level variables, and which are expected to be differentially associated with performance. These five perspectives are: (a) motivations and goals, (b) entrepreneurial socialization, (c) network affiliation, (d) human capital, and (e) environmental factors. Similarly, Haftendorn and Salzano (2003) stress sociocultural factors due to the fact that there are cultures that encourage entrepreneurial behaviour – curiosity, motivation by success, willingness to take risk, identification of opportunity and tolerance of uncertainty; tend to promote entrepreneurship development while some other cultures that are against these entrepreneurial behaviours are less likely to develop entrepreneurship.

Therefore, the main objective of this paper is to examine the factors that affect entrepreneurial intentions of undergraduate university students. Two factors this study is focused on were: social and psychological factors that influence on entrepreneurial intention among student at State Islamic College (STAIN) Kudus, Indonesia.

LITERATURE REVIEW

The term entrepreneurship originated from the French word “Entrepreneur”. Entrepreneurs are also known as self-employed people. There is no fix definition for

entrepreneurs since people from different field of study perceived and defined it differently. An economist defines an entrepreneur as one who brings resources, labour, materials, and other assets into combinations that make their value greater than before, and also one who introduces changes, innovations, and a new order. While to a psychologist, entrepreneur is typically driven by certain forces such as needs to obtain or attain something, to experiment and to accomplish targeted goal. To businessmen, an entrepreneur may be a threat, an aggressive competitor but may also be an ally, a source of supply, a customer, or someone who creates wealth for others as well as finds better ways to utilize resources, reduce waste, and provide jobs to others (Hisrich, Peters & Shepherd, 2005).

Entrepreneurship is the dynamic process of creating incremental wealth. The wealth is created by individuals who assume major risks in terms of equity, time and career commitment or provide value for some products or services. The product or service may or may not be new or unique, but values must at least be infused by the entrepreneur by receiving and allocating the necessary skills and resources (Gumpert & Stevenson, 1985). Entrepreneurship is the process by which individuals pursue opportunities regardless to the resources they currently control and also the art of turning ideas into a business (Barringer & Ireland, 2010).

Almost all definition of entrepreneurship point out a kind of behaviour that include: (1) the initiative taking, (2) the organizing and reorganizing of social and economic mechanisms to turn resources and situations to practical account, and (3) the acceptance of risk or failure (Kirzner, 1979). According to Ajzen (1991), intention is the immediate antecedent of behaviour. He claimed that behaviour is not performed mindlessly but follows reasonably and consistently from the behaviour-relevant information and behaviour reinforced by rewarding events and weakened by punishing events.

So far, many studies on college students' intention to become entrepreneurs have been conducted in Indonesia. Christian (2000) studied Batak students' intention to be entrepreneurs and found that 65% of the respondent had intention to be entrepreneurs. Another study on Balinese students' intention showed that out of 105 respondents, 39.5% stated their intent to be an entrepreneur and 35% more stated their desire to be entrepreneurs (Lie, 2004). Similar study done by Gerald (2006) on Javanese students' intention to be entrepreneurs found that out of 194 respondents, 30.4% stated their intent to be entrepreneurs and 22% stated their desire to be entrepreneurs. However, no studies have been found that investigate entrepreneurial intention of college student with Islamic educational background.

Entrepreneurship education attempts to develop in the participants (students or trainees) intention to perform entrepreneurial behaviours, entrepreneurial knowledge and desirability of the entrepreneurial activity. There are various entrepreneurial education scopes and structures among higher education institutions in Malaysia. College students are trained as preparation to enter the business world according to their areas of study. However, whether they would be officers or entrepreneurs after graduation would be determined by their intent. An intention is an anticipated outcome guided by planned actions. The theory of planned behaviour emphasises links between attitudes and behaviours (Ajzen, 1991). Intentions predict deliberate behaviours because behaviour can be planned. Intention is assumed to take hold of emotional factors that

influence behaviour and indicate one's effort to try to perform intentional behaviour. In the context of entrepreneurship, intension is identified as the important driver for establishing an organization (Katz & Gartner, 1988) and as a predictor of new reliable enterprise (Krueger, Michael & Casrud, 2000).

According to Birley & Westhead (1993), the importance of entrepreneurial education is to help:

- to find solutions to problems or needs;
- to accept and respond to changes;
- to adjust to an increasingly global, competitive economy (aspects of tradition and the past may be left behind);
- to find new ways to solve social problems;
- to improve performance;
- to stimulate new business and the economy (new jobs and employment opportunities);
- to inspire and enhance opportunities for women, youth, elderly, minority groups;
- to move to an information society where the strategic resources are information, knowledge and creativity;
- to help workers shift to a service industry base from manufacturing and industrial base;
- to help reduce the number of failed business ventures.

Entrepreneurial intentions of university students in various cultural contexts indicated that the encouragement from university environment affects the entrepreneurial confidence of university students (Autio, Keeley, Klofsten, Parker & Hay, 1997). Educational support through professional education in universities is an efficient way of obtaining necessary knowledge about entrepreneurship. This is supported by the study done by Wang and Wong (2004) who pointed out that those entrepreneurial dreams of many students are hindered by inadequate preparation of the academic institution.

The school and education system also play a critical role in identifying and shaping entrepreneurial traits (Ibrahim & Soufani, 2002). Other studies have pointed out that entrepreneurship education, especially education that provides technological training is crucial to enhance entrepreneurs' innovation skills in an increasingly challenging environment (Galloway & Brown, 2002; Garavan & O'Cinneide, 1994).

Nevertheless, social scientists have not still agreed on the determinants of the decision to become an entrepreneur. Early research in this regard has been focused on psychological characteristics and traits of individuals as antecedents of new venture creation and pertaining factors (McClelland, 1961), risk taking propensity (Brockhaus, 1982), locus of control (Sexton & Bowman, 1983), tolerance for ambiguity (Teoh & Foo, 1997), etc. On the basis of previous studies explained above, one should conclude that the area of this study covers demographic profiles, attitudinal and behavioural factors, and how these influence the intentions of students to become entrepreneurs.

Further studies may be needed to justify that some structural change in the educational system is needed to promote the entrepreneurial spirit, desire and intention among the graduates due the following reasons (Baharu, 1994):

- entrepreneurial training is lacking in the early education;
- most of the courses available are preparing students or graduates to be a knowledgeable employee instead of being an employer;
- the career education is not effective in shaping more entrepreneurs and to expose them to the business opportunities in making self-employment a career choice;
- the educational programs and trainings provided shall help to develop certain characteristics of entrepreneurship besides the knowledge and technical know-how for the business venture;
- an effective and flexible teaching program, appropriate teaching materials, sufficient research and reference materials shall be made available in the entrepreneurial education;
- certain policy framework is needed for implementing entrepreneurship education at national level, to improve the quality and effectiveness of the program, to open up such education and training to all and to make those programs easily accessible.

Wang & Wong (2004) examined the entrepreneurial interest in Singapore and they determined the inadequate knowledge and perceived risk as significant indicators. Bhandari (2006) found that luck and ability to lead other people were significant variables for entrepreneurial intention among Indian university students. Gürol and Atsan (2006) investigated the entrepreneurial characteristics among fourth year students only from two Turkish universities and their analysis results exhibited that students who had higher risk taking propensity, internal locus of control, higher need for achievement and innovativeness were more entrepreneurially inclined students. Lee and Tsang (2001) suggested that customized approaches based on unique cultural context were needed for effective entrepreneurship education.

MATERIAL AND METHODS

Hypotheses

Social Factors

Some previous research has identified that although many of the students desire to run their own businesses, their dreams are hindered by inadequate preparation. Knowledge is insufficient for such kind of decision. Noel (1998) found that entrepreneurship education is strongly related to entrepreneurial intention, with entrepreneurship majors expressing higher intentions to start their own businesses. In this regard, another important factor, which has often discussed, is family's business background. Self-employed parents affect the entrepreneurial interest as well as the career choice of their children. Scott and Twomey (1988) reported that students whose parents owned a small business demonstrated the highest preference for self-employment and the lowest for employment in a large business.

Brown (1990) also observed a similar phenomenon in the UK when conducting a training program to assist undergraduates in starting their own business. He found that 38% of the pre-selected students (who were very much interested in starting own business) had fathers with their own businesses. On the other hand, Brenner, Pringle & Greenhaus (1991) found the influence of parental role on entrepreneurship propensity of U.S. business school undergraduates was insignificant. Ghazali, Ghosh & Tay (1995)

reported a similar observation on the self-employment choice of graduates in Singapore. The most detailed analysis so far is the study by Matthews and Moser (1995) that used longitudinal investigation for US graduates. They found the family background factor to be significant itself; prior exposure to entrepreneurship in practice, both direct and indirect through their family background in business, is significantly linked to their attitudes, norms, and perceived behavioural control regarding entrepreneurship. On the other hand, a prior research has found that in Singapore many self-employed persons are small store owners and may not be very wealthy. As such we developed a hypothesis to show the relationship between the social factors and the entrepreneurial intention.

- H1:** There is a positive relationship between social factors and entrepreneurial intention.

Psychological Factors

Personality traits have proven to be predictors of many aspects of entrepreneurship (Shaver & Scott, 1991). Personality traits, known as trait theory, refer to personal characteristics of entrepreneurs. Personality traits have been divided into few categories: first, need for achievement, according to Sagie and Elizur (1999), McClelland's need for achievement theory highlighted that need for achievement is one of the strongest psychological factors influencing entrepreneurial behaviour. Individuals with high need for achievement have a strong desire to be successful and they are more likely to be entrepreneurs. McClelland (1961) suggested that individuals who possess a strong need for achievement are more likely to solve problems by themselves, set challenging goal, and strive to achieve it by their own efforts. Individuals with high need-for-achievement will contribute more in entrepreneurial activity (Tong, Tong & Loy, 2011). They are able to perform better in challenging tasks and discover innovative ways to enhance their performance (Littunen, 2000). From the result of Tong *et al.* (2011), need for achievement is the strongest predictor of entrepreneurial intention.

According to the trait approach one characteristic an entrepreneur should have is the ability of taking risk. Colton and Udell (1976) recommended that the risk-taking trait, along with creativity and flexibility, is a better indicator of the likelihood of starting a business than is achievement motivation. Studies generally support the notion that propensity to risk is predispositional, is not simply a situational variable and, subsequently, there is a strong evidence for a propensity for risk-taking (Jackson, Hourany & Vidmar, 1972). Differently put, an entrepreneur must take risk to establish a business venture. Types of risk an entrepreneur faces are financial risk, management risk and personal risk (Gartner, 1990).

A large number of studies on qualitative aspects of entrepreneurs have focused on the psychological characteristics and personality traits, which differentiate successful entrepreneurs from unsuccessful entrepreneurs. Here we mainly narrowed the psychological factor into 'attitudes', 'believes', and 'goals' of individuals. Previous researches have demonstrated that individuals do consider risk, independence and income when evaluating alternative career options on the point of entrepreneurship. Further, they have found that the intention to be an entrepreneur is stronger for those with more positive attitudes to risk and the more positive their attitude to decision-making autonomy, the stronger is their stated intention to be an entrepreneur.

Locus of control is a psychological characteristic that is related to the ability of individuals to control the events of life. Individuals with strong internal locus of control believe that they are able to control life's events while individuals with external locus of control believe that life's events are the result of external factors, such as chance, luck or fate (Hay, Kash & Carpenter, 1990; Millet, 2005). Those individuals with a higher internal locus of control are deemed to be self-employed (Bönte & Jarosch, 2011) and have high motivation to improve the efficiency of work (Göksel & Aydintan, 2011) than those with strong external locus of control. The former have the ability to control the environment through their action and they are willing to take risks (Mueller & Thomas, 2000). Gürol and Atsan (2006); Khan, Ahmed, Nawaz & Ramzan (2011) found that with internal locus of control, the students will perform good attitude against entrepreneurial intention and high possibility to become an entrepreneur. Hence, it can be concluded that the higher the internal locus of control of undergraduates, the higher the entrepreneurial intentions.

Douglas and Shepherd (2002) have confirmed that those with a higher entrepreneurial intention are associated with a “more positive” attitude toward risk and independence. Thus, high entrepreneurial intention is found among those people who gain less disutility from risk and more utility or less disutility from independence. Also Douglas and Shepherd (2002) have further substantiated that the person with more positive attitude to interdependence would jump into self-employment more readily, since the availability of sufficiently remunerative opportunities is more likely to be forthcoming for that person. Conversely, the person with a less positive attitude to independence needs to await more remunerative self-employment opportunities, other factors being equal. As such we established a hypothesis to show the relationship between the psychological factors and the entrepreneurial intention. Figure 1 shows its graphical conceptualization.

H2: There is a positive relationship between psychological factors and entrepreneurial intention.

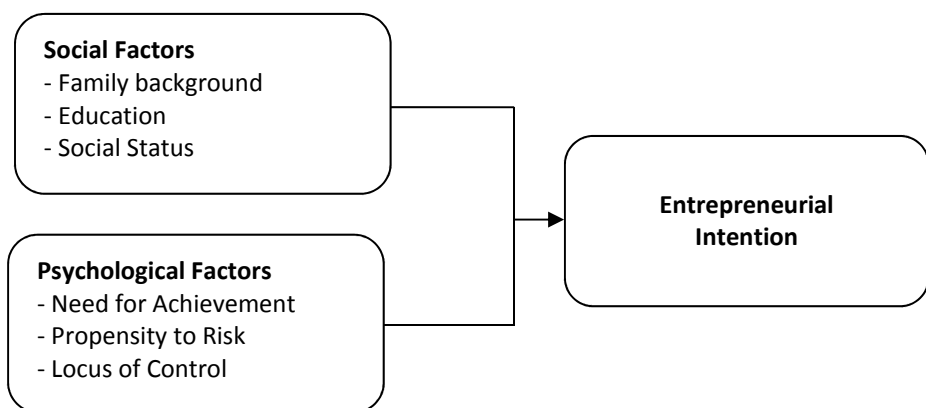


Figure 1. Conceptual Framework

Source: own study.

Research Methods

This study was carried out through a survey method, with use of questionnaires. The population for this study consisted of all students at the undergraduate level registered during the academic year 2013-2014 at State Islamic College, Kudus, Indonesia. The sampling method employed for this study was cluster sampling which divided samples based on four faculties in this College. Data for the study was collected using a standard questionnaire. The questionnaire consisted of two parts: the first part consisted of questions on demographic profile of the respondents. The second part had 21 items questions covering: entrepreneurial intention (4), psychological factor (9) and social factors (8). The respondents were asked to state their agreement/disagreement on statements on a 5-point Likert scale with (1 = strongly disagree, 5 = strongly agree).

RESULTS AND DISCUSSION

In this section, the data analysis is presented. There were 300 questionnaires collected from four different faculties in STAIN Kudus namely Islamic education, Islamic law, Islamic Theology, and Preaching and Islamic information. The questionnaires were coded for statistical analysis using the SPSS 14.0 to analyse profile of the respondents, descriptive statistics of the variables, and inter-correlations of the variables.

Table 1. Profile of respondents

Demographic Variables	Frequency	Percentage
Gender		
Male	126	42
Female	174	58
Age		
17-19	78	26
20-23	201	67
24-25	21	7
Faculty		
Islamic Education	75	25
Islamic Law	76	25
Islamic Theology	75	25
Preaching and Islamic Information	74	25
Monthly Income of Household Head (Million IDR)		
1- 2	187	62
2.1 –5	90	30
5- above	23	8
Occupation of Household Head		
Farmer	103	34
Entrepreneurs	110	37
Employee	29	10
Teacher	17	6
Government staff	17	6
Others	24	7
Total	300	

Source: own study.

Table 1 reveals that 42 % (126) of the respondents were male, while 58% (174) were female. This implies that more females than males were participating in the study. Majority (67%) of the participants were 20-23 years old as 26 % participants were 17-19 years of age, and 7% of the rest of participants were between 24-25 years old (see Table 1 for the details profile's of respondents).

The table below (Table 2) explained the means (M), standard deviations (SD), and the correlation coefficients among the study variables. Among the factors, the mean values was counted to be the lowest in (M=3.34, SD=.53) and the highest in (M=3.90, SD=.87) while it was observed (M=3.79, SD=1.03). It is obvious from the table that all r values range from 0.33 to 0.46 and the correlations were found to be statistically significant at ($p < 0.01$) level.

Table 2. Means, standard deviations, and correlations between variables

Variable	Mean	SD	EI	PF
1. Entrepreneur Intention (EI)	3.90	0.87	1.00	
2. Psychological Factors (PF)	3.34	0.53	0.355**	1.00
3. Social Factors (SF)	3.79	1.03	0.460**	0.337**

Notes: **=significant at $p < 0.01$

Source: own study.

To address the purpose of the study, the proposed hypotheses were tested using regression analyses. The result of simple linear regression analyses are summarized in Table 3. As expected (H1) the regression results revealed that social factor is a significant predictor of entrepreneur intention as hypothesized ($R^2 = 0.216$, $p < 0.01$). The finding also supported H2 which predicted a positive relationship between psychological factor and entrepreneur intention. The psychological factor scores explained about 34.6% of variation ($F = 23.79$, $p < 0.01$) in entrepreneur intention perception.

Table 3. The result of regression analysis

Independent Variables	Entrepreneur Intention			
	Dependent Variable	R^2	F change	(β)
– Psychological Factor		.216	17.97**	0.210**
– Social Factor		.346	23.79**	0.246**

Note: ** $p < 0.01$

Source: own study.

CONCLUSIONS

The purpose of the study was to investigate the relationship between social factor and entrepreneurship intention and the relationship between psychological factor and entrepreneurship intention among Islamic college students in Kudus, Indonesia. The study hypothesized that there is a significant relationship between social factor and entrepreneurship intention. In addition, the study posited a relationship between psychological factor and entrepreneurship intention. In general, the results of the analysis provide empirical supports for these hypotheses.

The result obtained showed that psychological factors and social factors have a strong indication of entrepreneurial intention. This study was in line with the finding of

McClelland (1961); Shaver and Scott (1991), and Sama-Ae (2009). These studies found that psychological characteristics of entrepreneurs have received particular attention all over the world. Psychological factor has attempted to characterize important variables such as personality, attitudes, demography, and behaviour as important measurement in the real entrepreneur practices (McClelland, 1961). Moreover, social factors have direct impact on many entrepreneurial activities including the intention to launch a new business, success in business, and enhance entrepreneurial set up. Thus, these factors are important to determine the entrepreneurial characteristics among students and which characteristics might influence them to be entrepreneurs (Taramisi Sama-Ae, 2009). In conclusion, this study found that psychological factors such as familial background, personality trait and self-efficacy of the respondents are very connected with entrepreneurial intention. It is therefore, indispensable for counselling practitioners to make use of these variables while counselling.

Several implications could be gleaned from the outcome of this study. Prominent among these is the need for family support for improving entrepreneur intention among university students. Additionally, the study discovered that of all the social attributes such as need for achievement, propensity to risk and locus of control have significant impacts on entrepreneurship intention. Entrepreneurship has a significant position in the rapidly changing socioeconomic scenarios of the world. The present research might stimulate further research work in the field. The specially designed measuring instrument developed by the researchers could be helpful for future investigators. By taking into account the example of other developed countries, Indonesia could boost its economy through entrepreneurial promotion.

University students those who are properly trained can obviously play a leading role in this regard. This study is useful in identifying suitable students for any entrepreneurial activity in future. With the support of government, they can promote entrepreneurial culture in the country.

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The contribution share of authors is equal and amounted to 50% each of them.

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The Significance of Social Welfare Attitudes in Young People's Entrepreneurial Intentions

Teemu Rantanen, Agnieszka Pawlak, Timo Toikko

ABSTRACT

Objective: The present study analyses young people's entrepreneurial intentions in Finland and Poland. Previous surveys have shown that the desire to become an entrepreneur is stronger in between Polish people than in between Finnish people.

Research Design & Methods: By exploring the social psychological factors that explain young people's entrepreneurial intentions, the study particularly sought to determine whether the differences in entrepreneurial intention can be explained by social welfare attitudes. Survey respondents were 725 Finnish and 887 Polish students.

Findings: Finnish and Polish young people approach entrepreneurship in quite different ways. Finnish young people appreciate entrepreneurs at a general level, but do not consider becoming entrepreneurs themselves, while the Poles think about entrepreneurship in the opposite manner. Furthermore, the results show that Finnish people's trust in society is much stronger than that of their Polish counterparts.

Implications & Recommendations: Influencing young people's confidence in their abilities and skills is more important than trying to influence general attitudes about entrepreneurship. Thus, entrepreneurship education has a key role in supporting young people's entrepreneurship. National differences in intentions and in appreciation of entrepreneurship can be explained by societal and historical factors.

Contribution & Value Added: Entrepreneurial intention is typically explained by psychological, economic, and cultural factors, and by social capital. Study results show that social political factors are also important in explaining entrepreneurial intentions.

Article type: research paper

Keywords: entrepreneurial intention; Theory of Planned Behaviour; social attitudes; social welfare

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INTRODUCTION

The importance of entrepreneurship, which is considered a core factor in the competitiveness of a society, national economy, and regional development, has been highlighted in many recent resolutions in Europe. Moreover, the significance of entrepreneurship has been underlined as a means of employment at individual level. At the same time, the promotion of entrepreneurship and entrepreneurship education has emerged as an important societal effort.

Considerable research activity in the field of entrepreneurship education has been conducted since the early 1980s (Kuratko, 2005). Within the context of entrepreneurship education and new-venture creation, the concept of entrepreneurial intention plays a central role. In the Shapero-Krueger model, intention is explained by perceived desirability and perceived feasibility (Krueger *et al.*, 2000). According to several studies, Ajzen's (1991, 2001) theory of planned behaviour has been effective in explaining entrepreneurial intention and activity (e.g., Goethner, Obschonka, Silbereisen & Cantner, 2012; Liñán, 2008; Liñán & Chen, 2009; Moriano, Gorgievski, Laguna, Stephan & Zarafshani, 2012; Walker, Jeger & Kopecki, 2013).

Many cultural and economic factors have an impact on entrepreneurial intention and entrepreneurship. According to Mueller and Thomas (2001), a supportive national culture will, all things being equal, increase the entrepreneurial potential of a country. In particular, the importance of individualism is highlighted in terms of entrepreneurial intention (e.g., Liñán & Chen, 2009; Mitchell, Smith, Seawright & Morse, 2000; Siu & Lo, 2013). However, Tiessen (1997) argues that, while individualistic values lead to new venture creation and innovation, collectivist values allow a firm to leverage its resources.

According to Global Entrepreneurship Monitor (GEM) study, an explanation of national differences in entrepreneurial intention refers to differences between innovation-driven economies and efficiency-driven economies (Xavier, Roland, Jacqui, Herrington & Vorderwulbecke, 2013). Noorderhaven, Thurik, Wennekers & van Stel (2004) found that GDP per capita has a negative impact on self-employment, while many researchers have argued that entrepreneurial activities are based on the common effects of cultural, social, and economic factors (e.g., Freytag & Thurik, 2007; Lee & Peterson, 2000). Fitzsimmons and Douglas (2005) particularly emphasize the impact of low per-capita income, individualism, and lower scores on Hofstede's Uncertainty Avoidance Index. Additionally, Mueller (2004) explains entrepreneurial potential by gender, by the cultural dimensions of Hofstede (1980), and by GDP per capita.

Many researchers have highlighted the importance of social capital. According to Liñán and Santos (2007), social capital affects entrepreneurial intention via perceived desirability and perceived feasibility. Goethner *et al.* (2012) suggest that social capital along with public support institutions has a direct impact on academic entrepreneurial intention. Chuluunbaatar, Ottavia & Kung (2011) have analysed common effect of social capital and entrepreneurial intention on entrepreneurial orientation.

In contrast, the impact of social political factors has been studied rarely. However, based on the GEM study, one could suppose that these factors are also important from the perspective of entrepreneurial intention. European comparisons show that entrepreneurial intention is high in many post-communist Eastern European countries

(e.g., Romania, Poland, Latvia, Bosnia–Herzegovina, and Macedonia) and low in many Nordic welfare states (e.g., Norway, Denmark, and Finland) (Xavier *et al.*, 2013, p. 21).

This study focuses on the phenomenon of entrepreneurial intention in two different countries: Finland and Poland. The theoretical perspective of the study is based on attitude research, in particular Ajzen's (1991, 2001) theory of planned behaviour, and on discussion about welfare states (Esping-Andersen, 1990). The significance of social welfare attitudes, in terms of entrepreneurial intentions and entrepreneurial attitudes in Finland and Poland, was analysed. The research data was collected from among Finnish (N = 725) and Polish (N = 887) young people.

LITERATURE REVIEW

Societal Context in Finland and Poland

According to the GEM study mentioned previously, Poland is an efficiency-driven economy, while Finland is an innovation-driven economy. Entrepreneurial intentions differ significantly between these two countries: 68% of Polish and only 45% of Finnish young people see entrepreneurship as a good career choice (the average in the European Union is 58%). Conversely, in Finland, the status of successful entrepreneurs is the highest in the European Union; in Poland, however, it is below the European average (Xavier *et al.*, 2013, p. 21.)

In the social policy and social historic contexts, Finland and Poland represent different kinds of societies. Finland is a wealthy Nordic welfare state that offers universal social security to its citizens, while Poland is a post-communist nation that emphasizes a civil society in its social policy. According to Freytag & Thurik's (2007) comparative study, the communist history of a country has a negative effect on the preference for entrepreneurship, but no effect on actual entrepreneurship.

In general terms, the differences between the Finnish and Polish societies also relate to different types of welfare states. The classical analysis by Esping-Andersen (1990) makes explicit the differences between three welfare state regimes – Anglo-American, Nordic, and Continental – and it is argued that Mediterranean welfare states should be viewed as a fourth type (Moreno, 2010). Similarly, the new Central-East European (post-communist) states can be seen as having their own type of welfare state (Aidukaite, 2009). The various types of welfare states differ from each other, particularly from the perspective of social responsibility and social trust.

The Nordic and Continental models emphasize the state's responsibility for welfare, but the Anglo-American model underlines the responsibility of individuals, families, and communities. In particular, the Nordic welfare state strives to create the best possible society by providing everyone with equal opportunities for education and healthcare (Alestalo, Hort, & Kuhnle, 2009; Alestalo & Kuhnle, 1987). The Nordic welfare state is grounded on the notion of universal welfare services and a regulated labor market (Anttonen & Sipilä, 2012). The Anglo-American model underlines the role of citizenship in providing welfare (Fitzpatrick, 2011). This means that citizens have to be active in their communities and in the labor market to guarantee welfare (Andreotti, Mingione & Polizzi, 2011). Similarly, it is argued that the Central-East European countries have given citizens more responsibilities in providing welfare and well-being (cf. Draxler & Van Vliet,

2010), although their states traditionally played a strong role during the former communist regimes.

In this study, Finland represents a country in which the state has the main responsibility for welfare, and Poland represents a country in which citizens are primarily responsible for their own welfare. Among scholars, there is a shared notion that countries with a greater state responsibility for citizens' welfare do not have as much space for citizen-based activities as countries with less responsibility (cf. Fitzpatrick, 2011; Le Grand, 2003, 2010). Indirectly, this suggests that entrepreneurial intentions are weaker in countries in which the state and government bear the responsibility for the citizens' welfare and well-being.

On the other hand, countries in which the state has the principal responsibility for providing welfare are stable, Kumlin & Rothstein (2005) argue that welfare states produce mutual trust among their people. According to comparative studies, Finland and the other Nordic welfare states have the highest levels of social trust, while Poland is close to the average (Bergh & Bjørnskov, 2011). Entrepreneurship research has also shown that trust has a positive influence on entrepreneurial orientation (Chuluunbaatar *et al.*, 2011). The present study also explored whether general societal trust creates trust among individuals in their own abilities to be entrepreneurs.

The Theory of Planned Behaviour

The main concept of this study is *entrepreneurial intention*: a person's concrete plan or serious intention to start a firm in the near future. In the theory of planned behaviour (Ajzen, 1991), the term intention refers to specific action-intention – an intention to behave in a certain way or to perform a certain act. However, in the context of attitude discussion, intentions have been understood in different ways and are related not only to the actual intention, but also to the desirability of the object and how likely the person believes their attainment of the object to be (Armitage & Conner, 2001). Because the study examined young people who did not yet have clear career plans, the concept of entrepreneurial intention refers also to a person's general desire or aspiration to become an entrepreneur, and not only to having a concrete action plan.

According to the theory of planned behaviour, behavioural intentions are impacted by three components: attitude towards behaviour, subjective norms, and perceived behavioural control (Ajzen, 1991, p. 182). Thus, young people's entrepreneurial intentions are influenced by their personal appreciation of entrepreneurship, the expectations of their peer circles, and their own perceptions of their capacity as entrepreneurs.

Attitude is a concept comprising many aspects and does not have a single consistent definition. Typically, it is defined as a psychological tendency expressed by evaluating a particular entity within some dimension (Eagly & Chaiken, 1993). In traditional social psychology, attitude is understood, in particular, as a general valuation. Yet Ajzen's (1991, 2001) starting point is that attitudes always occur in a certain context, and so specific attitudes toward a specific activity, as opposed to general attitudes, must be studied. Moreover, *entrepreneurship attitude* may be understood in different ways. For example, the measure of personal attitude, according to Liñán and Chen (2009), is related to personal career choices. In contrast, the GEM study examined the general appreciation of respondent entrepreneurs.

Ajzen (1991) argues that an assessment of specific attitudes may explain and predict behaviour more effectively than a consideration of general attitudes. However, there is a fundamental problem connected to Ajzen's conception of attitude: if all behaviours are linked with one's own attitude, the concept of attitude becomes too narrow, and its explanatory importance decreases. Indeed, this kind of attitude differs from the traditional concept of attitude. Therefore, the current study replaced Ajzen's (1991) idea of attitude with a general concept of attitude.

Perceived behavioural control is connected with how a young person estimates his or her own personal capacity to endure the different duties and responsibilities associated with entrepreneurial activities and with setting up an enterprise. It is based on Bandura's (1982) social learning theory and on the concept of perceived self-efficacy. Bandura also analysed the concept of outcome expectations, which, in the context of entrepreneurship, refers to how firmly young people believe they can achieve success as entrepreneurs. According to previous entrepreneurial intention research, perceived self-efficacy and outcome expectations are strongly interrelated (Rantanen & Toikko, 2013), and there is no reason to consider them separately. Consequently, this study focused on *perceived control*, a combination of those two variables. The concept refers to people's self-belief in being able to cope with the responsibilities of working as an entrepreneur and being successful.

The concept of *subjective norm* represents the belief in how people closest to you value the desirability of a particular behaviour (Ajzen, 1991, 2001). In the case of young people, the subjective norm may refer especially to the expectations and wishes of one's parents and peer group. In addition, there is significance in the social context with which the young person associates his/her future business activity and whose valuations the young person considers important in that context.

Several comparative entrepreneurial studies have been based on the theory of planned behaviour. Moriano *et al.* (2012) found entrepreneurial intentions are higher in Poland than in some other European countries (e.g., Germany, The Netherlands, Spain); in addition, entrepreneurial attitudes and perceived behavioural control attain higher levels in Poland. According to Liñán and Chen (2009), the influence of entrepreneurial attitudes, subjective norms, and perceived behavioural control depends on the national level of individualism.

