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# The dilemmas of optimal water resources management in Poland posed by the implementation of EU law

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## Abstract

The optimisation of water resources management requires appropriate economic instruments with respect to quality and quantity. The EU-approved regulations are to a large extent political and neglectful of the principles of optimisation. With regard to the numerous types of water utility, its quality and quantity management rules call for a rather complex apparatus, which fails to find acceptance among the law-making body in the field of natural resources and environmental services. This paper aims to provide a thorough analysis of EU water policies using standard tools of environmental economics. The analysis is based on the Polish experience of implementing some of the key EU regulations concerning water resources. The paper shows the inefficiency of the prescriptive approach as well as of its unsuccessful corrections.

**Paper type:** methodological article

**Keywords:** water resources management, efficiency of EU regulations, implementation of water policy directives

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# Introduction

On joining the European Union, Poland was obliged to implement the EU acquis, including the set of environmental regulations. Since Poland's accession to the EU, the requirements for the use of environmental goods and services have become stricter. A large part of the legislation relates to widely-understood water management. Despite the obligatory cost and benefit analyses for new regulations, the EU legislative process is largely politicised, which calls into question the maximisation of net profit from implementing certain requirements. With regard to the numerous types of water utility, its quality and quantity management rules call for a relatively complex apparatus, which fails to find acceptance among the law-making body in the field of natural resources and environmental services. This paper aims at a critical analysis of the EU water policy using standard tools of natural resources economics. It also scrutinises the fulfilment of particular goals, especially for the adopted indicators. The empirical data refer to the period between 2003 and 2013.

## 1. Theoretical indications of determining the optimal level of pollution and the optimal rate of resource consumption

### Optimal level of pollution

The optimal level of pollution is defined on the basis of the marginal social cost curves caused by the pollution and the marginal abatement cost of the pollution. The standard version of the optimisation is depicted in Figure 1. It features in classic works on environmental economics (Pearce & Turner, 1990; Sterner, 2003).

By social cost of emissions is meant the total cost of the sum of private costs (incurred by the producer) and the external costs experienced by the whole community involved in the activity of the producer (including the pollutant emissions caused by their activity). The emission abatement cost signifies the costs (mainly abatement technologies) incurred by the producer which aim at reducing or eliminating emissions. The graph illustrates marginal values which should be interpreted as follows:

- for MAC, it is the emission abatement cost by one unit (e.g. a ton),
- for MSC, it is the monetary value of adversity caused by emission increased by one unit.

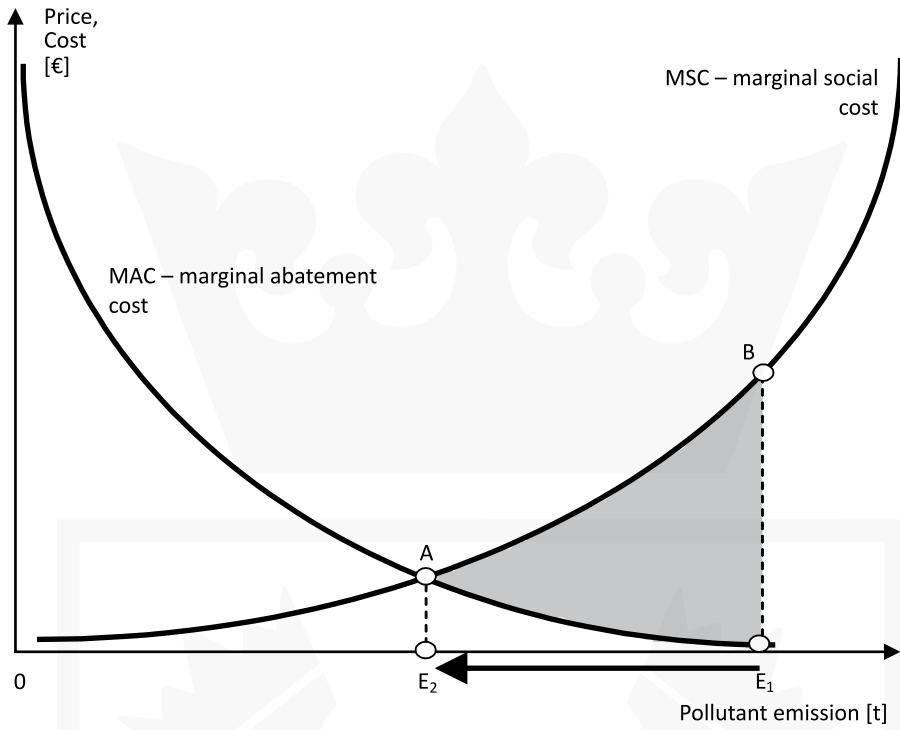


Figure 1. *Optimal level of pollutant emission.*

Source: Pearce & Turner, 1990, p. 63.

The optimisation above also meets, at least partly, the dynamic criteria as long as the marginal social cost curve includes the discounted costs of future generations. Applying the concept on the EU regulation level and implementing a regulation which limits the acceptable amount of emissions give rise to a series of problems. Both curves – the marginal cost as well as the social cost – differ considerably from one EU member to another. With regard to price convergence, it can be assumed that there is less variation in the abatement technology costs (MAC curve). The marginal social cost curve depends greatly on the level of wealth of a given country; and here the differences are significant. Figure 2 depicts how shifting curves influence the optimum level. Moreover, the graph presents two phenomena: the decrease in MAC caused by public funding of environmental protection investment (mainly from the EU but also the national public means) and the convergence process connected with aligning the standards of living, which results in  $MSC_{PL}$  approaching  $MSC_{UE}$ .

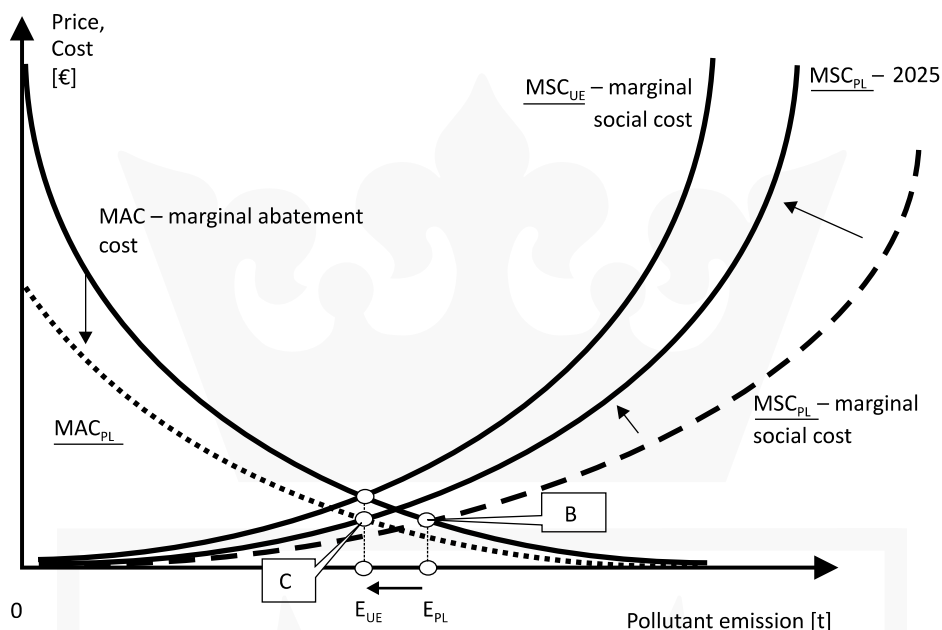


Figure 2. *The impact of shifts in marginal cost-benefit abatement curves on the optimal abatement level.*

The line of reasoning illustrated by Figure 2 allows a relatively obvious conclusion that the requirements stated in EU directives (assuming that they were founded on a solid economic basis in the first place) do not necessarily lead to the maximisation of welfare on the scale of a single country, especially if it is less wealthy than the EU average.

The efficiency of the unified European water management regulations seems controversial as the cost and benefit marginal curves diverge. According to the Oates's principle (Oates, 1996), the possibility of individual diversity of environmental objectives is limited. The principle focuses on efficient problem solving (setting goals and optima) on the lowest possible level where there are costs and benefits of the solution. It is extremely difficult to establish such a micro-scale level for water resources. In so far as the costs of regulations are ascribed to specific locations, regions (through construction of treatment plants, local water scarcity), the benefits derived from better quality resources and improved accessibility are enjoyed far away from where the costs have been allocated. This is a direct result of the fact that developed river systems generate transboundary effects. Such a considerable dispersion of cost and benefit justifies international application of regulations regardless of their local inefficiency.

## Optimal rate of resource consumption

The theory of optimal rate of resource consumption is far more demanding, and yet, in some of its aspects, it still lacks satisfactory solutions. This applies to non-renewable resources. Due to the fact that water resources are intrinsically renewable, the scope of discussion will be narrowed down to this type of resources specifically.<sup>2</sup> With regard to renewable resources, one determines the maximum sustainable yield which is identical with the maximum amount derived from the resource and which aims to maintain the resource at a constant level. The correlation is known as the Gordon-Schaefer model (Munro, 1979), and was formulated to provide answers to questions about obtaining resources in forestry and fishery. The model, however, does not solve all the problems, some of which are more general (independent from the type of resource), others are related to water resources specifically. There remains the question of whether the current amount of renewable resource is at a satisfactory level (also for future generations), or whether the current exploitation of the resource should not be using a lower than the maximum rate and consequently lead to expanding the renewable resource. Another shortcoming of the model in question is the assumption that the resource remains constant in time, and more specifically, that the resource variability is exclusively linked with human activity. With respect to water resources, exogenous variables, such as the seasons of the year and current precipitation must not be underestimated as their impact is much greater than human impact, which is why the applicability of the Gordon-Schaefer model in the field of water resources is dubious.

Due to inadequate theoretical solutions available, there is an approach based on a precautionary principle, which consists in using specific safety margins. Such an approach involves the use of an arbitrarily assumed percentage of discretionary resources. The percentage lacks any substantive justification and is more likely a product of political, economic and cultural decisions.

## 2. An overview of the main objectives in terms of water management under the existing EU regulations

One of the first attempts to improve the quality of water resources was the Council Directive 91/271/EEC concerning urban wastewater treatment. The directive concerns urban wastewater collection, treatment and discharges as well as treatment and discharges of wastewater from some industry sectors. It refers to the various

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<sup>2</sup> In the case of groundwater the length of the renewal cycle may vary considerably.

degrees of agglomerations with more than 2.000 population equivalent.<sup>3</sup> The directive imposes a number of various requirements connected with the necessity and degree of wastewater treatment in relation to the size of an agglomeration and the type of receiving waters where the treated sewage is discharged. The implementation costs of this directive are the highest among the whole of environmental directives. Its objectives mainly serve as facility standards (specify the need, scope and efficiency of wastewater treatment for specific treatment plants) and were approved without any prior cost-benefit analysis. However, such analyses were not obligatory back in 1990s. At the same time the Council Directive 91/676/EEC concerning protection of waters against pollution caused by nitrates from agricultural sources was approved. The main objective was to reduce the amount of pollutants (nitrates) from agricultural sources entering surface waters and groundwaters.

Despite the heavy costs incurred when implementing both directives, the quality of waters in EU Member States has not reached satisfactory levels, which resulted in adopting a far more comprehensive regulation known as the Water Framework Directive (WFD).<sup>4</sup> The directive commits the EU member states to achieve good qualitative and quantitative status of all water bodies within a specified time-frame. The good status of waters is defined by a number of indicators. The objective was again adopted without relevant prior analysis of necessary costs and benefits. It was expected that due to inadequate technical possibilities of reaching the objective, and that for the smallest computational unit, e.g. a single body of water, the costs may considerably exceed the benefits, therefore few ways of derogation from the required status were provided.

In so far as the main objective was adopted without a solid economic ground, in certain critical situations it still was employed. For the first time too prices of services were to include charges for environmental and resource depletion (the so-called environmental and resource costs).

What is worthy of notice among the specific objectives of the directive is the need for sustainable water management, which aims at reducing water consumption in specific sectors.

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<sup>3</sup> Population equivalent means the organic biodegradable load having a five-day biochemical oxygen demand (BOD<sub>5</sub>) of 60 g of oxygen per day. The unit is arbitrary as it does not specify the source of pollution, and so it expresses industrial pollution in population equivalent. To establish one common standard, industrial and individual waste can be combined.

<sup>4</sup> Directive 2000/60/EC of 23 October 2000 establishing a framework for community action in the field of water policy.



### 3. Measurement method

When it comes to the directives concerning facility standards (such as the urban wastewater treatment directive), their implementation process is reduced to verifying if technological installations meet appropriate requirements and to whether the entities concerned are in possession of installations required by law.<sup>5</sup> So implementation measurement is relatively straightforward and consists in an uncomplicated specification of entities or pollution load covered/not covered by correct collection and treatment. Such an approach, however, does not provide any possibility of optimisation of cost or environmental effects. The directive under discussion does facilitate cost optimisation under Article 5.4, which allows for deviation from facility standards, provided that the cumulative effect of all the activities in required facilities will result in effective nutrient reduction not lower than 75%. Such a delegation enables, on the one hand, the use of the so-called economies of scale, i.e. a greater reduction of pollution on large industrial sites (where the unit cost is lower) and, on the other, establishing less stringent requirements in the case of smaller sites. Implementation measurement is then carried out on the basis of generated, treated and discharged pollution loads.