Social Welfare Attitudes

In this study, the theory of planned behaviour is complemented by two concepts relating to social welfare attitudes. First, the *individual's responsibility* is the perception that the individual is responsible for his own livelihood and for coping in different social situations. Typically, individual responsibility attribution is based on the internal causal attribution of social issues (e.g., the way of thinking that relates the reasons for unemployment, poverty, etc. to oneself). However, in a conceptual sense, it is one thing to talk about the reasons and another thing to talk about people's responsibility. Comparative studies indicate significant national differences in the attribution of social issues (Blomberg, Kallio & Kroll, 2010).

The concept of trust can be understood in two senses: we can talk about general trust (e.g., "generally speaking, most people can be trusted") and political trust (the extent to which people trust political institutions) (Valdimarsdóttir, 2010). From the

perspective of socio-political analysis, trust in government and institutions is an essential factor. According to Mishler and Rose (2001), trust in political institutions is vital to a democracy, but in post-communist countries, distrust of institutions is widespread. In this study, the concept of *trust in society* means that an individual can count on the support of government and institutions in various risk situations (unemployment, illness, poverty, etc.). In terms of new-venture creation, the importance of trust is twofold: on the one hand, trust in society creates a safe starting point for risk taking; on the other hand, a lack of trust may be a factor that forces one into self-employment.

MATERIAL AND METHODS

Questions and Hypotheses

Based on the results of the GEM study, we could assume that social political factors are also important from the perspective of entrepreneurial intention. European comparisons show that entrepreneurial intention is high in many post-communist Eastern European countries, and low in many Nordic welfare states (Xavier *et al.*, 2013, p. 21). This study focuses on one post-communist country (Poland) and one Nordic country (Finland). Previous studies show that entrepreneurial intention can be explained using the attitude approach, particularly Ajzen's (1991) theory on planned behaviour. Thus, in this study the difference between Poland and Finland is analysed from the perspective of the theory of planned behaviour and social welfare attitudes.

This study addresses the following: How do Finnish and Polish young people's entrepreneurial attitudes and intentions differ? What social psychological factors explain young people's entrepreneurial intentions in Finnish and Polish societies? What is the significance of social welfare attitudes in terms of entrepreneurial intentions in Finland and Poland?

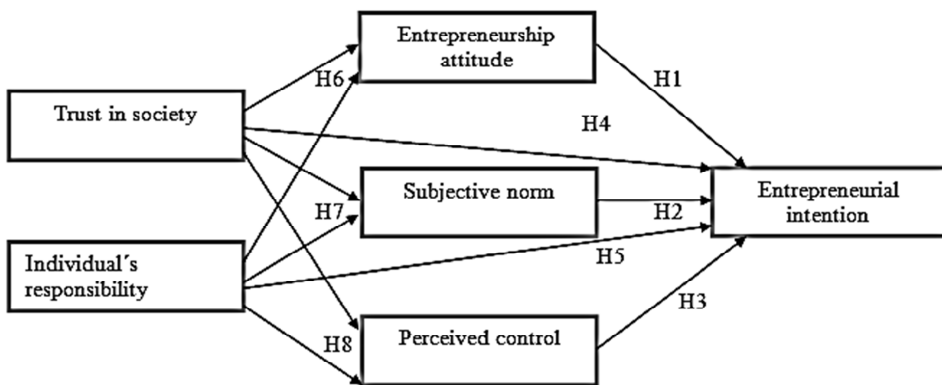


Figure 1. Research model

Source: own study.

Based on the theory of planned behaviour (Ajzen, 1991, 2001), the following three hypotheses will be tested (cf. Figure 1):

H1: *Entrepreneurship attitude has a positive impact on entrepreneurial intentions.*

H2: *Subjective norms have a positive impact on entrepreneurial intentions.*

H3: *Perceived control has a positive impact on entrepreneurial intentions.*

In relation to social welfare attitudes, five hypotheses will be tested. Two refer to the direct impact of social welfare attitudes:

H4: *Trust in society has a negative impact on entrepreneurial intentions.*

H5: *Individual responsibility attribution for social issues has a positive impact on entrepreneurial intentions.*

The final three hypotheses refer to the indirect impact of social welfare attitudes:

H6: *Entrepreneurship attitude depends (positively) on trust in society and (positively) on individual responsibility attribution for social issues.*

H7: *Subjective norm depends (positively) on trust in society and (positively) on individual responsibility attribution for social issues.*

H8: *Perceived control depends (positively) on trust in society and (positively) on individual responsibility attribution for social issues.*

This study targeted the Helsinki-Uusimaa region in southern Finland and the Wielkopolska region in Poland. Geographically, Uusimaa covers only 3% of Finland's land surface, but it accounts for about a third of the county's population and industrial production. The Uusimaa region consists of the Helsinki metropolitan area, as well as smaller cities and rural areas. Wielkopolska is situated in the central-western part of Poland; it is the second largest region in the country in terms of area, and third largest in terms of population. Wielkopolska is both an industrial and agricultural region. Its biggest city and capital is Poznań, which is home to about a sixth of the region's population.

Samples

The samples were collected in a real class environment in 2013. The Polish schools were chosen randomly from a list of all secondary schools in Wielkopolska, and the Polish sample was collected via a paper questionnaire. It was collected mostly by a PhD student from Poznań University of Economics, and partly by teachers from the schools. By contrast, the Finnish data was collected via an electronic survey, although for practical reasons the survey was completed on paper in one school. The survey was organized by school personnel, but a research assistant was involved in data collection and, if necessary, answered the students' questions about the survey. The respondents were mainly 17–18-year-olds. As data collection took place during school time, almost all of the students responded to the survey.

The Finnish sample (N = 725) was drawn from six upper secondary schools and six vocational schools across eight municipalities in the region of Uusimaa. Participating from the vocational schools were cultural, economics, social and healthcare, technology, and transport departments. The intention was to include respondents from the whole region. Of the Finnish respondents, 68.4% were from the Helsinki metropolitan area (68.6% in the population) and the rest were from elsewhere in the Uusimaa region. The proportion of Swedish-speaking respondents was 9.1% (8.5% in the population). The

share of vocational school students was 40%, which is close to the national average. Overall, the representativeness of the survey was satisfactory. In Finland, 90% of 16–18-year-olds study either in upper secondary school or in a vocational high school (City of Helsinki, 2009, p. 15), but after the age of 18 there is much more variation in young people's situations. Therefore, from the perspective of the sample's comprehensiveness, 17–18-years-olds were an optimal target group.

In Poland, it was important first to define the sample, which was done based on data from the General Statistics Bureau (Główny Urząd Statystyczny). This highlighted two essential features that differ Polish high schools – type of school and its localization. There are three statistically important types of high schools in Poland: secondary school (where 45% of all Polish high school students study), technical college (39.3%), and vocational school (15.7%). Young people are usually educated in urban areas (94.3%) rather than in rural schools (5.7%). From a list of all high schools in Wielkopolska, students were randomly chosen from thirteen urban schools in eight cities, and from three rural schools. Finally, 939 questionnaires were collected, of which 52 were rejected because of mistakes and a lack of answers. The structure of the survey sample was similar to the general population trend. It consisted of 47.8% secondary school students, 39.8% technical college students, and 12.4% vocational school students. Of these respondents, 94.2% were studying in urban schools and 5.7% in rural schools.

Methods

The data were analysed using normal statistical methods. First, the analysis was based on factor analysis, which was conducted using generalized least squares and varimax with Kaiser normalization. The analysis was carried out separately in both national groups. For the formation of sum variables, the questions with a factor loading of at least 0.5 were chosen into at least one of the two data. In practice, the factor analyses were to a large extent consistent in both national groups. The sum of the variable was constructed as an average of the variables. Cronbach's alpha coefficients were calculated. The reliabilities were mostly more than 0.8, but the reliability of the variable "*trust in society*" was only 0.664 in the Finnish sample.

According to Clason & Dormody (1994), there are no hard and fast rules for deciding how normal is normal enough in the case of Likert scales, and so it is necessary to make the decisions using different criteria. In this study, the normality of distributions was evaluated using the Kolmogorov-Smirnov test and histograms. The distributions for all variables (e.g., entrepreneurial intention) were not completely normal. However, parametric methods were used because the distributions were nonetheless close to normal and the size of the data set was sufficient.

Statistical analyses were conducted using t-test and linear regression analysis with the Backward method. Background variables (gender, entrepreneurial family) were examined as dummy variables. Before carrying out regression analyses, the validity of the conditions were checked (the normality of the residuals' distributions, the linearity condition, and multi-co-linearity between the independent variables/VIF coefficients). In the case of some regression analysis, the R squared coefficient was very low. When selecting the analysis method, a variety of methods were tested (exponential, logarithmic, square, cubic analysis). None of the alternative methods offered a

significantly better explanation than linear regression analysis and graphically examined the interrelation of the variables were close to linear.

In all, there are a number of general methodological issues related to the use of Likert-type scales. It is clear that the Likert scale is, in the statistical mind, only ordinal. However, a number of researchers (e.g., Norman, 2010) have suggested that parametric methods can be utilized in the case of Likert scales without concern for obtaining incorrect answers. Clason and Dormody (1994) argue that it is not a question of right and wrong ways to analyse data from Likert-type items; the issue relates more to answering the research questions meaningfully.

In this paper, the interpretation of the results was based on a 1% significance level ($p < 0.01$). During the survey, there were no unexpected problems concerning the questionnaire, its questions, or answering.

Measures

The questionnaire contained 89 questions, the majority of which were Likert-type scale items (1 = "Strongly disagree" to 5 = "Strongly agree"). According to Armitage and Conner's (2001) meta-analyses, the variables of the theory of planned behaviour have been examined using a number of different measures. In this study, the questions related to entrepreneurial attitude, subjective norms, perceived control, and entrepreneurial intentions were based on a previous attitude study among Finnish young people (Rantanen & Toikko, 2013). The measure of entrepreneurial intentions was formed from four questions connected not only to the actual intention, but also to entrepreneurial willingness and an assessment of the likelihood of the career choice in entrepreneurship.

Questions referring to entrepreneurship attitude related to general perception of entrepreneurship, not to behavioural attitude. Questions related to the value of entrepreneurs and entrepreneurs' work, as well as their societal significance. The measure of perceived control contained issues related to young people's confidence in their own abilities to be an entrepreneur and to succeed as an entrepreneur. Questions about subjective norm related to the normative expectations of parents, friends, professional field, and close environment in general. Sum variables were constructed using factor analysis.

Social welfare attitudes were examined using different measures. In previous attitude studies, the issues attached to responsibility attribution have been related, for example, to responsibility of state (Valdimarsdóttir, 2010) and causal and blame attributions for poverty (e.g., Bullock, 2004; Blomberg *et al.*, 2010). They have also used a variety of measures of trust in social attitude studies. For example, Valdimarsdóttir (2010) looked separately at general (interpersonal) trust and political trust.

In this study, social welfare attitudes were examined using twenty intentionally prepared questions. The final measure of social welfare attitudes included twelve issues, loaded on two factors: individual responsibility and trust in society. The measure of an individual's responsibility contained issues relating to the customers of social welfare (e.g., *People who receive social welfare are lazy*) and to people's own responsibility for social problems (e.g., *If someone is unemployed, it is his/her own choice*). In turn, the measure of trust in society contained issues relating to trust in government (e.g., *I trust the government to take care of people who can't take care of themselves*). The

reliabilities of the constructed variables were satisfactory (cf. Table 1), and distributions were nearly normal.

Table 1. Sum Variables (Cronbach's alpha, correlation with intention, mean, Sd, t-value)

Variable	Country	N	Items	Alpha	Pearson	Mean	Sd	t
Entrepreneurial intention	Finland	723	4	0.899	-	2.73	1.00	18.46***
	Poland	887	4	0.869	-	3.68	1.06	
Entrepreneurship attitude	Finland	722	4	0.705	0.272***	3.61	0.63	17.02***
	Poland	887	4	0.725	0.165***	2.99	0.83	
Subjective norm	Finland	723	5	0.820	0.750***	2.91	0.82	2.88**
	Poland	887	5	0.830	0.569***	3.04	0.99	
Perceived control	Finland	723	7	0.933	0.674***	3.30	0.94	13.83***
	Poland	887	7	0.917	0.601***	3.93	0.87	
Individual's responsibility	Finland	720	8	0.835	0.152***	2.63	0.73	1.00
	Poland	887	8	0.845	0.053	2.59	0.88	
Trust in society	Finland	721	4	0.664	-0.011	3.33	0.67	18.89***
	Poland	887	4	0.867	-0.076*	2.56	0.96	

Note: * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$. The control variables were gender (0 = Female, 1 = Male) and entrepreneurial family history (*Is either of your parents (or some other member of your family) an entrepreneur?*; 0 = No, 1 = Yes) in both samples.

Source: own study.

RESULTS AND DISCUSSION

Entrepreneurial Intentions and Entrepreneurial Attitude

The issues related to entrepreneurial intention and the distribution of participants' responses are shown in Table 2.

Table 2. Questions about Entrepreneurial Intentions

Question	Country	N	Agree (in %)	Disagree (in %)	Mean	Sd	Difference	
							t	Sig
If I could freely choose, I'd rather be an entrepreneur than an employee	Finland	723	38.7	31.7	3.08	1.20	14.53	0.000
	Poland	887	69.3	14.9	3.98	1.28		
My aim is to become an entrepreneur in the future	Finland	722	23.3	40.0	2.70	1.15	12.51	0.000
	Poland	887	49.6	20.6	3.45	1.25		
I am going to make a living as an entrepreneur	Finland	721	15.7	44.0	2.52	1.10	16.37	0.000
	Poland	887	50.5	20.5	3.48	1.25		
For me, entrepreneurship is a probable career choice	Finland	723	19.9	41.9	2.62	1.11	20.37	0.000
	Poland	887	66.6	15.8	3.80	1.21		

Source: own study.

First, the comparative analysis showed that Polish young people had a stronger desire to become entrepreneurs than Finnish young people. For example, 70% of Polish respondents agreed that, "If I could freely choose, I'd rather be an entrepreneur than an employee," with only 39% of Finnish respondents agreeing. Half of the Polish

respondents planned to make a living as entrepreneurs, while only 16% of the Finns planned to do so. Next, entrepreneurial attitudes were analysed (cf. Table 3).

According to the results, Finnish young people have a quite positive attitude towards entrepreneurship. For example, 38% of respondents agreed with the statement, "Entrepreneurs are ideal citizens," and 12% disagreed. In contrast, nearly half of Polish young people disagreed with the statement, and only 13% agreed with it.

Table 3. Questions about Entrepreneurial Attitudes

Question	Country	N	Agree (in %)	Disagree (in %)	Mean	Sd	Difference	
							t	Sig
Entrepreneurs are ideal citizens	Finland	722	37.7	12.2	3.31	0.87	17.42	0.000
	Poland	887	13.4	47.6	2.45	1.11		
Entrepreneurs are typically hard-working and responsible	Finland	722	61.6	5.4	3.75	0.85	14.25	0.000
	Poland	887	36.8	30.3	3.04	1.15		
Entrepreneurs' work is valuable for society as a whole	Finland	722	68.6	5.1	3.90	0.88	12.60	0.000
	Poland	887	43.4	21.3	3.28	1.09		
Entrepreneurs play a key role in societal success	Finland	721	43.7	8.3	3.47	0.87	6.01	0.000
	Poland	887	37.0	24.4	3.17	1.13		

Source: own study.

What Factors Explain Entrepreneurial Intentions?

A linear regression analysis was employed to examine the factors that explain entrepreneurial intention (cf. Table 4). The share explanation of this regression analysis was quite good (R square was 0.638 in the Finnish sample and 0.492 in the Polish sample).

Table 4. Regression analysis. Dependent variable: Entrepreneurial intention

Independent variable	Finnish Data (R ² =63.8%; F=250.7; p=.000)			Polish Data (R ² =49.2%; F=285.0; p=.000)		
	Beta	t	Sig	Beta	t	Sig
Entrepreneurial attitude	-0.052	-2.05	0.040	-	-	-
Subjective norm	0.550	17.84	0.000	0.390	14.90	0.000
Perceived control	0.341	11.17	0.000	0.441	16.83	0.000
Trust in society	-0.105	-4.45	0.000	-	-	-
Individual's responsibility	0.060	2.61	0.009	-	-	-
Gender	-	-	-	0.044	1.81	0.071
Entrepreneurial family history	-	-	-	-	-	-

Source: own study.

The analysis shows that the subjective norms and perceived control explain entrepreneurial intentions quite well. In the case of the Polish sample, there were no other significant relationships. In the Finnish sample, trust in society also explains entrepreneurial intentions. Thus, hypotheses H2 and H3 are supported. In contrast, hypothesis H1 is not supported by the data. Hypotheses H4 and H5 are supported by the Finnish data, but not the Polish data.

Perceived control is higher among Polish than Finnish young people (Table 1). For example, 62% of Polish young people agreed with the statement, *“I believe I could succeed as an entrepreneur,”* but only 50% of Finns agreed with it; 72% of Poles and 49% of Finns trust they are capable of working as small business owners. There is also a significant difference in subjective norms, but this difference is quite small (cf. Table 1). Hence, part of the national difference in entrepreneurial intentions can be explained by the difference in perceived control.

The results are consistent with the theory of planned behaviour; there is no significant ($p < 0.01$) connection between entrepreneurship attitude and entrepreneurial intentions. This is not surprising, because this study examined people’s general entrepreneurship attitudes, not their attitudes toward their own activities.

What Is the Indirect Impact of Social Welfare Attitudes?

In the case of individual responsibility attribution, the samples do not differ significantly (cf. Table 1). In the Polish sample, young people’s trust in society is much lower than in the Finnish sample. For example, 41% of Finnish respondents and only 15% of Polish respondents agree with the statement, *“If I need help, I believe the government will take care of me.”* Half of Finnish and only 16% of Polish respondents trust the government to take care of people who cannot take care of themselves. Next, regression analysis was

Table 5. Indirect affect of social welfare attitudes, Regression analyses

Dependent variable	Independent variables	Finnish Data			Polish Data		
		Beta	t	Sig.	Beta	t	Sig.
Entrepreneurship attitude		$(R^2=8.2\%; F=16.0; p=.000)$			$(R^2=7.4\%; F=23.5; p=.000)$		
	Trust in society	0.227	6.31	0.000	0.171	5.22	0.000
	Individual’s responsibility	0.126	3.35	0.001	0.164	4.97	0.000
	Gender	-0.073	-1.94	0.052	-	-	-
	Entrepreneurial family history	0.132	3.66	0.000	0.091	2.79	0.005
Subjective norm		$(R^2=8.1\%; F=15.7; p=.000)$			$(R^2=3.3\%; F=15.1; p=.000)$		
	Trust in society	0.097	2.69	.007	-	-	-
	Individual’s responsibility	0.063	1.66	.097	.113	3.39	0.001
	Gender	0.119	3.14	.002	-	-	-
	Entrepreneurial family history	0.227	6.30	.000	.132	3.98	0.000
Perceived control		$(R^2=8.4\%; F=16.4; p=.000)$			$(R^2=2.7\%; F=8.2; p=.000)$		
	Trust in society	0.184	5.10	0.000	-0.115	-3.45	0.001
	Individual’s responsibility	0.066	1.74	0.082	-	-	-
	Gender	0.145	3.86	0.000	0.100	2.99	0.003
	Entrepreneurial family history	0.152	4.23	0.000	0.066	1.99	0.047

Source: own study.

used to determine how these social welfare attitudes impact on entrepreneurial attitudes, subjective norm, and perceived control (cf. Table 5).

In contrast, the Polish sample subjective norm depends positively on individuals’ responsibility, and perceived control depends negatively on trust in society (cf. Figure 2).

The results reveal that the indirect impact of social welfare attitudes on entrepreneurial intention is quite low. Explanation shares of regression analyses are minor in both samples. Second, the significance of social welfare attitudes is entirely different for the Finnish and Polish samples. Hypothesis H6 is supported. In contrast hypothesis H7 is partially valid in both samples and hypothesis H8 is partially valid only in Finnish sample.

Analysis of the Finnish data suggests that in terms of young people’s entrepreneurial intention, the importance of societal trust is dualistic. According to linear regression analysis, the direct influence of trust is negative. On the other hand, the dependence between *trust in society* and *perceived control* is positive and significant, likewise the dependence between trust in society and perceived control. Hence, *trust in society* has a positive indirect effect on entrepreneurial intentions. The total influence of these two is neutral: the correlation between *trust in society* and *entrepreneurial intentions* is not significant (cf. Table 1).

Finland:

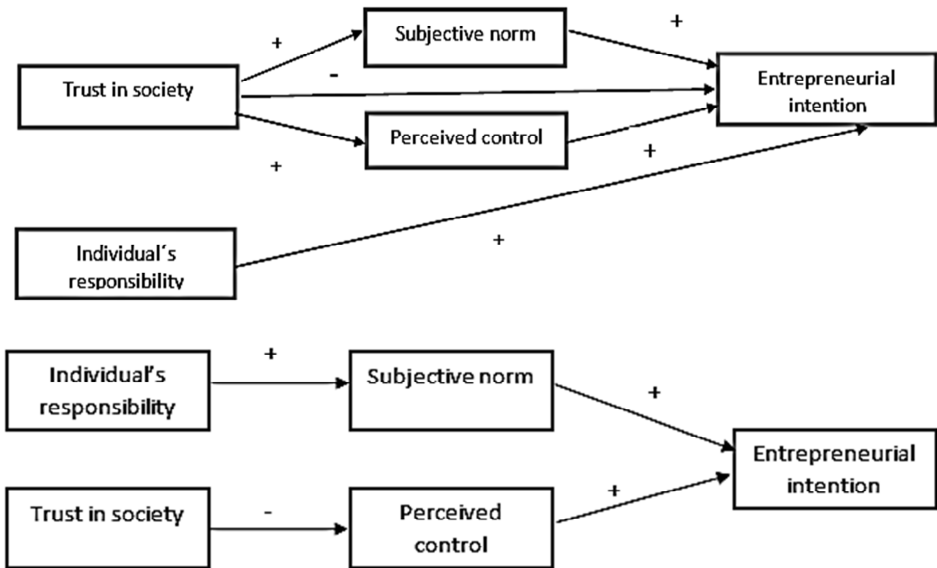


Figure 2. Final model of the study (without control variables)

Source: own study.

CONCLUSIONS

According to this study, Finnish and Polish young people approach entrepreneurship in quite different ways. Consistent with the *Global Entrepreneurship Monitor* (Xavier *et al.*, 2013), Polish young people's entrepreneurial intentions are much stronger, and their entrepreneurial attitude much lower, than Finns. This means that Finnish young people appreciate entrepreneurs at a general level, but do not consider becoming entrepreneurs themselves, while the Poles think about entrepreneurship in the opposite manner. In addition, the results show that subjective norms and perceived control are central factors in explaining entrepreneurial intention, which is consistent with Ajzen's (1991, 2001) theory. The national differences in intentions can be explained by perceived control. Polish young people trust their own abilities to cope with the entrepreneur's role and to succeed as entrepreneurs (cf. Moriano *et al.*, 2012), while Finns do not rely on their own abilities to such an extent.

Consistent with previous studies (Bergh & Bjørnskov, 2011; Kumlin & Rothstein, 2005; Nannestad, 2008), the results also show that Finnish people's trust in society is much stronger than that of the Polish participants. Furthermore, the relationship between social welfare attitudes and entrepreneurial intention in Finland is different from that in Poland. In the case of Finland, the influence of general trust is dualistic; the direct influence of high trust in society is negative, but indirect influence via perceived control is positive. In the case of Poland, the influence of trust is negative and only indirect. In addition, it seems that the emphasis of individual responsibility and the expectations of close relatives or peers are positively associated with each other among Polish young people.

However, the differences in individuals' attitudes and cognition seem insufficient to explain national differences in attitudes toward entrepreneurship and entrepreneurship intentions. In contrast, the social analysis may help to understand national differences. An explanation for the national differences is associated with differences in the individual-state relationship, which can be presented as strong or weak in nature.

In Finland, individuals have a strong relationship with the state, which is based on the Nordic welfare ideology of collective responsibility and individuality. The strong individual-state relationship is built through the well-established education system (e.g., Antikainen, 2010), social security, and a highly regulated labor market. On the other hand, social justice and democracy are the key principles of the Nordic welfare model, which supports the idea of individuality. In the Finnish context, young people who trust the state also trust themselves and vice versa (cf. Rothstein, 2005; Uslaner, 2002, pp. 104–105). Thus, social trust increases young people's confidence in their own abilities to cope and succeed as entrepreneurs, as demonstrated in the results of this study. In this sense, trust in the society and trust in the person are related, which is a core phenomenon of the strong individual-state relationship. However, the strong individual-society relationship reduces young people's need to set up their own businesses, even though they see entrepreneurship as an important part of the societal structures and institutions.

The Polish society represents young capitalism in which state structures lack the rigidity, and young people's relationships with the state lack the intensity, of those found

in Finland. The society is not expected to provide welfare and well-being, but each individual is supposed to struggle independently for his or her future (cf. Lee, 2013). And so the weak individual-society relationship supports young people's confidence in their own abilities and skills, and thus it also encourages them to be entrepreneurs (Neace, 1999). In contrast, trust in society reduces young people's confidence in their own abilities to be entrepreneurs. In this sense, trust in society and trust in one's own abilities seem to mean opposite things in Poland.

Overall, supporting young people's entrepreneurship intentions will be a key issue for the future of both countries. According to this study, influencing young people's confidence in their abilities and skills is more important than trying to influence general attitudes about entrepreneurship. Thus, entrepreneurship education has a key role in supporting young people's entrepreneurship. Furthermore, national differences in intentions, as well as an appreciation of entrepreneurship, can be explained by societal and historical factors. Therefore promoting entrepreneurship is linked with general civic education (cf. Ikonen, 2006). On the other hand, social support received from family and significant others has a positive impact on young people's intentions to become entrepreneurs.

There are some limitations with respect to the results of this study. First, the analysis was based on only Finnish and Polish data. Therefore, the results cannot be generalized directly to other countries. Much more research and social analysis is required to demonstrate the relationship between societal factors and entrepreneurial intentions. Second, the study examined only a few social variables (trust in society and responsibility attribution of social issues). Although these are important, many other social factors can influence entrepreneurship.

Finally, it should be noted that, within the context of new ventures, the importance of intentions is limited. Real entrepreneurial capabilities, new business opportunities and their identification, as well as a variety of economic factors, play a key role. In addition, the long temporal distance between the time of the survey and the realization of the actual behaviour (new venture creation) may reduce the suitability of using intentions to predict future behaviour. However, such intentions are an important individual-level factor in creating a new business, and are thus worthy of attention.

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The Monetary and Non-Monetary Aspects of Poverty in Poland and Slovakia

Paweł Ulman, Erik Šoltés

ABSTRACT

Objective: The purpose of this paper is to present the level of poverty risk of households in Polish and Slovak society in two aspects: monetary and non-monetary.

Research Design & Methods: In this study, to evaluate poverty risk in these dimensions, there were used estimated values of the poverty risk function for each household in an integrated, relative and fuzzy approach. This feature has been calibrated to reflect the overall results of the assessment of poverty in the classical approach using relative and subjective methods of determining the poverty line.

Findings: The research found that there were differences in poverty risk both within national communities and the studied countries. Such two-way diversity of impoverishment was observed primarily in the classification of households due to the demographic composition of the household.

Implications & Recommendations: There is a need for a broader study of diversity i.a. the structure of poverty, its level, dynamics and factors determining it in both countries. This wide research project may help to answer the question of changes in the evolution of poverty in Slovakia after its accession to the Eurozone, which is extremely important in the context of the Polish accession to the zone.

Contribution & Value Added: The originality of the work is manifested primarily in a comparative study of poverty risk for communities of the two countries: Poland and Slovakia, which allowed observing differences in the risk in a cross-country system.

Article type: research paper

Keywords: poverty; poverty measurement; low income; multidimensional and fuzzy approach; comparative analysis

JEL codes: C51, I32, R29

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INTRODUCTION

Poverty is a phenomenon that accompanies human communities from immemorial time. Its origins should be sought in the differentiation of the humans, the conditions under which they functioned and variability of the circumstances of their lives. Different levels of ability, physical and psychological predispositions, different natural conditions of functioning and various random circumstances often meant that some people became well-off and others experienced poverty. That conglomerate of causes is so complex that even with today's research capabilities, we cannot usually determine with a sufficiently high level of probability, whether a unit (person, family, household) will become poor or not, and, much less, we are not able to determine an isolated (individual) impact of various factors on the probability. Statistical analysis methods partly allow determining the cause of poverty in a retrospective study, when the properties (attributes) of the already poor unit are compared with the characteristics of these not experiencing the poverty. In this way, there can be determined risk groups such as the sick, the disabled, large and incomplete families, unemployed or homeless people, as well as refugees or immigrants.

Poverty is a major problem both in the individual and the social dimension. The individual dimension relates to individuals (families, households) who are experiencing various difficulties of everyday life resulting from insufficient meeting of specific needs. In contrast, the social dimension of poverty is expressed mainly in the multitude, which justifies the establishment of an appropriate institution to resolve this problem. In addition, the social dimension of poverty indicates that it applies not only to those directly affected by poverty, but also to other members of society.

The purpose of this thesis is to present the level of poverty risk of households in Polish and Slovak society in two aspects: monetary and non-monetary. This will facilitate making a comparative analysis of the degree of poverty risk in selected groups of societies in both countries. In addition, it will be possible to compare the degree of poverty risk between Poland and Slovakia, also when Slovakia belongs to the Eurozone and Poland does not. The implementation of the above mentioned purpose can be connected to the verification of the hypothesis that there is a diversity in the classification of poverty risk in different societies due to such features as the demographic composition of the household, education and age of the household head. In addition, there will be verified the hypothesis on different poverty risk of Polish and Slovak societies.

LITERATURE REVIEW

Problem of Definition, Measurement, Identification and Evaluation of Poverty

Defining poverty is essential for measuring its characteristics. Historically, the first widely-approved definition of poverty is the one enunciated in 1901 by S. B. Rowntree, who said that poverty is the inability to meet basic needs (Topińska, 2008, p. 17). Also the World Bank tended towards this understanding of poverty, finding poverty to be an inability to meet the minimum standard of living (World Bank, 1990, p. 26). These definitions are classified as belonging to the current of absolute understanding of

poverty. However, this view of the poverty problem proved to be inadequate, especially in the case of highly developed countries, in which extreme poverty of living below the generally accepted minimum standards occurred rarely. That is why poverty started to be regarded in terms of excessive differentiation of society. The proponents of this approach were Townsend (1979, e.g. pp. 48-49) and Atkinson (1983, pp. 227-228). The advantages and disadvantages of both approaches to the understanding of poverty were pointed to by e.g. Foster (1998, p. 336) and Subramanian (2004, p. 9).

Another important issue to consider is how the poverty is measured. There are two possibilities - the objective or subjective measurement. The objective measurement of poverty is usually carried out by experts whose task is to determine what are the needs and how much they should be satisfied that a unit may be considered as not poor. However, in the literature, there have been many voices that the level of the poverty threshold should be determined by the community (Desai, 1995, p. 105). Desai believes that the experts are only needed to collect a sample, based on which they estimate the consumption behaviour of society. This reasoning leads directly to the subjective method for measuring poverty, the precursors of which include Abel-Smith and Townsend (1965). Some of the most popular and well-known methods of measuring poverty in the subjective approach are related to the work of the scientific team led by B.M.S. Van Praag. They involve a method based on a subjectively defined minimum income necessary to make ends meet. The wide reading of the subjective approach to the measurement of poverty can be found in Ravallion (2012).

The resolution of issues related to the understanding and measurement of poverty does not end the controversy associated with the identification of poor units (individuals, households, families). In the classical approach, such identification was made by determining the level of income below which a given unit was considered poor. Along with the socio-economic development of societies, it began to be believed that the attention should be paid to other than income dimensions of poverty. Townsend (1979) is considered to be a precursor of a multidimensional approach to the identification of poverty, but, in many cases, the discussion on the problem of multidimensional poverty refers to the concept of Sen from 1992; the concept of inability to achieve a minimum acceptable level of the unit's capabilities (Sen, 1992, p. 109). Hence, there began to be constructed measures of poverty which took into account its different dimensions. One example is the Laeken multidimensional poverty index that contains dimensions such as education, health and unemployment (Atkinson, 2003) as well as Multidimensional Poverty Index proposed by Alkire and Foster (2011).

One of the possibilities of poverty analysis in the multidimensional approach is using of fuzzy sets theory, which was presented by Zadeh (1965). In this approach, the unambiguous division of studied units to the poor and non-poor is replaced by with an assessment of the degree of units' membership in the poor set. The concept of poverty based on the membership function belonging to the sphere of poverty was introduced for the first time by Cerioli and Zani (1990; Panek, 2011, p. 95). Cheli and Lemmi (1995) proposed the fully fuzzy and relative approach, which allowed to avoid determining the threshold values in the assessment of the degree of poverty risk. For this purpose, there was used a continuous function of the equivalent income distribution as a function of

membership in the sphere of monetary poverty. In a similar way, the function was determined for the non-monetary aspect of poverty.

In this study, to evaluate the risk of monetary and non-monetary poverty, there will be used a totally fuzzy, integrated and relative function of membership in the area of poverty calibrated in the way that the overall results of the assessment of the poverty risk are consistent with the results obtained in the classical approach, using subjective and relative poverty line.

MATERIAL AND METHODS

In the analysis of the poverty risk in monetary and non-monetary approach, there will be used individual data collected within the EU-SILC research. In particular, there will be used data collected in 2012 in Poland and Slovakia. The aim of this analysis is to provide comparable, for the European Union countries, data on the living conditions of the population allowing the calculation of indicators on income, poverty and social exclusion (GUS, 2014a, p. 45). The total set of data for households was, in the case of Poland 13116, and in the case of Slovakia 5819 observations. However, ultimately, the size of the examined data sets was slightly smaller, due to the occurrence of missing data.

In this study, to capture the monetary poverty risk of individual households and groups of them, there will be used the disposable income of households and subjectively defined minimum income to make ends meet. These revenues are in Euro and refer to a one year period. In view of the need to ensure comparability of the results for the study of international income level, there was used the purchasing power parity (PPP). In 2012, the conversion rate for the income of Polish households was 2.22304 (for the income expressed in PLN), while the income for Slovak households was 0.649688.

The basis for the assessment of the poverty risk in the monetary approach is the poverty line that is the value of income below which the households' data are considered to be poor. In the literature, there are many proposals for determining the poverty line, which shows that, so far, no one has developed the widely accepted method of determining the income limit. The availability of data on the minimum income allows the use of the subjective approach to determine the poverty line (Goethart, Halberstadt, Kapteyn & Van Praag, 1977, p. 512), according to which there are estimated regression model parameters given by the following formula:

$$\ln(y_{min}) = \alpha_0 + \alpha_1 \ln(NoP) + \alpha_2 \ln(y), \quad (1)$$

where:

y_{min} , y are respectively the minimum income and real income;

NoP – the number of people and α_0 , α_1 , α_2 – parameters.

Based on estimates of the parameters, the value of the poverty line is determined according to the following formula:

$$y^* = \exp\left(\frac{\alpha_0 + \alpha_1 \ln(NoP)}{1 - \alpha_2}\right). \quad (2)$$

The approach favoured by EUROSTAT in the identification of poor units is the use of the relative poverty line calculated as 60% of median in the equivalent income distribution. Therefore, it becomes necessary to appoint an "equivalence scale" allowing for the calculation of income of households with different demographic composition to

the income of the reference household (usually a single person household). Just as in the case of the poverty line, there is no one universally accepted equivalence scale. The OECD scale, however, is most widely used in the comparative research. Also the equivalence scale, based on the subjectively specified minimum income, can be used. The elasticity of this scale is $\alpha_1/(1-\alpha_2)$. Estimating the poverty line in the classical approach allows the calculation of basic range indicators and depth of poverty which, in turn, are a reference to the relevant indicators in a multidimensional approach.

In terms of a multidimensional approach, there was estimated a function of membership to the realm of the monetary poverty in the integrated, fuzzy and relative approach, suggested by Betti, Cheli, Lemmi & Verma (2006). This function for the i -th household is as follows¹:

$$\lambda_i(y^e) = (1 - F_i^{MI})^{\alpha-1} (1 - L_i^{MI}), \quad i = 1, 2, \dots, n \quad (3)$$

wherein:

$$(1 - F_i^{MI})^\alpha = \left(\frac{\sum_{\gamma=i+1}^n w_\gamma}{\sum_{\gamma=2}^n w_\gamma} \right)^\alpha; \quad (1 - L_i^{MI})^\alpha = \left(\frac{\sum_{\gamma=i+1}^n w_\gamma y_\gamma^e}{\sum_{\gamma=2}^n w_\gamma y_\gamma^e} \right)^\alpha, \quad (4)$$

where:

F_i^{MI} indicates value of the equivalent income distribution function $F(y_i^e)$ for i -th household;

L_i^{MI} - value of Lorenz function in the equivalent income distribution $L(F(y_i^e))$ for i -th household;

w_γ, y_γ^e , respectively, weight and the equivalent income of a household of γ rank in the equivalent income distribution in the ascending order, α - parameter.

Aggregation of the function (3) leads to the monetary poverty risk range rate formula (Fuzzy Monetary Incidence – FMI):

$$FMI = \frac{\sum_{i=1}^n \lambda_i(y^e) w_i}{\sum_{i=1}^n w_i}, \quad (5)$$

where:

w_i is value of the i -th household. The aforementioned parameter α is set at such level that FMI is equal to the poverty rate calculated based on the classical approach.

In terms of non-monetary poverty, the poverty risk range was measured in accordance with an approach of Betti and Verma (1999), which was described by Panek (2011, pp. 107-112). On the basis of every poverty symptoms there are determined the non-monetary poverty risk assessments, which are aggregated on the level of the poverty dimensions in one assessment for the entire population of households. In an analogous manner to the monetary dimension, there can be obtained the non-monetary poverty risk range ratio (Fuzzy Supplementary Incidence - FSI), but, in this case, it is a multi-step procedure. The first step is to assess the degree of non-monetary poverty risk of the i -th household on the basis of the j -th symptom of poverty from h -th area according to the following formula:

¹ All formulas for various measures of poverty sphere membership relating to the multidimensional approach were taken from the work of (Panek, 2011).

$$e_{hj,i} = \frac{1-F(c_{hj,i})}{1-F(1)}, h = 1, 2, \dots, m; j = 1, 2, \dots, k_h; i = 1, 2, \dots, n, \quad (6)$$

where:

$F(c_{hj,i})$ is the value of the distribution function of ranks of the j -th variable from the h -th non-monetary poverty area for the i -th household;

$F(1)$ is the value of this distribution function for the variant of j -th variable, indicating the highest degree of poverty risk.

Thus, there follows the aggregation of the degree of lack of non-monetary poverty risk in specific areas to obtain a synthetic measure for each household. The aggregate measure is:

$$e_i = \frac{\sum_{h=1}^m e_{h,i}}{m}, \quad (7)$$

where:

$$e_{h,i} = \frac{\sum_{j=1}^{k_h} w_{h,j}(1-e_{hj,i})}{\sum_{j=1}^{k_h} w_{h,j}}. \quad (8)$$

The $w_{h,j}$ values are obtained according to the formula:

$$w_{hj} = \ln \frac{1}{\lambda(z_{hj})}, \quad (9)$$

where:

$$\lambda(z_{hj}) = \frac{1}{n} \sum_{i=1}^n \lambda_i(z_{hj}), \quad (10)$$

and $\lambda_i(z_{hj}) = (1 - F(c_{hj,i}))$.

In the next step, analogous formulas as in monetary approach are used (compare formulas (3)-(5)).

In terms of non-monetary approach five dimensions of poverty risk were identified: a subjective household financial situation assessment (1), household housing situation (2), the characteristics of the household members (3), housing equipment (4), and living environment (5). The first dimension involved the assessment of the household's situation and the financial management; second dimension: the technical condition of a flat and its equipment with basic fixtures; the third dimension consisted of symptoms associated with features related to the low level of education, labour market conditions, and disabilities. The fourth dimension included grouped variables regarding the possession of equipment such as a computer, washing machine, TV or a car. On the basis of the above mentioned symptoms, there was obtained the poverty risk assessment for the whole society and its groups for both Poland and Slovakia.

RESULTS AND DISCUSSION

Using the above described statistical data from the EU-SILC for Poland and Slovakia, annual household income was converted into the monthly equivalent income. The equivalence scale was used in the above subjective approach, as well as the OECD scale. The use of equivalence scales results in an estimate of "equivalent units", which are the basis for calculation of the equivalent income. In the case of the OECD scale, the procedure is simple and is based on converting the number of household members with

appropriate weights, while the use of a subjective equivalence scale involves determining of scale elasticity. Equivalent units in this second approach are calculated by raising the number of people in a household to the power of the mentioned equivalence scale elasticity. With equivalent units, values of the equivalent income can be freely determined by dividing the real income by the number of equivalent units. The equivalence scale elasticity in the subjective approach in the case of Poland was 0.3609, and 0.4818 for Slovakia. The equivalent income is the basis of the poverty analysis in the monetary approach. Table 1 shows the values of the poverty line in the relative approach (60% of the median of equivalent income determined using the OECD scale) and in the approach of subjectively defined minimum income. The lines were presented in Euro and PPP.

Table 1. The value of the poverty line in the relative and subjective approach (in EUR and PPP)

Country	60% of median (OECD)	Min. Income	60 % of median (OECD)	Min. Income
	Euro		PPP	
Poland	253.10	369.06	469.07	683.99
Slovakia	346.35	601.56	533.10	925.92

Source: own calculations based on data sets from EU-SILC 2012.

In any case, the poverty line is higher for Slovakia than for Poland, but the difference is substantially smaller, taking into account the purchasing power parity. So, taking into account different levels of prices, equivalent income distributions are at a similar, average level in both countries, as opposed to the income denominated in Euro, which in Slovakia is much higher than in Poland. A significant difference between Slovakia and Poland is also in the case of the poverty line defined on the basis of minimum income, which, in turn, implies higher expectations as to subjectively defined minimum income required for binding ends meet in Slovakia than it is in Poland. This high level of the poverty line in Slovakia may bring high values of the poverty risk, which is confirmed by the results of the measures of basic poverty estimates summarized in Table 2.

Table 2. The monetary poverty risk in Poland and Slovakia, due to the kind of the poverty line and poverty measure (classical approach)

Poverty measure	Poland	Slovakia
Subjective approach (minimum income)		
HCR	0.2676	0.4786
HPG	0.0783	0.1354
PG2	0.0349	0.0558
Relative approach (60% of median)		
HCR	0.1699	0.1299
HPG	0.0466	0.0334
PG2	0.0207	0.0148

Source: Own calculations based on data sets from EU-SILC 2012.

The results of Table 2 show a different picture of the poverty risk depending on the poverty line. In the subjective approach, the range (HCR), depth (HPG) and the poverty severity (PG2) are clearly higher in the case of Slovakia, while, using the relative

approach; the Polish society is experiencing a greater level and intensity of poverty. Results from Tables 1 and 2 indicate that both societies perceive a higher poverty risk (expressed in the minimum level of income) than it stems from the standard for the European conditions method of measuring poverty (60% of the equivalent income median). In particular, it is apparent in Slovakia. Obtained in the classical manner measures of poverty are a reference for the calibration of the poverty risk function in the fuzzy approach. This is done by fixing such value of the α parameter in the formula of (3), that FMI and FSI are equal to the ratio of the HCR in the entire analysed population of households. Tables 3 and 4 present the diversity of poverty risk (non-monetary and monetary) due to the demographic composition of the household.

Table 3. The monetary poverty risk (FMI) in Poland and Slovakia, due to the kind of the poverty line and the demographic composition of the household

Household Type	Poland		Slovakia	
	Subjective	Relative	Subjective	Relative
Single	0.4622	0.3178	0.6876	0.2003
2 ad 65- without children	0.2214	0.1370	0.3862	0.0853
2 ad 65+ without children	0.2323	0.1226	0.5683	0.0782
Other without children	0.1563	0.0910	0.2752	0.0616
Single with children	0.3704	0.2401	0.6288	0.2205
2 adults, 1 child	0.1911	0.1161	0.4196	0.1109
2 adults, 2 children	0.2255	0.1375	0.4494	0.1273
2 adults, 3+ children	0.3165	0.2109	0.5877	0.2817
Other with children	0.1733	0.1010	0.3405	0.1147

Source: own calculations based on data sets from EU-SILC 2012.

Table 4. The non-monetary poverty risk (FSI) in Poland and Slovakia, due to the kind of the poverty line and the demographic composition of the household

Household Type	Poland		Slovakia	
	Subjective	Relative	Subjective	Relative
Single	0.3478	0.2269	0.6635	0.1692
2 ad 65- without children	0.2148	0.1232	0.3911	0.0907
2 ad 65+ without children	0.3151	0.1047	0.5676	0.1382
Other without children	0.2893	0.1196	0.3052	0.0807
Single with children	0.3279	0.2191	0.6032	0.1724
2 adults, 1 child	0.1614	0.1203	0.4179	0.1049
2 adults, 2 children	0.1590	0.1637	0.4368	0.1212
2 adults, 3+ children	0.2667	0.2969	0.5773	0.2273
Other with children	0.2747	0.1870	0.3673	0.1210

Source: own calculations based on data sets from EU-SILC 2012.

In Poland and Slovakia, the greatest risk of monetary and non-monetary poverty affects households of single people. This result is somewhat surprising, because it would be expected that these are large families or single parents with dependent children that are mostly at the poverty risk. It can be assumed that single person households consist primarily of older people; perhaps more often widowed older women whose incomes

are relatively low. Single person households can also be formed by young people, which are on the threshold of their careers, and so obtain slightly lower income than middle-aged people. These circumstances may cause such high level of poverty risk in this category of households. The high extent of poverty also applies to single parents and families with many children. In monetary terms, in Poland single-parent households are more affected by poverty, while in Slovakia this situation occurs in the case of the subjective approach to the poverty measurement. In the case of non-monetary aspects of poverty, both in Poland and Slovakia, in subjective approach, single-parents are more at poverty risk than families with many children, while in the relative approach the situation is reversed. It is worth noting that in the case of non-monetary aspects of poverty in the relative approach, families with many children in both Poland and Slovakia are the most affected by poverty. Poverty in this approach clearly affects more these households than households of single parents or single people. In addition, the monetary poverty in Poland in large families is lower than non-monetary for the relative poverty measure, and vice versa for the subjective poverty measurement, while in Slovakia in both cases, the non-monetary poverty of large families is lower than the monetary poverty. These considerations point to the diversity of poverty assessments in communities of both analysed countries and between the countries. Moreover, the use of different poverty lines in terms of values leads to differences in the results of a comparative analysis of the studied groups of households. This may be due, inter alia, to the different distribution of households in the ordered sequence of values of function of poverty risk for different groups of households.

Table 5 and 6 show the variation of poverty risk due to the level of education attainment of the household's head.

Table 5. The monetary poverty risk (FMI) in Poland and Slovakia, due to the kind of the poverty line and the level of education attainment of household's head

Level of education	Poland		Slovakia	
	Subjective	Relative	Subjective	Relative
Primary	0.4477	0.3110	0.7657	0.3166
Lower secondary	0.2700	0.1686	0.6860	0.2343
Secondary	0.2248	0.1268	0.4819	0.1294
Tertiary	0.1103	0.0568	0.3142	0.0554

Source: own calculations based on data sets from EU-SILC 2012.

Table 6. The non-monetary poverty risk (FSI) in Poland and Slovakia, due to the kind of the poverty line and the level of education attainment of household's head

Level of education	Poland		Slovakia	
	Subjective	Relative	Subjective	Relative
Primary	0.4976	0.2837	0.7708	0.2104
Lower secondary	0.2590	0.1726	0.6882	0.1965
Secondary	0.1912	0.1151	0.4816	0.1302
Tertiary	0.1019	0.0476	0.3137	0.0731

Source: own calculations based on data sets from EU-SILC 2012.

The level of education attainment of household's head differentiates the poverty risk in both aspects of the analysis, both in Poland and Slovakia. With the increase in the level of education, the poverty risk decreases. In the case of monetary poverty, in terms of the relative approach, the risk level is very similar for both analysed societies. Only in the case of low secondary education in Slovakia, a significantly higher extent of poverty can be observed. Slightly different situation is in the case of non-monetary poverty. Polish households have a lower degree of impoverishment in terms of both relative and subjective approach than households in Slovakia. Only in the case of primary education in the relative approach, the situation is different. The relative approach also shows that the Slovak households are less diverse in terms of poverty than the Polish households. In their case, the difference between the poverty risk between households with extreme levels of education of the household head is significantly greater than in the case of Slovak households, which is particularly evident in the case of the relative measure of poverty.

Tables 7-8 present the results of the assessment of poverty risk due to the age of the household head.

Table 7. The monetary poverty risk (FMI) in Poland and Slovakia, due to the kind of the poverty line and the age of the household head

Age	Poland		Slovakia	
	Subjective	Relative	Subjective	Relative
29 years and less	0.2949	0.1900	0.4435	0.1586
30 – 39	0.2045	0.1216	0.4505	0.1341
40 – 49	0.2160	0.1364	0.4299	0.1395
50 – 59	0.2527	0.1713	0.3791	0.1257
60 years and more	0.3268	0.2044	0.5744	0.1245

Source: own calculations based on data sets from EU-SILC 2012.

Table 8. The non-monetary poverty risk (FSI) in Poland and Slovakia, due to the kind of the poverty line and the age of the household head

Age	Poland		Slovakia	
	Subjective	Relative	Subjective	Relative
29 years and less	0.2103	0.1755	0.4328	0.1266
30 – 39	0.1713	0.1297	0.4377	0.1220
40 – 49	0.2179	0.1696	0.4343	0.1268
50 – 59	0.2800	0.1838	0.3922	0.1155
60 years and more	0.3358	0.1652	0.5694	0.1392

Source: own calculations based on data sets from EU-SILC 2012.

Again, a higher variability of the poverty risk in the Polish households rather than Slovak is apparent. In relative terms, in Slovakia the risk is in the range of less than 2.5 percentage points, while in Poland, the variation is much higher. In Poland, the least poor households are those of people aged 30-39 years, in Slovakia - 50-59 years, whether we consider the relative or subjective approach. An interesting fact is the relatively high poverty risk among households of young people, in particular, in the case of Poland. This

is certainly related to high youth unemployment in Poland of up to 42% in the 20-24 age category and over 25% for the age of 25-29 (GUS, 2014b, p. 187).

CONCLUSIONS

The study of the poverty problem is, on the one hand, an important task, and on the other hand - a difficult one. The existence of poverty and particularly its high level is an important social problem that affects not only those who are experiencing impoverishment individually, but also having consequences for the entire social tissue. The difficulty of this task is associated with a major challenge to define and measure poverty.

Poverty, as each social phenomenon, is subject to continuous dynamics. It is so important that, all the time, there is a possibility and need for research on its level and determinants.

The paper presents the results of the comparative research of impoverishment of households in Poland and Slovakia. The research found that there were differences in poverty risk both within national communities and the studied countries. Such two-way diversity of impoverishment was observed primarily in the classification of households due to the demographic composition of the household. Overall, it was found that poverty, in relative terms, is lower in Slovakia, and in subjective terms, in Poland. In addition, there was observed less variation of poverty risk between social subgroups in Slovakia than in Poland. In a special way it is visible for the classification of the households' population by the education level and age of the household head.

Research capabilities in the analysis of poverty are high, especially if there are relevant statistics available. Results presented in this paper are the output of an initiated international cooperation regarding research on the issue of poverty and deprivation. That is why the conclusions are treated as an introduction to a broader study of diversity of the structure of poverty, its level, dynamics and factors determining it in both countries. This wide research project may help to answer the question of changes in the evolution of poverty in Slovakia after its accession to the Eurozone, which is extremely important in the context of the Polish accession to the zone.

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Spatial Diversity in the Socio-Economic Development in Sub-Saharan Africa as Measured by a Composite Index

Agnieszka Witoń

ABSTRACT

Objective: The main aim of the article is to present the level of the socio-economic development in Sub-Saharan Africa's sub-regions: West Africa, South Africa, East Africa, and Central Africa. The second aim is to identify whether some of the sub-regions have significantly different level of the socio-economic development in comparison to the others.

Research Design & Methods: A composite index of development has been created. Hypotheses are verified through statistical analysis (including parametric tests).

Findings: Sub-Saharan countries do not differ significantly in the socio-economic development level. No sub-region has a significantly higher (or lower) level of development in comparison to the others. However, after eliminating Seychelles from the analysis (as an outlier value) East Africa proves to be significantly lower developed than the whole region and other sub-regions.

Implications & Recommendations: The lack of significant differences in the level of the socio-economic development in Sub-Saharan countries proves that analysing them as one group is justified.

Contribution & Value Added: A new composite index of the socio-economic development has been created to test the hypotheses.

Article type: research paper

Keywords: socio-economic development; developing countries;
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JEL codes: I30, O10, O55

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INTRODUCTION

Recent years brought a lot of attention to Sub-Saharan Africa. Its economic growth is widely discussed by both scholars and businessmen. This hardly comes as a surprise, since Sub-Saharan Africa is one of the most rapidly developing regions in the world. In the last ten years the average yearly GDP growth has reached almost 5%. However, this signifies a quantitative change only. A more thorough approach to the issue of growth demands taking into account some qualitative aspects as well. Sub-Saharan Africa, despite its dynamic growth, remains one of the poorest regions of the world. In 2013 the average GDP per capita in the region amounted to 1 015.83 USD. This is even less than in South Asia, where the average GDP per capita in 2013 was 1 060.66 USD.

These numbers, though certainly not favourable, fail to show the severity of the situation in terms of the socio-economic development in Sub-Saharan Africa. Afrobarometer, a household survey from 2013, shows that about a fifth of the Africans has their most basic needs unsatisfied regularly: 17% suffer from lack of food, 21% from lack of clean water, and 20% do not have access to medicine and basic medical care. As much as a half of the Africans declare being deprived of those things occasionally (Dulani, Mattes, & Logan, 2013). This situation calls for a wider approach to Africa's, and especially Sub-Saharan Africa's growth. It cannot be said that a country is developing when people's most basic needs are not being met or there are no successful attempts to relieve the situation.

This article attempts to shed some more light on the issue of the socio-economic development in Sub-Saharan Africa. Its first aim is to present the level of the socio-economic development in Sub-Saharan Africa's sub-regions: West Africa, South Africa, East Africa, and Central Africa. The second aim of the article is to identify whether some of the sub-regions have significantly different level of the socio-economic development in comparison to the others.

LITERATURE REVIEW

The topic of the economic development in Sub-Saharan Africa has been raised many times in the literature. Most works concerning this region focus on the determinants of the recent rapid economic growth or, alternatively, on factors that impeded Sub-Saharan Africa's development in the past. Both economic and non-economic factors are widely discussed.

One of the most widely cited papers concerning the economic development in Sub-Saharan Africa, authored by Sachs and Warner (1997), is based on a cross-country regression model; it links slow economic growth with poor macroeconomic policies, low openness to the international trade, and various geographical factors: limited access to the sea, climate, and propensity for infectious diseases. Malaria proves to be the root cause of Africa's underdevelopment according to the study by Bhattacharyya (2009), who also uses a regression model.

Ghura and Hadjimichael (1996) claim that the level of private investment and macroeconomic policy are the main determinants of the GDP per capita growth in Sub-Saharan Africa's countries. Not the level of investments, but one of savings, as well as the

technological development, is investigated by Kraay and Raddatz, who use aggregate growth models (2007). They do not find enough empirical evidence of these factors causing so called poverty traps in low-income African countries, though.

Easterly and Levine (1997) construct a cross-country regression model and argue that the diversity of the economic growth within Sub-Saharan countries can be attributed to macroeconomic policies, and, most notably, ethnic differences. They are supposed to have a negative effect on growth and the level of income by playing their part in determining the choice of bad policies. This results have been later disproved by Collier and Hoeffler (1998) with the use of probit and tobit models, and later by Collier and Gunning (1999). Collier and Gunning explain Africa's weak economic performance (in comparison to other regions) with the level of human capital development and the openness to international trade. The relation between human capital and economic growth in Africa is found important also by Boccanfuso, Savard & Savy (2013).

Political instability is also often found to be an important determinant of economic growth in Sub-Saharan Africa. It is investigated by, among others, Fosu (1992a). Gyimah-Brempong and Traynor (1999) have analysed the inter-relationship between growth, investment, and political risk. Their study, which used simultaneous equations model, showed that political instability has a significant negative impact on growth.

Foreign aid as a growth determinant in Sub-Saharan Africa has been analysed by Boone (1996); it was found that it has no impact on economic growth. Later, Burnside and Dollar (1997) have shown through OLS growth regressions that aid has positive effect on growth only in low-inflation, small budget deficit, and open countries. In other cases it may have a negative impact on economic growth.

Platteau (2000, 2009) argues that social norms common in Sub-Saharan Africa that force and reward sharing of goods, reduce economic incentives, thus causing low economic performance. Acemoglu and Robinson (2010) do not agree with this assessment, claiming that there is no strong empirical evidence supporting such claims. They underline historical and institutional determinants of Sub-Saharan Africa's economic performance: political and economic institutions, history of slave trade, and colonialism. The negative impact of the history of slave trade on economic growth in Africa was also investigated by Nunn (2008), who used basic correlations and OLS estimates.

Among other interesting determinants of economic development in Sub-Saharan Africa, one can mention remittances, the development of agriculture, export instability, and debt. Using a three-stage least squares estimation technique Gupta, Pattillo & Wagh (2009) find that remittances reduce poverty and positively affect the development of the financial markets in some Sub-Saharan countries. Karshenas (2001), while comparing Asia and Sub-Saharan Africa, finds that the development of the agricultural sector, as well as the natural resources, play an important role in region's development. The impact of export instability on economic growth in Africa is examined by Fosu (1992b). The relationship between debt overhang and economic growth in Sub-Saharan countries is investigated by Elbadawi, Ndulu & Ndung'u with a simulation model (1997).

In the light of the large inflow of foreign direct investment observed in Sub-Saharan Africa in recent years, one should also mention studies examining the impact of foreign investment on Africa's economic performance. Having constructed a cross-country

regression model Lumbila (2005) claims that FDI has positive effect on economic growth in Sub-Saharan Africa. On the other hand, the results of the study by Adams (2009) show that foreign direct investment is a necessary but not sufficient condition for economic growth. Chinese investment in Sub-Saharan region is eagerly discussed in particular. Its impact on economic performance of the Sub-Saharan countries is examined by, among others, Kaplinsky, McCornick & Morris (2007), as well as Gu (2009).

MATERIAL AND METHODS

The main goal of the article is to present the level of the socio-economic development in Sub-Saharan Africa's sub-regions: West Africa, South Africa, East Africa, and Central Africa. The second goal is to identify whether some of the sub-regions show significantly different level of the socio-economic development in comparison to the others. To achieve these goals, the following hypotheses have been developed:

- H1:** There are significant differences in the level of the socio-economic development between the sub-regions of Sub-Saharan Africa.
- H2:** The level of the socio-economic development in South Africa is significantly higher than in other sub-regions of Sub-Saharan Africa.
- H3:** After eliminating from the analysis countries with extreme values of the level of the socio-economic development, the differences between sub-regions are no longer significant.

Table 1. Variables used in the composite socio-economic development index

	Definition	Source
X1	Depth of the food deficit (kilocalories per person per day)	Food and Agriculture Organization, The State of Food Insecurity in the World (http://www.fao.org/economic/ess/ess-fs/ess-fadata/en/#.VByWLoHGXIg).
X2	Improved water source (% of population with access)	WHO/UNICEF Joint Monitoring Programme (JMP) for Water Supply and Sanitation (http://www.wssinfo.org/).
X3	Life expectancy at birth, total (years)	(1) United Nations Population Division, (2) United Nations Statistical Division, (3) National statistical offices, (4) Eurostat, (5) Secretariat of the Pacific Community, and (6) U.S. Census Bureau.
X4	GNI per capita (constant 2005 USD)	World Bank national accounts data, and OECD National Accounts data files.

Source: own compilation based on The World Bank's World Development Indicators database.

To measure the level of the socio-economic development in Sub-Saharan Africa a composite index has been created. In order to highlight problems faced by analysed countries, it mainly contains variables pertaining to the basic needs. The choice of variables is dictated by (a) the desire to include few variables in the index, (b) the need for the variables being not too specific, so they can cover a wide spectrum of problems. Thus: the X1 variable presents the problem of hunger and malnutrition, X2 deals with access to water problem, X3 covers all matters related to health (as diseases such as

HIV/AIDS, malaria, tuberculosis, or measles significantly shorten life expectancy), and X4 serves as a proxy for poverty and general level of economic development. All used variables and their sources are presented in Table 1. Variables used in the index correspond with two out of eight Millennium Development Goals: Eradicate Extreme Poverty and Hunger, and Combat HIV/AIDS, Malaria and Other Diseases (with other MDG being: Achieve Universal Primary Education, Promote Gender Equality and Empower Women, Reduce Child Mortality, Improve Maternal Health, Ensure Environmental Sustainability, and Global Partnership for Development).

It has been contemplated to include also the improved sanitation facilities (% of population with access) variable, but it was unduly correlated with other variables. The rest of the variables used are not strongly correlated, and their coefficients of variation being above 10% suggest good ability to differentiate the phenomenon in question. Their descriptive statistics are presented in Table 2.

Table 2. Descriptive statistics of the variables in analysed Sub-Saharan countries in 2012

	X1 (Depth of the food deficit, kilocalories per person per day)	X2 (Improved water source, % of population with access)	X3 (Life expectancy at birth, years)	X4 (GNI per capita (constant 2005 USD))
Mean	160.690	73.131	57.890	1 707.489
Standard Deviation	114.972	15.293	6.812	2 674.170
Maximum value	597.000	99.800	74.544	13 889.950
Minimum value	16.000	49.200	45.329	153.143
Character of the variable	Destimulant, changed into a stimulant using the following formula*: $x1'_i = 2 * \overline{x1} - x1_i$	Stimulant	Stimulant	Stimulant

* formula used to change destimulant into a stimulant taken from: (Zelias 2004, p.62)

Source: own compilation and calculation based on data from The World Bank's World Development Indicators database.