The main objective of the Water Framework Directive is the accomplishment of good water status. Simple reporting refers to the number of bodies of water, which have reached the required level or the remaining range (the number of bodies of water which have yet to reach the required status). It is quite surprising, however, that the basic implementation measurement of the directive which refers to the economic and price mechanisms analyses on several occasions is the number of separate units, without consideration for either the beneficiaries of the good status or the lack of it, or for other irregularities of basic computational units. From the perspective of water management on a national level, the directive creates requirements of considerable variability. On the one hand, good environmental status creates requirements for maintaining minimum acceptable flow in rivers, and so establishes hierarchical resource consumption. Therefore, there emerges, at least potentially, the phenomenon of resource scarcity or – more precisely – deficit. In the hydrological context the term is interpreted differently than in environmental sciences since, when considering “good water status”, a “deficit” takes place when the demand is met not only from water withdrawal, but necessitates tapping into the minimum acceptable flow. The reflections focus on the two categories: water withdrawal and actual abstraction of waters. In economic terms, a situation where supply meets demand does not qualify as a deficit. Moreover, the actual abstraction of water is not identical with demand for water due to the existing system of the Water Act Permit for abstraction. In the event of a potential user’s expectations ex-

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<sup>5</sup> In practice, it is the number of agglomerations with treatment plants plus the population number assigned to these agglomerations.

ceeding water withdrawal, they do not get permission for abstracting the whole of the required amount. Hence, unsatisfied demand – or an economic deficit – arises without a hydrological deficit. This divergence is depicted in Figure 3, where curve C illustrates the actual abstraction of water whereas curve D presents the demand for water. Starting from value  $P_1$ , the demand may be limited by water intake permits, therefore an economic deficit is likely to appear before a hydrological deficit.

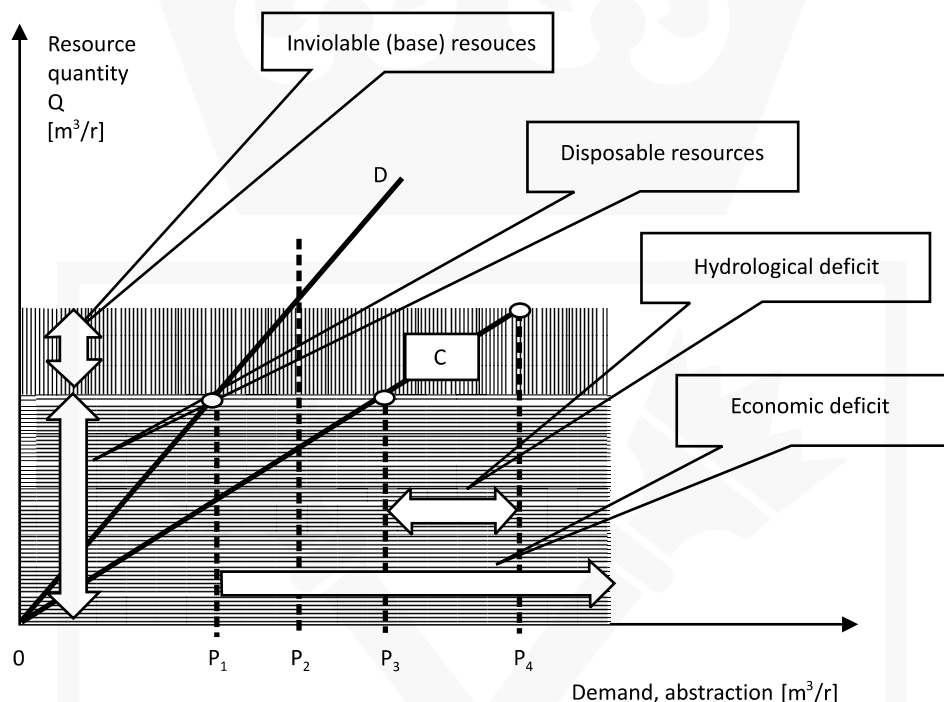


Figure 3. Differences between a hydrological deficit and an economic deficit.

On the other hand, if the demand does not exceed the  $P_2$  value and is not limited by water permits, the deficit will not occur. Depending on by how much the demand curve is higher than the abstraction curve, there are different relations between the sizes of hydrological and economic deficits possible. Lack of comparability between the two indicators generates problems in water management. The WFD refers to good environmental status, which necessitates respect for the minimum annual flow, however, the very same directive requires the cost accounting to include the so-called resource costs which refer to opportunity costs. This approach calls for appropriate economic instruments.

The need for sustainable consumption of water resources, which is expressed in numerous directives calls for establishing a sustainability rate by quantifying the

process. For this, the aggregated measure of water absorption of economy, which captures the amount of consumed water in relation to the intensity of economic processes. It can take the form of:

- General water intensity (general water use/GDP), units: thousand m<sup>3</sup>/ PLN million (calculated as the ratio of water consumption for the economy and population to the level of GDP).
- Industrial water intensity (industrial water use/GDP generated by the industrial sector), units: thousand m<sup>3</sup>/ PLN million (calculated as the ratio of industrial water use to the level of GDP).

Furthermore, the specificity of water intake for cooling purposes – the key purpose in Polish economy – needs to be taken into account. Disabling the use of return cooling water stems from:

- water intake and return with limited qualitative differences (temperature), which does not prevent re-using the water in economic processes,
- large intake of water which makes all the other purposes marginal. The changes in the amount of cooling waters do not affect the intensity of water management in other locations.

#### 4. Analysis results according to adopted indicators

It is beyond doubt that meeting specific EU directives aims at improving water quality. What remains controversial, however, is the question whether the imposed ways of meeting the objectives are cost-effective and whether they maximise general social well-being. The research concerning excluding Poland from the possibility of optimising the concept of implementation of urban wastewater treatment directive indicates a highly inefficient implementation path. Transferring the requirements for efficient treatment from large industrial sites onto small ones generates both an increase in the treatment unit costs and in the investment outlays. In view of the necessary condition, i.e. a comparable environmental effect which makes optimisation possible, deteriorating cost effectiveness can be observed, which is a result of the rendering Article 5.4 of the urban wastewater treatment directive inapplicable in Poland. According to the data concerning the optimisation programme resignation cost (Krajowy Zarząd Gospodarki Wodnej, 2012), the derogation from the optimisation programme concerns 239 agglomerations (8.4 million inhabitants) with 327 treatment plants. The additional investment outlay is estimated at PLN 1387.8 million. Having to sustain such an investment outlay and later the operating costs in the target group will lead to an increase in waste collection and treatment costs by PLN 2.88 with the current price of PLN 5.71/m<sup>3</sup>. The

environmental effects of such an action brought down to enhanced nutrients reduction discharged into rivers will improve treatment efficiency by less than 1 percentage point. The cost effectiveness of such measures is three times lower than in the case of large facilities. From the perspective of water management, the statistics of agglomerations complying/not complying with the requirements set out in the directive are of less importance. There is no doubt that the percentage of agglomerations complying with the requirements decreases after rejecting the efficiency mechanisms.

The process analysis of the Water Framework Directive allows the hypothesis that the most significant indicator for the European Commission is the number of single water bodies which have reached good status. The other assessment criterion is a thorough justification of diversions from the requirement to reach such good status against the proposed water bodies exempt from this requirement. This formal approach has nothing to do with sustainable water management. There are no reports of the aggregated costs of reaching the status with the possibility of sustaining such costs, and, more importantly, no reports of aggregated benefits from reaching the status. Giving the EU Member States the freedom to shape their own programmes of measures aiming at good status is hardly satisfactory. This discretion is more apparent than real as there are still the facility standards from previous directives in force, which lead to obligatory implementation of environmental protection investments, also in facilities where it is extremely expensive and inefficient. In fact, there is very little scope for optimisation in individual programmes of measures as the older facility standards directives are not subject to negotiation.

To undermine the purely statistical approach, the example of the current state of the Vistula river basin can serve as an argument: the good status has been reached by 499 out of 2.649 bodies of water (Hobot, 2013). This puts on the same level the bodies of water with a surrounding population of tens of thousands with a flow of over a dozen  $\text{m}^3$  per second, as well as those uninhabited ones with a flow of  $0.001\text{m}^3$  per second. Such reporting is and should be obligatory, but it should not serve as a basis for water management assessment in a given country.

Managing the available water resources in compliance with the Water Framework Directive is not devoid of dilemmas either. Differences in defining a deficit hinder or prevent establishing a common approach. The priority of preserving the minimum annual flow seems unquestionable with regard to long-term sustainability of resources. However, subjecting all the remaining dimensions of sustainable development, such social and economic development, to environmental issues fails to meet the declared priorities. In practice, every body of water in Poland has its designated discretionary resources and a minimum annual flow in compliance with hydrological criteria. There is no evaluation of the total demand for water or opportunity costs related to the decreasing demand. The few attempts to pinpoint the lack of balance between demand and supply in terms of economics have not been fully

successful (Krajowy Zarząd Gospodarki Wodnej, 2013). Therefore it is not possible to compare the correction costs of deficits in the hydrological sense by means of estimation and valuation of economic deficits.

It is undeniable, however, that the existing price mechanisms encourage better water management. The trend analysis of GDP water intensity in all variants of the measurement shows increasingly efficient water resources consumption (Figure 4).

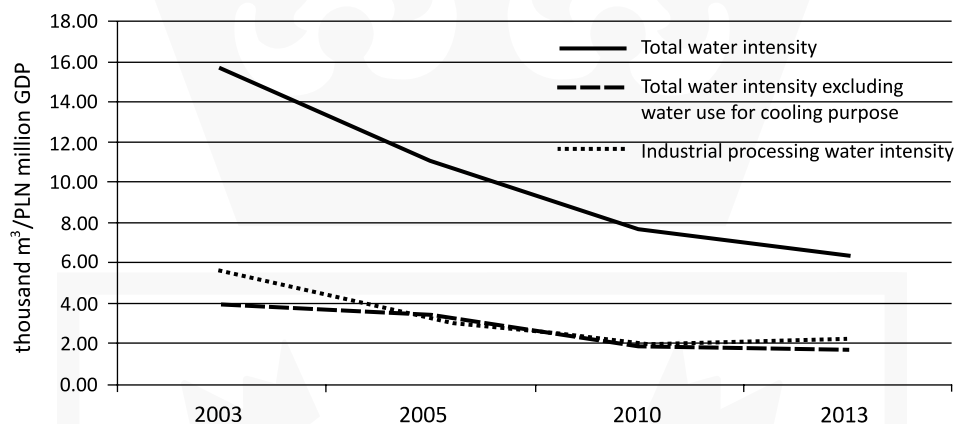


Figure 4. Shifts in GDP water absorption indicator over the period 2003–2013.

Source: This figure is the author's own elaboration on the basis of the data of the GUS: *Produkt Krajowy Brutto – Rachunki regionalne* and *Ochrona Środowiska*, the following yearbooks for 2003–2013.

The systematic downward trend of the GDP water absorption indicator is a sign of the right direction of changes that are taking place in our economy. In view of the visible differences in water absorption in specific economy sectors, there are not any reliable benchmarks in foreign research at such a highly aggregated level available.

## Conclusions

EU legislation in terms of broadly defined water management has been evolving: from emission standards required for specific facilities to more comprehensive solutions. Inasmuch as the very direction of changes does not breed controversy and potentially creates cost optimisation possibilities for achieving the objective, potential cost savings are eliminated due to the existing facility standards. In the field of water management, objectives are set arbitrarily and certainly without a prior economic cost-benefit analysis. Despite declarations to conduct such analyses, they seem of little importance, whereas the selection of targets is subjected to the primacy of environmental quality.

Water management in terms of quality and quantity which simultaneously meets the EU regulations is highly ineffective. The positive aspect of such regulations is an enforced improvement of water quality, however, the social costs of such measures are neglected. In this way, the opportunity to considerably improve general social well-being resulting from cleaner environment is largely wasted.

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# Quality in the selected management concepts

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## Abstract

The article presents the status of quality in various management concepts (in outsourcing, supply chain management, TQM). It has been assumed that quality status defines the function and/or the significance of quality in the organization management concept. The carried out studies have demonstrated that the term of quality is most frequently defined in the TQM concept (even though also in this case there are definition disputes). In the remaining concepts of pro-quality management authors refer most often to definitions given by the TQM precursors. The authors describe the role of quality (various approaches) and the fundamental determinants of achieving quality in selected management concepts.

**Paper type:** review article

**Keywords:** quality, outsourcing, total quality management, supply chain management

## Introduction

Among the principal objectives of the present article the authors include the following:

- definition of quality status in pro-quality management concepts,
- identification of determinants influencing quality development.

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Literature analysis was the fundamental method applied in this work. Inter alia, publications from journals dealing with the quality issue were used. On the basis of overall analysis, first the gathered material was analysed, rejecting the work of minor scientific value, and the full body of material was subjected to selection in terms of the chosen scientific subject. The next step included classification and categorization. Most of the issues were arranged by assigning content to agreed research issues. In the study, it was assumed that the quality status defines the function and/or significance of quality in the concept of organization management.