Six Sub-Saharan countries have been eliminated from the analysis due to the lack of data. These are: Comoros, Democratic Republic of Congo, Equatorial Guinea, Eritrea, Somalia, and South Sudan. The analysis is static; it is concerned only with the present situation in Sub-Saharan Africa, 2012 being the most recent year with full data available. Of course, analysed countries differ in socio-economic aspects like poverty, education, health or income. Life expectancy in Cape Verde in 2013 was 75.1 years, while in Swaziland it was only 49.0 years. Mean years of schooling in 2012 was 9.9 in South Africa, while in Burkina Faso it was only 1.3 years. Gross national income per capita in 2013 (in 2011 PPP USD) was 24 632 in Seychelles, while in Central African Republic it was only 588 USD. In Burundi 81.32% of population lives below the poverty line (1.25 PPP USD), in Gabon this percentage is 4.84%¹. Despite these differences Sub-Saharan Africa is often analysed as one region. This paper attempts to study those differences.

¹ All data in this paragraph are taken from UNDP.

Data have been normalized using quotient transformation (with the mean as a base for transformation). The composite index is the arithmetic mean of normalized values of the variables. In order to verify the hypotheses parametric tests are used.

RESULTS AND DISCUSSION

The results of the analysis show that the socio-economic development level of the majority of the Sub-Saharan countries is close to the average. As much as 36 countries fit in the one standard deviation from the mean interval, with the mean being 1.000 and standard deviation 0.518.

Twelve Sub-Saharan countries have above-average level of the socio-economic development. These are: Angola (1.031), Benin (1.030), Botswana (1.697), Cabo Verde (1.421), Gabon (2.011), Ghana (1.134), Mauritius (2.051), Namibia (1.369), Nigeria (1.029), Sao Tome and Principe (1.188), Seychelles (3.101), and South Africa (1.904). Some of them are rich in natural resources (oil and others); some derive a substantial part of their income from tourism. Not even one belongs to the group of inland countries without significant natural resources. Seychelles is a special case. Their value of the composite index of the socio-economic development is 3.101. This appears to be an outlier value; it exceeds the mean by more than a tripled standard deviation. This result is mostly influenced by the GNI per capita component of the composite index: in 2012 GNI per capita in Seychelles amounted to 13 890 USD.

The level of the socio-economic development of 30 countries is below-average. The lowest level of development can be observed in Burundi (0.083); other low-development countries are: Ethiopia (0.486), Mozambique (0.499), Zambia (0.574), Sudan (0.579), Sierra Leone (0.623), Chad (0.644), Tanzania (0.648), Central African Republic (0.684), and Madagascar (0.689). The probability distribution of the values of the composite index is positively (non-zero) skewed.

Analysing the level of the socio-economic development in the geographical sub-regions of Sub-Saharan Africa, it can be observed that East Africa (Burundi, Ethiopia, Kenya, Rwanda, Seychelles, Sudan, Tanzania, and Uganda) has the lowest level of development (0.900). West Africa's (Benin, Burkina Faso, Cabo Verde, Cote d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, and Togo) value of the composite index reached 0.945. Central Africa (Cameroon, Central African Republic, Chad, Congo, Gabon, and Sao Tome and Principe) scored slightly above average: 1.071. The most developed proved to be South Africa (Angola, Botswana, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Zambia, and Zimbabwe), with the composite index reaching 1.104. However, parametric tests show that all sub-regional results do not differ significantly from the average level of the socio-economic development in the whole Sub-Saharan Africa (Table 3).

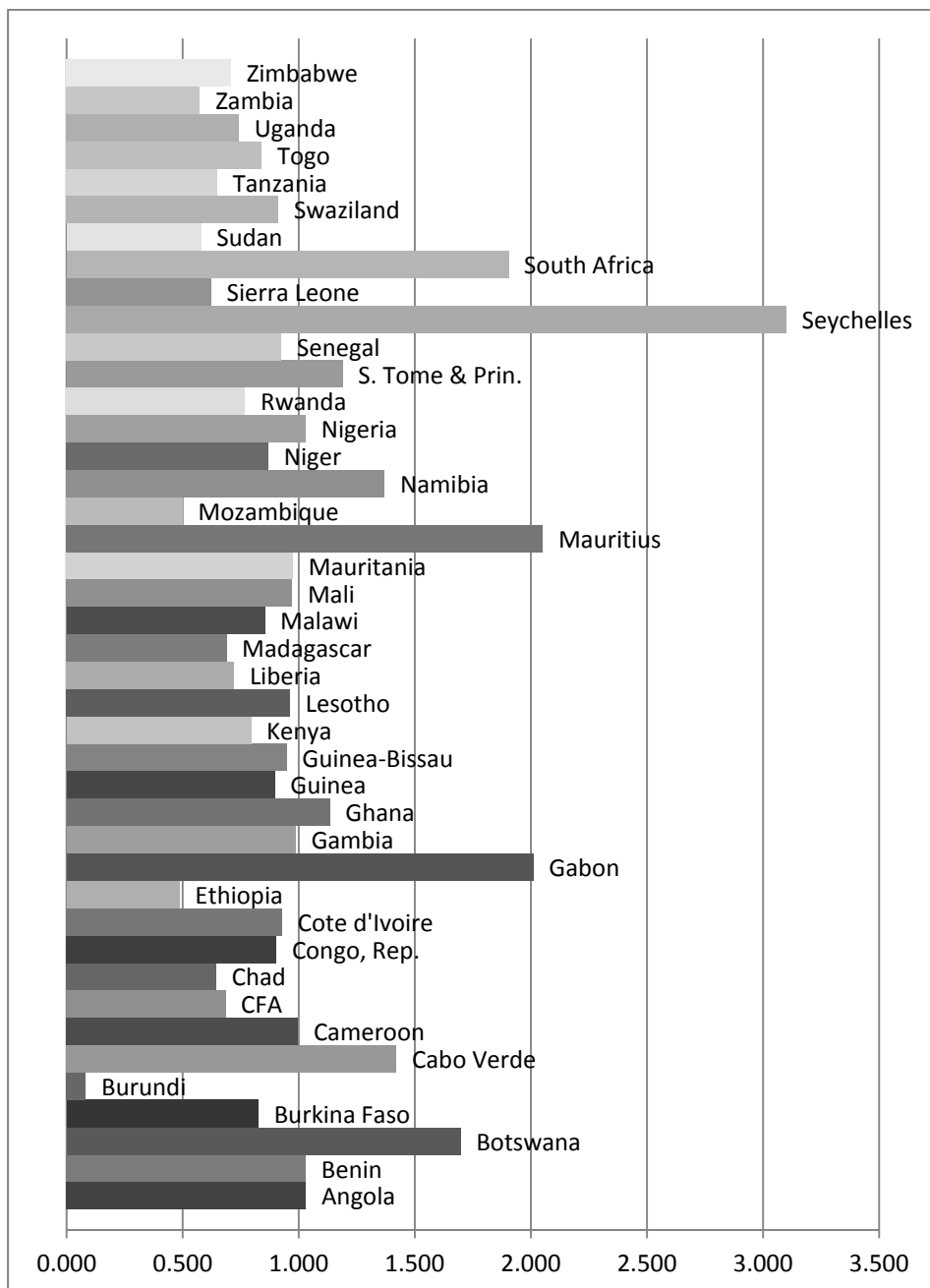


Figure 1. Values of the socio-economic development composite index in 2012 for analysed Sub-Saharan countries

Source: own compilation and calculation based on data from The World Bank's World Development Indicators database.

Table 3. Results of the parametric tests (version with Seychelles)

Analysed sub-region	M	SD	N	H0:	p-value
Central Africa	1.071	0.502	6	M=1	0.764 (0.382)
East Africa	0.900	0.918	8	M=1	0.782 (0.391)
West Africa	0.945	0.177	16	M=1	0.247 (0.124)
South Africa	1.104	0.527	12	M=1	0.526 (0.263)
South Africa/West Africa	x	x	x	$M_{SA}=M_{WA}$	0.268 (0.134)
South Africa/East Africa	x	x	x	$M_{SA}=M_{EA}$	0.534 (0.267)
South Africa/Central Africa	x	x	x	$M_{SA}=M_{CA}$	0.901 (0.450)

M - mean; SD - standard deviation; N - sample size; H0 - zero hypothesis; p-values for one-tailed tests in the brackets.

Source: own calculations based on data from The World Bank's World Development Indicators database.

South Africa's level of the socio-economic development, even though the highest among the sub-regions of Sub-Saharan Africa, isn't significantly higher than the level of development in West Africa ($p=0.134$ for one-tailed test), East Africa ($p=0.267$ for one-tailed test), nor Central Africa ($p=0.450$ for one-tailed test).

If Seychelles is eliminated from the analysis as an outlier value, East Africa's level of the socio-economic development decreases rapidly to 0.534. It proves to be significantly lower than that of other sub-regions (West Africa: $p=0.000$, Central Africa: $p=0.017$, South Africa: $p=0.008$; p-values for one-tailed tests). It is also significantly lower than the average level of the socio-economic development in the whole Sub-Saharan Africa ($p=0.006$). Other results do not change much after removing Seychelles. Other sub-regions' level of development is still not significantly different from the average level in Sub-Saharan Africa, and South Africa's level is not significantly higher in comparison to West and Central Africa (See Table 4; South Africa's level is higher than West Africa's for the level of significance $\alpha=0.1$).

Table 4. Results of the parametric tests (after eliminating Seychelles)

Analysed sub-region	M	SD	N	H0:	p-value
Central Africa	1.139	0.570	6	M=1	0.609 (0.304)
East Africa	0.534	0.315	7	M=1	0.011 (0.006)
West Africa	0.973	0.191	16	M=1	0.588 (0.296)
South Africa	1.194	0.602	12	M=1	0.308 (0.154)
South Africa/West Africa	x	x	x	$M_{SA}=M_{WA}$	0.177 (0.089)
South Africa/East Africa	x	x	x	$M_{SA}=M_{EA}$	0.016 (0.008)
South Africa/Central Africa	x	x	x	$M_{SA}=M_{CA}$	0.855 (0.427)
East Africa/West Africa	x	x	x	$M_{EA}=M_{WA}$	0.000 (0.000)
East Africa/Central Africa	x	x	x	$M_{EA}=M_{CA}$	0.034 (0.017)

M - mean; SD - standard deviation; N - sample size; H0 - zero hypothesis; p-values for one-tailed tests in the brackets.

Source: own calculations based on data from The World Bank's World Development Indicators database.

CONCLUSIONS

Despite dynamic GDP growth in Sub-Saharan Africa, this region faces serious problems with providing for its inhabitants' basic needs. This suggests that a stronger focus should be put on the socio-economic development of the region, and on indices measuring those basic needs. This article was an attempt to answer this issue.

The results of the research show that the level of the socio-economic development in Sub-Saharan Africa is not very diverse spatially. Most of the countries share a similar level of development, close to the average level for the whole region. What is more, there are also no significant differences in the level of the socio-economic development between the geographical sub-regions: Central, West, East, and South Africa. This means the first hypothesis should be discarded. Situation is similar with the other two hypotheses. South Africa indeed has the highest level of the socio-economic development, but it is not statistically significant. No region differs significantly from the others, be it positively or negatively. The second hypothesis also must be discarded. The third hypothesis posited that after eliminating countries with extreme values (which proved to be only Seychelles), the overall results would be closer to the average and not statistically significant. The opposite proved to be true. Removing Seychelles from the analysis pushed East Africa's level of the socio-economic development down. It proved to be significantly lower than that of the other sub-regions and the whole Sub-Saharan Africa.

A question is sometimes raised whether it is justified to group all the Sub-Saharan countries and analyse them as one region. These results show that despite obvious differences in macroeconomic situation or sociological and historical determinants between Sub-Saharan countries, their level of the socio-economic development is not significantly different. Of course it all depends on the variables taken into consideration, but it seems appropriate to focus on basic needs, as opposed to higher needs when analysing developed countries. The similar level of development across Sub-Saharan Africa justifies treating Sub-Saharan countries as one region.

As it has been already mentioned, the results are strongly dependent on used measures of the socio-economic development. The issue is definitely worth exploring further with a different set of variables comprising the composite index. The author also plans a more in-depth study focusing on the relation (or in some cases the lack thereof) between the economic growth and the standard of living in Sub-Saharan Africa.

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Success Stories of Tanzanian Women Entrepreneurship Programs in Alleviating Poverty: Insights from WORTH Program

Mwajabu Mbaruku, Darlene Mutalemwa

ABSTRACT

Objective: This study attempts to provide evidence on the relevance and type of support given by women entrepreneurship support programs in alleviating poverty among Tanzanian women entrepreneurs. As such, it argues that WORTH is beneficial for women entrepreneurs.

Research Design & Methods: Data for this study was drawn from the reviewed literature including existing documents at PACT Tanzania, supplemented by field work and discussions with PACT Tanzania's WORTH specialists.

Findings: The study revealed that the WORTH program provides various support to women both in groups and at an individual level. In addition, the success stories highlight that in the face of daunting obstacles, women have shown their ability and commitment to change their lives and their communities.

Implications & Recommendations: Working with allies and partners, in both the public and private sectors, is essential in successfully addressing and scaling up women's entrepreneurial opportunities and support programs.

Contribution & Value Added: Women entrepreneurs have had limited opportunities to describe their own opinions, experience and their ways of establishing and conducting business. This study gives voice to the voiceless and contributes to the growing body of literature on women entrepreneurship support programs in alleviating poverty.

Article type: research paper

Keywords: women entrepreneurship; poverty alleviation; Tanzania; PACT; panel

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INTRODUCTION

In recent years, support programs for women entrepreneurs have gained traction and prominence as a means to expand employment and earning opportunities and to reduce poverty in both developed and developing countries (Vossenbergh, 2013). Allen, Elam, Langowitz & Dean (2007) further suggest that women entrepreneurship is among important sectors that contribute significantly in the world economic development and poverty alleviation, especially in the developing countries.

Feminist researchers such as Moghadam (2005) argue that women around the world are caught up in poverty because of many factors including increase in female headed households, inequalities and bias against women within households as well as unbalanced economic policies and markets. Other important factors discussed are women's limited access to property and employment. Pearson (1992) and Hallward-Driemejer (2013) explain that in third world regions such as Sub-Saharan Africa, incidences of poverty among women are higher than men, and women in this same region have fewer alternatives for entrepreneurship than do women in other regions.

According to Jullu (1996) the history of poverty in Tanzania has contributed towards women participation in entrepreneurship. Before 1961 Tanzanian independence, women were not engaged fully in entrepreneurship. Gaidzanwa (1993) explains that most rural women were engaged in agriculture only, or in supporting family businesses. Few women who tried business in urban areas confined themselves into small business mainly selling food, beer and in some cases prostitution.

Another scholar, Cherryl (1990) reports that the Tanzanian economic changes of mid 1970s and early 1980s brought big changes on gender and entrepreneurship. This was a time where women seized opportunities to initiate income generating activities in many areas across the country. Examples of income generating activities include livestock production, dye and tie clothes, food production and processing and other buying and selling businesses.

Although women gradually joined the entrepreneurship sector, it has never been easy to scale. A combination of many factors such as social and cultural reasons have contributed to a tendency of discounting the economic potential role of women and therefore failure to mobilize and benefit from their contribution through entrepreneurship. They continue to face many business constraints to start and run the types of enterprises associated with higher productivity and profits notably lack of access to credit, markets, business skills development and business information (Stevenson & St-Onge, 2005).

A report released by Equality for Growth (2009) indicates that women constitute 43% of all entrepreneurs in Tanzania. This indicates that women entrepreneurship proved to be one of the key sources of women employment and income in Tanzania. Through various programs, development actors such as Non-Governmental Organizations (NGOs) have come forward to support productive women entrepreneurship to improve their access to credit, markets, training and information.

Statement of the Problem

Despite there being evidence that support the contention that the importance of women entrepreneurship in Tanzania has increased significantly since the early 1980s, as is stipulated by Equality for Growth (2009), Hanna-Andesson (1995) and Hallward-Driemejer (2013) poignantly remark that women entrepreneurship is an untapped resource especially in many developing countries. Women entrepreneurs face challenges associated with lack of strong management skills and access to credits, markets, information and networks.

Tibandebage, Wangwe, Msuya & Mutalemwa (2001) explain that NGOs and other stakeholders came in to support women entrepreneurship after recognizing their potential role in empowering women as a marginalized group, employment creation, sustainable development and poverty alleviation. Furthermore, the growth in the number of NGOs since the 1980s has been enormous in terms of their outreach, services and funding. While there is a growing commitment among NGOs to integrate women into all aspects of the development process, there is limited evidence about the nature of successes and challenges. More evidence is needed to understand how successful these women entrepreneurship programs, particularly WORTH's PACT Tanzania, are in poverty alleviation.

To be specific, this paper argues that WORTH is beneficial for women entrepreneurs. As succinctly put by Petterson (2012, p. 19): "Are the programmes really beneficial for women, or do they portray them as helpless and needy? Is such a portrayal necessary for the organizations supporting women entrepreneurs and, therefore, unavoidable?" The study thus attempts to provide evidence on the relevance and type of support given by women entrepreneurship support programs in alleviating poverty among Tanzanian women entrepreneurs.

LITERATURE REVIEW

Definition of Key Terms

Key terminologies used in this study include poverty and entrepreneurship. The two terminologies are defined based on ideas put forward by different scholars. As it is a herculean task to define these two concepts because of the elusiveness and the controversy surrounding them, there is essentially no single agreed definition of poverty or entrepreneurship. However, few definitions are reviewed below that will bring an understanding of the meaning of the two terms as they are used in this study.

Simon (1999) defines poverty as a vulnerability situation facing a person or a group of people. The author gives examples of vulnerable situations as lack of sustainable livelihood, social exclusion, lack of sound capability and functioning and inability to acquire basic needs. But the author clarifies that these characteristics may not matter much if they are not compared with those of another person or group. According to Chambers (2006), poverty means high level of deprivation of wellbeing. Again here the word wellbeing may carry various understanding and meaning depending on where the person is.

Other scholars such as Laderchi, Saith & Stewart (2003) define poverty through three approaches namely monetary, capacities and social exclusion. In their monetary approach, they argue that poverty is a decline in income. The capacities approach is explained as the level at which an individual is free to live the kind of life that can fulfil his capacities. In this case a poor person has no resources to engage in certain basic activities like interactions with others, seeking information and self-expression. Social exclusion engages studies on community characteristics that exclude people or some groups of people from participating in social activities, opportunities and resources. Groups that are socially excluded will likely become poor.

Eradicating poverty among women and other groups is among the United Nations' (UN) objectives under Millennium Development Goals. It targets to reduce poverty by 50 per cent by the year 2015. Specifically, the United Nations declared intention to empower women and promote gender equality. Empowering women and gender equality is among effective strategies to alleviate poverty and contribute towards sustainable development (United Nations Industrial Development Organization, 2003). The UN goals are supported by many countries across the world. This is seen through signed declarations and new economic and social policies put in place by various nations. For example by 2003, a total of 45 nations prepared poverty reduction strategy programs (PRSP) for their countries. The process of preparing the PRSP involved representation of the community through civil society organizations. These papers acknowledge that the poverty status of women is manifested at the household, sectoral, occupational, and locational levels and that it cannot be easily defined.

From the definitions above, it can be concluded that despite authors' different opinions, they do agree on the fact that if we are to define poverty, we need to consider these questions: who is asking for this definition, who is the person answering the question and where is this individual defining poverty from.

The term entrepreneurship is also defined by many scholars. Kirzner & Sautet (2006) define entrepreneurship as the ability and creativity of an individual or organization to formulate ideas that are profitable and enter into market for training and make profit. Stevenson & Sahlman (1989) define entrepreneurship as deliberate efforts to pursue an opportunity that has been identified to generate new products or services and make an income and ultimately profit. To relate opportunity based theory anchored by Drucker (1985) to this study, Doyle (1991) explains that failure for women to engage fully in entrepreneurship is not because women do not see the opportunities. It is because they lack the key support needed, especially resources. It is therefore important for various programs to support women to successfully engage in entrepreneurship. These definitions are similar in the fact that they refer to human efforts towards changing ideas into reality to bring (positive) change.

Relevance and Support Given to Women Entrepreneurship

Stevenson and St-Onge (2005) explain that different actors across nations are supporting women entrepreneurship. Such actors include governments through their agencies, donors, local and international NGOs and the private sector and they also depict microcredit as the silver bullet of development policy, which is able to single-handedly eradicate poverty. There is ample consensus in the literature that institutional theory offers a powerful approach in understanding how working with allies and partners in

both the public and private sectors is essential in successfully addressing and scaling up women's economic opportunities (Uphoff, 1986; Howes, 1997). Institutional theory also predicts that strong and effective relationships will contribute to successful sustainable programs.

Stakeholders have different motives for supporting women entrepreneurship. Governments are doing it as their responsibilities towards marginalized groups and justifying their tax base. If productive women entrepreneurship is to emerge, the role of government in enterprise creation and growth is particularly crucial in Africa. It can secure the proper foundations for the private sector to appropriately contribute to economic growth and for entrepreneurial initiative to thrive in developing countries and also many of the necessary changes in the business climate can only occur as a result of specific actions by the state, such as easing the lengthy and costly procedures to start a business or minimizing corrupt practices (Siram & Mersha, 2010).

In Tanzania, the government recognises the contribution of women in the national economy. After realizing that women are marginalized in terms of access to land, education and facing cultural barriers, the government opted to enhance gender mainstreaming in many sectors. The Small and Medium Enterprise Development Policy of Tanzania outlines measures to promote women entrepreneurship in the country. The policy considers special programs for women as one of the disadvantaged groups. It also identifies barriers for women to engage in business and provided guidance to design programs to address such barriers (United Republic of Tanzania, 2003). The Micro Finance Policy of Tanzania also focuses on the majority of Tanzanians, especially women, whose incomes are very low in which cases access to financial services, such as savings services, allows higher standards of living to be achieved and ultimately alleviate poverty (United Republic of Tanzania, 2000).

There is increasing recognition that the private sector including micro and small enterprises has an important role to play in creating and sustaining the jobs necessary for poor people to work and earn the income needed to purchase goods and services. In this regard, it is important that the government, and not for profit actors, initiate programs and policies to promote and develop women entrepreneurship in order to build entrepreneurial skills, strengthen women's networks, provide finance and trainings and ultimately enable more and stronger start-ups and business growth.

NGOs which form a sector of civil societies, are the result of market and government failures (Weisbrod, 1986; Weisbrod 1998) and have become increasingly important over the past few decades in terms of their participation in economic development such as poverty alleviation and policy processes. NGOs have also made significant contributions to public debate in such diverse areas as service delivery, public accountability and the rule of law. These actors which have recognised that women entrepreneurship are essential for growth and development (Vossenber, 2013), are supporting women entrepreneurship through different approaches.

The most common approaches include the establishment of microcredit schemes which are effective tools to fight poverty by providing financial services to those who do not have access to or are neglected by the commercial banks and financial institutions (Armediariz & Morduch, 2010; Banerjee, Duflo, Glennerster & Kinnan, 2010). They are often considered to be instruments that promote empowerment (Hunt & Kasynathan,

2002; Mayoux, 1998; Lewis & Kanji, 2009; Swainson, 2000). This study advocates four dimensions of empowerment: (i) power within: confidence and self-respect, (ii) power to: building assets, incomes, and capacities, (iii) power over: increasing control and voice in decision making and (iv) power with: mutual support and collective action. Within microcredit schemes, women get access to loans, marketing skills, business management skills, legal services and relevant information that they need. For such support to reach women, women entrepreneurs are normally organized in groups for easy access and sharing of resources and more importantly joint liability lending, meaning that when one of the group members fails to repay their part of the group loan, credit is suspended for all other members of the group (Levitsky, 1993; Armediariz & Morduch, 2010).

There are five main categories of microfinance institutions (MFIs) in Tanzania (MFTransparency, 2011) which support women entrepreneurship development: (i) International branches of NGOs and locally founded and based NGOs amongst which the most prominent include PRIDE TZ, FINCA. (ii) Banking institutions offering a range of microcredit products. The largest banks are the National Microfinance Bank (NMB), CRDB Bank and Akiba Commercial Bank. There are a few regional and community banks, namely Dar es Salaam Community Bank, Mwangi Community Bank, Mufindi Community bank, Kilimanjaro Cooperative Bank, Mbinga Community Bank and Kagera Cooperative Bank. (iii) Member based MFIs institutions (SACCOS, SACCAS, VICOBA), which are not regulated by the Bank of Tanzania, and that provide financial services that are predominately savings based. (iv) Government funded MFIs which comprise central and local government schemes for resources-disadvantaged groups like women, youth, and the disabled. They include Small Industries Development Organisation, Presidential Trust Fund, Small Enterprise Loan Facility, and Tanzania Social Action Fund. (v) Private/religious organisations such as SELFINA, Mennonite Economic Development Associates (MEDA) CARITAS fall in the last category.

MATERIAL AND METHODS

Data for this study was drawn from existing documents within Pact Tanzania where WORTH program is hosted. These include Worth program reports, Operations Manual, and Worth leaflets available at Pact Tanzania front office shelves.

Interestingly, Fallatah (2012) points out that most of the literature on women's entrepreneurship relies on quantitative data research. She further adds that women entrepreneurs have had limited opportunities to describe their own opinions, experience and their ways of conducting business. In this context, success stories which are included in the study, are quoted verbatim and were gathered and collected during an intensive two weeks fieldwork by one of the co-authors in 2011 who was working as an Assistant communication officer at PACT Tanzania. Consent has been given by PACT to use them in this study. All names have been changed to protect the identity of respondents.

The collection of success stories at PACT is guided by the group process methodology known as appreciative planning and action (APA) (Odell 2001a, 2011b), which encourages WORTH participants to focus on success and possibilities rather than obstacles. Sharing success stories is a driving force in the program and as such community members are made to see their strengths and opportunities. The sampled stories are collected on condition that there is achievement, aspiration and change

experienced as result of engaging in the program. Pact in Tanzania and other countries value each story as long as in it there is an empowerment message when shared. These stories serve as encouragement for others to see their potential and try new things to bring change in their lives and families and community at large. It is also worth noting that women who share their stories not only regarding where they have succeeded, but also regarding the challenges they go through in the process of realizing their dreams. By sharing challenges encountered, other individuals, who have not attained success, are motivated to continue working and perfecting their small achievements as they know that if they don't give up they will also realize their dreams of making a better future for their children.

The positive or appreciative lens of APA is one of the WORTH program's central tenets and as such was influential in our selection of it as a suitable methodology. However, it is naive to believe that APA does not have its limitations (Kevany & MacMichael, 2014). For example, some interviewees in deprived communities raise expectations. As there is a tendency of thinking that if they have tried to participate, they deserve an incentive in the form of cash or handouts. Language is another limitation; when interviewees do not speak Swahili while the outreach staff cannot understand their local language. Some interviewees are not comfortable with their pictures taken which are part of stories to be shared (these have not been included in this study).

To supplement the field data, discussions with Pact Tanzania's WORTH specialist Mary Mpangala were held in March 2014 and also in February 2015 with the same respondent and Victoria Munene who was initially in charge of the WORTH program to understand more about how the program works and most importantly to help in answering the most important issues and point of focus for this study.

RESULTS AND DISCUSSION

About WORTH

Pact Tanzania being an international United States funded NGO with an aim of helping and enabling vulnerable Tanzanian children and their families, significantly take ownership and improve their own lives, centres its main activities on capacity building and management of grants. The NGO is currently under implementation of a five year grant program since 2010 known as "Pamoja Tuwalee" (which means together we shall raise our children) in partnership with other organizations and support from the United States President's Emergency Plan For Aids Relief (PEPFAR) through the United States Agency for International (USAID).

One approach that the program adapts to support and help these vulnerable children and their families, is helping the mothers, guardians and care takers of these children earn a decent living income. As a result, an approach called WORTH was introduced in the program.

The WORTH program entails women forming small groups among their communities and save money together in order to give each other loans with low interest return rates to either start or expand their businesses. It develops women capacities through business skills training for successful micro-enterprise ventures. It is one among the

women entrepreneurship programs working with women entrepreneurs in various regions in Tanzania.

Pact Tanzania is reaching out to the communities it serves through local organizations, mainly NGOs and faith-based organisations in a partnership arrangement. The local organizations are given support by Pact Tanzania in terms of technical aspects and financial aid. Other stakeholders are involved through joint meetings, resource mobilization, information sharing, referral system and networking. Special collaboration is maintained with the government at various levels from the Department of Social Welfare down to the district councils.

Support given to women by the WORTH program is realized from the beginning when the program is introduced to the respective communities. During the initial phase and introduction of the program, Pact Tanzania reaches out and meets women who are the caregivers of most vulnerable children. In these meetings, women are given information related to economic and social opportunities available in their areas. This makes women realize their own capacity to change their lives through their own potentialities. It is usually an eye opener making women choose WORTH and welcome further processes of progress.

Women who choose to join WORTH are taken to the next stage where they participate in developing community profiles. It is a participatory process of identifying resources and potentials available in the community that can support business activities for women. They also participate in baseline surveys to assess family income status, literacy level, child protection issues and other needs. According to Gakure (2003) in any community, individual women have resources and potentials that can contribute towards business growth. The WORTH women become motivated when they go through the process of developing community profiles and baseline surveys.

The WORTH program implementation manual indicates that the program has to be introduced to the government at district, ward and village levels. This stage makes leaders at district, ward and village levels welcome WORTH and pledge their support through community mobilization and follow up. Women are then assured of sustainability and political will from their leaders.

For sustainability of the WORTH program, Pact is working with empowerment workers (EWs) who are from within wards and villages. In each village there are also committees responsible for most vulnerable children formed during children identification process. Committee members of these committees are under the government structure but are not paid. They are volunteers. Pact Tanzania came out with various ways to motivate the committee members. They have been allowed to form WORTH groups that are supported the way other women groups are supported.

EWs are not only responsible for the coordination of WORTH implementation at ward and village levels, but also for providing support to individual women and groups. EWs are trained to work with women groups in their communities. They provide reference information, uniting women and supporting them with individual help when needed in order to form solidarity within women groups. The groups are the potential for working together in a collective manner.

Daily EWs' role includes coaching and training women on business skills, savings, loan disbursement, loan repayment, literacy classes, parental skills and child protection.

The objective of mentoring women is to equip them with appropriate skills to run and manage their individual businesses and take active roles in a group. The ultimate result is to see that each member in a group will be capable to manage business and adhere to group norms and regulations, literacy level is improved and women participate in child protection at both family and community levels.

Women are also empowered to elect their own leaders and make their own by-laws. After being elected, the group leaders are trained for four days in training sessions followed by continued mentoring and coaching by EWs. The objective of training group leaders is to make them effective in managing group level activities and link groups with partner organizations and with community leaders. The training given to women is based on improving their leadership and financial skills.

Sustainability of poverty alleviation programs has been reported by many scholars to be an important issue. Morrow (2001) for example argues that most of poverty alleviation programs almost come to a total closure as soon as donor funding pulls out. But for the WORTH program, there is promising signs of successful sustainability. One good sign reported in one of Pact Tanzania leaflets shows that 25 per cent of WORTH groups had helped establish over 500 new women groups.

In the opinion of Brown, Denning, Groh & Prusak (2004), the good attributes of a story are salience, sense making and comfort. Readers and listeners should live the ideas and feel the ideas as much as if they were their own. The following three success stories are among many signature evidence of how WORTH is actually supporting women in Tanzania. They are from WORTH group members in Mara, Mbeya and Shinyanga regions.