## 1. Quality in outsourcing

Outsourcing is currently a very popular management concept. One could venture to say that each and every organization applies it to a greater or lesser extent. When defining outsourcing the following examples of the concept can be found:

- outsourcing signifies delegating to an external agent operational responsibility for processes and services previously carried out by the organization (Franceschini, Galetto, Pignatelli, & Varetto, 2003),
- outsourcing consists in obtaining produce and services from sources external to an organization (Schniederjans & Zuckweiler, 2004),
- outsourcing is connected with traditional decision-making problem make or buy, and stands for reaching a decision to commission some activities of an organization to external suppliers.

These formulations highlight the fact that outsourcing is one of two primary decision options regarding location where organization's functions and processes are carried out.

The issue of outsourcing is present in numerous contemporary scientific currents. As a research subject it can be found among others in (de Boer, Gaytan, & Arroyo, 2006) economics of transaction costs, resource-based view, strategic management, evolutionary economics, human resource management and logistics.

Application of outsourcing implies using one of its varieties. There can be found among others:

- domestic and international outsourcing (Schniederjans & Zuckweiler, 2004), where location of suppliers is the division criterion,
- traditional outsourcing (focused mostly on cost reduction) and strategic (oriented on joint creation of value) (Franceschini et al., 2003).

Usage of the international and strategic form usually results from the evolution process of applying outsourcing concept and is preceded by employing domestic

and traditional form. Table 1 presents selected formulations of the quality status in the outsourcing concept.

Table 1 *Selected formulations of the quality status in outsourcing*

Formulation	Explanation
The subject of diagnosis in analysis of demand and comparison with competition	In the initial stage of the outsourcing process it is necessary to identify the clients' quality requirements and compare own quality potential with competitors
Decision-making criteria for application of outsourcing	Considering quality implications of introducing outsourcing
Risk factor	At the operational level it means supplier's failure to meet the requirements. At the strategic level it stands for the risk of loss of reputation
Criterion for evaluation and monitoring of suppliers	When selecting partners, quality is the criterion for evaluation of the supplier's potential. Then, it is one of the criteria for monitoring supplier's achievements.

Source: own elaboration based on Gandhi, Gorod, & Sauser, 2012; Power, Bonifazi, & Desouza, 2004; Wu & Park, 2009.

As it can be noticed, the quality factor applies both to the operational and strategic dimension of outsourcing. What is more, it is also significant in the entire process cycle of employing this concept.

Potential influence of implementing outsourcing on the quality, as a result category, is not explicit and can be considered both in terms of benefits and disadvantages.

Among others qualitative benefits may be related to:

- organization's ability to use good practices developed by suppliers (Linder, Cole, & Jacobson, 2002),
- enhancing innovation due to obtaining access to the world-class resources (Linder et al., 2002),
- direct quality improvement resulting from suppliers' specialization (Embleton & Wright, 1998),
- organization's strong focus on key competencies (Wu & Park, 2009).

Potential quality dysfunctions, in turn, may involve:

- loss of key competencies and quality potential due to competition pressure (Leavy, 2004),
- taking over responsibility for the quality of suppliers' work (Schniederjans & Zuckweiler, 2004),
- direct quality drop as a consequence of pressure to reduce costs by the suppliers (Embleton & Wright, 1998).

Therefore from the presented considerations it can be concluded that there are complex mutual relations between outsourcing and quality.

## 2. Quality in supply chain management

The concept of supply chain management has been present in the literature of the subject already since 1980's (Svensson, 2003). However interest in this concept has substantially increased among others due to dissemination of its practical application. Employment of the discussed concept revolutionized issues of competitive advantage in many sectors, inter alia by obtaining simultaneous result of radical cost reduction and value maximisation for customers (Stonebraker & Liao, 2006). In development of theory of supply chain management there are three major approaches; atomistic (most frequent) and holistic and interdisciplinary (both less frequent). The essence of the supply chain management concept can be characterized as follows:

- it is connected to management of relatively closed inter-organizational relations where understanding of partnership principles is key for achieving joint success (Svensson, 2003),
- it is a combination of integrated business philosophy and necessary implementation actions (Svensson, 2003),
- it is of multi-dimensional character, reminding an open umbrella over a series of detailed management methods, techniques and tools (Stonebraker & Liao, 2006),
- supply chain is fully co-ordinated when it has global objectives defined (van Veen-Dirks & Verdaasdonk, 2009).

Much of the literature of the subject addresses the role of integration in supply chains. Integration causes previously separate organizations to work together as part of the supply chain in order to achieve jointly accepted results (Richey, Chen, Upreti, Fawcett, & Adams, 2009). According to some researchers, participation in supply chains results in development of new type of organizations different from the ones hierarchy- or market-oriented. These are hybrid organizations where the management process is mostly based on interorganizational co-ordination and co-operation (van Veen-Dirks & Verdaasdonk, 2009).

The quality status in the concept of supply chain management can be defined with the use of components listed in Table 2.

As seen, the role of quality in the concept of supply chain management is essential and is made manifest both on strategic, tactic and operational management level and demonstrates relation with the entire process of supply chain management.

Table 2 *Selected formulations of quality status in supply chain management*

Formulation	Explanation
Integrating objective	Defining global quality objectives is one of the factors integrating supply chain components
Subject of formalisation and standardization	Quality, like other requirements, is subject to codification, formalisation and standardisation in order to eradicate excessive diversity
Integration barrier	Too great quality differences between supply chain partners may constitute a barrier to its integration
Criterion for assessing co-ordination efficiency	Quality, like innovation and customer satisfaction, is one of the key criterion for appraisal of efficiency of co-ordination actions

Source: own elaboration based on Huang, Yen, & Liu, 2014; Singh, 2011; van Veen-Dirks & Verdaasdonk, 2009.

Application of the supply chain management concepts may lead to a series of qualitative benefits resulting from:

- reallocation of organization's actions creating supply chain towards specialization (van Veen-Dirks & Verdaasdonk, 2009),
- precise definition of quality requirements for all actors of supply chain (van Veen-Dirks & Verdaasdonk, 2009),
- synergy effect following integration of supply chain with the use of external and environmental factors (Richey et al., 2009),
- joint reaching decisions by actors of supply chain which may lead to improvement of customer service (Singh, 2011),
- information and knowledge sharing on the part of supply chain actors (Huang et al., 2014),
- optimisation of joint use of assets at disposal (Huang et al., 2014),

Whereas threats to quality in supply chain management may be related to:

- shortcomings in interorganizational integration (Richey et al., 2009),
- insufficient and irregular monitoring of consumers' changing expectations (Richey et al., 2009),
- objective conflicts between supply chain actors (Singh, 2011).

Therefore, it can be stated that for quality consequences of application of the supply chain management concept depend largely on accuracy of this chain as well as on the current implementation of management processes.

### 3. Quality in TQM

There are numerous definitions of TQM (Total Quality Management) – management through quality (e.g. Dale, 1999). They refer to a set of quality management principles, organizational culture, process approach, etc. The term of quality is rarely defined in works on TQM. It is assumed that quality research raises many difficulties. Such evaluation is subjective and individual, dependent on numerous situational factors, experiences and needs. Quality is something that customers themselves evaluate – “Quality is in the eye of the customer” (Shrader, 1995). In the classical sense, quality is something that satisfies clients’ needs. Deming discussed current and future needs. Crosby talked about agreement with requirements (Oakland, 1995). In Kano’s model there are: attractive quality, one-dimensional quality, must-be quality, indifferent quality, and reverse quality. According to some researchers this model accurately demonstrated relations between the service quality and customer satisfaction (Chen, Liu, Hsu, & Lin, 2010). The term of quality is also directly connected with the idea of quality culture. Here, levels of organizational development are mentioned or business ethics is referred to most frequently (Cameron & Sine, 1999).

In the TQM concept the mere term of quality is the most important, yet anyone who reviews the literature will soon arrive at the conclusion that it is problematic to define what the quality is. Since it is to meet the needs (but the needs happen to be imposed), it is to meet the requirements, to be a continuous element of organizational culture, to manifest itself in organization’s actions, etc. It may therefore be considered that TQM is one of the fundamental organizational values. Quality, as many studies prove, is closely related to other values, such as for instance trust, is dependent from the TQM maturity levels, extent of using quality principles, employed excellence models. In TQM quality plays several crucial roles:

- defines ways of designing and manufacturing goods,
- it is a factor continuously influencing management styles and methods,
- identifies strategic actions (including ways of setting quality objectives).

Analysis of TQM critical factors, i.e. those which are to contribute to economic and social successes, has proven that there are many factors determining efficient and effective TQM. Mostly, among critical factors there are tasks taken by middle level management, training, process management, supply chain management, data quality, reporting, role of quality departments, employees’ relations. Furthermore, TQM involves benchmarking, implementation of quality principles such as employee engagement, customer focus, statistical quality control, etc. (Kaur & Sharma, 2014). Other studies illustrating success of TQM and TPM have proven that success achieved by organizations depends both on technical, organizational and social factors (e.g. employees’ morale, competencies, sense of security) (Kaur, Singh, Ahuja,

& Singh, 2015). In case of TQM its proper implementation is influenced by the following factors: management's commitment, efficient communication, people's adaptation to technical system – work environment, organizational support (Nasim, Iqbal, & Khan, 2014). Moreover, analysis of studies on failures to introduce TQM also provides answers to the question about TQM critical factors. It is pointed here at lack of employees' engagement, lack of quality awareness, inadequate organizational structures, lack of adequate resources (Sadikoglu & Olcay, 2014). Studies so far have shown that without psychological, organizational, resource (including financial) support introduction of TQM is doomed to failure.

It is also worth noting that a large majority of studies is focused on identifying TQM secondary factors without deeper search for root causes of TQM success. For instance, if lack of employees' engagement is involved what factors are responsible for this situation. In order to obtain greater knowledge of TQM effectiveness it would be recommended to reach for results of studies which show the influence of various factors on the discussed engagement.

## 4. Quality in knowledge management

Knowledge management (KM) comprises processes enabling creation, dissemination and application of knowledge for the purpose of achieving organization's objectives (Grudzewski & Hejduk, 2005).

It might seem that quality in knowledge management may be considered from two fundamental approaches. The first one assumes that quality of knowledge determines individual KM processes. For instance, the process of gathering knowledge, its obtaining must take into account the quality of knowledge which will be later used. Secondly, the quality of the entire KM process determines the result, i.e. knowledge quality and further quality of products. In order for this to take place the entire KM process must include evaluation of quality not only of the knowledge but evaluation of quality of knowledge creation, storage, transfer and application. Nevertheless such an understanding of quality is grossly simplified. For different questions can be asked – what determines quality of the KM processes? How does the organization's environment (its organizational atmosphere and culture) impact the quality of KM? There is no separate definition of quality in KM. It is the consequence of the fact that KM has much in common with TQM and sometimes it is assumed that TQM laid the foundation for implementation of KM (Adamson, 2005).

On the grounds of literature analysis it can be stated that quality in KM is not a superior value but plays several important roles:

- it determines the scale of obtained knowledge (e.g. unsatisfied needs trigger new tasks related to perfecting of produce),



- it shapes relations between stakeholders and thus strengthens or weakens KM processes,
- as organizational value it co-decides about organization's success in implementation of KM.

It is worth noting that sole efficiency of KM depends on many factors; for example on the level of organizational trust.

Currently, there is a tendency to combine KM with traditional quality management systems. It is rightly observed that traditional systems do not make use of the knowledge located in the entire organization. For instance, quality management system compliant with the ISO norm only indirectly contains elements of KM. Knowledge about ways of influencing product quality is gathered by means of improvement actions, data analysis, suppliers evaluation, analysis of reasons for non-compliance. Studies provide clear evidence that better business results are achieved where KM has been integrated with QM (Quality Management) (Garstenaue, Blackburn, & Olson, 2014). Research carried out in the public sector has also shown that organizations, which has combined quality management systems with KM are able to achieve better results – higher customer satisfaction level (Brito, Cardoso, & Ramalho, 2010). In healthcare application of KM leads to improvement of services (Orzano, McInerney, Scharf, Tallia, & Crabtree, 2008).

Efforts to combine KM with TQM were made already earlier. It was considered that Knowledge Management fosters innovation and quality owing to the fact that it introduces a certain organized way of creating knowledge, its storing, transfer and application. TQM in turn thanks to systemic and holistic quality improvement has a positive effect also on innovation (Honarpour, Jusoh, & Md Nor, 2012). It is also believed that KM is a concept, which should enhance the quality culture (Stewart & Waddell, 2008).

Some studies carried out in the service sector show clearly that application of KM (knowledge diagnosis, gathering it, generating, sharing, storing and application) strengthens TQM (Aboyassin, Alnsour, & Alkloub, 2011). Use of KM favours service quality improvement, reduces costs, boosts the quality of interactions, advances faster creation of new knowledge (Su & Lin, 2006). Application of KM is directly conducive to quality and perfection in their broad sense because it enhances organization's potential, its ability to achieve quality (Akdere, 2009). To date studies illustrate positive relations between quality and use of KM principles. However, one can ask if such results can be obtained always and everywhere. Majority of studies was carried out in environments, which recognize the value of knowledge (e.g. healthcare, insurance industry, where statistical tools are used and quality data is analysed on an ongoing basis). Positive results are most frequently obtained where TQM concept or normalized quality management systems were applied.

In order to answer this question it is necessary to turn to studies illustrating conditions for efficient implementation and maintenance of KM. For instance,



many studies show that in knowledge management high level of trust is (Renzl, 2008; Ford, 2004; Hoe, 2007; Levin & Cross, 2004). Knowledge management requires adequate organizational culture (Kang, Kim, & Chang, 2008).

## 5. Quality in the internal marketing concept

Internal marketing (IM) was originally defined as a means to manufacture internal products (of work), which could satisfy the needs of internal market (of employees) who are to contribute to achieving organizational objectives (Berry, Hensel, & Burke, 1976). In the studies on internal marketing the mere quality is not defined but rather reference is made to the concept of service quality (Sargeant & Asif, 1998). It is assumed that quality is something, which satisfies employees' needs (Berry et al., 1976) and thus clients' needs. In the IM concept, quality functions as the following:

- as a result of social process (interpersonal contacts), it co-determines the evaluation service quality,
- as a degree of needs satisfaction, it co-decides about employees' tendency to maintain and establish new relations,
- as a degree of compliance with the requirements, it co-decides about development of relations between individual stake-holders (here the problem of increasing demands originates).

Numerous studies prove that IM has a positive impact on service quality (Tsai & Tang, 2008; Opoku, Atuobi-Yiadom, Chong, & Abratt, 2009). Some of researchers believe that internal marketing should be supported with training (Tsai & Tang, 2008). While others see the high value of services in the fact that internal marketing reduces the fluctuation, improves the quality of internal relations (quality of internal services), increases organization's ability to introduce changes (Iacobucci & Nordhielm, 2000). Scientists are convinced that companies of high level of satisfaction are capable to manufacture products of high quality. Goods quality is expected to lead to higher customer satisfaction (Anderson & Mittal, 2000; Shah, 2014).

Importance of IM for quality improvement can be found in the fact that this concept properly implemented has a positive impact on knowledge sharing. For instance, studies carried out in hotel industry show that relations between clients (internal external) positively influence development of employees' competencies and improve the quality of provided services (Yang, 2015).

In the literature it is emphasized that IM does not always contribute to improving quality. The use of IM requires meeting several critical principles, among others, unclear division of responsibilities must be avoided along with situations, which might easily generate role or interest conflicts. Internal communication, feedback

and internally established procedures are also of great importance (Ahmed & Rafiq, 2002). However, cultural factors are regarded as the most important, namely quality awareness expressed as knowledge of external and internal quality requirements, clients' requirements.

## Conclusions

The text analyses the status of quality in five selected current management concepts. Studies carried out by the authors have shown that this status is multithreaded and complex since the status comprises formalizing, efficiency and organizational elements. In general, prominent role of quality has been demonstrated in the discussed concepts.

The second, fundamental result of the studies was to present the influence of applying selected concepts on quality. In this case it was found that this influence is multidimensional and refers to quality in each of its basic meanings, i.e. quality in the market, technical and compliance understanding.

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# Problem of contagion in complex systems

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## Abstract

The escalation of the contagion effect results in many consequences in various spheres of life. The important problem, which looks for further discussion is the impact of centralization and self-learning on the ability to response to contagion effect escalation. The system approach methodology seems to be the most appropriate one to resolve such complex issues. For this reason, a procedure of identification of system amidst contagion was developed. Consequently, it was applied to interpret the multinationals response amidst contagion. The authors suggest that each branch can build its own model of prevention against contagion within the decentralized system. Additionally, it should be based on mechanism of self-similarity and redundancy.

**Paper type:** conceptual article

**Keywords:** contagion, contagion effect, crisis, system approach, self learning

## Introduction

The premiere goal of the article is to identify basic premises and features of contagion in complex systems, focusing on multinational corporations. For this sake, methodology of contagion will be created based on both concepts of contagion it-

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self, as well as system identification procedures and types of contagion. This article sets also methodological framework for future studies both in multinational corporations sector, wider real economy sector, and social systems in general.

The article is based on the thesis as follows: The scope and intensity of contagion effect in complex systems depends on the level of centralization of such systems.

The aforementioned hypothesis is analyzed based on following assumptions and deal with research problems outlined below:

- Having in mind the dynamics of contagion, the conditions in which self-organization is desirable, and conditions where centralization can be justified.
- The advantages and drawbacks of self-organization and centralization amidst contagion.
- The role of self-learning, and its impact on the ability to control and emerging patterns of behavior in the system.
- The inertia, reflexivity as components of self-organization and centralization within the complex systems.
- The concept of absorber within the self- organization process.

The absorber is a category that describes the attraction of agents within the system. The absorber could be a leader, a value system that attracts agents amidst contagion. Learning contributes to alter strategies seeking absorbers.

As for the purpose of the study, the multinational corporation will be defined as a complex system to be analyzed.

## 1. About contagion

The concept of contagion was used by Ricardo who attributed the panic leading to the suspension of convertibility in 1797 to “the contagion of the unfounded fears of the timid part of the community” (Kelly & Gráda, 2000, p. 1110). In 1895, the French sociologist Le Bon wrote that ideas, emotions, opinions that fuel the crowd have the power of influence as germs (Le Bon, 1986). The term “contagion” was rarely used before 1995, after which it occasionally appeared in articles discussing the impact of the Mexican Peso crisis on other countries in Latin America. Use of the term was extremely limited. It was not until Thailand’s 1997 devaluation affected other countries in Asia, and then Russia’s 1998 devaluation affected global financial markets. These events prompted a series of academic papers in the early 2000’s attempting to measure, understand, predict, and prevent international financial contagion (Forbes, 2012).

The review of literature allows us to distinguish two basic approaches to the understanding of the term “contagion”. They involve the spread of financial crises and



imitation of behaviour. As part of the interpretative framework of such phenomena is viral marketing (Stewart, Ewing, & Mather, 2009; Trusov, Bucklin, & Pauwels, 2009), purchasing decisions (Argo, Dahl, & Morales, 2008) or behaviour within the supply chain (McFarland, Bloodgood, & Payan, 2008), the concept of contagion is used in the context of imitating behaviour. The approach to financial markets focuses on the spreading of crises, negative shocks or disturbances (Edwards, 2000; Kaminsky, Reinhart, & Vegh, 2003; Rose & Spiegel, 2009; Forbes, 2012).

However, both cognitive perspectives are sometimes complementary, and e.g. the analyses describing the spread of financial crises take into consideration the imitation of behaviour typical of the “herd behaviour.” An essential strand of analyses undertaken within the framework of contagion is that it intensifies the existing interdependence (Kaminsky et al., 2003; Markwat, Kole, & van Dijk, 2009). It is assumed that contagion is subject to escalation, which is why local disturbances may transform into regional or even global crises (Markwat et al., 2009). Contagion is also defined as the co-movement in excess of that implied by the factor model, i.e. above and beyond what can be explained by fundamentals taking into account their natural evolution over time (Bekaert, Ehrmann, Fratzscher, & Mehl, 2011).

The phenomenon of contagion is also characterised by the fact that the classical mechanism of spreading crises involves investors in a number of countries owning the same assets or applying the same cognitive mechanisms. The latter results in, for example, the panic effect and herd behaviour, which, in turn, facilitate the spread of contagion (Roubini & Mihm, 2011).

The essence of contagion comes down to its capacity to impose its influence mechanism on the affected entities. Within the temporal frame, contagion can be attributed two properties, namely immediacy and rapidity. Immediacy consists in the fact that as soon as the mechanism of influence starts to operate, contagion occurs. Rapidity is tantamount to the intensity of the phenomenon. Its scope may include such attributes of contagion as its high frequency, which refers to the escalation of connections as result of contagion, as well as its capacity to multiply by replication in numerous situations. In terms of contents, contagion is said to be characterised by the surprise effect.

## 2. Complexity

Complexity science has been developing especially since late 1920s, but became more visible in 1968 when von Bertalanffy published his famous book on general systems theory (however, one can also refer to his earlier works, dealing with the issue and starting in 1928). Complexity scientists seek and scrutinize patterns and tendencies in complex systems. For the last few decades this theory has been present also in social sciences (Mesjasz, 2010).

As for the moment, achievements earned within the system approach may be perceived as next steps in explanation of the phenomenon of complexity. Therefore, three stages of development of system theories may be identified. First wave, right after WWII, is connected with development of computers and application of feedback employing machines. Second phase is associated with development of cybernetics and system dynamics, and finally the third stage based on new understanding of equilibrium in discontinuation theories (Anderson, 1999).

General systems' theory, cybernetics, chaos theory, as well as catastrophe theory aim at explaining deterministic systems' behavior. There is a different model of adaptive complex systems explanation. Research in this area suggest, as emerging order stems from interactions at lower aggregation levels (Anderson, 1999). Adaptive complex systems can both affect its environment, and change their structure without external input.

Complexity theory is composed of the chaos theory, dissipative structures' theory, as well as complex adaptive systems theory. Whereas the chaos theory and the dissipative structures' theory focus on general model developing, adaptive complex systems' theory applies multi-agent approach (Burnes, 2004).

Table 1 *Systemic approaches*

Systemic approaches	Research area	Representatives
General systems theory	hierarchy, purposefulness, diversity, morphogenesis, stability, ultra-stability, emergence and evolution, entropy, inputs-outputs, equifinality	von Bertalanffy, Rapoport, Boulding, Klir, Pichler, Miller, Mesarovic, Takahara
Cybernetics	control, information, communication, autonomy, interdependence, cooperation, conflict, autopoiesis, self-organization, self-control, self-reference, self-transformation, complex dynamic systems	Wiener, Ashby, Pask, von Foerster, Zopf, Beer, McCulloch
Dynamic systems	interactions simulation, feedback, role of delays, inventory and flows	Forrester, Meadows, Richardson
Non-linear dynamics theory	bifurcations, attractors, chaos, order	Mandelbrot, Prigogine
Systems' methodology	general system interventions, integrative system methodology	Churchman, Vester, Checkland, Ulrich, Jackson, Schwaninger, Gharajedaghi

Source: own elaboration based on: Schwaninger, 2006; François, 1999; Laszlo & Krippner, 1998.

The changing nature of socio-economic systems have resulted in increasing number, intensity, variability and dynamics of interrelationships within social systems, which, in turn, have led to increased degrees of complexity. This observation

applies especially to dynamic complexity, i.e. the emergence of problem areas within which cause-effect relationships are subtle, and where the consequences of actions are not obvious within various timeframes. These include, for example, situations where the same action causes quite distinct short-term and long-term effects as well as different local and global impacts (Senge, 2000).

When discussing the concept of contagion, we are dealing with the classic problem related to epistemological complexity of social systems. In particular, their semiotic complexity results from our capacity to imbue every piece of information with a theoretically infinite array of meanings, whereas semantic complexity stems from the fact that interpersonal communication depends on language and culture, which are inherently ambiguous and subjective. This is reflected in the notion of linguistic uncertainty that consists in the fact that linguistic entities do not adopt numerical values, but are composed of words, sentences and expressions. For this reason, the scope of semantic fields of information is variable.

### 3. Methodology

Authors focus on developing an analytical model, starting from identification of complex systems, concluded with system analysis itself (Cempel, 2008; Skyttner, 2005). A classical procedure of system identification will be implemented, as described below (Figure 1).

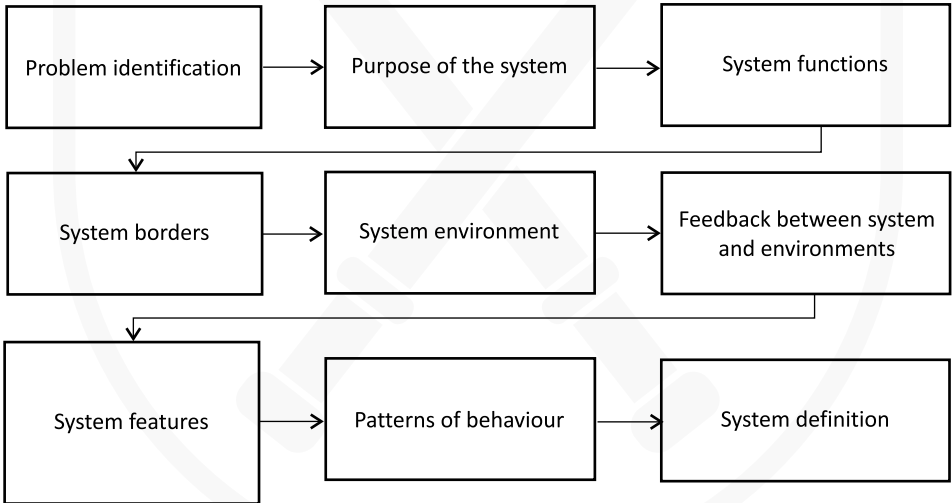


Figure 1. *System identification procedure.*

Source: based on Wyciślak, 2013, p. 117.

This will be followed by the procedure of analysis of the complex system in contagion, based on the initial model, shown below.