“Wiping Out the Curse”

Across the windy waves of Lake Victoria, in the Bukima village in Mara, a funeral is taking place. A woman is crying for her husband who has just died after being sick for some time. She is wondering how she is going to take care of their six children, how they are going to survive, and most of all, how she is going to wipe out the curse of losing a husband that has fallen upon her. Nyangeta Omari lost her husband in 2004. They loved each other and used to work together for a living, and life was not that difficult. When he passed away, she knew she would have to go through the traditional practice of the Wajita tribe for a widow to wipe out the curse of losing a husband by sleeping with another man with that specific intention. The belief is that the curse then melts away. According to Nyangeta, if a widow starts having relationships with other men without going through that practice she can fall sick and even have some problems in life. *„And that is how I got pregnant again. After six years of mourning I went to another village to visit a relative, but my real aim was to wipe out the curse. There I met a man who didn't know my real intentions, and I slept with him only once. Nine months later I gave birth to a baby girl,”* she says. *“I have never seen that man again, and he doesn't know that I have a child. In fact, this is my late husband's baby, and even his relatives have given the child their surname, because they know that I was going through a very important traditional practice,”* she explains. After her husband's death, Nyangeta's life started to become difficult. She started frying fish, but after some time she could not keep up that business because a lot of money was needed for the children's school fees. She started taking any job that crossed her path. She explains: *“I would carry buckets of water on my head and take them to other people's houses; I would wash other people's clothes and*

cook for them. In the end, all I got was little money for maize flour". When WORTH started in 2008, Nyangeta continued with casual labour, so that she could contribute her savings to the group. She also had a little vegetable garden that added to her income. With her first loan of 50 000 shillings she started selling soft drinks at the Mwigobero ferry, where a lot of passengers cross over to the islands of Irugwa, Ngera, Nabweko, Baruza, Liyegoba and Ukerewe. She took another loan of 100 000 shillings and added it to her soft drinks capital, and also started selling sugarcane. She has a lot of customers, her business is doing well, and most importantly, her children are now happy because she is able to provide for them comfortably. She proclaims: *"WORTH is really good. It has helped me a lot because, seriously, I don't know how my life would have been without it. Maybe my children would have already died of hunger."* Nyangeta is the Secretary of the Sautiya Wengi group and she acknowledges that WORTH has helped a lot of women survive through life's difficulties. Moreover she loves WORTH because it has enabled her to take good care of her children. She believes that her curse has been wiped out.

"HIV Positive and Happy"

Rahel Joseph found out that she was HIV positive in 2007 when she was feeling ill and decided to take a test. The news of her positive status did not make her lose hope but instead she encouraged her husband to take the test too, and that was when it was confirmed that they both had the virus. Their last born child was also HIV positive. Rahel and her husband were married in 1998. Rahel was a housewife depending solely on her husband, who had to provide for her and their three children. She explains: *"I was born with asthma, so I had never gone out to work in my life. My husband was the one who went to the farm and had to provide for us, while I stayed at home and looked after the kids"*. In 2010, her husband died suddenly of a heart problem, and Rahel was left to provide for her children. She did not know what to do, and ended up working for other people for a small income that would enable her to feed her children for them not to die from starvation. Rahel recalls: *"First of all, my husband's relatives wanted to take away our coffee farm, but the village government intervened and I won. Later my brother-in-law wanted to inherit me. I told him that it was impossible, especially because I was HIV positive. He then decided to stop helping me and my children"*. That was when Rahel lost direction. When WORTH was introduced in Mbozi district, Rahel decided to join the Upendo group in her village. She worked hard to save her money and eventually was able to take a loan of 60 000 shillings which helped her set up a small café business where she prepares morning breakfast. The business has helped her also in taking care and providing for her family. Rahel acknowledges that WORTH has helped her pay for her child's school fees, and it has also helped her get a weekly audience to talk to about HIV. Her biggest desire is to see an HIV-free generation. She uses the weekly WORTH meetings to educate her children as well as fellow members on HIV prevention, and the importance of voluntary testing, so that if a person is HIV positive they can start using ARVs and should stop thinking about ending their lives. She remarks: *"Everybody knows me in this village. I have told everyone that I am HIV positive, and that has made me a voluntary counsellor in this area. If I hear that a person has fallen ill, I feel bad. I want them to go get a test and live a healthy life"*. Her children know about her status too. She says: *"I actually sat them down and explained everything to them. After that they all decided to get tested, and I thank God that they are safe, except for my last born"*. She is

also thankful that people neither stigmatize her, nor her children. They listen to her teaching, ask questions, nod their heads in approval, and chat with her as if everything was normal. Her last born also knows that he is positive, and his mother decided to buy him a watch so that he could set the alarm for the time when he is supposed to take the ARV pills. Rahel has even formed another group that operates like WORTH, but is specifically for caregivers living with HIV. She knows that this group will help them save enough money to be able to buy food, so that the medication they take works effectively. She says happily: *“WORTH has been our saviour. Just imagine; as well as being able to take loans and start our own businesses, it is also a place where I can easily speak with my fellow members and tell them all about HIV & AIDS. I don’t want anyone to die from this disease. If you are HIV positive, it doesn’t mean that the world has ended.”*

“The Maize Thieves”

A gentle breeze blows through the night. The children are snoozing, the chickens are clucking, and the men are busy getting drunk. But in a dark corner of one room a shadow is moving towards a sack of maize. Some of the contents are poured into a bucket and then the shadow creeps to the door. Safely outside, the mission has been accomplished – the shadow, who is none other but the woman of the house, has stolen a bucket of maize! One interviewee states: *“I used to steal maize from my house because when I asked for money for my children’s needs or my own needs my husband refused. The only way that I could provide for my children was to steal maize from the house and go and sell it”*. This has been the life of many of the women in a village called Nanga, in Chinamil Ward, Bariadi District, in Shinyanga region. Despite the fact that these women work even harder than their husbands at farming, when the harvest season comes, their husbands take the maize harvest and sell it, keeping the proceeds to themselves. The place where the sacks are stored in the house is a “no-entry zone” for the woman, who has to ask her husband for expenses and hope that he will provide. Ng’wasi Mbilibili is a mother of seven who used to work in the fields with her husband. Whenever she asked for money for her children her husband used to say he didn’t have any, leaving her to wonder where all the harvest money went. She says: *“The duty of taking care of the children was mine alone. Whenever the children asked their father for money he would send them back to me and when I went to ask him for money he would say he didn’t have any. This left me with no choice but to steal maize from our house and go sell it to the neighbours, depending on how much my children needed at that time”*. However, after WORTH was introduced in her village she became a member of the Kujiendeleza group, where she is now the secretary, and started saving money in order to be able to take a loan later. She concludes: *“I no longer steal maize from home because I now have a business selling soap and cooking oil after I took a loan of 20 000 shillings. I am now able to take care of my children, myself, and even help my husband when he is in need of some money”*. Ng’wasi Maduhu is another beneficiary who also recalls her stealing days. She elaborates: *“During the harvest period it used to be nothing but arguments between me and my husband. We harvested cotton together but he sold it alone with his friends and never gave me a share of our profits. The only way forward for me was to steal maize and green beans that we had stored in the house, and sell them around the village to get some money for my children and I to at least survive.”* When WORTH was introduced in

her village, she became a founding member of the Ushirikiano group, and is now the secretary. She took a loan of 10 000 shillings, and then 20 000 shillings and 40 000 shillings and started a business selling crates of soda. She makes a profit of 3 800 shillings per crate. She concludes: *“My life is now very smooth as I have a business. I decided not to tell my husband anything about it at first because all we did was fight and argue. Then he kept wondering why I never asked him for money for our children anymore. Later he found out that I got the money from my WORTH group and is now proud of me. He calls me clever”*.

Esther Samson is no different from her fellow Nanga women. She is 39 years old and a member of a WORTH group called Ushirikiano. She explains: *“I lived by stealing maize from my own house in order to sell it. I was caught so many times by my husband and received severe beatings, but I had no choice as I had to take care of my children. However, ever since I started my business of selling vegetables after taking a loan of 10,000 shilling, I no longer need to steal my maize. In fact my husband has been setting many traps for me to see whether I continue to steal the maize, but he doesn’t realize that I don’t need to steal anymore. Life is no longer hard for me and my five children and I don’t need to ask for money from him at all, thanks to WORTH”*.

Mpingi Sai is another former maize stealer until she was told by her fellow women that WORTH was the only way out of the misery of being beaten up by her husband after getting caught for stealing maize from her house. She never believed it and laughed at her fellow women, telling them that the empowerment workers would steal their money from them. She says with laughter: *“I used to think that I was cleverer than all of them until they convinced me that WORTH was very beneficial and my life would become easier for me and my children. Along with 25 other women we formed a group called Muungano and I was chosen as the treasurer. My life is now much better because I take care of all my four children after receiving a loan of 15 000 shillings which I used to buy and sell rice plants”*.

Until WORTH gave them a better way out, their only means of survival was stealing from their own households. All these women are now happy and proud of themselves for being able to take care of their children with the savings they get from their various businesses.

Multiplier effects of WORTH

Ahmed (2008, p.122) states *“the impact of masculinity on poverty alleviation is strikingly absent in the vast literature on microcredit, the cornerstone of gender empowerment programs worldwide”*. The WORTH Program has proved to be a catalyst for change in all communities where it works. One example of such evidence is the fact that it has a spill over effect that reaches many other groups other than women. Men who are not WORTH Program beneficiaries have also joined and formed groups. In most wards where WORTH is implemented, there are men groups and other groups mixing both men and women. A story of Martin, Jeremiah and Juma narrated below indicates the multiplier effect of the WORTH Program:

Martin Juma, Jeremiah Kasasa and Juma Willie are proud members of a WORTH men’s group called Mkombozi, in Mbewe village, Mlangali Ward in Mbozi.

Martin who is the Treasurer of his group narrates *“I actually wasn’t here when WORTH started. I had gone to Sumbawanga to take care of my wife who had been sick*

for nearly a year, and when I came back I found out that some women's groups had been formed. I then called upon my brethren and we asked the empowerment worker to allow us to form our own men's group. „Martin takes care of two orphans who are 13 and 15 years old, in addition to his own two children. The mother of the orphans was his sister who passed away in 2000, leaving him with the responsibility of taking care of them. Life had not been easy. After forming the Mkombozi WORTH group and making the weekly contributions, he was able to take a loan of 310 000 shillings and open a shop. He also bought eight goats that have now produced seven more, making them 15 altogether. He says “Life has become much easier now, especially with taking care of the children and paying for their school fees. The good thing about WORTH is that the interest rate is affordable, and it really has the intention of helping us improve our lives and those of our children.”

Juma Willie is the group's secretary and lives with his 11 year old sibling and his sister's two children, after she moved to another place and could not take them. The father of the children has already passed away. He states laughingly: “My wife had joined a WORTH group and she started making more money than me. Of course I became jealous and decided to team up with the guys so that we could also form our own group.” From his savings, he took a 100 000 shilling loan and bought potato seeds that he planted on his new farm. He also bought a weighing machine and sacks of fertilizer that he uses at his shop to sell to customers at a retail price. Juma proclaims: “I really love WORTH. Sometimes I wonder ‘where were you all these days?’ My family, especially my children would have been even more developed than we are right now.” He now earns 40 000 shillings per day at his shop, whereas in the past he used to earn not more than 10 000 shillings.

Jeremia Kasasa is the controller of the group. He only has one plea: “We need education. We need to be trained more and more so that we learn more about how to do business, learn more about how to look for a market, and most importantly, learn more how to continue saving money in order to continue providing for all the most vulnerable children that we take care of.”

Challenges Facing WORTH Program

Despite the numerous benefits of the WORTH program, it is also fraught with challenges. This is not surprising as there is considerable theoretical and empirical support on the challenges facing NGOs who make it their goal to empower women and their communities (Carr, 2000; Malhotra & Mather, 1997; Mayoux, 2001; Mosedale, 2005; Narayan, 2002; Nussbaum, 2000).

According to discussions held with PACT staff, apart from economically empowering participants, the program has also empowered members in the following ways: (i) members are able to unify their voices against social evils in their societies such as female genital mutilation, gender based violence, child abuse, early marriages; (ii) the literacy component of the WORTH program has enabled members not only acquire and improve their reading, writing and simple arithmetic skills, but enable them to access information which they need in order to improve their businesses and lives of their children and (iii) an increase in income has reduced gender disparities especially in relation to ownership of properties and making decision on the household spending. Members of the groups through their businesses have acquired properties and assets,

invested in improvement of their houses, they have been able to send the girl child to school, and taking up the role of being bread winners, to name just some few examples. These achievements are based on a WORTH rapid assessment conducted in 2010-2011 and an evaluation conducted on WORTH Tanzania program.

The WORTH program is clear in its approach that it does not give start-up capital to either women groups or individual members. It only provides capacity building support such as training, human resource and working facilities, such as files and reference books. This means that the Program utilizes women's strengths and capabilities for their own development. Women are motivated to save from their own little earnings. They are empowered to access loans from their own savings and invest in small businesses to make profit.

Program operations have never been easy. Just like other donor funded programs where beneficiaries have expectations, WORTH program's members show high expectations, especially at the beginning when the program is being introduced. They expect big capital to be injected. It should be noted that the WORTH Program is supporting rural women from poor and vulnerable families. They expect to receive more support such as food and educational support for their children.

The WORTH program is challenged by existence of other microcredit models operating in the same communities. When the WORTH Program is introduced for the first time, women tend to be hesitant to join because they know other types of microcredit schemes that work with women. Mfaume & Leonard (2004) report that there are many different types of women microcredit models in Tanzania, examples of such models include the Village Community Banks abbreviated as VICOBA. But Pact Tanzania reports indicate that the WORTH Program is still favourable to rural poor women because the contribution amount is set very low hence it is affordable to most rural poor women.

It was learned from the WORTH program reports that women savings is slow and small. This is because women have much workload at family levels. Bearing children and being responsible for the whole family affairs makes women spend whatever they have and remain with little to save. Despite this challenge, women are still managing to give their required share of contribution towards the group. Encouragement from EWs has been instrumental in bringing women to where they want to be.

Consultations with PACT staff revealed that the major limitation of WORTH program being an economic strengthening model by design, requires individuals who are able to work and save and engage in income generating activities such as agricultural activities, animal keeping and other petty businesses. Saving without investing in business will not contribute to an increase in income that will meet the needs of her household. This is why each member is encouraged to take loans from the group and initiate or expand her business. PACT staff opined that the fact that one has to invest in business has excluded some of vulnerable groups such as child headed households, elderly caregivers, caregivers with disabilities and those with long illness who cannot directly participate in income generating activities. They recommended that in order to ensure that these special groups are not excluded, project/program design should include special intervention such as cash transfers to these groups on condition that they use some of the cash to save in the groups. Being part of WORTH groups, they will benefit from other

interventions such as good parenting skills lessons, child protection and early childhood development lessons which are intended to improve their parenting skills and relationships with the children who are under their care. Furthermore, being in the group will provide a social safety net for them, as they develop relationships with group members and reduce isolation.

Consulted Pact staff also provided specific examples on programmatic challenges encountered in the course of implementation and they also proposed recommendations. These include: (i) Community members coming from households with elderly caregivers, caregivers with disabilities, child headed households and critically ill caregivers who most of time are reluctant to join due to lack of money for contribution and limited ability to engage in income generating activities. To support these special groups, the intervention should include provision while mobilizing resources for long term support; (ii) Dissolving groups due to different reasons including internal conflicts among members, dependency on handouts, money theft and mistrust. Although it is not easy to avoid cases like these, they can be minimized by ensuring groups choose a strong management and carefully recruiting members in the group; (iii) in some few groups, loan repayments pose a big challenge to the growth of group which sometimes leads to group disintegration. This is not a big threat as this is not so with the majority of groups. Currently there are about 2 888 WORTH groups which are active. Following the proper recommended loans management procedures could be a solution but also members should consider taking loans within their capacity to repay; (iv) Other parallel programs in some of the communities which offer seed money and make promises to match out savings have in some communities led to groups disintegrating, although this has not been a major challenge. Members who move away from the groups for such opportunity soon realize that those promises are not always kept. And if they are, the money which is given is very small and sometimes brings some conflict in the groups, especially who should be given the loans. WORTH program continues to enlighten members of the group on the importance of them working hard and building their own loan funds; (v) Politicians in some communities have also taken advantage of the organized groups trying to champion their political interests through some donations to some of the groups. They continue to educate the group members that dependency is not empowering. Donations can only solve an immediate problem and most of the times come with conditions attached. Members need to understand that it is only hard work and determination which are able to change the vicious circle of poverty experienced by the households involved in WORTH program.

CONCLUSIONS

The study revealed that the WORTH program provides various support to women both in groups and at an individual level. Support given starts from mobilization of individual women to come into groups for the purpose of working together. Thereafter, women are sensitized to realize their potentialities and creation of saving culture among them. They receive training on how to start and manage businesses, then encouraged to take loans and continue running their own businesses. When in groups, the forum is used to facilitate other cross cutting issues such as health promotion, parental skills, food and

nutrition. The groups and individuals that are involved, receive market skills and market information relevant for identifying marketing opportunities.

The WORTH program which supports rural women who have limited access to credit facilities, has proved to be a catalyst for change in all communities where it works. It has a multiplier effect where it reaches many other groups other than women. Men are not WORTH program core group of beneficiaries, but they also joined and formed groups.

The success stories highlight that in the face of daunting obstacles, women have shown their ability and commitment to change their lives and their communities. Therefore the WORTH program is successful in terms of contributing towards poverty alleviation among women and other groups.

The following recommendations are drawn primarily from the findings of the study, but are also informed by research and lessons learned from experience in many countries:

1. The challenge of high expectations and dependence among women can be dealt with developing further awareness among women. Awareness can be created through one to one meetings, exposure through visiting other groups or sharing success stories of other groups.
2. Evidently, women groups cannot be supported for a long time or permanently. However, there should be a clear phase out plan for those groups that are about to be left on their own. The plan should set out sustainability strategies for the group and individual businesses. Sustainability plan should include aspects of linking women groups with other microfinance institutions and market structures.
3. Government involvement is important in assuring stable working environment for women entrepreneurship. Women require policy consideration as an important environment for business successes. Local government is responsible for setting new by-laws that may or may not favour women entrepreneurs. Any women entrepreneurship program should work with the government in order to know the government's guidelines and policies.

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Link between Work-Related Prosocial Orientation and Professional Capability of Employees: A Preliminary Exploratory Investigation

Małgorzata Adamska-Chudzińska

ABSTRACT

Objective: The paper explores the link between work-related prosocial orientation of organizations and professional capabilities of employees suggesting that the prosocial orientation impacts the level of professional capability and proactive engagement.

Research Design & Methods: The article applies three main methods: literature studies, in-depth questionnaire surveys and multi-person method of assessment. The applied sub-measures for both leading constructs were formed and collinearity was tested using linear correlation coefficient.

Findings: In prosocial environments psychological predispositions as essential aspects of personality and determinants of human behaviour, activate and stimulate professional activity. The implementation of a prosocial orientation leads to significant growth in professional capability and can influence employees' entrepreneurial behaviour.

Implications & Recommendations: An important aspect of employee proactive behaviour is building an internal policy based on prosocial mechanisms. Effective stimulation of prosocial and proactive attitudes and actions requires the creation of an environment where activities are realized alongside social values and with respect for individual personal determinants of activity.

Contribution & Value Added: Considerations and findings presented in the paper contribute to the area of determinants of effective and lasting proactive employee development. The use of the multi-person method can be considered valuable in behavioural research in entrepreneurship

Article type: research paper

Keywords: work-related prosocial orientation; professional capability; proactive employee development

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INTRODUCTION

In current, highly changeable socio-economic conditions, corporate policy constitutes a significant aspect of every company's development. Prosocial policies usually hold regulatory character and are directed towards the stimulation of creative and innovative professional attitudes and behaviours. They influence the activation of company's various resources, including human capital. Bearing in mind that human activity is principally performed in its social context, the policy shaping innovation and creativity environment should take into account prosocial mechanisms regulating human behaviours (Franken, 2007). This paper recognizes the need to root business activities in fundamental social values with respect for human individuality.

The article refers to a stream of widely understood entrepreneurship research with consideration of principles of social responsibility (Koh, Qian & Wang, 2013). The main aim of the study is to explore potential interdependencies between prosocial activity of an enterprise and entrepreneurship of its employees, hypothesising that implementation of a prosocial orientation positively relates to high level of employee professional capability and their professional behaviours. The presented review of literature and results of own research identify factors that significantly and permanently condition the entrepreneurial attitudes and entrepreneurial intentions, which – as Jiménez-Moreno and Wach (2014) stress – are affected by the social context of external factors such as social norms, role models and perceived behavioural control according to the theory of planned behaviour.

LITERATURE REVIEW

Brief and Motowidlo's (1986, p. 711) outline that "Prosocial organizational behaviour is behaviour which is: a) performed by a member of an organization; b) directed toward an individual, group, or organization with whom he or she interacts while carrying out his or her organizational role; c) performed with the intention of promoting the welfare of the individual, group, or organisation toward which it is directed." On that basis, Weber, Unterrainer and Höge (2008, p. 176) created a concept of work-related prosocial orientation encompassing such indicators as: (i) prosocial work behaviour; (ii) perspective-taking and empathy; (iii) solidarity at work.

The profile of prosocial orientation implemented by an enterprise specifies the character of its influence on the economic outcomes. Contemporary enterprises are increasingly more appreciating the prosocial methods of stimulating entrepreneurship, innovation and proactive attitude and social engagement, as elements of strengthening the firm's market position. Therefore, the problem of prosocial engagement of an enterprise may be grasped twofold. A significant number of enterprises focus on prosocial promotional activity, which consists of adopting external targets, such as sponsoring or corporate philanthropy in order to improve the company image. In this case, the notion of costs that are related to the realization of these promotional social aims, becomes the dominating issue.

A second group of enterprises may choose to adopt a different approach. The prosocial activity, in this case, is perceived as a significant aspect of management

strategy, sometimes as a tool of developing unique competences or as a source of competitive advantage. The strategic prosocial policies in this case embrace the broadly comprehended needs and expectations of internal and external stakeholders, and which embraces universal social values (e.g. honesty, reliability, responsibility) as criteria for evaluating and assessing actions.

This paper aims at exploring, on both conceptual and empirical level, the potential benefits of a responsible prosocial orientation aimed at establishing an entrepreneurial climate (the environment for entrepreneurship) promoting prosocial and proactive behaviours and social engagement as well as empowerment of employees. Several positive outcomes can be hypothesized a priori. A fundamental one is the individual inclusive treatment of internal and external stakeholders. Second may include an increase of actions directed at corrections, improvements of processes, exploitation of new opportunities. Further long-term benefits may comprise of: reduction of costs and an increase of profitability, an increase in income and profits, including an increase of production, sales and the number of customers (Bąk, Bednarz, Kulawczuk, Rataj, Szcześniak & Zajęc, 2007). These potential benefits appear as a result of elevated entrepreneurship and employee effectiveness. When employees' rights and expectations are respected, they can experience important psychological states, connected with the content of the performed work, such as a feeling of significance and authorship of tasks, recognition of competences, consciousness of achievement and work reliability. In prosocial conditions, the effectiveness of processes is elevated thanks to a rational administration of resources and materials, as well as reliable and honest behaviours towards the customers, contractors and local society, who are then more strongly connected with the company through authentic, mutually advantageous cooperation. This fact may also exert some influence on business risk limitation and even greater access to capital.

To explain how the prosocial external and internal environment may cause an increase of entrepreneurship and effectiveness of economic actions (Wach, 2015), and the achievement of the above mentioned benefits, the paper focuses on the concept of professional capability and to social mechanisms influencing and conditioning this capability. Professional capability has been defined for the purpose of this research as internal dispositions (possibility and readiness) of a person, who is competent to fulfil tasks on a given work positions or is prepared for a particular professional role. It is established by a system of physical, mental and social human predispositions, their knowledge resources, skills and motivations that are necessary to perform their work in accordance with expectations of an organization (Adamska-Chudzińska, 2012). Human individual psychological features and qualities play a regulatory role towards the remaining parameters, influencing the final shape of professional capabilities of a human being. The regulatory role of mental predispositions as modelling acts of a person, is presented in numerous works devoted to the concept of personality (Tomaszewski, 1998, pp. 169-170; Przetacznik-Gierowska & Tyszkowa, 2007, p. 215; Gałdowa, 1999, p. 18; Pervvin, 2002, p. 416).

In the prosocial internal environment, where employees are acknowledged as individuals, their needs of affiliations, acceptance and social recognition are fulfilled, the personality determinants of actions, i.e. mental predispositions, become activated. The

highlighted regulatory role of mental predispositions becomes visible in the fact that they determine and direct human actions (they constitute internal determinants of actions). They are expressed in acts of recognition and evaluation of various elements of situations by individuals. These individual processes of perceiving professional reality (noticing, attentions, memory, imagination, disregard, thinking, abilities, emotional processes and other personality determinants) take place on the basis of possessed knowledge and skills and the remaining characteristics of professional capability. This is the point, where the influence of mental qualities on actions arises from. These individual processes considerably model human behaviours (of a worker, customer, contractor, or other stakeholder), providing it with personal dimension each and every time. They are responsible for use of human capital, scope of their knowledge and skills, thus for the level of their professional capability. The strongly activated mental predispositions on a certain level of knowledge and abilities, enable full exploitation of opportunities brought by human capital and high results of their performance. Therefore, prosocial actions taken up by an enterprise constitute a significant aspect in development of entrepreneurship behaviours, leading to an increase of economic results, i.e. enabling rational decisions and optimal choices. Hence, the corporate prosocial policy creates an environment, which allows subjective determinants of actions, indispensable in achieving a high level of professional capability, which in turn results in the improvement of entrepreneurial attitudes and behaviours.

Studies devoted to prosocial orientation of an enterprise and the influence of prosocial engagement on the level of professional capability and entrepreneurship of employees, and thus economic results, are not numerous. Prosocial character of corporate policy is certainly not among the main researched factors of corporate growth. A certain limitation is posed by considerable complexity and interdisciplinary character of the matter. The problem involves researching the influence of prosocial activity of enterprises on stimulation of psychological regulators of human behaviour and entrepreneurial attitudes and behaviours, and furthermore the reflection of such processes in economic results of enterprises.

Most of the previous research linking prosocial orientation and professional capacities was carried out in the US or Western Europe, therefore the Central European perspective seems to be valuable. Kanter (2009) performed longitudinal studies among highly effective companies for numerous years (among others: PepsiCo, Novartis, IBM, P&G, Royal DSM, Broad Group, Unilever) in more than 20 countries on different continents. The results of this research suggest a meaningful role of social values in achieving long-standing success within a market (Kanter, 2009). To generate value added, those companies develop structures, where fundamental social values are applied as criteria of decision making. Coexistence of social and economic criteria results in fulfilling the needs of all stakeholders: manufacturing of products, which meet users' expectations; creation of workplaces and development of entrepreneurial attitudes of employees; establishment of strong networks of suppliers and business partners, which serve as a source improvements and innovations, as well as profits (Kanter, 2009). Leaders of the researched companies adopt a prosocial approach as a complementation of economic and financial approach in managing enterprises. Business success of presented enterprises prove that value-based corporate policy is not in opposition to the

imperative of entrepreneurship and profit generation. These results suggest that corporate development should not be separated from social responsibility (Beard & Hornik 2011, pp. 88-96).

Studies of Barnett and Salomon (2012) carried over a period of eight years (1998-2006) on a sample of 1214 biggest enterprises in the world, suggest the existence of a U-shape correlation between social activity and financial results in a long-term perspective. The relationship was measuring the return on assets and the return of equity of enterprises.

The entrepreneurial attitudes, as those desired by companies in contemporary changeable conditions, that require deep engagement, and continuous creation of new solutions are the subject of research realized by Corporate Leadership Council in 2008. The study results suggest that an entrepreneurial employee gives 57% more effort than the one, who was not identified with that feature. A 10% growth of engagement causes 6% increase of contribution at work, which is reflected in 2% increase of the generated results (Chair, 2014).

In Poland, the Forum of Responsible Business (Forum Odpowiedzialnego Biznesu – Ranking CSR) - a multi-criteria rank of responsible companies –is published annually. This initiative systematically perfected, results in an expanding group (more than 60 per year) of enterprises that face high social and ecologic requirements, which lead to an increase of engagement of employees and contractors, and therefore to acquisition of knowledge that allows to strengthen their economic position within a market (Gasparski, 2012). These studies, together with other analyses of prosocial corporate policies (Kuraszko & Augustyniak, 2009) demonstrate an increasing scope of social responsibility among Polish businesses. These studies broaden the platform of competition with social responsibility aspects, thanks to which all market partners gain benefits. The discussed studies do not analyse, however, the influence of prosocial orientation of an enterprise on indirect parameters of economic growth, such as professional capability and entrepreneurial behaviours of employees.

The prosocial aspect of the business strategy and behaviour was the subject of research conducted at the Cracow University of Economics in the years 2008-2010¹. The obtained research results, while requiring further verification on a greater group of companies, embrace significant premises that point to a relationship between prosocial activity of enterprises and an increase of professional capability and entrepreneurial behaviours of workers. Some selected results are presented and elaborated in this article.

MATERIAL AND METHODS

The results presented are selected elements of a larger research project carried out by the author that relate to interdependencies between the degree of prosocial engagement of an enterprise and the level of activation of employees 'professional capability. Diagnose of this relationship addresses the driving question of the study: to

¹ The studies conducted at the Department of Psychology and Didactics at the Cracow University of Economics as Own Research Project no. 67/KPID/2/08/W/075.

what extent does the scope of autonomy, proactivity and innovativeness, as important sub-constructs of entrepreneurship behaviour, increase in prosocial conditions? The studies were of exemplifying character, and they were carried out in two stages, in 2008 and 2010, in an enterprise of leading position on the market in its branch, with an opinion of having a high level of social responsibility.

The goal of the study required to divide the research into three parts: (i) analysis and evaluation of prosocial orientation in the analysed enterprise; (ii) evaluation of the level of professional capability of the workers employed in it; (iii) determination if and to what extent the prosocial orientation coexists and impacts the level of professional capability of employees.

The prosocial orientation of a firm was measured using four submeasures and four different questionnaires. The sub-measures of prosocial orientation, selected for the study, embraced the following aspects:

1. Reliability of basic operations of the organization (quality assurance).
2. Improvement of operations through elimination of losses (rationality of managing organizational resources).
3. Axiological reference of the managers (social valuation and assessment of tasks).
4. Individual treatment of employees (experiencing personal participation in work situations, significance and authorship of actions).

These sub-measures of prosocial orientation constitute basic social dimensions of each organization, and they co-determine its prosocial orientation.

In turn, the level of employees' professional capability was assessed on the basis of the following sub-measures:

1. physical qualities,
2. mental predispositions,
3. social competences,
4. professional knowledge,
5. content-related skills,
6. work motivation.

According to the concept of the regulation of human behaviours (Ratajczak, 2007), the above quoted determinants represent essential characteristics of professional capability.

To verify the interdependence between indications of prosocial orientation of an enterprise, and the level of professional capability of the employees, appropriate research tools were prepared. A survey technique and four scales were exploited to examine the prosocial orientation. The evaluation of professional capability encompassed a multi-person method employee assessment, and a simplified evaluation sheet of professional capability of employees in relation to requirements of a certain type of job was prepared. It took into consideration the sub-measures of professional capability and a general evaluation of professional potential of an employee.

The level of prosocial orientation in the researched enterprise was determined with application of a special procedure of standardization of measures obtained from the four questionnaires and calculation of aggregated indicators. Evaluation of professional capability was formulated on the basis of opinions of competent judges (operational managers, managers of higher level and co-workers).

In order to recognize the relationships between aggregated prosocial orientation indicators and professional capability of employees indicator, both within the groups of those measures, and between them, coefficient of linear correlation was applied.

Analysis of the obtained results was conducted according to the subsequent stages of research with reference to selected psychological and sociological theoretical concepts. To some extent, it allowed to overcome the limitations of the correlation method, and provide the research with, maybe not exploration, but rather a verification directed at identification of the researched interdependences. Furthermore, the analysis was complimented by analysis of documentation related to socio-economic operation of the examined enterprise.

Two variables investigated in the study were measured by using two different techniques. The questionnaire was used for the first variable (prosocial orientation). The basic responding group included 151 respondents from one firm. They were asked to answer 4 different questionnaires (so altogether there were 604 questionnaires collected from 151 respondents). The multi-person method of employee's assessment was applied to measure professional capability. For the second phase only 40 employees were selected out of 151 of all employees who replied the questionnaire. They were evaluated by 10 so called judges (each employee was evaluated by three judges including a top manager, a direct supervisor, and a co-worker). During the empirical studies, in-depth 120 opinions about professional capability of 40 employees were gathered (40x3)².

RESULTS AND DISCUSSION

Evaluation of Prosocial Orientation

The aggregated variable of prosocial orientation was constructed of four sub-variables (mentioned above in the text). Research results referring to the level of intensity of prosocial aspects in business activity of all investigated employees of the selected enterprise (n=151) revealed a high social engagement indicator (reaching 0.6 on a 0-1 scale). The dimension corporate prosocial orientation was expressed in:

- combining economic effectiveness with care for stakeholders needs and expectations (high significance to the professional capability of the employed, as the main determinant of quality value added),
- improving economic activity through raising rationality of managing organizational resources (responsibility for resources and interests of the organization including the employees, maintaining respect and recognition for them as a significant source of cognition and creativity),
- combining management effectiveness with axiologically directed attitudes of managers (social valuation and assessment of economic actions, their course and effects),

² A full characteristic of methodological assumptions and data obtained in the presented research, together with the graphic presentation, are included in chapters 4 and 5 of the publication of Adamska-Chudzińska (2012).

- individual treatment of organization members (full personal participation in work situations, significance and authorship of their actions).

Relationship between the researched types of actions (four sub-measures of prosocial orientation) and a general state of prosocial orientation was statistically confirmed (linear correlation). Taking actions in the four separate areas was accompanied by an increase of overall prosocial orientation intensity in an enterprise. This confirmed the introduced sub-scales, as reliable for examining the prosocial orientation of an enterprise.

The obtained results also confirmed a dominating role of individual treatment of employees in shaping prosocial orientation (0.721, $p < 0.05$). A statistically significant difference was noted between individual treatment of employees and other areas of prosocial orientation. It suggests that the intensification of individual treatment of employees, impacts the intensity of the remaining areas of prosocial corporate orientation.

Evaluation of Professional Capability

The average assessment of the professional capability potential of all employees ($n=40$) of the investigated enterprise amounted to 4.25 on a 1-5 scale. Between 90% and 95% of all six sub-measures of the professional capability of the evaluated employees were high and very high.

The analysis of correlations between sub-measures of professional capability established that mental predispositions are correlated with all analysed parameters. It suggests that a higher level of stimulation of mental qualities and characteristics is accompanied by higher physical mobilization of the body, better communication abilities, fuller application of knowledge and skills, as well as an increase in work motivation. The essential role played by mental predispositions in effective realization of professional tasks has been confirmed on the sample. The formulated conclusions are in line with psychological personality concepts (Tomaszewski, 1998, pp. 169-170; Przetacznik-Gierowska & Tyszkowa, 2007, p. 215; Gałdowa, 1999, p. 18; Pervvin, 2002, p. 416), according to which compliance and balance of mental predisposition determines the level of maturity individuals and the activation of personal resources, such as skills and knowledge. This occurs through:

- cognitive processes, deciding about reflection and analysis of the surrounding reality,
- intellectual processes and special skills, which determine the level professional excellence,
- emotional processes, being responsible for mental self-regulations and the ability to act rationally,
- features of character, aligning human actions with the personal values system,
- temperament features, conditioning the dynamics of behaviours, along with motivation.

Link between Prosocial Orientation and Professional Capability

The statistical calculations of linear correlation coefficient identified a statistically significant interdependence between the aggregated intensity of prosocial orientation and professional capability within the mental predispositions (0.709), physical qualities

(0.527) and social competences of employees (0.491). It implies that in the researched company, the growth of intensity of prosocial orientation impacts three aspects of professional capabilities:

- i. intensification of physical possibilities of action,
- ii. enhancement of mental abilities of perceiving and valuating work situations,
- iii. attitude towards development of constructive professional relationships.

In prosocial conditions, there is a possibility to expect intensification of psychosocial features and qualities of employees, and as a consequence, their stronger internal commitment to effectiveness.

The relationship between individual employee treatment and mental predispositions suggests that treating employees with dignity, respecting their rights and providing them with proper autonomy and authorship of actions results in higher mental readiness for effective dealing with professional challenges.

According to the obtained results, there is a need to consider the fact that individual employee treatment is not only one sub-dimension of prosocial orientation, but also a basic condition of prosocial actions in other dimensions. Therefore, it may be expected that the fulfilment of this condition may cause an increase in: (a) stakeholder value added, (b) general work excellence and eliminating losses, (c) social valuation and assessment of actions.

In turn, "mental predispositions", according to the results, play a regulatory role towards all remaining determinants of professional capability. They are responsible for activating employee mental processes, grasping various aspects of situations, intensification of acts and creation of their new dimensions.

An important contribution of the analysis lays in identifying factors that condition the prosocial orientation of the enterprise, and factors that model professional capability. On a very limited scope and single case sample the study identified that a high intensity of prosocial corporate orientation is likely to activate the professional capability of employees. The interdependence between mental predispositions and prosocial orientation was recorded in the research enterprise not only in the area of individual treatment of the employees, but also in the area of reliable realization of tasks. However, further research is still needed. Quantitative studies covering numerous companies, may provide further insight into the subject.

CONCLUSIONS

The application of prosocial corporate orientation for triggering and stimulating creative and innovative activity of employees may be a significant aspect of creating an effective internal entrepreneurship policy. The presented finding simply that the prosocial corporate orientation may lead to the achievement of superior economic results through an increase of employee professional capability. The presented data emphasizes the relative durability of these effects and long-term strengthening of market position, thanks to prosocial regulators of human behaviours.

Since individual superior performance becomes strongly active in prosocial conditions, it is significant to build prosocial orientation in all areas of enterprises' operation. This process requires the economic activity to incorporate fundamental social

values as criteria of evaluating and assessing actions, and promoting an ethical profile of professional relationships. The phenomenon of individual dignity is exposed by the fact that it is both a manifestation, and a basic condition of taking prosocial actions.

Findings of the study strongly emphasize the aspect of individual treatment of employees as a key determinant of prosocial orientation and key determinant of professional capability. Respect for human individuality in organizational contexts is demonstrated on two levels. The elementary level is connected with respect for the dignity of the employees, their rights and high standards of work. A higher level of individual employee treatment consists of providing people with an adequate scope of autonomy and work responsibility. That raises employee's awareness of personal influence on the course of events, triggers a feeling of achievement and encourages taking responsibility for new solutions which is specific for entrepreneurial attitudes.

These mechanisms play a huge role in all empowering aspects of management, such as sharing power, encouraging employees to take part in decision making (Peters & Waterman, 2004), application of open and clear information policy (Aggarwal & Simkins, 2001, pp. 5-13); defining employee tasks in the context of the mission and strategies of an enterprise (Kidwell & Scherer, 2001, pp. 113-124); concluding a psychological contract between an employee and an employer that reflects social values.

An individual approach to people in professional relationships leads to an increase in professional capability, which may result in the development of entrepreneurial attitudes and behaviours among employees.

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Sustainable Development Indicators in Poland: Measurement and System Evaluation

Maria Urbaniec

ABSTRACT

Objective: The aim of this article is to explore the strategic foundations related to the sustainable development measurement and to evaluate the current system of indicators for sustainable development monitoring in Poland.

Research Design & Methods: A review of mainstream literature on Sustainable Development Indicators (SDIs) was conducted along with document-based descriptive analysis of secondary data and further critical literature analysis. Statistical databases have been used for the analysis.

Findings: This research paper draws on several strands within the economic, social, environmental, as well as the institutional and political dimensions of sustainability measurement. The results indicate that Polish monitoring system of sustainable development is based on numerous strategic documents. There is no integrated strategy of sustainable development in Poland. The findings also suggest SDI structure has been dominated by social indicators.

Implications & Recommendations: The evaluation of the Polish measurement system can help to find solutions that support change processes aimed at improving the implementation of sustainable development principles in policy making.

Contribution & Value Added: This article contributes to existing literature on measurement and monitoring of sustainable development by applying SDIs in the public statistics as well as in the practices of decision-making at policy level. Overall, this study extends the understanding of the importance of SDIs and implications of measurement by focusing on the importance of the sustainable development areas.

Article type: research paper

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INTRODUCTION

Sustainable development is one of the most important challenges of the modern world, perceived also as a key trend of global environmental policy and socio-economic development (Famielec, 2009, pp. 39-41; European Union, 2013b, p. 30). The definition of Sustainable Development was put forth for the first time in the Brundtland report "Our Common Future" (World Commission on Environment and Development, 1987), and later in the Declaration of the United Nations Conference on Environment and Development of 14 June 1992 (United Nations, 1992). In line with this, sustainable development is defined as one that seeks to meet the needs of the present generation without compromising the ability to meet the needs of future generations. (World Commission on Environment and Development, 1987, p. 37).

The overarching objective of sustainable development is to integrate economic, social and environmental policies at the local, regional and global levels (Ministerstwo Środowiska, 1999, pp. 15-17; Fiedor, 2013, pp. 10-11; Ghosh & Goswami, 2014). Implementation of sustainable development is related to a fundamental change in how to proceed, taking into account the integrated interdisciplinary approach (Urbaniec & Halavach, 2008; Borys, 2011, pp. 75-81). The need to change the current model of economic development to a more sustainable one has also been recognized as one of the priority areas by the United Nations (UN), the Organization for Economic Co-operation and Development (OECD) and the EU (Urbaniec, 2011, pp. 291-294; OECD, 2012; United Nations, 2012).

At the EU level, an important role in the implementation of sustainable development is played by the Strategy for Sustainable Development of the European Union, approved in May 2001 by the European Council in Gothenburg, and then renewed in June 2006 (Council of the European Union, 2006). It specifies the desired directions of social, economic and environmental changes in the long term, as well as how to achieve them. To support this development, the strategy "Europe 2020 A strategy for smart, sustainable and inclusive growth" was adopted by the European Commission in 2010. It includes three interrelated priorities; smart growth (based on knowledge and innovation), inclusive growth (fostering a high-employment economy), and sustainable development, which aims at reinforcing a more resource efficient and more competitive economy (European Commission, 2010; Jäger, 2009, pp. 5-11).

Taking action towards sustainable development requires a coordinated set of participatory processes that enable the analysis improvement, capacity strengthening, planning and investments. They are designed to integrate short- and long-term economic, social and environmental society through a mutually supporting action. To meet the challenges of sustainable development, strategic planning practices should be more effective, efficient, credible and durable.

The development and implementation of framework conditions that promote sustainable development requires a deep understanding of the economic, social, environmental synergies. Adequate information to support the analysis of the political action and the monitoring progress (Borys & Fiedor, 2008, pp. 121-122; Czaja, 2009, pp. 191-193; Levin & Clark, 2010, p. 40) also plays an important role in this context. A set of Sustainable Development Indicators (SDI), defined by Eurostat, which include the data

from EU member countries (European Commission, 2014) is used for monitoring the objectives implementation of the EU Sustainable Development Strategy. Reliable empirical and statistical data are needed to measure the progress and evaluate the effectiveness of policies and programs, not only in the EU but also in each country, especially in the context of the "Europe 2020" Strategy (European Union, 2013a, p. 12). Effective policies in these areas require statistical information from different disciplines (European Union, 2013a, p. 21).

On this basis, it is hypothesized that the monitoring of sustainable development is a strategic process of implementation of sustainable development and requires continuous measurement and control of the results. In this context, it is important not only the subject of monitoring, expressed in the strategic objectives, but also the measurement tools, including appropriate structure indicators.

The aim of this article is to explore the strategic foundations related to the sustainable development measurement as well as to evaluate the current system of indicators for sustainable development monitoring in Poland. The main research questions are; firstly, what is the state of the art regarding the measurement of sustainable development in Poland and, secondly, what issues play a key role in the monitoring system. The paper highlights the importance of and relevant practices related to the SDI system and to the measurement structure in Poland. It also focuses on the identification of measurement areas as well as on the evaluation of the indicators system supporting the implementation of the concept of sustainability. There has been no research study on sustainability measurement that addresses the above research concerns.

The paper starts with presenting the strategic approach to sustainable development at the policy level as well as the principles of its measurement in Poland. Based on this theoretical framework, the data used in the analysis has been described and the foundation of the methodological approach to the measurement system has been introduced. Conclusions include the main results on the importance of SDI in terms of structure, taking into account the dimensions, main themes and subthemes. This will allow one to evaluate the progress in developing a system for measuring and monitoring sustainable development in a synthetic manner. The last section concludes the paper with the discussion of the findings. A critical evaluation of the monitoring system has been carried out. The evaluation of the current SDI framework as well as its measurement system in Poland contributes to the identification of the main strengths and weaknesses of the implementation of sustainable development.

LITERATURE REVIEW

Strategic Foundations of Sustainable Development in Poland

The Polish commitment to implement the principles of sustainable development was not only a result of the participation in the United Nations Conference "Environment and Development", but also of the signing of key documents, such as The Rio Declaration on Environment and Development, the Agenda 21 – Global Programme of Action on Sustainable Development (Ministerstwo Środowiska, 1999). The State committed itself to the implementation of sustainable development policy both for present and future

generations, through the creation of sustainable communities being able to govern and use resources efficiently and to draw the ecological and social innovation potential of the economy, ensuring prosperity, environmental protection and social cohesion.

In Poland the sustainable development concept has been recognized as a constitutional principle. According to Article 5 of the Constitution of the Republic of Poland, dated 2 April 1997, "the Republic of Poland shall safeguard the independence and integrity of its territory and ensure the freedoms and rights of persons and citizens, the security of the citizens, safeguard the national heritage and shall ensure the protection of the natural environment pursuant to the principles of sustainable development" (Konstytucja Rzeczypospolitej Polskiej, 1997, art. 5).

The Law on Environmental Protection of 27 April 2001 completes the constitutional principle of sustainable development in Poland. In this act the concept of sustainable development is defined in article 3 point 50 of the Law, according to which: "Sustainable development is understood as such a socio-economic development in which the process of integrating political, economic and social actions occurs taking into account the natural balance and stability of basic natural processes in order to guarantee the possibilities of fulfilling basic needs of separate societies or citizens not only of the contemporary generation, but future generations as well" (Ustawa z dnia 27 kwietnia 2001 r. Prawo ochrony środowiska, art. 3 pkt. 50).

Furthermore, the concept of sustainable development is also found in other legal acts, including the act dated 27 March 2003, i.e. the Law on Planning and Spatial Development. In line with this, the spatial order and sustainable development are accepted as a basis for actions in the field of shaping the spatial policy, and when preparing the concept of spatial development the national rules of sustainable development are taken into account basing on natural, cultural, social and economic conditions (Ustawa z dnia 27 marca 2003 r. o planowaniu i zagospodarowaniu przestrzennym, art. 1).

Another legal act relating to sustainable development is the Law on Development Policy Principles dated 6 December 2006. The term 'development policy' is defined "as a complex of mutually connected activities undertaken and realized in order to ensure a stable and sustainable development of the national, socioeconomic, regional and spatial cohesion, raising competitiveness of the economy and creating new workplaces on a national, regional or local scale" (Ustawa z dnia 6 grudnia 2006 r. o zasadach prowadzenia polityki rozwoju, art. 2). According to that, sustainable development is only one of the areas of the cohesion policy implemented on the basis of development policy through operational programs which have established measures aimed at achieving the objectives at all levels of public administration (Central Statistical Office, 2014b).

Other strategic documents which play an important role in creating goals and priorities connected with the long-term development of the country in line with the sustainable development principle are:

- "The National Development Strategy 2020. Active society, competitive economy, efficient state", an update of the National Development Strategy 2007-2015, accepted by the Council of Ministers on 25 September 2012 (Council of Ministers, 2012)
- "Poland 2030. Development Challenges" (Boni, 2009),

- The Long-term National Development Strategy “Poland 2030. The Third Wave of Modernity”, accepted by the Council of Ministers on 5 February 2013 (Ministerstwo Administracji i Cyfryzacji, 2013).
- Moreover, the concept of sustainable development has appeared in many strategies, policies and sector programs as well as other strategic documents, e.g. (Central Statistical Office, 2011, p. 13):
- “National Environmental Policy for 2009-2012 and its 2016 Outlook”,
- “Poland’s Climate Policy – the Strategies for Greenhouse Gas Emission Reductions in Poland until 2020”,
- “Energy Policy of Poland until 2030”,
- “Strategy of Changing Production and Consumption Patterns to Favour the Implementation of Sustainable Development Principles”,
- “National Transport Policy for 2006-2025”.

Due to the numerous strategic documents in this field, the Council of Ministers accepted the document “Plan of putting in order development strategies” on 24 November 2009 (Ministerstwo Rozwoju Regionalnego, 2012). This Plan was intended to unify obligatory strategic documents and limit the number of obligatory strategies to 9 new integrated development strategies (out of 42 existing strategies), basing on the diagnosis and recommendations resulting from the report “Poland 2030. Development Challenges”. The new integrated strategies include (Ministerstwo Rozwoju Regionalnego, 2012, pp. 4-12):

- Strategy of Innovativeness and Effectiveness of the Economy,
- Human Capital Development Strategy,
- Transport Development Strategy,
- Strategy for Energy Security and the Environment,
- Efficient State Strategy,
- Social Capital Development Strategy,
- National Strategy of Regional Development 2010-2020: Regions, Cities, Rural Areas,
- Sustainable Development Strategy of Rural Areas, Agriculture and Fishing,
- Strategy for Development of the National Security System.

On this basis, it can be concluded that the strategic priorities of sustainable development are reflected in many documents. The above-mentioned strategies are targeted at development goals by supporting the implementation of the long-term national development strategy, taking into consideration a social, economic and ecological cohesion.

Nevertheless, there is a lack of a separate strategy for sustainable development of Poland. Although a document called the “Polish Sustainable Development Strategy 2025” was developed by the Ministry of Environment as early as 1999, it contained only guidelines for ministries developing sector strategies and recommendations of actions for sustainable development (Ministerstwo Środowiska, 1999). This document contained neither measurable goals nor indicators. To be able to assess how such a broad spectrum of strategic documents plays an important role in the implementation of sustainable development, the theoretical framework of the measurement system should first be presented.

Theoretical Framework of Sustainable Development Indicators

The sustainable development indicators are the main tool for monitoring progress in the implementation of the new development paradigm (Sustainable Development Solutions Network, 2014, p. 7). In the literature there are different definitions of "an indicator". The term "indicator" is defined as an aggregate measurement, connected with an important issue or phenomenon and performed on the basis of a series of observed facts. Indicators can be used to determine a relative item, or to indicate a positive or negative change. According to Eurostat, the statistical indicator shows the statistical data for a specific time, place, or other relevant characteristics, adjusted in at least one dimension (usually size), in order to enable comparisons (European Union, 2013a, p. 20). In general, "indicator" and "measure" are terms used alternatively (Borys, 2005, p. 62). The most important feature of an indicator is its comparability (as opposed to the characteristics generally expressed in absolute values), which enables ranking of the compared object with other objects (Central Statistical Office, 2011, p. 15; Sekerka, Obrsalova & Bata, 2014, p. 223).

The development of a SDI system is a relatively complex issue, because it is associated with a broad spectrum of sustainability, with the requirements of simplicity and ease of indicators applicability. In the literature there are different approaches to the indicator system (Preisner & Pindór, 1999, pp. 9-12; Parris & Kates, 2003, pp. 559–586; Atkinson & Dietz, 2007, pp. 45-47; Śleszyński, 2013, pp. 144-160). According to Śleszyński (2011) the SDIs should address the global problems of national economies, sectors, specific segments, areas of environmental protection and local communities. Furthermore, it should be added that the implementation of sustainable development should involve all the important issues related to human functioning: economic, social, cultural, natural, spatial and institutional. A creation of such a comprehensive system of indicators hinders its practical application.

The primary role of indicators of sustainable development is the operationalization of sustainable development for the monitoring of various planning documents developed at the local, regional and national level by specifying for each level a well-defined set of indicators (Borys, 2005, pp. 62-63; Levin & Clark, 2010, pp. 40-41). Indicators usually contribute directly to the strategic areas of the EU policy and global policy, because they are used for setting objectives and monitoring their implementation (Burchard-Dziubińska, 2014, pp. 23-30). Same indicators do not always cover all aspects of the development and change, but contribute to their explanation. They enable the comparison at a specified time, e.g. of countries and regions, and thereby they support the decision-making process (Parris & Kates, 2003, pp. 559-560).

The measurement of progress is also an integral part of the EU Sustainable Development Strategy (Ciżmowska, 2012, p. 57). It takes place on the basis of a set of SDIs, developed by the European Commission in cooperation with the Member States, EFTA (European Free Trade Association) and candidate countries. Eurostat plays a leading role in their development and monitoring in the EU, as it is responsible for the development of indicators of sustainable development and its measurement, as well as for publishing reports every two years (European Union, 2013b, p. 20). In order to provide a methodological coherence and comparability between countries, the

calculation of the indicators is carried out by Eurostat, based on primary data from national statistics (European Union, 2013a, p. 12). Therefore, in some cases differences may occur between the indicators provided by each country, and those presented in the Eurostat database. Monitoring is an essential element of the implementation of the strategy, including processes (e.g. the quality and scope of participation and information systems), effects, and possible changes in the measurement base line. It requires an approach in which the process and outcome indicators will be established at the same time as the visions and goals (OECD, 2001, p. 18). Most OECD countries have introduced a set of indicators corresponding to national strategies. These indicators vary from country to country and are generally organized according to specific themes and subthemes (OECD, 2006, p. 28).

In Poland sustainable development is monitored in two ways. On one hand, it is monitored within the "System monitoring developments" in relation to the cohesion policy and the development policy, especially in accordance with the applicable strategies in Poland (at national, supra-regional and voivodship levels) and in the European Union (Strategy "Europe 2020"). It is applied only to promote the resource-efficient and cost-effective economy, more competitive and environmentally friendly, including such areas as: adaptation to climate change, prevention of risks and risk management, low-carbon economy, environmental protection and resource efficiency (Central Statistical Office, 2014b). On the other hand, despite the lack of a separate Polish strategy for sustainable development, the data base "Indicators of sustainable development" related to the methodology of Eurostat is currently being established by the Central Statistical Office. Further analysis will focus on that measurement approach.

MATERIAL AND METHODS

For this purpose, the method of descriptive analysis of secondary data has been followed (documents test method, literature analysis and critique). Based on the analysis of existing data, the key strategic documents and statistical information related to Poland have been reviewed. Among the analyzed documents the following ones should be mentioned: (1) general strategic documents of development policy, (2) statistical data, including database of the Central Statistical Office (3) key EU and international documents, e.g. the strategy "Europe 2020", the priorities of the Organization for Economic Cooperation and Development (OECD) and the United Nations (UN), which determine the development directions of Poland.

While the analysis of the sustainable development is a popular topic in the existing body of literature, many questions about these issues, especially of measurement in Poland, remain unanswered. The paper focuses on the identification of measurement areas and relevant practices related to sustainable development. The current SDIs supporting the implementation of sustainability has been evaluated. For this purpose, four dimensions of SDIs (social, economic, environmental, institutional and political) and their operationalization in the Polish measurement system of SD has been explored. Using the data from statistical institutions, the number of indicators with respect to the dimensions and theme-oriented framework has been examined. Moreover, the importance of themes can be identified, assuming that the greater number of indicators

within each analyzed theme, signifies a higher rank of this field, as more important themes gain more attention and interest of policy makers.

In Poland, the Central Statistical Office is responsible for the monitoring of sustainable development. So activities in the field of SDIs for Poland are carried out in accordance with the public statistics. The data for the sustainable development database by Eurostat are compiled by a few institutions, first of all: Central Statistical Office and Regional Statistical Offices, Ministry of the Environment, Ministry of Finance, National Bank of Poland, Chief Inspectorate of Environmental Protection and Main Inspectorate of Agricultural and Food Quality (Central Statistical Office, 2011, p. 9). Under the agreement between the European Commission and the Central Statistical Office, a set of SDIs for Poland has been implemented.

Sustainable development monitoring is based on the new paradigm of development by identifying (Central Statistical Office, 2011, p. 15):

- the principles of development, being a basic ‘filter’ for the selection of indicators,
- the goals which are the positive target states of development, as presented in different planning documents,
- dimensions: social, economic, environmental, institutional and political.

Figure 1 below illustrates the interrelationships between categories fundamental for the correct measurement of sustainable development.

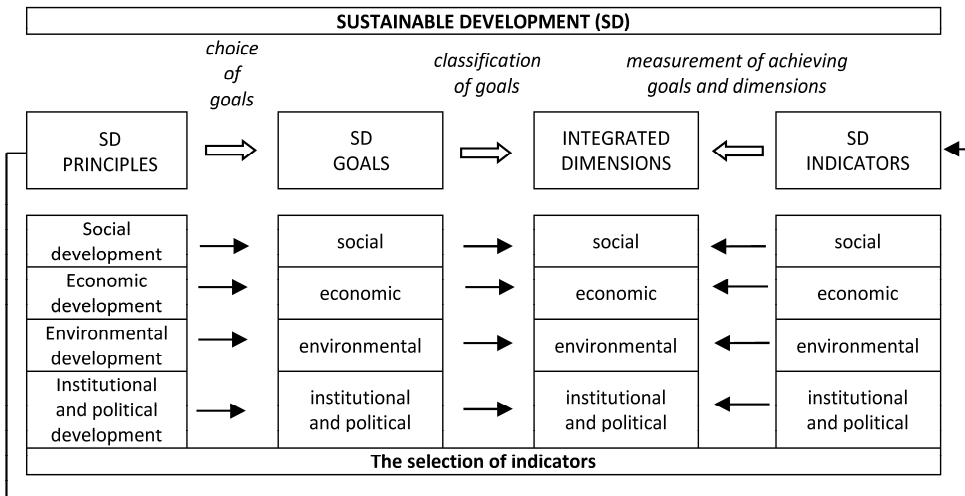


Figure 1. Construction and classification of national sustainable development indicators

Source: own elaboration based on (Central Statistical Office, 2011, p. 16).

Sustainable development indicators used to monitor sustainable development in Poland refer to the ten thematic areas (Table 1). Most of these are comparable with those of the Eurostat methodology for assessment of the EU SDI Framework, which is used to monitor the EU Sustainable Development Strategy.

The monitoring of EU Sustainable Development Strategy is based on more than 100 indicators, out of which three groups of indicators are specified. The most significant are

the headline indicators, which depict an overview of the progress of the EU on the path to sustainable development regarding the objectives and tasks provided in the Strategy (United Nations, 2008, pp. 36-37). The operational indicators as well as the explanatory indicators, which supplement the main indicators within a given thematic area can also be analyzed to obtain a fuller picture. The set of SDIs also includes a group of contextual indicators. They are not used directly for monitoring the objectives of the strategy. They are difficult to interpret in a normative manner, but provide valuable background information for the phenomena directly related to sustainable development, and can be useful for analytical purposes. A complete list of SDIs is published on the website of Eurostat in the bookmark "Selected statistics – Sustainable development indicators" (European Commission, 2014b).

Table 1. The main themes of SDI system in Poland and EU

SD Dimensions	Themes of SDI in Poland	Themes of SDI in EU
Social	Public safety	-
	Social inclusion	Social inclusion
	Public health	Public health
	Demographic changes	Demographic changes
	Sustainable consumption and production	-
Economic	Economic and social development	Socio-economic development
	Sustainable consumption and production	Sustainable consumption and production
	Sustainable transport	Sustainable transport
Environmental	Natural resources	Natural resources
	Climate change and energy	Climate change and energy
	Sustainable consumption and production	-
Institutional and political	Good governance	Good governance
	-	Global partnership

Source: own elaboration based on (Central Statistical Office, 2014a) and (European Union, 2013b, p. 20).

The Polish classification of indicators does not contain such an advanced division into the headline indicators, operational indicators, contextual indicators (European Communities, 2009, p. 34). Despite the fact that the SDI framework in Poland is based on the Eurostat methodology, it shows significant differences in the indicators structure. The Polish system only covers the operational indicators relating to the key thematic areas. The set of SDIs is listed on the website of the Central Statistical Office, the Regional Data Bank, in the bookmark "Sustainable Development Indicators - a regional unit" (Central Statistical Office, 2014a). Ultimately, the set of SDIs for Poland contains a total of 74 indicators that refer to the dimensions of sustainable development and thematic areas. On this basis it is possible to synthesize the progress in establishing a monitoring system for the measurement of sustainable development.

RESULTS AND DISCUSSION

The Polish SDI system can be evaluated with regard to various aspects. Taking into account the direction of the implementation of sustainable development, one can analyze the importance of indicators with regard to the size and thematic areas which have been monitored by operational indicators since 2004.

Considering the category of "dimension", the SDIs refer to the following dimensions (European Communities, 2009, p. 33):

- social dimension – indicators on improving quality of life of society,
- economic dimension – indicators for effective socio-economic development,
- environmental dimension – indicators related to the conservation and rational shaping of the natural environment,
- institutional and political dimensions – indicators covering the challenges of a global partnership and good governance.

All these dimensions constitute an integrated approach to sustainable development, including social, economic and environmental phenomena, and based on ethics and morality.

Regarding the importance of SDIs, the analysis revealed that most indicators have been developed for the social dimension (33). There are significantly fewer indicators for the economic dimension (18) and the environmental dimension (15), and the lowest number exists for the institutional and political dimension (8) (Table 2). The overwhelming predominance of the social dimension in terms of the number of indicators may indicate the main priority in the Polish development policy. However, it can be assumed that the dominance of one of the dimensions is not conducive to the implementation of an integrated approach to sustainable development in Poland.

The main themes in the structural division of the Sustainable Development Indicators in Poland in majority are consistent with the Eurostat methodology. The number of indicators distributed among the main themes is also unequal. By analyzing the number of Eurostat indicators by area, it can be observed that the leading role is played by the area of "social inclusion" (12) and "economic and social development" (8). The least important is "public safety" (3). It should also be noted that the theme "Sustainable consumption and production" is linked with social, economic and environmental governance and includes respectively different indicators resulting from different subthemes.

By analyzing the number of Eurostat indicators with regard to subthemes, it should be noted that most of the indicators operational aspect relates to "demographic changes" (5), "public health" (5) as well as "economic instruments"¹ (5). It must be stressed that these sub themes also refer only to the guiding principles related to the social dimension and good governance. The least important role in the monitoring of sustainable development is played by such sub themes as: "road and traffic accidents",

¹ Economic instruments are here defined as a tool to promote sustainable development, which aims to prevent excessive load on the environment and to exert a stabilizing influence on government finances (e.g. the rational management of funds by local governments, the use of environmental fees (Central Statistical Office, 2014a).