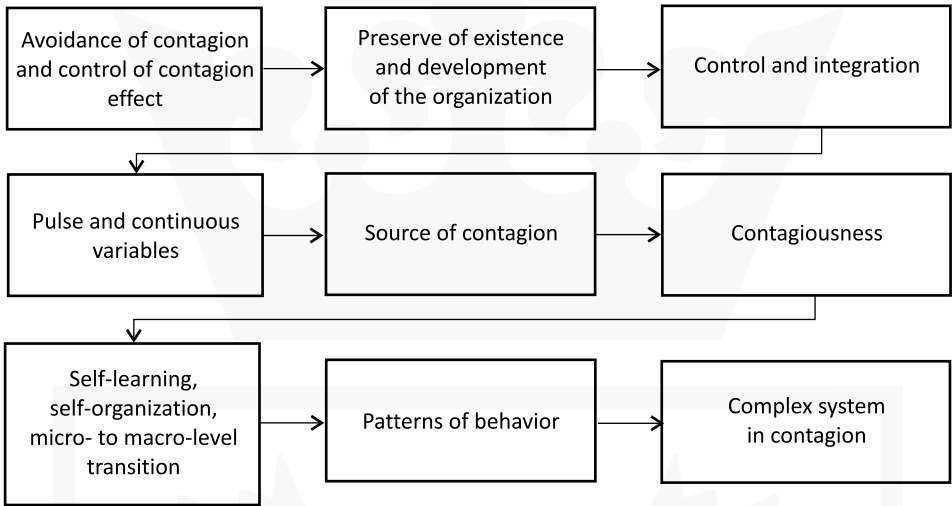


Figure 2. *Complex system in contagion.*

Source: based on Wyciślak, 2013, p. 51.

#### 4. System identification

For analysis of contagion in the complex system it will be crucial to understand mechanism behind self-learning, self-organization, micro- to macro-level transition. This, in turn, will pave the way to construction of different patterns of behavior within the system (Figure 3).

Leaders emerge in a variety of contexts and dimensions. Values, goals, leaders, cultural identity are interrelated and evolve. Subjectivity of agents provides a framework for the constitution of the absorbers. The subjectivity of agents is determined to the large degree by perpetration and reflexivity. At the same time, the level of awareness of agents is determined largely by reflexivity. Reflexivity of agent makes the tensions during the attraction. Tensions between absorbers and agents can be divided into substantive and emotional. On the other side, with the low levels of reflexivity, agents are inertial. By including reflexivity and inertia, we obtain various variants of modules constitution (Figure 4).

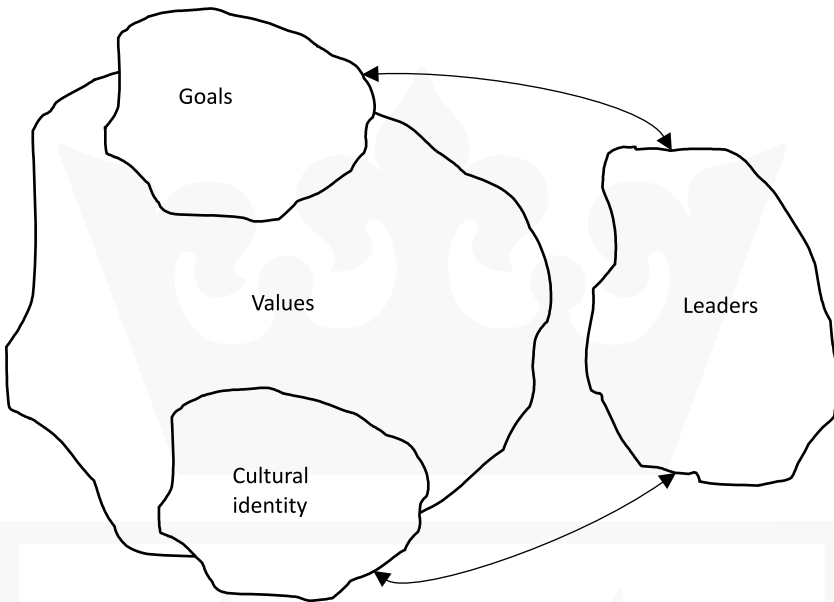


Figure 3. *Leading absorbers within the self-organization process.*

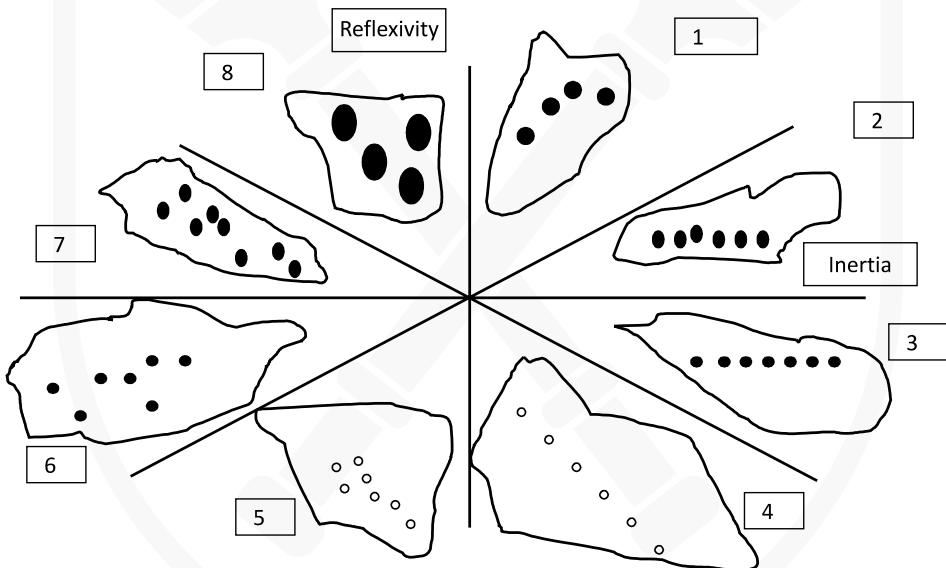


Figure 4. *Matrix of modules as effects of self-organizing.*

By high reflexivity level and relatively high inertia level, agents question leaders' rules, however due to the ad hoc needs for security they are on the trajectory dictated by the leader (1). By relatively high reflexivity level and high inertia level, the pattern of behavior follows the successive actions slightly deviating from the leader values (control norms) (2). By relatively low level of reflexivity and high level of inertia, we are dealing with an ordered set of actions (3). By low level of reflexivity and relatively high inertia level, there is an ordered set of actions of low level of consciousness (4). By low level of reflexivity level and relatively low level of inertia (5), there are actions that don't follow leader values (control norms), however they are of random, indeterminate character. By low level of inertia and relatively low level of reflexivity (6) there is an increasing number of activities of random character, not determined by leader. By low inertia level and relatively high reflexivity level, actions are increasingly conscious, which means an increase in potential of going beyond trajectory determined by values set by leader. By low inertia level and high reflexivity level (8) there is a set of activities of high degree of awareness, which define and implement own domain or in a conscious manner follow values set by the leader.

Researching reflexivity and inertia of agents will result in identification of emerging patterns of behavior. The role of reflexivity and inertia within the casual loops (feedbacks) between agents and absorber will allow us to answer how emerging patterns of behaviour evolve on the back of self-learning process.

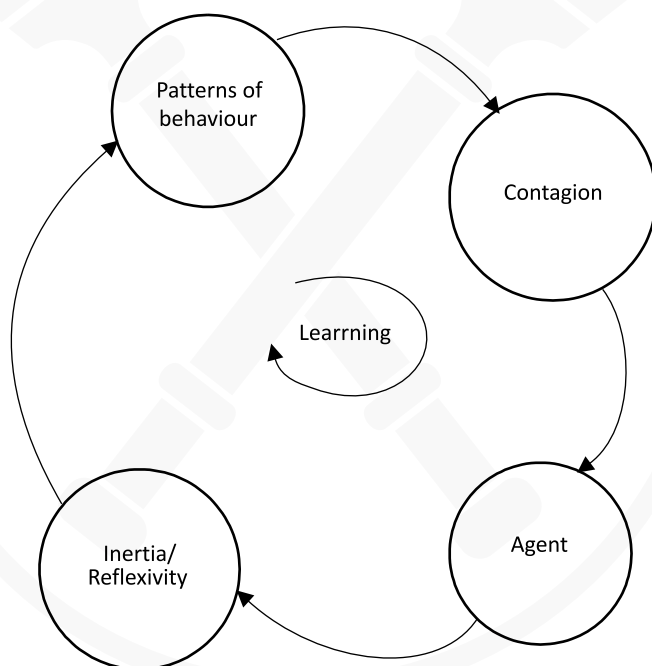


Figure 5. *Casual loops agents and absorber and self-learning process.*

Agents learn from the widespread of contagion effects and alter its attitudes (ratios of inertia and reflexivity), which in turn results in new patterns of behaviour. Emerging patterns of behaviour mean various levels of centralization in complex systems.

## 5. Centralization

From the system approach perspective, the centralization/decentralization problem is discussed by including optimization and suboptimization principles. When the whole system optimum prevails, not all subsystems are at their optima. As a result, it is hard to expect that the sum of subsystems' optima will necessarily lead to the total system's optimum. In other words, if the subsystems suboptimize but work towards the whole systems optimum, they will in aggregate reach a better total system optimum than if each tries to optimize its own system separately. The principle of suboptimization means that when the individual subsystems optimize its actions, the whole system doesn't work optimally. There is no contradiction in promoting on the hand, solutions worked out on a centralized basis, and on the other, implementation carried out by the decentralized decision units (van Gigch, 1991).

For example, in business practice, there are cases that the period after 27<sup>th</sup> day of the month sees 25–30% of the total monthly sales. It comes from the separate goals followed by subsystems including sales, marketing, finance, logistics. Whilst, the primary goal for the sales department is sales growth, the reduction of costs and fuelling the distribution centres and vehicles is the main goal for logistics.

## 6. Practical implementation

Based on Figure 1 (system identification procedure) we may briefly construct an analytical model for multinational corporation in contagion. There is a set of approaches towards the system itself, multinational corporation-centric approach will be taken into account in this paper. Therefore multinational corporation will be analyzed as a system. Problem identified here is naturally the contagion in complex system (being a multinational corporation), but at this stage the corporation itself, especially its structure is analyzed.

The purpose of the system in case of multinational corporations is bringing benefits for both shareholders and building fair relations with stakeholders. In case of shareholders, the research focuses mostly on financial benefits from stocks (increased value, often short-term and dividends). As for stakeholders it is more complicated. For one thing, the fair relations are hard to quantify, for another are of very high complexity levels.

As for system functions, components, interactions and structure, should provide profits/benefits for both shareholders and shareholders, but also preserve the system itself, providing its development. It means the ability to control and integrate internal activities.

System borders are marked with the legal structure of the corporation – we presume, legal entity, known as multinational corporation is a system to be analyzed. For this purpose the environment is multidimensional, including economic environment (financial, fiscal, monetary, etc.), social environment, as well as political environment. Feedback between system and environments is provided both by stakeholders, and it includes among others contracts, informal relations, and by set of incentives like regulations (from political environment), access to capital (from financial environment), etc. When it comes to contagiousness control, one of the key focus should be on protecting reputation for example as a reliable partner with which to trade.

Based on the aforementioned system features include self-learning mechanisms, self-learning, self-organization, micro- to macro-level transition.

The very core sense of systems features is micro – to macro transition. Resilience helps navigate the agents patterns of behavior. Equally, a resilient system is better able to translate the energy and engagement of its agent into immunity to contagion.

Patterns of behavior depend on system operation. There is a set of models of system operation, generally associated with models of multinationals centralization starting from centralized system (usually associated with multinationals, having headquarter in one country where the key decisions are taken and branches in other countries) to network structure (where hubs play the pivotal role, i.e. Logistics hub, R+D hub, the Operational hub, headquarter-hub). Multinationals only apparently follow the decentralization processes, by transforming themselves into network organizations. In reality, multinational corporations became integrators within value chains, and access to unique knowledge is the theirs' key competency.

Therefore, system, understood as a multinational corporation should be defined as set of elements, interactions and structures, separated from the environment (all what is not-the-given multinational corporation), however facing feedback from the environment because of stakeholders and regulations. System aims at providing highest possible profits for its shareholders and build fair relations with stakeholders, adjusting its patterns of behavior thanks to self-learning mechanisms.

Based and Figure 2 (complex system in contagion) we can refer to a set of events understood as contagion in a complex system of multinational corporation. Presuming the fact both system and the environment are in equilibrium, system of multinational corporation created set of mechanisms preventing from contagion and controlling contagion effects. In case of lack of the equilibrium our given system of multinational corporation tries to use this mechanism as the first step and primary defense mechanism. In case, it's impossible the next step is securing vi-



tal interests, hence existence and future development of the multinational corporation. For this sake mostly cost-reduction policy is applied, with different approaches, including reduction of non-profit operations, reduction of fixed costs, reduction of personnel, sale of lower-performing branches and outsourcing or outsourcing of certain processes. All of aforementioned aims at control and integration of company and contagion effect (including constant analysis of pulse or continuous variables). Source of contagion should be identified (either internal or external, it can affect all branches, all hubs, certain products, certain branches, the whole company). Based on those, we can assess the contagiousness of given operations/branches/products and react precisely where contagion effect is strongest. Self-learning mechanism supports multinationals in building better mechanisms supporting contagion-avoidance for the future, including proper patterns of behavior.

### Discussion and conclusions

The final stage should answer, to what extend centralization (or central control) in complex system influence contagion effect and what is the role of self-learning mechanisms in preventing future crises.

Having in mind, both system identification procedure, but especially complex system in contagion and self-learning mechanisms, we may conclude as follows. If the multinational corporation system is decentralized, each branch can build its own model of prevention against contagion. However, it should be based on mechanism of self-similarity and redundancy.

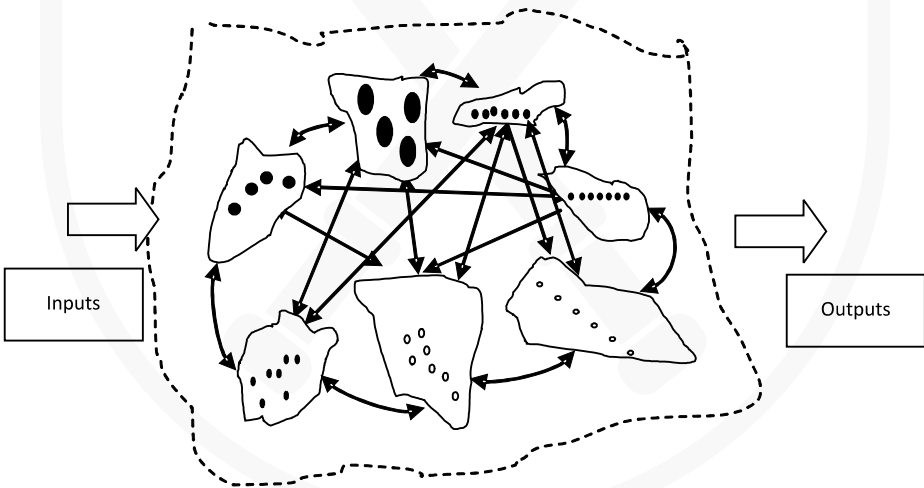


Figure 6. *Multinational corporation as a complex system (modules of various behavior patterns).*

In the case of global crisis, different branches are usually affected to different degree. In case of external source of contagion (like financial markets, limiting access to cheap credits), most branches may be affected. Such a global crisis is usually unlikely. In the second stage, however, certain local branch, can introduce self-organization, responding to the crisis and the model may be applied by other branches or each branch may create its own model (see Figure 4). Naturally, such a development requires relatively high level of reflexivity, hence at least operational level of management in a given branch.

In case of regional or given market crisis, this mechanism is even stronger. Hence, presuming each branch in decentralized structure may operate as an agent, possessing tools for high reflexivity, self-learning mechanism is faster and more efficient. Having this in mind, we may presume, decentralized system (as depicted in Figure 6) may react on inputs (bringing contagion) in a more efficient way than centralized system, with higher level of inertia. The best structure for the decentralized system, which is resistant to contagion, is fractal simultaneously cross-functional and has redundancies. The absorbers play the crucial role in ensuring and sustaining abovementioned structure.

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# The impact of the exhibitor's cultural context on the use of forms of communication in the management process of the exhibitor's participation in fairs

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## Abstract

The purpose of the article was to analyse the impact of the exhibitor's cultural context on forms of communication used by exhibitors participating in fairs on culturally different markets. The article characterizes contextuality as a criterion for division of national cultures according to the E.T. Hall model and fairs marketing communication tools. Next, the analysis covers impact of cultural context on communication forms applied by exhibitors. Examples of fairs presentations of exhibitors representing cultures of high, medium and low context have been described. The paper characterizes similarities and differences between the used forms of communication. Finally, strategic implications are indicated for entities including trade fairs in their communication process with their stakeholders.

**Paper type:** research article

**Keywords:** trade fairs, exhibitor, Hall's model, contextuality of culture, fairs marketing communication

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## INTRODUCTION<sup>2</sup>

It is a significant element of fairs' presentation to plan various forms of marketing communication for use. For in order that communication tools can efficiently support achievement of set fairs objectives, their form should be adjusted to the expectations of the recipients. At the same time exhibitors must identify themselves with the chosen tools in order to apply them in a natural manner. The used content and forms of communication differ in many areas and cultural specification is one of the key determinants for introducing modifications in the communication process. Literature on this subject lists numerous available typologies of culture, yet the present work limited to presenting and analysing one of the culture dimensions which is the importance of context in reception of conveyed contents according to the Hall concept.

The issue drafted in the subject concerns three material scopes. The first one refers to the cultural context as an imminent quality defining each market entity, including exhibitors and visitors of fairs. The second area embraces forms of marketing communication used by exhibitors in the process of managing their participation in fairs. While the third scope covers the issue of communication at fairs in cultural context. In case of cultural differences the standardization of the message poses the threat of inadequate decoding of the communication by the recipient.

The given material scopes constitute components of the problem of coding fairs message of exhibitors including cultural conditions. The present problem contributes to the qualitative analysis of forms of marketing communication of exhibitors functioning in the area of national cultures of different contextual levels. The subject of cultural differences is quite often tackled in the literature of the subject and enjoys great interest among the recipients. However research results available in the literature prove further need to improve intercultural competencies in terms of business communication experienced by representatives of many cultures (Budzawska-Drzewiecka, 2014).

The purpose of the article is to analyse the importance of cultural context for communication forms applied in the process of management of participation in fairs. In the article contextuality of communication was characterized as a criterion for division of national cultures according to the Hall model and then its impact on communication forms applied by exhibitors was analysed. In the research process, examples of fairs presentations of exhibitors representing cultures of high, medium and low context have been demonstrated. What is more, similarities and differences between the used communication tools were characterized and implications were identified as strategic for entities managing their participation in trade fairs.

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<sup>2</sup> AGH statue research; work no. 11/11.200.271.

# 1. Contextuality as criterion for division of national cultures

Culture is a very significant element of the process of reception of the surrounding reality for all subjects comprising it. Therefore, in the course of history it has been the subject of numerous analyses and studies. It was particularly challenging to find criteria allowing for more precise identification of culturally homogenous groups and to highlight the existing similarities and differences. Subsequent researchers systematized existing cultures improving previously functioning models. At present, there is a great number of them both in literature and market practice, yet as cultures keep evolving new models continue to be created. On the basis of prior classifications of cultures Winkler (2008) lists 25 dimensions of division. While in the Trompenaars and Hampden-Turner model the authors singled out seven such dimensions (2002) and in turn Gesteland (2000) identifies four main criteria of divisions and Hofstede writes about five dimensions of culture (Boski, 2010). Currently, the output of earlier models feeds into the continuously developing GLOBE model (Komor, 2013) where nine dimensions have been singled out. The wealth of these typologies mirrors the complexity of cultural aspects which can be encountered in the course of analysis of marketing communication. The present paper however is limited to the context of message as a dimension of culture presented in the Hall model.

Non-verbal behaviours are one of the typological dimensions proposed by Hall (Białas, 2013). As part of this division he distinguished two extreme dimensions of this parameter: high and low context.<sup>3</sup> Hall noted that context is a very important barrier in the communication process for representatives of different cultures. It consists in the degree of use of symbols, metaphors, signs and saying which have certain significance for a specific cultural group (Bartosik-Purgat, 2010). The contextual model Hall put forward in 1960 presents two types of communication: communication of high importance of context in reception of message and communication of low importance of context in reception of message.

According to Hall in high-context cultures most of the information conveyed in the process of communication does not fit into the code of direct message but is included in indirect non-verbal message comprising many allusions and subtexts (Szymura-Tyc, 2012). While low-context cultures are characterized by open communication based on direct message and characterized by disambiguation and directness of content. Nomenclature of these forms of communication also uses terms unambiguous communication and ambiguous communication (Hall, 1984). Unambiguous communication is regarded as emotionally neutral, deprived of expressive intonation or various allusions. It is assumed that accurate presentation of facts is its purpose, while ambiguous communication refers to shared experience

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<sup>3</sup> When creating the new model he used the existing division into Western and Eastern culture with which he largely agreed. The model he authored was to develop and complete this concept.



and feelings, makes use of humour and vague verbal associations thus creating impression of wealth of emotional relations.

According to Hall the level of contextuality concerns not only the manner of communication but also forms foundation for all behaviours. Therefore as part of high-context cultures the content of a given culture is recorded in its customs, strangers are clearly separated from members of own group, more is expected from others and communication is based on intuition. Representatives of low-context culture express individualistic message with the use of unambiguous words and gestures (Mikułowski-Pomorski, 1999). Among high-context states Hall listed above all South American countries and considered United States, Germany, Holland and Sweden low-context countries. Later, researchers distinguish also intermediate cultures (Mikułowski-Pomorski, 1999), also called medium-context cultures (Chlipała, 2010). Among them there are Central American countries, France, Great Britain, Italy or Spain.<sup>4</sup>

High-context communication accompanies pro-partnership cultures. In these cultures it is of great importance not to offend interlocutors, or even by accident make them feel perplexed. High-context communication is entirely subjected to the principle of harmony so significant for members of pro-partnership cultures that they almost resigned from demonstrating negative feelings.<sup>5</sup> High-context serves to camouflage irritation, anger or impatience demonstration of which is here substantially tactless. Low-context cultures in turn with regard to the communication dimension are identified with pro-transactional cultures where honest and direct manner of expression is something natural serving good understanding of both sides.<sup>6</sup>

In high-context cultures much emphasis is on aspects related to professional and social position. Moreover, high degree of ritualisation of interpersonal relationships can be noticed there. Typically, professional and academic titles are used. In these cultures social interactions are to a certain extent conservative. While low-context cultures are characterized by a far lesser ceremonialism and ritualisation. Social and professional positions are not stressed so much. Representatives of low-context cultures relatively quickly start calling their business partners with their first name.

Business practitioners believe that communication process with members of high and low context cultures require thorough preparations. One of the areas is se-

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<sup>4</sup> Naturally, this division is very conventional as the level of contextuality of each national culture is different and it is difficult to clearly divide them into two or three groups, therefore both Hall in his model and later researchers of the subject create a continuum of national cultures due to their contextuality. The second argument partially question validity of the given examples is evolution of national cultures and necessity to include their changes in subsequent schemes while the given examples are often automatically quoted after first Hall's concept in later works on cultural contextuality when in fact reality undergoes some changes.

<sup>5</sup> By Zenderowski and Koziński called "broad" (2012).

<sup>6</sup> By the above given authors called "cultures of open expression" (Zenderowski & Koziński, 2012).



lection of experienced interpreters who not only proficiently know languages of the interlocutors but who can reflect the context of given statements so that the interlocutor receives the actual message instead of literal translation of reply.

When analysing the Hall model, it can be concluded that communication of representatives of various types of cultures will be hindered as interlocutors will continuously face differences resulting from domination of different contexts (Mikułowski-Pomorski, 2012).

## 2. Marketing communication tools used by exhibitors

Each enterprise undertaking participation in fairs sets different fairs objectives depending on the market situation it operates in.<sup>7</sup> It is not possible without professional communication. Company presentation at trade fairs means not only product offer but also, or rather above all, marketing communication tools allowing to accurately impact all stakeholders.

It is obvious that in order to achieve set objectives companies must use a series of different tools. The most popular tools for marketing communication applied in the process of management of participation in fairs are (Søilen, 2013):

- forms of writing,
- multimedia materials,
- activities undertaken in connection with company's participation in fairs.

Forms of writing accompanying participation of an organization in fairs can be divided into periodical materials prepared for a specific trade show. Among periodical publications there are, inter alia, annual reports, prospectuses, product catalogues, price lists, etc. At the same time, the mere presence at fairs must be strengthened with media presence and participation in fairs events, i.e. forms of writing dedicated for a given show must appear, that is: advertising articles (sponsored), press releases, letters, invitations and most ordinary fliers inviting to fairs events organized by a company etc.

Multimedia materials are another significant element supporting company's presence at fairs. These materials can be presented at a stand or in other points of fairs space; they can be given to the visitors or published in various media when presenting the fairs. It will take place before, during and immediately after company's participation in fairs. Content of multimedia materials may go beyond core production or services activities of a company or corporate social responsibility and present various employees' initiatives etc.

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<sup>7</sup> A number of proposed objectives to achieve at fairs is included in monographs on trade fairs such as (Gębarowski, 2010) and fairs manuals (Izba Rzemieślnicza oraz Małej i Średniej Przedsiębiorczości w Katowicach, 2000).

Measures taken by a company on occasion of participating in fairs, both in the fairs area and outside it, offline and online, constitute by far the widest array of forms of marketing communication for company participation in fairs (Prenzel, 2010). It is not possible to list them all, yet among the most significant ones in the real world (offline) there are: press conferences, equipment demonstrations, competitions accompanying product presentations and sale, concerts, visits of prominent guests and various activities in the virtual world (online) both on own website, various services and forums as well as social media (Jinlin & Xiaoqin, 2004).

### 3. Methodology

Research material forming the foundation for conclusions drawn in the present article has been collected in the course of analysis of reports from fair events all over the world posted in secondary sources (both online and offline) and eight individual interviews carried out with representatives of exhibitors who participated in trade fairs in the area of analysed national cultures.

Qualitative analysis included preparation for presenting companies at fairs, scenarios of their participation in fair events and used forms of marketing communication. Due to the limits of the size of the article it presents only single examples of cultures representing a given context, fair events from this area, as well as companies exhibiting at the given fairs.

Since selected cultures are illustrated from the point of view of exhibitors at trade fairs, the popularity of exhibition events from individual countries was chosen as the criterion for selecting analysed examples. On the European market most fairs events is organized in Germany, then in Italy. While globally Germany takes third place in terms of the exhibition space (PIPT, 2013). Therefore German culture has been selected as the example of low-context culture.