“fresh water resources”, “climate changes” and “air protection”, where the measurement is made by using only one operational indicator in each case.

Based on the Central Statistical Office methodology, the structure of sustainable development indicators enables the assessment of measurement of sustainable development by dimensions, themes and subthemes. It is clear that the number of indicators is unequally distributed among the dimensions, themes and subthemes. An analysis of the indicator structure reveals that the dominant role is played by the social dimension, and especially the area of "social inclusion", while a more detailed analysis of the number of the indicators by subthemes emphasizes the importance of "public health", “demographic changes” as well as “economic instruments”. These indicators represent, both social as well as institutional and political dimensions. It must be noted that the set of SDIs is organized within a theme-oriented framework to provide a clear and easily communicable structure and relevance to political decision-making. The framework is flexible enough to adjust to possible changes in these priorities and objectives, bearing in mind that new issues and priorities emerge from time to time.

Table 2. The structure of sustainable development indicators (number of indicators)

Dimensions	Themes	Subthemes	
Social (33)	Public safety (3)	Delinquency (2)	
		Road traffic accidents (1)	
	Social inclusion (12)	Poverty and living conditions (4)	
		Access to the labor market (4)	
		Education (4)	
	Public health (7)	Public health (5)	
		Health determinants (2)	
	Demographic changes (7)	Demographic changes (5)	
		The adequacy of income in old age (2)	
	Sustainable consumption and production (4)	Consumption patterns (4)	
Economic (18)	Economic and social development (10)	Economic development (3)	
		Innovativeness (3)	
		Employment (4)	
	Sustainable consumption and production (4)	Patterns of agricultural production (4)	
Environmental (15)	Sustainable transport (4)	Transport (4)	
		Natural resources (7)	Biodiversity (3)
			Freshwater resources (1)
	Land use (3)		
	Climate change and energy (4)	Climate change (1)	
		Energy (3)	
	Sustainable consumption and production (4)	Waste management (3)	
Air protection (1)			
Institutional and political (8)	Good governance (8)	Openness and participation (3)	
		Economic instruments (5)	

Source: own elaboration based on (Central Statistical Office, 2014a).

On this basis it is possible to identify the importance of topics, assuming that the greater the number of actions (indicators) for each of the analyzed topics the more important the area is in the current policy. This assumption is based on the argument that the structure and number of indicators reflect the current priorities of the government's policy.

CONCLUSIONS

The paper explores the strategic challenges of SDI implementation and evaluates the current measurement system. The analysis provides a critical assessment of the current state of knowledge in the field of measuring sustainable development and identifying the main weaknesses of the SDI system. The increasing importance of sustainability pushes for the creation of an effective measurement system, and thus the indicators to monitor progress in this area. This causes the change in the perception of sustainable development towards a full integration at the political level, especially in relation to the different strategic documents. In Poland, there is no separate strategy for sustainable development and thus many strategic documents set out the socio-economic objectives which have become the basis for the selection of indicators to monitor their realization. The process and the effects of their implementation are differentiated. Sustainable development is one of the areas of the Polish development policy, which is separately monitored in accordance with the new strategic documents and the strategy "Europe 2020". The study revealed that the Polish system of measurement is currently dependent on a number of documents, and this may hinder the monitoring of the sustainable development in Poland, as well as its implementation.

Therefore, the assessment of the Polish measurement system allows the conclusion that it is in the initial development phase. The current system of indicators indicates differences with respect to the system operated by Eurostat. The differences concern not only the quantity but also the structure of the system of indicators. The Polish classification takes into account the operational indicators with regard to themes and sub-themes, and does not include the division into headline indicators, operational indicators, contextual indicators, according to the Eurostat methodology.

In addition, the lack of strategy makes it difficult to assess whether and for what purposes indicators have already been achieved or will be in the near future, or what indicators measure should measure (or if indicators measure the set goals). To be able to assess the progress in the implementation of sustainable development, it is necessary to define the object of measurement, i.e. measurable objectives resulting from the national strategy of sustainable development. The current structure of the indicators with regard to the dimensions of sustainable development indicates that the social issues are a priority of the current policy. This can be deduced from the predominant number of indicators.

This article contributes to the existing literature on measurement and monitoring of sustainable development by applying SDIs in the public statistics as well as in the practices of decision-making at the policy level. Based on the statistical data for the presented indicators, it is necessary to provide an analytical discussion on the focus of the sustainable development progress in Poland. This work is limited to the evaluation of

the statistical measurement system. A further detailed empirical research based on the evaluation of the progress is needed.

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Contingent Convertible Bonds as an Alternative to Strengthen Banks' Ability in Financing a Real Economy

Jolanta Zombirt

ABSTRACT

Objective: The main goal of this paper is to analyse whether Contingent Convertible Bonds (CoCos) are equally safe for banks and for the real economy because of their, sometimes, uneasy to understand features. It is still too early to estimate precisely an impact of CoCos for credit institutions because European Union is in the process of moving towards new regulatory framework with an aim to strengthen banks' resistance against future shocks. CoCos have not passed any serious test in this context but, from the point of banks' view they seem to be very promising. How will they behave during periods of market stresses it than has to be demonstrated.

Research Design & Methods: Main methods are studies of the available literature, especially recommended by Calomiris & Herring (2013) and Borio (2013). A particular attention has been paid to various models of CoCos.

Findings: My findings confirm that there are still unidentified threats connected with CoCos that could jeopardize future proper functioning of a financial system and then – a real economy. Still, if not materialized, these threats will be easily outweighed by advantages for resistant balance sheets of banks.

Implications & Recommendations: CoCos can serve as a valuable instrument to upgrade a capital base of banks. However, it is important to make some efforts to design certain standardized features to enable comparison and valuation, to avoid unintended negative consequences for banks and economy, as a whole. Negative consequences for banks could result from overreliance on this source of capital and for economy – in a form of rescue packages from taxpayers money.

Contribution & Value Added: My studies are an attempt of a comparison of pros and cons of CoCos. Moreover, it is an attempt to present CoCos in a broader context of banking regulations.

Article type: conceptual paper

Keywords: contingent convertible bonds; trigger point; loss absorption mechanism; regulatory capital requirements

JEL codes: G13, G21, G33, G24, H12

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INTRODUCTION

Subprime crisis in the USA has been caused by almost entirely unknown financial instruments—mortgage-backed securities collateralised by mortgages of a doubtful quality. It has been revealed that even some institutional investors, investing heavily in these instruments, have not been aware about some unclear details of them. That is why the crisis has had the fertile soil to erupt.

The aim of this paper is to describe a relatively new (first issuances took place in 2009) financial instrument: contingent convertible bond (CoCos) that is more and more often used by banks with the aim to improve their capital position. During the period after the financial crisis (2007+) regulatory authorities in the world came in with many initiatives to strengthen a resistance of banks against the future stresses. The focus of these initiatives has been put mainly on shaping new rules to increase levels of banking capital. Higher amount of own funds, in other words, a greater resistance means also greater abilities to finance a real economy. Adequate supply of loans for households and enterprises in Europe could be a chance for the quicker recovery from the recession having been a result of the crisis.

LITERATURE REVIEW

Analysing the phenomenon of CoCos seems to have been a trendy research domain since their first issuance. A growing interest among academics follows some regulatory solutions, especially Basel III recommendations; however it is not clear where exactly this concept has come from. A certain first insight could be obtained in the paper of Leland (1994), who tries to shape an optimal capital structure and for the first time mentions “triggers” as the early warning mechanisms that could prompt supervisory authorities to undertake remedial action. Then Raviv (2004) indicates how important is to maintain a market discipline by submitting a banking health in form of debt instruments to the assessment of market participants. He also mentions a subordination structure as a way to structure bulks of risk for potential investors. On this background a lot of empirical studies have been performed, for example Albul, Jaffee & Tchisty (2012) who developed models to derive a probability of bankruptcy from elements of a capital base of various banks. Calomiris and Herring (2013) perform a comprehensive analysis on various fundamentals to built-in properly trigger points and their work is using some conclusions of other academics and practitioners in this field, for example Duffie (2009), Segoviano and Goodhart (2009), Gersbach (2010), Miles, Marcheggiano & Yang (2011), Flannery (2005) and others.

There is also a bulk of papers devoted to some general issues connected with, for example, early warning mechanisms on crises as Kashyap, Raghuram & Stein (2008). Very useful findings concerning some statistical observation and rationale behind creation of CoCos can be found in papers of Bank for International Settlements, for example Borio (2013) or in documents on the website of the European Central Bank.

All these mentioned above studies and papers, however, scarcely touch a liaison between a safety and resistance of financial systems, prudential regulations and their development, as well as the potential impact of a wide variety of so called hybrid capital

instruments. They rather focus on the separate issues listed above. So, in this paper I have tried to combine all of them to show how attractive CoCos could be for issuers and investors, how do they fit into new regulatory framework and what would be their best construction to preserve investors and at the same time to strengthen a capital base of issuers to enable them to finance a real economy.

MATERIALS AND METHODS

This paper provides a description of Contingent Convertible Bond (CoCos), a financial instrument that gains popularity among issuers, investors but also regulators, however, depending on what type of entities they regulate: issuers or investors. The main features of CoCos are trigger points and mechanisms of loss absorption. Trigger point are further divided into (i) high and (ii) low and mechanisms of loss absorption into (i) conversion for shares or (ii) redemption of principal. From the first glance CoCos look very promising but do they guarantee that the things will go as planned? Do they create only the incentives upgrading the risk management?

In this section of my text the elements of CoCos are described and analysed. It is an attempt to find the most useful and safe structure of these instruments, not only from the point of view of issuers but also of investors having various incentives and limitations to choose them.

The main goal of this paper is to analyse whether Contingent Convertible Bonds (CoCos) are equally safe for banks and for a real economy because of their, sometimes, uneasy to understand features.

The presented study aims at answering the following research questions:

- RQ1:** Is a contingent convertible bond an instrument equally advantageous and safe from the banks' point of view?
- RQ2:** Does an instrument of CoCos carry any dangers for a proper functioning of a real economy and for taxpayers' money?

This paper applies the literature review and its critics as the main research methods. The empirical part of the paper is based on the analysis of documents regulating the CoCos phenomenon in the financial markets.

RESULTS AND DISCUSSION

Regulatory Benefits of CoCos and Their Profitability

There is a huge range of reasons that have caused a subprime crisis in 2007. Among them, a high concentration of loans in banking balance sheets and problems with liquidity is being quoted. These problems could be overcome if the banks had a sufficient amount of capital of the best quality. It means that banks should always keep an eye on having adequate level of capital that could absorb losses. It means that banks should raise additional capital when needed. But, what became apparent during the last financial crisis, some banks are reluctant to issue new shares when their market value is low because it could dilute the rights of existing shareholders. And they prefer, as we have observed, to wait and see for the increase in share prices. Some of them, especially

systematically important ones, even hope that their governments will rush with assistance (as it was the case with Bear Stearns).

In October, 2014 European Central Bank has published results of its comprehensive assessment of banks' balance sheets, i.e. 130 banks in the euro area and Lithuania, which possess roughly 85% of total bank assets in the euro area. The assessment has revealed that above mentioned banks have risen some 203 billion EUR within a year covered by review and this amount includes some 31.6 billion EUR issuance of contingent convertible bonds (CoCos). CoCos represent than the second biggest source of capital and observations of the market indicate that this source is becoming more and more attractive. It is worth to add also that between June 2009 and June 2013 total value of issuances amounted to roughly 70 billion USD (Borio, 2013). Despite the fact that a lot of potential issuers have been waiting to enter this market until ECB would publish its results, there are many symptoms that the coming months will make new records as far as the total value of issuances is concerned. Why? Because also for regulators it is important to know how rapidly banks would reach new required levels of capital, so they do not want to stem in those banks considering CoCos as still very effective and cheap way to improve their capital positions. In the environment of extremely low interest rates of the ECB, a potential yield offered by these instruments matters, too. Positive opinions are also formulated by various organisations, for example The European Securities and Markets Authority (ESMA) states that if they work as intended in a crisis CoCos will play an important role to inhibit risk transfer from debt holders to taxpayers (ESMA, 2014). The only doubt at the moment is a safety of these instruments for retail investors because they are, as the British regulator, Financial Conduct Authority (FCA), states these investors are not sufficiently educated about the risk of CoCos. Besides, some potential issuers refrain from issuances of CoCos because they are not sure what regulatory treatment they would obtain and how they would be treated in a regulatory capital structure. Equally positive should be a reaction of potential investors attracted by CoCos having higher returns of capital than of other debt securities, i.e. at least of more than 100 basis points. Spread of CoCos will however be still dependent on two features of these instruments: level of a trigger point and a mechanism of loss absorption.

So, what are CoCos? CoCos are hybrid bonds offering for their issuer an advantage to be treated as a banking capital up to 1.5% its risk weighted assets, according to the recommendations of Basel III. That is why they are also known as Basel III notes. They could be qualified as a banking capital because they can be converted into shares (Conversion into Equity, CE) or subject to total redemption (PWD, principal write-down). Rules on CoCos have been developed by Basel Committee on Banking Supervision (BCBS) and transposed into EU law by the Capital Requirements Directive IV (CRD IV) and Capital Requirements Regulation (CRR). These rules have partially entered into force from January 1, 2014. Banks are required to maintain a high quality capital equal to 8% of so called risk weighted assets (RWA). Risk weights are assigned to particular assets according to the methodology, i.e. depending on what approach of RWA calculation in a given bank would be accepted by supervisors. If than a bank can use so called Standardised Approach (SA), it will assign a risk weight on the base of a defined rating assigned by recognised external rating agencies. Or, if a bank is allowed to use so called

Internal Rating-Based Approach (IRB), it will calculate risk weights derived from its risk models.

We can then see that a safety, soundness and resistance for stresses in banks are closely connected with a quality of regulatory capital. In legal acts above mentioned it is clarified – after the experiences of the last financial crisis – how a capital of the highest quality should look like. Such a capital of own funds of banks should have the highest abilities for loss absorption, then – a capital to cover the losses in the first instance. Such a capital, according to the Basel terminology, is called Common Equity Tier 1 (CET 1) that has to amount to at least 4.5% of risk weighted assets. The aim of the European legislator was then to increase a capital layer of banks in form of paid-in common shares whose capital would be rapidly available in the case of losses. CRR considers, however, a possibility to permit a given credit institution to issue financial instruments qualified as so called Additional Tier 1 (AT 1), or supplementary CET 1, for example in form of CoCos to the amount, as it has been mentioned, 1.5% RWA, so to obtain a total Tier 1 at least 6% (4.5% + 1.5%). CRR allows also recognising CoCos as elements of so called Tier 2, to obtain a total amount of bank's capital at least 8% of RWA. Difference between CoCos that can be included in CET 1 and these included in AT 1 is that in the former case the activation of a loss absorption mechanism starts earlier what is defined as CoCos with high trigger point (let's say, below 7% core Tier 1). It means that an activation of mechanism is being created earlier so it is more desirable from the point of view of issuer's safety and at the same time more risky for investing in CoCos. In other words, CoCos with a low trigger point have a lower ability to absorb losses so they are less valuable from the point of view of a regulatory capital.

For banks it is of course not neutral whether CoCos issued by them would be qualified as Tier 1 or Tier 2 capital. From banks' point of view the most advantageous is recognition of CoCos as Tier 1 capital because it diminishes an obligation to supplement Tier 1 capital by issuance of new common shares. An issuance of new shares could be after all not accepted by existing shareholders because of dilution of their rights. An obstacle could also be created by costs of an issuance: a level of coupon paid by CoCos that could be qualified as CET 1 can be too high to be accepted by an issuer. For an issuer, because of the costs, a better solution will be to supplement AT 1 capital by CoCos with a low trigger point. Besides, observation of markets from 2012 indicates that costs considerations prevail and there are more CoCos qualified to AT 1 capital.

Generally, to qualify for Tier 1 capital or, as it has been said, for capital of the best quality, CRR states that CoCos have to carry a possibility to redeem all or a part of a principal or be subject to an automatic conversion for shares in a strictly defined moment. This moment in regulations is defined as a trigger point and it describes a situation expressed in numbers when a value of CET 1 capital decreases in relation to RWA. For regulators and some potential issuers or investors a problem exists because various CoCos could have different criteria for activation of trigger points what makes them extremely difficult to compare. Besides, it is worth to indicate that the present rules do define it indicating only a minimal level of a trigger point and relating this problem to specific features of an issuer. That is why there is a considerable spread of levels of trigger points among observed issuances: from 5.125% to 8.25% ratio of CET 1 capital to RWA.

A possibility to redeem of a part or all principal or conversion for shares is defined generally as a mechanism of loss absorption. But also in this case there is a considerable variety, in relation to their structure (even in CoCos issued by entities in the same banking group) or in relation to an uncertainty about interpretation by relevant supervisory authorities as concerns reaching a trigger point, so reaching a moment to activate a mechanism of loss absorption. A trigger point mentioned above on a level 5.125% is being derived from Basel III and it is a minimal level. So it is not surprising that issuers more and more often decide, however, to issue CoCos just on this level or close to it because of the lower costs that CoCos recognised as CET 1 capital. It is worth to note here that costs considerations have also the influence on a choice what mechanism of loss absorption will be embedded in CoCos: CE or PWD. A risk of conversion of CoCos into shares is usually a better option for an investor than redemption of principal. So investors in CoCos CE will require a lower premium. However, a problem exists that some institutional investors do not have a regulatory mandate to invest in shares (or their substitutes as CoCos). So they will be more interested in purchasing CoCos PWD. It is also important because of mentioned environment of low interest rates of ECB and seeking a higher return of capital by investors.

The influence on a choice of mechanisms of loss absorption could also have a various tax treatment of CoCos in various jurisdictions. These instruments are not recognised as debt everywhere and interests paid on debt do not everywhere diminish an income tax paid by issuer.

Basel III requires also that CoCos qualified as CET 1 or AT 1 capital should be perpetual, i.e. they cannot have a defined maturity. So, the first issuances constituted a debt without maturity and only some years ago we have seen CoCos with stated maturity, most frequently to 10 years. However, in this case these instruments can be recognised only as T 2 capital.

It is especially important from the investors' point of view because they have yet exposure on risk of loss of their investment. It is then a challenge for them to properly model a probability of losses (in Basel terminology - probability of default, PD) when activating of trigger points. It is not only dependent on a risk profile of an issuer but also on its future abilities to supplement a regulatory capital or sensitivity on losses occurring at its counterparties (risk of contagion). As it can be seen, modelling of this sort of risk requires an experience and technical abilities at investors. So, the British supervisory authorities (and ESMA) are right when they are of the opinion that CoCos should be offered only for institutional investors.

It is worth noting that such investors should have skills and knowledge about details of regulatory capital framework, and, more precisely, what elements are qualified as CET 1 or AT 1 capital and what is a structure of assets' portfolio of an issuer from the perspective of dangers generated by them (maturity or risk weights assigned to particular assets) and its dynamics. In other words, investor should have information on permanently changed value of CET 1 capital and its potential „distance” from a trigger point to assess a risk of conversion or redemption of principal. It is then important to remember that these changes in CET 1 capital will be generated by losses resulting in decrease of a regulatory capital or by an increase of risk weighted assets. Additional risk is moreover embedded in CoCos recognised by supervision as At 1 capital. The idea is

that in this case an issuer has an entire freedom in making decisions about principal redemption from these instruments, in any moment, in any amount, because of any reason and for unknown period. If it happened that capital from AT 1 is being submitted to redemption for a certain period, payments from coupons will be not cumulated but... amortised. It is important to add that such a situation could happen even when an issuer still pays dividends for its shareholders or a floating part of remuneration for its staff. It means that in a subordination structure of loss absorption CoCos will be treated as subordinated in relation to common shares.

Structure of CoCos

As it has been said, CoCos are instruments that have features resembling common shares and as such should have embedded mechanisms of loss absorption by capital redemption or conversion for shares. Such an action should happen not later than reaching by an issuer a state of insolvency. A moment of conversion or redemption is defined individually for any issuer because it depends on an amount of its capital. Moreover, mechanism of conversion or redemption has to be credible and resistant for any attempts of manipulations of share prices of an issuer.

From the point of view of safety of bank issuer it is very important to precisely define a point of conversion or redemption, because it has to meet two goals: (i) implementation in a bank of credible systems for management and measurement of risk and (ii) to raise a fresh capital or timely reduction of assets. It is worth to note here that nobody knows what amount of capital would be sufficient for banks to withdraw losses. And, excessively severe capital requirements would increase costs for banks and curb their willingness to advance loans for a real economy. So, CoCos should have embedded some incentives for banks to upgrade their systems of risk assessment and management. A measure of a share capital used by Basel is just an accounting one underestimating a real economic value of capital that leads to problems with timely losses' recognition (Calomiris & Herring, 2013). It then seems to be a unique opportunity for regulators and supervisors to precisely design an instrument that would force bankers to analyse on a daily basis the performance of their relevant business lines and assets. And without any doubt, financing by issuances of debt, instead of shares, has a potential to increase a market discipline among issuers and to upgrade their system of risk management, to set an appropriate level of regulatory capital and to timely replace lost capital (what is, from the regulatory point of view, a main goal).

As it has been said, a moment of redemption or conversion should be known in advance by investors and it is defined as a trigger point. Reaching of a trigger point could be caused by events described above automatically, by reaching the predefined given capital ratios (ratio of own funds to risk weighted assets), and here a value of own funds can be defined as accounting or market value, or on a base of a discretionary supervisory decision. What is important, in a construction of CoCos one can insert more than one trigger point.

A trigger based on capital ratios would activate a mandatory conversion if a Tier 1 capital ratio falls below a threshold specified either by regulators or in the contractual terms of the contingent capital instrument itself (Pinedo & Ireland, 2014).

If for a design of a trigger point one uses an accounting measure, than it is important to know how frequent updates of elements of a capital ratio (i.e. issuer's capitalisation)

will be performed, and also to assess a credibility of internal models being a fundament to calculate risk weighted assets. Frequency and quality of financial reporting seem to be in this context of the utmost importance. For example, Lehman Brothers reported just close to its bankruptcy about its capital ratio T 1 on a level 11%, well above the regulatory minimum (Pinedo & Ireland, 2014). Or, the British supervisor, FSA, recognised as one of the most effective in the world, failed to assess properly a financial health of Northern Rock. Just few weeks before a bankruptcy of this bank FSA has issued the approval to use in NR an AIRB for risk weights of its mortgages which helped to reduce its regulatory capital by 30% and pay it off to its shareholders (Calomiris & Herring, 2013).

However, despite certain shortcomings with the approach based on an accounting value it seems, from the point of view of predicted activation of a trigger point, that is a solution safer than one based on a market value (it is nevertheless important for CoCos to be set at the possible high percentage of an accounting value, especially for ones with CE option). A market value is clearly more difficult to set because of various market situations, for example high volatility of prices or market manipulations (ex. short selling of issuer's shares). A trigger based on market metrics would force a mandatory conversion, for example, if the issuer's share price or CDS spread passes a certain level over a set period of time (Pinedo & Ireland, 2014). However, prices of shares, if used properly, would supply valuable information about condition of an issuer. Conventional wisdom is that markets react pretty earlier than supervisors. For example, some well-known failures of big companies that have surprised rating agencies and regulators were signalled earlier by sharp and persistent decrease of a market value of their shares (WorldCom or Enron). The same can be observed when a market value of Lehman Brothers is concerned. So, if supervisors have ordered Lehman to issue CoCos with trigger based on a market value of its prices then such a fall in market price would trigger a conversion of debt into shares long before its insolvency (Calomiris & Herring, 2013). Of course, a certain range of a market volatility of prices is a normal feature in the markets. So, to properly define a trigger point based on a market value it would be useful to observe the process during a certain period, say, 90 days to smooth observed data.

When an activation of a trigger point on a base of a discretionary decision of supervisors is concerned, it is also a problem for potential investors because they could have difficulties with an assessment of a moment of such a decision – or, of a moment of activation of a mechanism of loss absorption. However, from a point of view of an experienced investor, able to draw adequate conclusions from information publicly available by an issuer, these difficulties could prove negligible as far as an investor possesses knowledge about a systemic importance of an issuer, i.e. how a risk of its insolvency could jeopardise all the financial system. It is worth to note that just these difficulties with an assessment of a moment of making a discretionary decision have been underlined by one of the rating agencies. Because of this the cited agency has refused to assign a rating for CoCos with conversion dependent on regulatory decision or of bank's management (Calomiris & Herring, 2013).

As it has been said, CoCos are issued to improve a quality of an issuer's capital and in this way to foster its resistance for losses. In other words, an investor purchasing CoCos agrees to take on risk of loss of its investment in an event of losses at an issuer or to

become a shareholder of this issuer as the effect of conversion CoCos into shares. A mechanism of loss absorption consists then in, from a technical point of view, on an improvement of a capital position in CET 1 capital either with a conversion in a predefined trigger point, or with a coverage of losses with funds obtained from CoCos what surely translates into a loss for an investor, proportionally to the losses of an issuer.

Trigger point releases, as it has been said, a mechanism of loss absorption. With conversion of CoCos for shares a ratio of conversion is defined – by now – in three different ways. It then could be a share price in the market in the moment of reaching a trigger point, share price defined earlier (for example, share price in an initial offer) or a combination of these two. This third solution seems to be optimal from the point of view of potential and existing shareholders, because the former would have a chance to become shareholders having paid an attractive price for a share, and the existing shareholders would have better incentives to avoid reaching a trigger point, so to a better insight in management of an issuer's balance sheet and with it they could avoid a dilution of their rights to the benefit of the new shareholders.

Pros and Cons of CoCos

Advantages of CoCos have been a subject of widespread interest and that is why their popularity among issuers is growing (Martynova & Perotti, 2013):

- Properly designed CoCos can induce risk reduction.
- There exists an optimal CoCos amount that minimizes risk.
- The trade-off is between equity dilution and CoCos dilution effect.
- The banker never willingly chooses CoCos over deposits.

When asset risk and trigger precision are high, CoCos may be safer and thus cheaper than traditional bonds.

- A higher amount of contingent capital is required to provide the same effort incentives as equity.
- A dual trigger may be optimal, to filter out market manipulation while challenging forbearance.

Advantages described above can also be supplemented with a unique accounting benefit. The point is that in contrast to other convertible bonds it is not necessary to account them in an income for a share as long as they are not converted into shares. Moreover, in United Kingdom and USA interests on loans are not taxed, so less issued shares, the greater profit for one share.

Although it is desirable for all banks to complement their capital by issuances of CoCos it is more important, from a point of view of a systemic risk, to give such an opportunity for systematically important financial institutions (SIFI). It is worth noting that Basel III does not permit G-SIFI (global systematically important financial institutions) to use CoCos as an additional source of regulatory capital. However, it is allowed when CoCos are used to meet additional national requirements. So it should be considered as the positive phenomenon that some bigger European banks have issued CoCos or are going to do this. It does not mean that CoCos are not an attractive option for smaller, peripheral banks. For example, Spanish Banco Popular became in 2013 the

first peripheral bank of a medium size that issued CoCos. Other banks from Spain and Italy have followed it (Figure 1).







UBS	BBVA	Santander
		
€2,000m €1,817m	€1,500m	€1,500m €1,083m
Date 6 Feb 2014 12 May 2014	11 Feb 2014	5 Mar 2014 8 May 2014
Nationality Switzerland	Spain	Spain
Type Corporate bond- investment grade	Preferred share	Preferred share
Nationwide	Société Générale	Crédit Agricole
		
€1,214m	€1,106m	€1,000m
Date 4 Mar 2014	19 Jun 2014	1 Apr 2014
Nationality UK	France	France
Type Corporate bond- investment grade	Corporate bond- investment grade	Corporate bond- investment grade

Figure 1. Contingent Convertible Bonds. Biggest European Deals

Source: Coco sell-off unveils high-yield bargains. Retrieved on August 14, 2014 from <http://www.ft.com/intl/cms/s/0/e9d5ffca-2308-11e4-a424-00144feabdc0.html>.

However, in the literature there are also many threats carried by CoCos (Freixas, 2013), for example, if they are triggered by market price:

- Possibility of multiple equilibriums,
- Death spirals (CoCos with a built-in PWD option),
- Price manipulation through derivative markets,
- CoCos holders may prefer bankruptcy.

From a point of investors' view CoCos serve as a kind of a protective cushion between shareholders (who should make losses in the first place) and holders of the most sensorial tranches of bonds.

But... is it safe to invest in instruments that have not been tested by the market and that are an issue of concern for rating agencies? Do they really offer a guarantee of a better capitalisation and a better protection against losses in banks? As some observers indicate (Greeley, 2013): "We've seen this magic trick before. In 1996 the U.S. allowed what it called "trust-preferred securities," a kind of low-class debt, to count as Tier 1 capital. If a bank became insolvent, this debt would be the first to become worthless. During testimony to Congress In 2011, Sheila Bair, then chairwoman of the Federal Deposit Insurance Corp., explained that "our experience with these instruments during the crisis is that they impeded recapitalizations [she means that banks that used these

securities failed to get more equity when they needed it] and that institutions relying on them were generally weaker and more likely to be engaged in high-risk activities.”

The “only” difference between “contingent capital” and “bail-in capital” is that a contingent capital is being activated after reaching a certain predefined trigger point sometimes well before a given institution gets bankrupt or starts a resolution. Bail-in capital is being activated by national resolution authorities when a failing institution enters a resolution process or becomes insolvent. The problem is that before an institution reaches a trigger point (what is sometimes difficult to predict) it could decide not to pay interests for CoCos investors despite the fact that it can still pay dividends for shareholders. So, knowing a huge possibility for financial institutions to shape their balance sheet in the way to give comfort for their investors, the opportunities to circumvent certain “paper” or easy to free interpretation rules it seems to be a great probability that some institutions would use CoCos as a tool to protect their shareholders when losses come. The regulatory option that “the write-down of principal could either be permanent or it could include a write-back feature if the issuer regains its financial health” (Pinedo & Ireland, 2014) is not specially convincing, especially because a point of “regaining financial health” is not precisely defined. One has to remember that most decisions in a company are undertaken by its shareholders, not regulators. And, if the existing shareholders have something to loose they will surely shift this burden on investors in CoCos.

So, in times of cheap money offered by ECB and a kind of regulatory pressure on banks to increase their capital base one should assume that the real economy would benefit from cheap loans. Nevertheless, on the other hand, we see also entities starving for higher return of their investment. That is why they are ready to accept higher levels of risk. Banks do not only play a role of lenders, they are sometimes investors as well. When the matters go as they predict they can earn a good yield. But when situation worsens they could end with empty pockets. I am afraid that CoCos have the potential to repeat a collapse of a financial system as it was the case in the U.S. subprime crisis. It had its roots in the environment of easy money at the beginning of this century and after 5 – 6 years a crisis has erupted, the greatest one since the Great Depression. So I am not especially impressed with an apparent regulatory willingness to push banks to issue CoCos. Of course, they want to protect the taxpayers’ money and they will welcome issuances of CoCos, especially by banks having been recipients of huge amounts of public funds, as British Lloyds in 2009. But there is also the other side of the coin: if the issuers exercise their option for, say, PWD in a face of their difficulties and such decision brings given investors to bottom, who will have to rescue them?