With respect to the owned exhibition space high positions are taken also by (UFI, 2011) Spain (6<sup>th</sup> place world-wide) and Brazil (8<sup>th</sup> place in the above quoted listing) which at the same time represent remaining cultural contexts from Hall's model. Each of cultural contexts distinguished by Hall is represented all over the world by many national cultures. However, based on analysis using trade fairs as a marketing tool it has been assumed that examples of marketing communication will derive from Germany as a low-context culture, Spain as medium-context culture and Brazil as a representative of high-context cultures.

#### 4. Communication forms used in the process of management of participation in fairs on culturally different markets – research results

Qualitative analysis was mostly focused on the question how communication context of a given culture impacts the character of marketing communication of an exhibitor at fairs. Examples of communication forms that were the subject of analysis include posters advertising participation of exhibitors in fairs in countries from an area of a given national culture.



Figure 1. *Invitation to a presentation at fairs in Germany – low-context culture.*

Source: [http://www.lac.cz/img/pozv\\_\\_nka\\_anglicky.jpg](http://www.lac.cz/img/pozv__nka_anglicky.jpg) [accessed: 20.06.2015].



Figure 2. *Invitation to a presentation of Microsoft at fairs in Spain – medium-context culture.*

Source: <http://techcovermania.com/wp-content/uploads/2015/01/Expo-Electronica.jpg> [accessed: 20.06.2015].



Figure 3. Poster advertising Polish Ministry of Economy at fairs in Brazil – high-context culture.

Source: [http://old.mtp.pl/all/pl/news/polskie\\_firmy\\_branzy\\_stoczniowej\\_i\\_offshore\\_w\\_brazylii/](http://old.mtp.pl/all/pl/news/polskie_firmy_branzy_stoczniowej_i_offshore_w_brazylii/) [accessed: 20.06.2015].

When comparing these examples, I noticed that the least direct and clear information is stated on the poster from Brazilian trade fairs. The elements identifying the Ministry, or the European Union, are presented with very small fonts and simultaneously the venue of the event is not given.<sup>8</sup> The poster also has captions in Portuguese *Investimos no seu futuro* (We invest in your future) and *Vá com a gente para o mar* (Cross the sea with us) which very vaguely invites to co-operation. Full reception of the message requires concentration and engagement on the part of the audience.

The poster inviting to fairs in Düsseldorf does not provide too many elements. It simply informs where and when the given event takes place (where the exhibitor can be found) and which industry will be participating – the exhibitor did not at-

<sup>8</sup> NAVAL SHORE fairs in Rio de Janeiro – exhibit event for shipyards and offshore.

tempt at any too original way of presentation and at the same time did not leave anything unclear and thus no space for imagination.

In turn when looking at the poster advertising presentation at Spanish fairs it is difficult to identify elements explicitly matching high or low context; it is medium. On the one hand there is quite a lot of unambiguous information indicating low context of the message and yet on the other one there are graphic elements giving space for imagination.

When comparing the content of the posters illustrated by Figures 1, 2 and 3 it can be noticed that exhibitors dedicate them to the recipients coming from national cultures.<sup>9</sup> These are cultures which demonstrate different levels of contextuality.<sup>10</sup> Location of fairs was the criterion for selection of the dominating context. It can be assumed that among trade visitors representatives of the local level of contextuality are in majority and the assumed criterion for selection and evaluation can be regarded as correct.

Naturally, the character of writing forms is not the only noticeable difference between participation in fairs in areas of various contexts. Similarly stands themselves can differ, as well as behaviour and look of fairs staff, and way of carrying out planned fairs activities.<sup>11</sup> It is frequently the result of individual personal qualities and not only of cultural context from which a given representative of exhibitor originates. Differences might not be easy to spot at first sight but it can be assumed that in a stressful situation, e.g. many visitors, the original qualities of personnel culture can be more observable.

Therefore it can be supposed that in German fairs, in compliance with the nature of low-context culture, the exhibition displays will be more composed than others and are more rational and orderly.<sup>12</sup>

The high context of Brazilian culture allows for predicting that fairs organized in Brazil will include more non-verbal forms of communication than those representing low-context cultures. When working on information materials for this kind of events one needs to remember to make them more vast and enriched with purely esthetical elements to meet the high-context expectations. It is also necessary to be aware of the fact that this culture group interprets non-verbal behaviour of the interlocutor to the greatest extent which sometimes might lead to misunderstandings.

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<sup>9</sup> Sometimes despite in compliance of exhibitor's cultural communication model with the location of the presentation posters prepared by the company included cultural expectations of fairs visitors.

<sup>10</sup> Obviously, at each of the mentioned fairs there are both exhibitors and visitors from different cultures, yet as a rule participants from the cultural area of the fairs organizer form a large majority.

<sup>11</sup> In this area, changes are restricted by the visual identification of a company which does not allow full freedom with respect to this area of decision making.

<sup>12</sup> Nowadays when observing German exhibitors at various fairs in Poland one can notice a greater distance and more serious approach towards fairs visitors than in case of Polish exhibitors. Sometimes it is manifested also in smaller openness towards the visitors and providing laconic information what can also originate from the low context of this culture.

It may be assumed that as part of fairs presentations organized in medium cultures there will be the smallest number of activities matching extremely high or low context. One can presume that from the point of view of representatives of all cultures these events will be most acceptable for fairs visitors who even if they do not identify themselves with the culture represented at fairs, they will not, at the same time, encounter extreme behaviours which are surprising or unacceptable for them.

The above conclusions result from analysis of a narrow section of fairs reality and require confirmation in further research. However, already at this stage attracting attention to these issues in the process of management of company participation in fairs on culturally different markets will enable the companies to better prepare for these events and thus increase efficiency of their impact on exhibitor's market position.

## Conclusions

The exhibitor's preparation for participation in fairs is a very complex undertaking. Literature lists a series of factors to be taken into account when planning such activity (Tanner, 2002). Currently, with the increasing the level of competitiveness on the market expectations from fairs presentation are growing too. In order to accomplish its fairs, objectives a company should comprehensively prepare for participation in fairs and include in this process a number of various aspects. The level of cultural context represented by the audience of prepared communication is one of the factors which may influence the preparations and behaviour of exhibitor at fairs.

The purpose of this article was to analyse the impact of cultural context of exhibitor on communication tools used in the process of managing their participation in fairs.

In the course of literature studies and qualitative analysis of materials obtained from online sources and directly from exhibitors it has been found that the cultural context of a given collectivity differentiates the method of communication of its representatives and tools used in the process of marketing communication. It has been noticed that communication forms used by exhibitors at trade fairs match the cultural context they are placed in.

In summary it should be assumed that in the process of exhibitor's preparations to fairs presentation cultural context, where the given fairs are placed and which is represented by the majority of fairs visitors, is a very significant element. It will substantially impact the character of preparations. Yet, professional staff of fairs stand should be able to adapt their service of visitors to their reaction and behaviour ad hoc as they show up. Nevertheless, a vast part of materials is prepared in advance and it is necessary to be able to anticipate audience reaction before they

come across these materials. Knowledge about the contextuality of recipients will be also very helpful when planning various fairs activities combined with the presence at fairs. Depending on the dominating cultural model companies may apply different tools.

The full standardization of fair presentation and communication forms used by some organizations constitutes a major threat for achieving objectives set by the company (especially in case of contact with representatives of extreme cultures from Hall's continuum). Therefore, it is required to modify fair activities carried out at different fairs. The level of changes should depend not only from differences in fairs objectives but also from the cultural context where a given event is located.

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# The existential problems of management

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## Abstract

The aim of the article is to describe the existential aspects of management, as the manager often deals with a situation of subordination of his/her internal (spiritual) world to external circumstances. The manager must first master the skills of control over his own state of mind, and then try to understand the spiritual world of managees. Managerial work involves stress, mental strain, and often unpredictable situations. Introspection, awareness of the selfhood, individuality and selfness – this is the path of the manager to himself. The aim of the article is also the study of the basic directions of the managers' activity, that are not investigated in the current scientific literature on the theory of management, and the evaluation of the necessary and logical actions in his particular situation. Hence, it may be stated that the existential theory of management shows the way of successful managers, creating themselves through own existential choices and actions resulting from them. The existence and activities of managers are limited by situational nature, and success or failure, conflict and struggle, guilt and death, present in all of their actions are an unavoidable part of such a situation.

**Paper type:** conceptual article

**Keywords:** existence, management, fear, freedom, success, situational limitations, communication

## Introduction

The relevance of the study of existential aspects of management is determined by the actual situational circumstances managers deal with in their activities. The aim of the article is to describe this existential aspects of management, as the manager

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often deals with a situation of subordination of his/her internal (spiritual) world to external circumstances.

Emerging with that contradictions lead to stress, conflicts with colleagues and subordinates. Therefore, the result of the managers' activities to a large extent depends on whether they are ready to deal with problematic situations of moral and psychological nature, and thereby achieve the expected success. Perhaps the most extensive study in this regard of experience of hundreds of famous and successful American entrepreneurs-managers of the late 19<sup>th</sup> century – early 20<sup>th</sup> century was done by Hill (1883–1970). He began his work rather in the spirit of American pragmatism, *Think and Grow Rich* (1925). However, as he gain life experience the best-selling author evolved in the direction of understanding the ethical and existential components of Corporate Business activity in the book *Grow Rich! With Peace of Mind*. The third stage of his observations resulted in the work that has deep philosophical and occult-mystical roots, *Success Through a Positive Mental Attitude* (Hill, 2002). The existing literature provides some idea of the existential component of management, though not considering it important. Meanwhile authoritative ideologues and practitioners of management Ford, Gastev, Yalom, Odiorne, etc.; existentialist philosophers Jaspers, Heidegger and others and a number of writers paid attention to the importance of a sense of responsibility, confidence, guilt and freedom in the activity of the manager. They considered the managerial activity, in which there is good luck or bad luck, conflict and struggle, guilt and death, from different perspectives. Modern managers are conscious of social responsibility for the correctness of their actions to themselves, their family, company and in general to the society.

## 1. Existential background of management

What is management? It is a process, in which a person acts as a subject vested with certain authority or assumes responsibility himself. The object of management can be either a man or a machine in its various manifestations, or the environment, or the political process.

Thus management is a phenomenon that is related to the person. Where is the beginning of the existential situation and how it can manifest itself in the life of an executive and a manager? The existential situation is connected with the inner spiritual world of people. Therefore, the manager must first master the skills of control over own state of mind, and then try to understand the spiritual world of managers. Managerial work involves stress, mental strain, and often unpredictable situations. Introspection, awareness of the selfhood, individuality and selfness – this is the path of the manager to himself. Obviously, few people know about it, and even fewer want to work their way up. For on this path there are questions about the

meaning of life, death, responsibility, despair, fear, guilt, loneliness, freedom, etc. Existentialist philosophers Kierkegaard, Shestov, Berdyaev, Sartre, Camus, Jaspers, Heidegger and others raised these issues in the context of the universal human perception of the world. Among the researchers of the issue we can name American scientists Yalom (born 1931), Odiorne (1922–1992), Swiss existential psychologist Binswanger (1881–1966) and others.

While studying the managers' activities, it is important to pay attention to the circumstances and factors that inspire or disarm them. To a large extent the behaviour of managers is influenced either by the passion for moneymaking and personal wealth enhancement, or the desire to creative self-fulfilling, to satisfy their ambitions, or common sense, more or less harmoniously combining the above mentioned. Hence, it becomes possible to classify managers, according to their interests and moral preferences.

Does a successful manager care about fame, honour and favours from colleagues, ordinary people and the media? Obviously, they care about the worldly glory: some write extensive memoirs, manuals and instructions. It is no surprise that this glory is fleeting, as evidenced by the history of business, in the memory of which there remained those who appear today in the brand names of Ford, Mercedes, Rockefeller, etc.

Fołtyn (2008, p.103) notes: "As well as the organization theorists and perhaps, most practitioners are wondering what the leaders, managers, directors, chief executives do. The simple answer is then that they direct, supervise, manage and make decisions that obviously does not explain anything, on the contrary, there are innumerable concepts on this topic." It turns out there are a lot of concepts about the function of leaders, of these Fołtyn distinguishes eight ones, but anything like the existential aspects of management is never mentioned among them. In the later work, she writes about the principles and methods of analysis of managers as such (Fołtyn, 2009). But even here, the point at issue is manager labor time, the time, which is the fourth dimension, the element of space-time and the basis of many theories, but not an existential dimension of human existence.

In modern scientific literature on management theory the main directions of the management activities, necessary and logical actions in particular situation are adequately described and substantiated. The very argumentation system is based upon the category of necessary, omitting the casual (fortuitous). However, in the history of philosophy from Aristotle to Hegel, the problem of necessity – casualty was urgent. It can be said that the theory of management follows Aristotle, who believed that fortuitous is hidden from the human mind, "So, casual or circumstantial – that is what though happens, but not always and not out of necessity, and not for the most part. Thus, what is circumstantial or accidental, it is said, and why there is no science of it is clear: after all any science explores that always or for the most part exists, whereas the casual does not belong to one or the other" (Aristotle, 1976, p. 287). Shestov (1993, p. 19) adds: "Besides that fortuitous is hidden from human

mind, – fortuitous does not exist to our mind, and it goes without saying, it cannot be the subject of scientific knowledge.”

Specific reference to the existential situation in the context of casual was made by Mintzberg (2005, pp. 8–9): “When you ask managers what actually they do, most plausible reply will be that they plan, organize, coordinate and control. Try, however, to observe that in fact they do. Do not be surprised if the result of observation in no way coincides with the responses received. Let us consider such hypothetical situation: the manager finds out that the factory was burned down, and then he recommends his employees to check whether it is temporarily possible to make deliveries to customers through foreign subsidiaries. So does that manager plan, organize, coordinate or control? ... These four words that dominate in the management vocabulary since 1916, when they entered the lexicon of the French industrialist Henri Fayol, tell us a little about what is actually involved in management.”

As for the activity of managers, the existential component of them as a number of others is poorly studied, so Mintzberg (2005, p. 9) says ironically: “What do managers do? Even they do not always know it.”

## 2. Types of managers and some unique existential implications

In order to better understand the situation, let us consider some socio-historical types of management and relevant manager patterns.

The first pattern is from our not a long-ago Soviet past. This is an image of executive – a Soviet employee working in the administrative system, characterized by a certain cultural-historical type of management. In planned economy, the managing director has a guaranteed status, privileges and even protection from reduction in position. Here the existential situation reduced to responsibility emotional experience and fear of own negligence. As a rule, the Soviet leaders who made a slip were transferred from one managerial position to another, but never got demoted. This trend continued in the post-Soviet society in the countries with stable corporate political power.

The second pattern is a manager, a government employee in our native contemporary Ukraine. They can perform a specific function, with varying degree of dependence on the superior officer and power over subordinate officials in the official hierarchy. Official position of the mid-level managers is often unstable; it is associated with dependence on changes in the political life of the community or region. They often subjectively underestimate their role, deep down in their heart believing that hardly anything depends on them. American psychologist Yalom (1999, p. 312) has determined that these thoughts are hiding “Some uninvited presence. This feeling of guilt is a dark shadow of responsibility.”

Officials commonly experience their own reality, tense and indistinct due to threats that originate from the unpredictable future, preoccupied with imaginary reforms and restructuring. These employees feel responsible for that they cannot be fully psychologically real, as they experience difficulties in realizing their life purpose. In the language of existential philosophy, "When denying own potential, failing in its performance, the individual falls into a state of guilt" (Yalom, 1999, p. 312).

The basic concepts of existentialism are fear, freedom, loneliness, abandonment, death, absurdity, meaninglessness, isolation, and others (Yalom, 1999). It is appropriate to analyze them in relation to the life activity of the employee occupying an administrative position. Many of them in some periods of their employment had to act as a target, whereupon higher management suddenly began to vent abundantly their anger. In this situation, colleagues usually steps aside, leaving the guilty one alone with the problems. And at such moments, they feel powerless, internally exhausted, and lonely.

There is nothing strange here: existential psychology teaches – the man is originally lonely. But the loneliness of people working in the bodies of power is due to the fundamental gap between themselves and others. Because of the natural limitations of their own consciousness the officials cannot see the surrounding reality as others see it, equally sensationally bright and with the emotional load.

While in staffing whirl, a government employee discovers for himself that any career move – vertical or horizontal – is effected unpredictably, regardless of his will. And here it is close to the conclusion that he was not free to choose the time and place to come into the world. Shestov (1993, p. 39) once remarked that "For a man the most unbearable thought is that his fate or even the fate of the world may be just the plaything of chance." And if a person is not free to choose the beginning of life, then he is thrown into the world against his will, as it was claimed by Sartre. It is therefore important to recognize the fact of abandonment as a basic characteristic of our own existence, and hence it is easier to understand one's own limitations and capabilities.

If a person is lonely, he should multiply his channels of communications, strive for self-discovery and the effective governance of own imagination. And then he shall be able to see a special life experience and gain the wisdom that will enable him to understand the motives that drive other people. In this case, they are able to build more trusting and stable relationship. Reliance also on creative hobbies and study of literature, fine arts, music, etc. awaken in government employee capacity for innovative thinking. And then life takes integrity and achievable goals can be set: the limits of freedom are realized and abandonment is overcome.

The third pattern is a manager in a market economy. Here the life situations of a manager are defined by completely different cultural constants, especially the uncertainty, risk and the very real danger of failure. From the point of view of a scientist working in the field of management the world of the manager is non-routine, i.e. unpredictable, strange, and almost unmanageable. This is the world of subjec-

tive observations, aspirations, solutions that cannot be empirically verified. Perhaps, the traditional management science underestimates management specific nature and behaviour of the manager in the unpredictable conditions of market forces, as the real manager is always “existential” manager who is under the circumstances of risk, difficult choices and uncertain consequences. Rather, by not following the rules established by academic scientists, he eventually succeeds. Mintzberg (2005, p. 41) writes on this occasion: “Professional risk is included in the job of management. Initially it was thought that you can somehow solve this problem; in fact, however, it is clear that risk is a natural part of the profession.”

### 3. Existential situation and restrictions on the activities of the manager

Interesting is the Existential Theory of Management of Odiorne, the basic premise of which is to deny the possibility of summing up the administrative activity under certain laws, rules, regulations. The existential manager is permanently in a situation of terrible complexity of his actions and choices. The key to the experience of his activities is not a study, but a “survival.” Science of existence is the philosophy of existential manager, guiding his actions in circumstances of uncertain choice. Existentialism understands “existence” as the subjective state of the individual, and the essence of objective reality of a manager is that he exists, decides, acts. Though, at first the manager exists and then creates himself.

Representatives of quantitative and behavioural theories (Lombard, 1971; Mockler, 1971; Whyte, 1969) attach importance to a systematic observation and analysis of the activity of the manager criticizing the empirical school, which focuses on the understanding of a particular individual experience of leaders in all its uniqueness rather than on systematic research. Odiorne (1966) supports empirical direction in polemics with a systematic approach. He says, “The only alternative is to go back to the existential manager with all the terrifying complexity of his actions and choices. Being amazingly far from dominant jungle of management theory, the roots of which go back to quantitative, behavioural and classical schools, the movement of thought, which is defined as existentialism, is in fact, if not for the recognition, philosophy around which a successful manager organizes his life and work. Of all the schools of management theory it is most similar to the empirical school” (Odiorne, 1966, p. 113).

Academic management theory virtually ignores the existential aspects of manager activities, giving priority to economic and communicative. This is natural, as the subject of study of academic management theory is the study of management in large corporations, fenced by virtue of their power from a variety of factors faced by managers of small businesses. Thus, theorists do not take into account the hun-



dreds of thousands of small organizations where managers aside from being not quite successful, often suffer a feeling of complete defeat. Meanwhile, as the experience of post-industrial countries shows, today the turnover of managing staff is directed from large corporations towards small firms. In the dynamic world of information it is small firms that are distinguished by large growth opportunities, which, though involving more risky work, can be more interesting.

Almost all modern management concepts taught in the business schools and various courses of management, are reduced, according to Odiorne (1966, p. 111), to the following: "How to become a well-paid employee of one of the 500 largest corporations." No one thinks that to 37 thousand companies with 100 to 500 workers, some principles are applied, while to several million businesses with number of employees from 1 to 99 quite different. It is in these small firms engaged in the local industry, the service sector, in small construction firms the staff is inconsistent, and the organization is unstable. The duration of their existence is small, an average of 7 years. The US experience shows that of each thousands of new businesses 930 ones go bankrupt. Therefore, small business is more difficult to manage. Classical management theories are created for successful managers and do not stand up to checks at expanding the scope of their application.

Managers with leadership qualities have often features of people who are "twice born" having senses different from the others. Zaleznik (2005, p. 87) writes: "For such a person the sense of self-worth does not depend on any apparent connections with other people, or on groped expressions of external knowledge. The most important are external self-confidence, as well as statement of requirements for themselves to achieve the goals or even the desire to achieve greater goals."

The creation of common management science, according to Odiorne, is hindered by existential "situational constraints." The first limitation is the "situationality" of the manager himself who having barely solved one critical situation immediately gets into another. Hardly having solved the problem, the manager finds that the number of difficulties is multiplied because some of them had already been overcome. Like the mythical Sisyphus, whenever the manager feels that the victory was close, he has to start all over again. Hope of past experience does not always help, because new problems require new solutions. However, just by analyzing their experiences, re-thinking previous particular situations, managers are prepared for new emergencies.

The second situational limitation is luck. Odiorne emphasizes that all theories – with the exception of statistics and game theory – disregard this fact, while in reality it is of paramount importance. He sees success as a pure accident. No one knows the way to it: it as the trouble, takes you always by surprise. Therefore, the idea of "management science" that the manager handles the events is simply naive. The most that can be done is to adapt to the circumstances. Perhaps the matter in question is that James in his book, *Varieties of Religious Experience* (1993) describes as "two basic kinds of personality": the once-born and the twice-born. People who are the once-born are well adapted to life; their fate and fortunes from their birth-

day unfold without major crises. Amidst “the twice-born” are people from the past. Their life mission is a constant search, constant competition in the search for balance (Zaleznik, 2005).

The third situational limitation is struggles and conflicts that accompany all the activities of the manager. Odiorne interprets the competition (in which the managers are involved) as a kind of universal human situation, it is based on the universal conflict between limited resources of humanity and unlimited human claims. From this standpoint, the competition is natural and invariably critical situation. Limited resources cause grievances, the point of which is directed against those who are successful.

The fourth situational limitation is a sense of “inevitable guilt” always accompanying the manager. This refers to a particular guilt, an awareness of guilt to himself for his own mistakes, failures that are inevitable in managerial activities. The manager is doomed to that along with being successful he will always experience failures. Failing and trying in every way to extend the desired success, the manager even during prosperity periods has a sense of inevitable guilt, as he is sure he could have done differently. A feeling of guilt, never leaving the manager is bound to influence his fate.

Hill (2002, p. 614) notes: “Sense of guilt is useful. And everyone, whether bad or good, at times can feel a sense of guilt. ... a sense of guilt is useful; it shows the people with the highest ethical standards the path to decent thoughts and actions.”

The fifth “irreversible and uncontrollable” existential limitation is manager death – the last chance of not “to be”. The destiny of the manager in the company is not always determined by his work-related successes. Whatever official zeal he shows, there will always be detractors and envious, who through a series of intrigues put him in a situation of borderline choices: to leave voluntarily or to be slowly eaten away by unfriendly management. Resignation, as well as any surrender, means social death in this organization and the possibility of a new birth in the other. Very often, the transition to a new job leads to hitherto unprecedented creative potential. However, conflicts, quarrels, intrigues, failures and associated stress are sapping the manager health and often lead not to the symbolic but to physical death.

Motives that the manager is guided by are subjective; they are imbued with likes and dislikes, love and hate, fear and hope. To believe that the motives are based on reasonable evidence means that the manager is considered beyond an existential context, i.e. to think wrong. Assumptions of academic scientists, according to which the most successful manager is “a thinking manager,” have no basis. It’s more accurate to assume that a successful manager is so busy that he has no time to think about (reflect on) the theories that explain his success.

A successful manager is too busy with obtaining success and career advancement: in the hustle and bustle of his days he has no time to rationally comprehend the reasons for his success or failure. The life philosophy of a manager does not always agree with common sense (although he is convinced of the opposite),



but always comes from background of experience. And therefore, tips of academic theorists should be competent enough so that the manager could listen to them.

The complex nature of a human and the conditions, in which he operates, will not be easy, if we consider him as a logical machine and his activity as a mathematical model. But we cannot completely abandon the theoretical understanding of managerial activities. Its principles are irrational, but nevertheless they exist, Odiorne (1966) is convinced. Those who tried to describe them went through logical analysis, which is quite insufficient for understanding management activities. The theory must be existential: its starting point may be only ungovernable subjectivity of the individual carrying out his life project, personal experiences and life situations that cannot be empirically verified. The proximity of death, as a part of the management theory, is based on the existential ontology that offers an explanation for the social path of manager in organization or along a number of organizations as the limited by time and the living conditions trajectory.

Time for existential manager is not an ordinary continuum, divided into three parts: past, present and future. Time is the subject of the inner existence. Until the manager fills every time period of his life with meaningful content of existential choices, he will be lost in the pandemonium of scattered fragments. Therefore, the manager establishes contacts outside the vertical business hierarchy. Mintzberg (2005, p. 22) notes: "I see a rather unexpected fact that managers spend as much time with colleagues and other people outside their own departments of the agencies than with their subordinates, and even more surprising is the discovery that the least amount of time they spend with their superiors."

The time set in the face of personal death becomes a series of manager successes and defeats that he should not distinguish from each other. The future for the existential manager is not indefinite series of "now" but a certain limit, terminated by his death. Therefore, the most scarce resource that managers should govern is their own time (Mintzberg, 2005).

## Discussion and conclusions

Thus, the existential theory of management relies on the assumption that in the business world, there are unsuccessful managers that outnumber their successful colleagues. The successful manager creates himself through his own existential choices and actions arising from them. He literally picks himself. He can leave (break free of) the existence, as a manager or as an individual, at any time he chooses. The existence of the manager is limited by its situational nature, and success or failure, conflict and struggle, guilt and death, present in all of his actions are an unavoidable part of such a situation.

The modern manager is acutely aware of the problem of survival in its broadest representation. He feels a social responsibility for the correctness of his actions

to himself, his family, the company and finally to the society. The manager exists in the same world as billions of his contemporaries; he is influenced by the actions and desires of many people, laws and traditions, etc. In these circumstances, managers should be able to live their own lives, to use their own mind, to turn the idea (dream) into reality believing in their abilities.

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