Perspectives for CoCos Market

Generally, at present, demand for such bonds is “seen as low because of the risky features of these securities and bad loans add to the problem” (Patil, 2015). Basel III notes are considered risky because of the write-down or conversion features they contain that are triggered by a certain event or at the point of non-viability (Patil, 2015). Until now, at the primary market of CoCos the most visible were the retail investors and banks from Europe and Asia (52% demand for CoCos), then U.S. institutional investors and also non-banking financial institutions from Europe.

But the most influential group of investors who would stimulate a further growth of CoCos market is a group of institutional investors. It is *inter alia* because, as it has been mentioned above, some regulators have prohibited, or consider it, to offer CoCos for retail investors. However, institutional investors often face some regulatory limits on investing in certain instruments. Moreover, the most common limit is a prohibition to invest in securities without rating or with rating on a level close to speculative. Lack of a broad spectrum of ratings constitutes also an obstacle for including these securities into indices of debt instruments what is a further limitation for attracting of institutional investors. Shortcomings with ratings are linked however with difficulties the rating agencies have to cope with. How, for example, to assess uniformly CoCos issued in various jurisdictions so – with various tax regimes? How to assess levels of subordination, one of the most important aspects taken into account by investors, influencing on an order of bond holders' satisfying in an event of losses? "Stratification", one of the most important features of securitisations, or dividing into tranches, seems to be the best indicator of risk for investors. Similarly, it would be very important for investors in CoCos, or still even more important because in this case there is a risk that CoCos holders will suffer losses as first among investors having other securities issued by the same issuer, even before shareholders (for CoCos with a high trigger point). Moreover, a difficult question for rating agencies is an existence of various ways to activate mechanisms of loss absorption, among others, activation on a base of a discretionary decision of supervisors. So it is not a surprise that at the beginning CoCos have not carried ratings (nowadays without ratings there are slightly more than half of outstanding issuances) but slowly agencies started to weigh out to assign ratings only for CoCos with a low trigger point. Moreover, methodology of some rating agencies requires for CoCos to have rating not higher than BBB+ that could not be accepted by some investors because of regulatory considerations. Such a rating will be also lower than all other debt instruments issued by the same issuer.

Moreover, in the case of CoCos there is a conflict of interests between issuers' regulators and investors' regulators. From the point of view of the former issuances of CoCos bring benefits because they supply an issuer with a fresh capital capable to absorb losses. Such a potential to absorb losses is worrying investors' regulators – it exposes them to a greater risk of losses than in a case of investments in other debt instruments. An evident conflict of interests exists also between shareholders and holders of CoCos of the same entity, what has been indicated above. This problem is called "dilution" or, in other words, diminishing of a value of shares possessed by existing shareholders. Conflict of interests in this case is such that existing shareholders prefer issuance of CoCos with a high trigger point because it means that reaching this trigger activates a mechanism of loss absorption in a moment when a share price is still relatively high while investors in CoCos prefer a low level of a trigger point because it carries a greater probability that an activation of a mechanism of loss absorption will not happen. Another type of a conflict of interests between existing shareholders and potential investors could be a structure of a mechanism of loss absorption (mentioned above a trade-of between CE and PWD). Investors would prefer eventual conversion of CoCos into shares while existing shareholders – PWD. But it does not concern all investors because, as it has been mentioned, some institutional investors have regulatory limits with investing in shares,

so for these investors a PWD option could be attractive. So, despite the fact that, generally, CoCos with a CE option could be safer, a PWD option, as an option with more risk promises to give a higher return of capital (YTM, yield to maturity), in average, by two percentage points.

When an YTM is being concerned we should pay attention on a valuation of CoCos according to levels of a trigger point. As it has been said, a higher trigger point is riskier – from a point of view of an investor – so it will be more expensive for an issuer. In sum, for an issuer an optimal solution will be to offer CoCos with a low trigger point and a CE option. As it emerges from market information, just a difference between high and low trigger point gives spread in favour of the high trigger point on a level around 1 percentage point.

CONCLUSIONS

At the onset of subprime crisis (2007) there was a huge variety of opinions about the roots of financial turmoil that has caused collapse of previously the most active markets in the world. As it has been mentioned at the beginning of this paper, many academics, market participants, regulators and supervisors keep indicating on gaps in regulatory framework, lack of responsible behaviour of banks' managers paying attention rather on return of capital than on proper capital and risk management, and also on an excessive reliance on external ratings that has led to heavy investments in opaque instruments without a necessary due diligence. But also in the first months of the last crisis one could hear shocking opinions that ... it was just a financial crisis and it could not make any harm for a real economy. Time showed that health of any financial system and of real economy is strongly interlinked. It would be difficult to imagine that a real economy could exist without its backbone – financial intermediaries.

Subprime crisis has had its main cause in, as it has been said, securitisation products known for some thirty years. These instruments have gained their popularity after publishing by the Basel Committee its first set of recommendations (1988) because by many banks they have been seen as a gate to escape from tight regulatory capital requirements. They have also offered new investment opportunities for investors because they have usually carried the highest rating (because of their unique structure) comparable with ones of sovereign debt but could offer slightly higher interests. The second Basel set of recommendations (2004) has tried to somehow "tame" securitisation by adding new requirements but ... those recommendations have been translated into national law two-three years later what has been coincident with the start of the crisis. Regulators then have made a lot of attempts to update rules on securitisation and to make them more stringent. So, it is not a surprise that financial sector, one of the most innovative in the world, has responded in many ways to invent new instruments and techniques enabling them to be compliant with new rules and – at the same time – to earn a desirable return of equity.

Regulators, as we can see, react for the news in the markets with a certain delay. When securitisation started to be treated – because of new rules – as something too expensive, too complex and, to the certain extend, obsolete technique to obtain a relief within the regulatory capital framework, a new instrument has emerged – contingent convertible bond. This instrument is being equally accepted by banks – issuers and by

regulators because of its attractiveness. The most attractive features are: upgrading a capital position of banks as a response for new capital requirements, a problem that is being seen as a precondition for banks to respond for challenges from failing economy. CoCos seem also to be an ideal investment opportunity. So history repeats itself. When the financial world went mad with securitisation, at the turn of the century, one could hear only minor warnings about this technique. These warnings have covered mainly the problems with information asymmetry between issuers and investors, complexity and necessity to use securitisation techniques only as a tool for risk management. And – as the latest news from European Commission and European Central Bank indicate – securitisation, if properly used, could be a valuable in stimulating recovery of European economy. The problem is that this expression “if properly used” cannot be fully defined.

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Family Agritourist Enterprises in Poland: Preliminary Survey Results

Sławomir Dorocki, Anna Irena Szymańska, Małgorzata Zdon-Korzeniowska

ABSTRACT

Objective: The main goal of the paper is the evaluation of agritouristic enterprises, as a specific type of family owned businesses, in terms of their market and entrepreneurial behaviour and the behaviour connected with generating innovation. The attempt has been made to define the advantages and disadvantages of family-run business in the opinion of the agritouristic enterprises.

Research Design & Methods: Achievement of the above-mentioned goal was based on the analysis of professional literature, and direct research supported by direct questionnaire surveys and individual in-depth interviews. The empirical research was conducted in the period from January to March 2012.

Findings: Agritourist enterprises are self-defined as family enterprises. They can see and appreciate benefits from running a family business as well as their advantage in being innovative and strive to introduce changes in their businesses.

Implications & Recommendations: In the opinion of the authors of this paper, agritourist farms are a very special example of family entrepreneurship.

Contribution & Value Added: Issues analysed in this study are relatively new and poorly covered by the literature in the field. It is a certain *novelty* to analyse family entrepreneurship in agritourism in addition to being an interesting area of scientific exploration.

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INTRODUCTION

The political and social-economic changes of 1990s in Poland contributed to a rapid growth of entrepreneurship, including family entrepreneurship. Piasecki referred to this period as to “an explosion of entrepreneurship” (Piasecki, 1998). The phenomenon a family business is a relatively new topic in scientific discussions. It was no sooner than in 1980s that it emerged as the topic of serious scientific research in the United States of America and in the Western European countries (Jeżak, Popczyk & Winnicka-Popczyk, 2004).

A family creates an environment supporting pro-entrepreneurial behaviour. Entrepreneurship is “the heart and soul” of most family-run enterprises. At the same time, family enterprises stimulate growth of entrepreneurship and may be the core and kernel of business at a large scale¹. Family businesses guarantee economic stability. Because of their specificity, they play an important social and political role. According to Piasecki, this role consists in both creating the class of small proprietors and softening social tensions, as well as lowering the high social costs of the process of transformation. The propitious factors for those are the absorption of workforce surpluses and creating entrepreneurial attitudes, showing others the possibility of self-employment, achieving success and changing the social status (Piasecki, 1998).

LITERATURE REVIEW

Family enterprises are the most important source of economic growth in the industrialised global economy, generating wealth and new jobs (Surdej & Wach, 2012; Wach, 2014; Daszkiewicz & Wach, 2014; Wojciechowski & Wach, 2014). They represent a natural form of entrepreneurship which, given favourable conditions, may grow and run for many generations (Więcek-Janka, 2013). A growing interest in issues related to family businesses has been observed globally since 1970. Locally, in Poland, the research has spurred during the last decade. The key themes covered by the research are (Więcek-Janka, 2013, p. 19):

- Managing family enterprises (e.g. Schulze, Lubatkin & Dino, 2003; Anderson & Reeb, 2004; Jeżak et al., 2004; Safin, 2007; Sułkowski & Marjański, 2009; Miller, Le Breton-Miller & Lester, 2011; Lungeanu & Ward, 2012; Więcek-Janka, 2013),
- Entrepreneurship (e.g. Sirmon & Hitt, 2003; Villanueva & Sapienza, 2009; Fan, Wenying, Xiaofei & Bernat, 2012; Antoszkiewicz, 2012; Surdej & Wach, 2010; Surdej & Wach, 2011, Wach, 2014; Daszkiewicz & Wach, 2014).

¹ The complex research on the condition of family businesses conducted in 1990s (Shapero & Sokol, 1982, pp. 72-90; Jeżak *et al.*, 2004, pp. 16-17) confirms significant economic importance of family businesses for the economy. According to the report made by the Institute For Research on Entrepreneurship and the Economic Development (Instytut Badań nad Przedsiębiorczością i Rozwojem Ekonomicznym), family businesses represented between 50% to nearly 70-80% of all Polish businesses (Żurowski, 2008, p. 4; Surdej & Wach, 2010, p. 7), whereas country-wide research conducted in Poland in 2009 by PENTOR Research International showed that the one-third of all Polish enterprises are family businesses. (The research on family businesses, the Final Report, 2009, p. 67; Surdej & Wach, 2010, p. 7).

- Finance in family enterprises (e.g. Anderson & Reeb, 2003; Villalonga & Amit, 2010),
- The economy (e.g. Bennedsen, Niel-sen, Pérez-González & Wofenzon, 2006).

In spite of relatively rich literature on the topic, an unambiguous and generally accepted definition of the “family business” concept has not been formulated. This deficit is present when attempting to estimate the number of such enterprises as well as in other issues touched in research devoted to family entrepreneurship.

By analysing the methods used to define the concept of “family businesses” in the literature, there are several widely acknowledged criteria (Sten, 2006, Safin, 2007; Surdej & Wach, 2010, 2011; Więcek-Janka, 2013):

- Ownership – the family is the sole or dominant owner,
- Management – the family is involved in managing the enterprise,
- Family succession – a transfer between generations (at least 2nd generation enterprises),
- Subjective criteria – an enterprise self-defined as a family enterprise.

With the criteria, the typology of family enterprises can be made. They represent one of more important research areas in the field of family businesses. Definitions of a family enterprise which are most often followed in the literature, combine two criteria: ownership and management. According to the above, a family enterprise is an enterprise with the family as the dominant or significant owner, involved in the process of managing the enterprise. However, the definition which is currently common in the literature, is a definition formulated by Sten (2006), which takes into account subjective criteria indicating that a family business is a business that believes to be a family business. There is little doubt that the dual nature of a family enterprise is its characteristic feature, which causes many practical and theoretical dilemma i.e. the entrepreneurial and family spheres overlap and merge, while these two spheres have different values and rights but, at the same time, both the objectives of the enterprise and of the family are equally important.

In the opinion of the authors of this paper, agritourist farms are a very special example of family entrepreneurship. They form a sector with nearly 100% of family business. Agritourist farms are an important branch of economic activity at the local, national and international level.

Research on agritourist enterprises or agritourism in general is mainly focused on the mechanisms creating conditions for their development. The research is carried out in different scientific disciplines e.g. farming, economics, social sciences and geography and has contributed to the emergence of such concepts and theoretical models as, e.g.:

- In economics – the rural tourism market operation model (Bott-Alama, 2004),
- In geography – agritourism development outcomes balance model (Wojciechowska, 2006),
- In agricultural sciences – the concepts of economics of agritourist farms and the dependence between the agricultural production and agritourism (Sznajder & Przebórska, 2006).

The term ‘agritourism’ is understood and interpreted in various ways both in professional literature and in the economic practice. It is common to identify agritourism directly with rural tourism or with tourism in the rural areas. Nevertheless, not going

deeper into the systematics of the term, the concept of agritourism is based on the conviction that a farm is the tourist service supplier (Sznajder & Przezbórska, 2006). Drzewiecki (2009, p. 9) gives a universal definition of contemporary agritourism pointing out that “it is a form of relaxation taking place in rural areas with the agricultural character, based on the accommodation and recreational activities connected with the farm or the equivalent one and its natural, production and service surrounding”. However, as the authors point out, this definition, in particular its practical implications, do not reflect the full variety and dynamics of touristic service development in the rural areas and also the legal aspects connected with the Act on Freedom of Conducting Business Activity² and the Act on Personal Income Tax³. According to the above mentioned acts, agricultural enterprises conducting agricultural business activity where the number of rooms offered for tourists is not higher than 5 are exempt both from the requirement to register their business and from taxation. In practice, though, it is area where farms stretch the limit of law to apply solutions exempting them from paying income tax. The status of a farmer is also often abused, often in consequence of property manipulation (Drzewiecki, 2009). Because of the above mentioned circumstances and ambiguities in terminology there are various types of buildings with touristic function.

Development of agritourism in Poland depends, first of all, on the attractiveness of rural areas for tourists, variety of landscape connected with the rural structure, traditional methods of agricultural production and rural cultural heritage resources.

Agritouristic family enterprises represent an important form of farm diversification (Kłodziński, 2001). They play an important role in activating areas, influence and stimulate local economic structures and, as a result, they create workplaces and generate new sources of income.

MATERIAL AND METHODS

The authors of the article, classifying agritourist farms to family enterprises, used the research questionnaire and the in-depth interview method in their research. The goal of the research, covering both the primary and the secondary data sources, was to analyse agritourist enterprises in Poland as an example of family enterprises, in terms of their market behaviour, entrepreneurial behaviour and behaviour related to generating innovation as well as identifying advantages and disadvantages of a family business according to agritourist enterprises (Dorocki, Rachwał, Szymańska & Zdon-Korzeniowska, 2012, Dorocki, Szymańska & Zdon-Korzeniowska, 2012, 2013a, 2013b).

The conducted desk research led to the formulation of the following research hypotheses:

- H1:** Agritourist enterprises owners self-define themselves as owners of family enterprises.
- H2:** Agritourist enterprises owners can see and appreciate benefits from running a family business.

² The Act of Freedom of Conducting Business Activity of 2nd July 2004, as amended.

³ The Act of 26th July 1991 on Personal Income Tax, as amended.

H3: Owners of family agritourist enterprises can see their advantage in being innovative and strive to introduce changes in their businesses.

Achievement of the above-mentioned goal was based on: (i) the analysis of professional literature, and empirical research conducted through; (ii) direct questionnaire surveys; (iii) individual in-depth interviews.

The empirical research was conducted in the period from January to March 2012. The process of data collecting included three phases. The first phase involved pilot studies (expert questions and questionnaire surveys with owners of 3 agritourist enterprises) to learn about the specifics of the agritourist business, verifying appropriateness of the surveying instrument (the questionnaire of the survey) and the degree of comprehension of the wording used in the questionnaire.

In the second phase of the research, a questionnaire survey followed with questionnaires sent out (via e-mail) to 1 326 agricultural businesses all over Poland⁴. Finally, 46 agricultural enterprises took part in the questionnaire survey (the response rate of 0.034%)⁵.

In the third phase, a scenario of the in-depth interview (IDI) was developed on the basis of the research results. The scenario of the in-depth interview (IDI) was conducted with owners of 3 enterprises. Owners with many years' experience in the agritourism and differentiated offer were chosen: Na Zagrodzie run by Joanna and Dominik Wojtan (Lubień, the Małopolska Region) awarded in the 8th edition of Great Discovering of Małopolska in 2007 and ranking third in the Agritourism category; Ostoja owned by Jan and Ewa Szombara (Gietrzwałd, Warmia and Mazury Region), Willa Aba owned by Bernadeta Bukowiec (Tylicz, the Małopolskie Region). This interview was aimed at enhancing results of the survey.

The analysis involved descriptive statistics and was based on relative values illustrated by graphs.

RESULTS AND DISCUSSION

Preliminary Survey Results

All businesses offering agritouristic services (agritouristic farms) in Poland operate as farms or they self-proprietorship run in accordance with the rules of the Act on Freedom of Establishment and Personal Income Tax Act and in various organizational and legal forms. In the second case, the entity can be classified to enterprises. Agricultural activity of a farm, according to the authors, can also classify the farm as an enterprises. However, farmers in the touristic business are forced to look at their activities more through the needs of market. They have to take into account customers' needs, identify and monitor competitors' activities and, in this aspect, make an effort to prepare a suitable offer, with promotion, costing etc. Summarising, an agricultural enterprise

⁴ The research for the paper in question covered agritouristic enterprises which are the members of agricultural associations under the umbrella of the Polish Association of Rural Tourism "Gospodarstwo Gościnne" (1 000 farms) and those shown in other associations and agritouristic portals (325).

⁵ Authors assume that enterprises weren't interested in participating in the research and giving reliable answers.

(either registered as business activity or operating as a farm) is a profit-oriented business (Sznajder & Przezbórska, 2009).

The research for the paper in question covered agritouristic enterprises which are the members of agricultural associations under the umbrella of the Polish Association of Rural Tourism "Gospodarstwo Gościnne" (1 000 farms) and those shown in other associations and agritouristic portals (325). Among the enterprises analysed in the research, there were both those operating as farms and those which are registered as businesses. The research shows that 67% of the interviewed agritourist enterprises were rooted in the transformed farm and more than 17% came from businesses other than farming. However, approximately 15% of the interviewed enterprises operated as agricultural enterprises from the beginning (compare figure 1A). Nearly 72% of agricultural enterprises continue to operate as farms. About 43.5% of these farms do animal breeding, 39% grow crops, more than 17% orcharding, 13% operate in the fruit and vegetable processing industry, 6.5% in processing of animal products and approximately 4.3% are apiaries (Figure 1B).

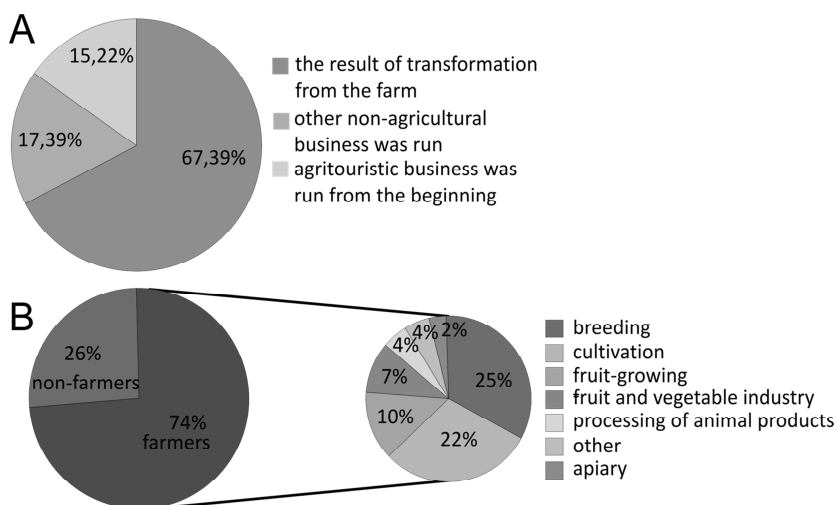


Figure 1. The origin of the interviewed agricultural enterprises (A) and the structure of the continued agricultural activity (B)

Source: own elaboration based on the survey questionnaire (n = 46).

As mentioned above, agritourism, because of its specific character connected with delivering touristic services on the basis of assets of the farm or the equivalent one (frequently household) can be perceived a priori as family business. The agricultural enterprises taking part in the research were asked to indicate whether they would classify themselves in the family businesses or not. Nearly 89.1% of them consider themselves to be family businesses and merely 8.7% has a different opinion (Figure 2).

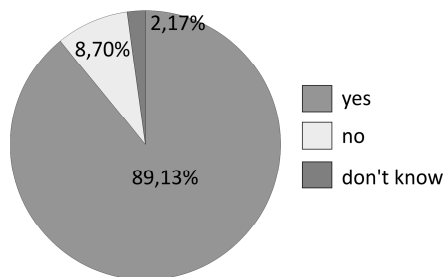


Figure 2. The share of family firms in agritourism among the investigated businesses according to the survey
 Source: own elaboration based on the survey questionnaire (n = 46).

As far as the specific advantages and disadvantages, the majority of firms taking part in the research recognize numerous benefits in running a family business. According to the research results, they believe that:

- employees who are family members are more loyal (91.3%);
- family members show more commitment (93.5%);
- in crisis situations, one can rely more on support (also financial one) from family members rather than from persons from the outside of the family (67.4%);
- family members take care more about assets of the business (91.3%);
- family members are more engaged in the projects (82.6%).

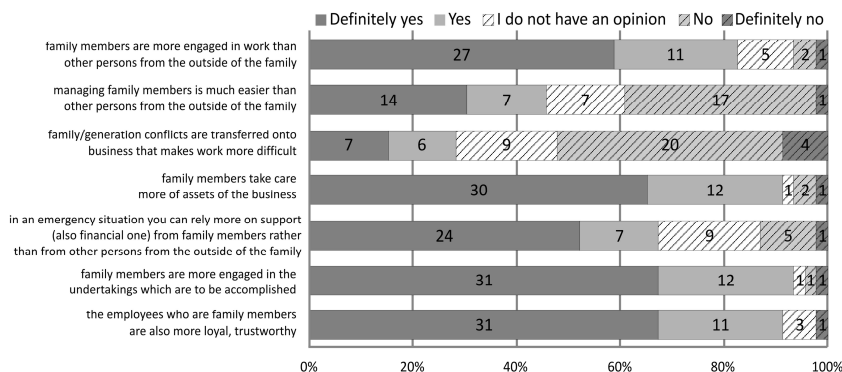


Figure 3. The opinions of the interviewed agricultural enterprises in the area of pros and cons resulting from running a family business
 Source: own elaboration based on the survey questionnaire (n = 46).

Nearly 52.2% of enterprises believe that family or generation conflicts are not transferred onto business and that they do not have influence on the functioning of the enterprise. The opinions on the degree of difficulty involved in managing family members are divided. Almost 46% of the respondents assess it as easier. However, 39% see certain difficulties in running a family business. Specific opinions of the interviewed agricultural enterprises in the area of benefits resulting from running a family business are presented in Figure 3.

The farms taking part in the research claim that they strive for innovation. Product innovations are among manifestations this attitude. Up to 63% of the interviewed businesses declared that last year they introduced a new item in their offer. Unfortunately, no respondents specified the changes they made. The ideas in the introduced changes were the effect of customers' suggestions (36.4%), observation of activity of other businesses (24.2%) or own or family members' ideas (24.2%). As little as 3.0% are the ideas drawn from training courses attended by employees of agricultural enterprises. The sources of product inspirations are depicted in Figure 4.

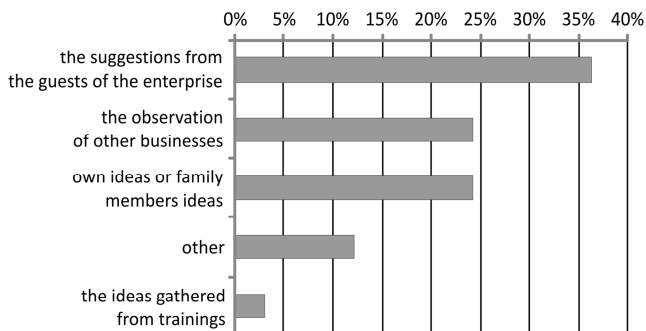


Figure 4. Sources of product innovation in agritourist enterprises

Source: own elaboration based on the survey questionnaire (n = 46).

To a large extent, survey respondents use information technologies such as the Internet, concerning the offer improvement and streamlining the service to customers-tourists. Almost all agritourist enterprises participating in the survey had an Internet access (93.5%) and nearly 83% had a wireless Internet access (WiFi). Most enterprises have their own website (93.5%) updated when needed (54.5%). In the case of almost 24% of the interviewed agritourist enterprises, the website is updated once a year or more often, while nearly 9% confirmed that they never update their website. Typically, an agricultural enterprise administers its own website (56.5%) or uses the service at somebody's courtesy (19.6%). Approximately 22% of agritouristic enterprises commissions this task to other firms.

Presence at social media (21.7%), placing banners and advertisements in the local internet services (15.2%) or mailing (6.5%) are examples of innovative approach to also to the range of the tools used for promotion. Moreover, in the case of 63% agritourist enterprises, it is possible to book accommodation online.

As far as opening to new groups of customers is concerned (such as the disabled), unfortunately, the overwhelming majority of the surveyed infrastructure is not adapted to hosting the disabled people. This fact was confirmed by 83% of the agritourist enterprises which participated in the survey. More than 54% declared that they check the degree of customers' satisfaction and 37% does that only occasionally and only slightly above 17% of the respondents do it on regular basis. Conversation about that topic is the most common form of checking that. Almost 70% of the customers use this

method of customer satisfaction control whereas only 13% of agritourist enterprises organise a survey among their customers.

On the other hand, it seems that agritourism enterprises do not show entrepreneurial spirit when it comes to the opportunities of receiving financing from the EU funds. Only 28%⁶ of agritourist enterprises applied for financing their activity from the EU funds and as much as 71.7% have not taken such actions. It is interesting that the surveyed agritouristic enterprises, in their overwhelming majority, show a highly active attitude when it comes to broadening their knowledge of tourism and agritourism. Such declaration was made by nearly 91% of agritourist enterprises. Also 91% of the surveyed confirmed that they regularly take training courses. 39% of the agritouristic enterprises go on a training course at one's own expense and out of their own initiative. Nearly 24% participate in trainings organized by the local government.

Preliminary Interview Results

“Na Zagrodzie” (“On the Farm”) Family Agritourist Enterprise

The last stage of the research involved a direct, in-depth interview with Mr Dominik Wojtan, the owner of “Na Zagrodzie” (“On the Farm”) agritourist enterprise. Conducting an interview with an expert in the research subject resulted in adding more details to the data collected in a standard questionnaire survey. The scenario of the survey consisted of three groups of questions asking the respondent's opinion on the enterprise being a family business, the area of innovation and on entrepreneurship in the enterprise.

As it was mentioned earlier, agritourist enterprises are family centred businesses. This was confirmed during the in-depth interview. According to the respondent's declaration, all family members participate both in work on the farm and in taking important decisions connected with its functioning. Moreover, “Na Zagrodzie” farm, operating as such since 2003, has continued family traditions of providing service for tourists since 1970s and this activity is passed from one generation to another.

The owner sees many advantages of a family business, not only for the business but also for family, including:

- self-sufficiency
- shared work such as managing an enterprise unites the family, which in turn is helpful in building mutual trust, sense of security and responsibility not only for oneself, but also for the property and assets;
- possible conflict- solving teaches compromise and dialogue across generations.

In the case of family businesses their owners look into the future more often than in the case of other businesses and they think of succession in the enterprise. Working together on the farm, taking the important decisions for the enterprise together with younger generations help comprehend the specific character of the branch and business which the succession by the next generation. According to “Na Zagrodzie” agritouristic enterprise owners, the perspective of succession of the business is a motivating factor in

⁶ The real number of application forms submitted for aid from EU funds for the sake of financing the activities concerning agritourism can be even lower because of the fact that the number of agricultural enterprises functioning within the frames of farms interprets EU subsidies as direct payment to agriculture and this matter has not been clearly separated by the Authors in the research.

relation to which they take action concerning education and developing certain competences of their successors (their children). The owners point that their children learn openness to others, communication skills. Parents send them to language courses to shape features and competences essential for delivering high quality touristic and customer service.

The analysis of the enterprises (including their offer) and the information gained by means of in-depth interviews helps to classify the farm in question, an innovative one. Ostrich breeding, continuous effort towards broadening the business offer and its increasing its attractiveness to bring more buyers of the new animals (a cow, sheep, pigs, hens, ducks, turkeys), organizing open-air and integration meetings and also the plans to introduce the next attractions (creating a playground for children, a football pitch, a rope park) prove the innovative nature of this agritourist enterprise. The owner sees innovation as the immanent feature of the entrepreneurship. He defines as: "the ability to run a business (an enterprise), creating new technologies, products, possibilities so as to achieve the effect in the shape of revenue from that enterprise"⁷ He perceives himself as an innovative person mostly due to the fact that he introduces innovations⁸, which he understands as "creating something better, improving something existing"⁹. As the owner points out primarily the source of these innovations are as follows:

- customers – "the conversations with guests who give suggestions concerning their expectations"¹⁰;
- competitors – "watching other agritouristic enterprises by websites, agritouristic fairs"¹¹;
- owners – "own ideas"¹².

CONCLUSIONS

Agritourism, as a branch of tourism and economy, is the area particularly fit for the development of family businesses. The family history is, among others, a factor which influences the creation and development of the entrepreneurial spirit (understood both as features, skills and activities involved in running the business). Entrepreneurs are often recruited from the families that have a history of small businesses, freelancers or farm owners. Farms are therefore a potential area for development of family entrepreneurship. Agritourism is an opportunity and an attractive alternative for unprofitable farming (in particular, on a small scale). On the one hand, the combination of a tourist offer and farming contributes to increasing profitability of farms and, on the other hand, enhances the attractiveness of the tourist offer. Moreover, such a mix

⁷ A statement made by the owner in an interview for the research in question.

⁸ "I constantly introduce something new in my enterprises to attract customers, I keep on improving things, changing, creating new offers so yes, I am entrepreneurial". A statement made by the owner during an interview conducted for the research.

⁹ A statement made by the owner in an interview for the research in question.

¹⁰ A statement made by the owner in an interview for the research in question.

¹¹ A statement made by the owner in an interview for the research in question.

¹² A statement made by the owner in an interview for the research in question.

contributes to preserving traditional activities, agriculture, Polish country heritage and identity.

Issues analysed in this study are relatively new and poorly covered by the literature in the field. The research problems in agritourism focus largely on its development conditions as a social and economic phenomenon i.e. a more to be considered at the mezzo and macro scale and a micro scale. The agritourist enterprise operation and management sphere has not been analysed in deep. A certain difficulty in analysing this group of entities comes from the inability to determine the exact number of agritourist enterprises. As it is, not all farmers reported room rental to the accommodation register kept by the competent municipal authority (head of village, mayor). Nevertheless, the topic of family entrepreneurship in agritourism appears as a rich and interesting research area, in particular when referred to:

- the issue of succession;
- management of the enterprises;
- market behaviours of the type of enterprises;
- specifics of family entrepreneurship in the field of agritourism in its comparison to other sectors.

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