

TÉR GAZDASÁG EMBER

- ♦ EDITH SOMLYÓDYNÉ PFEIL | Territorial Governance and the Role of Institutions in Development Policy – About Conditions of Functional Space Construction from Unitary State Perspective
- ♦ TIBOR PINTÉR | Analysis of the intensifying economic relations between Hungary and the European Union
- ♦ ANA NAVE – ARMINDA DO PAÇO | Wine Tourism and Sustainability – A Case Study
- ♦ M. GUADALUPE GALAN-LADERO – M. MERCEDES GALAN-LADERO | Advertising Language in Social Marketing. The Case of the Vienna Metro
- ♦ DENISA ORISKÓOVÁ – KATALIN BORBÉLY | Capital maintenance disclosure in Hungary and Slovakia after Directive 2013/34/EU implementation
- ♦ KATALIN VARGÁNÉ KISS | Enhancing the competitiveness of SMEs after the financial crisis
- ♦ ANITA KÉRI – ERZSÉBET HETESI | The study-abroad process of international students – towards a conceptual model
- ♦ MARIETTA KISS – ANDRÁS ISTVÁN KUN | Can Homepage Openness be a Signal of Institutional Quality in Higher Education?
- ♦ MÓNIKA GARAI-FODOR – KATALIN JÄCKEL – BERNADETT ALMÁDI – TIBOR PÁL SZEMERE | The role of employer branding for generation Z based on HR expert interviews and their effects on the implementation of investments
- ♦ LÍDIA FÜLE | The corporate strategy transformation in terms of the evolution of shared service centres
- ♦ BORBÁLA GONDOS | National Science Summit 2019, Lisbon, Portugal
- ♦ ÁRON SZENNAY | Conference review of the Unpacking the Complexity of Regulatory Governance in a Globalising World Conference 2019

TÉR – GAZDASÁG – EMBER

TÉR – GAZDASÁG – EMBER



Győr, 2019

*The Academic Journal of
Széchenyi István University
Kautz Gyula Faculty of Economics*

Published every March, June, September and December (the final edition in English)

December 2019. Vol. VII. No. 4

Editorial office

9026 Győr, Egyetem tér 1.

Editor in Chief: Adrienn Reisinger

Vice Editor: Adrienn Dernóczy-Polyák

E-mail | tge.szerkesztoseg@gmail.com

Information and guide for authors: <https://tge.sze.hu>

Language Proof Editors:

Borbély-Bailey, Natasha Fiona: Széchenyi István University

Kowalchuk, John Paul: Széchenyi István University



Foreign Language Educational Centre

Zsirai, Péter: Upstream Revenue Accounting Section Manager, ExxonMobil Üzletsegítő
Központ Magyarország Kft.

Snell, Jonathan: Marine Transportation CoE Division Manager, ExxonMobil Üzletsegítő
Központ Magyarország Kft.

ExxonMobil

Editorial Board

Chair: JÁNOS RECHNITZER

Members:

LÍVIA ABLONCZYNÉ MIHÁLYKA, TAMÁS BÁNFI, GYÖRGYI BARTA,
ANDREA BENCSIK, ÁGNES BORGULYA, ADRIENN DERNÓCZY-POLYÁK, TAMÁS DUSEK,
ÉVA HAPP, LÁSZLÓ JÓZSA, ETELKA KATITS, GYÖRGY KOCZISZKY,
MÁRTA KONCZOSNÉ SZOMBATHELYI, KRISZTIÁN KOPPÁNY,
GÁBOR KOVÁCS, NORBERT KOVÁCS, IMRE LENGYEL, JÓZSEF LEHOTA,
ERZSÉBET NOSZKAY, ILONA PAPP, ISTVÁN PISKÓTI, JÁNOS RECHNITZER,
ADRIENN REISINGER, GÁBOR REKETTYE, PÉTER RÓBERT,
FERENC SOMOGYI, PÁL SZABÓ, ÉVA SZALKA,
CECÍLIA SZIGETI, IRÉN SZÖRÉNYINÉ KUKORELLI, GYÖRGY SZRETYKÓ,
ZOLTÁN VERES, LÁSZLÓ ZSOLNAI

Publisher | Manager of Universitas-Győr Nonprofit Kft.

Distributor | Universitas-Győr Nonprofit Kft.

Address | 9026 Győr, Egyetem tér 1.

Print works | Palatia Nyomda

ISSN | 2064-1176

CONTENTS



STUDIES

- 9 EDITH SOMLYÓDYNÉ PFEIL | Territorial Governance and the Role of Institutions in Development Policy – About Conditions of Functional Space Construction from Unitary State Perspective
- 29 TIBOR PINTÉR | Analysis of the intensifying economic relations between Hungary and the European Union
- 49 ANA NAVE – ARMINDA DO PAÇO | Wine Tourism and Sustainability – A Case Study
- 67 M. GUADALUPE GALAN-LADERO – M. MERCEDES GALAN-LADERO | Advertising Language in Social Marketing. The Case of the Vienna Metro
- 89 DENISA ORISKÓOVÁ – KATALIN BORBÉLY | Capital maintenance disclosure in Hungary and Slovakia after Directive 2013/34/EU implementation
- 107 KATALIN VARGÁNE KISS | Enhancing the competitiveness of SMEs after the financial crisis
- 129 ANITA KÉRI – ERZSÉBET HETESI | The study-abroad process of international students – towards a conceptual model
- 147 MARIETTA KISS – ANDRÁS ISTVÁN KUN | Can Homepage Openness be a Signal of Institutional Quality in Higher Education?
- 167 MÓNICA GARAI-FODOR – KATALIN JÄCKEL – BERNADETT ALMÁDI – TIBOR PÁL SZEMERE | The role of employer branding for generation Z based on HR expert interviews and their effects on the implementation of investments

INFORMING STUDY

- 181 LÍDIA FÜLE | The corporate strategy transformation in terms of the evolution of shared service centres

CONFERENCE REPORTS

- 189 BORBÁLA GONDOS | National Science Summit 2019, Lisbon, Portugal Conference report
- 191 ÁRON SZENNAY | Conference review of the Unpacking the Complexity of Regulatory Governance in a Globalising World Conference 2019
- 193 AUTHORS
- 199 REVIEWERS

Dear Readers,

You are holding the 4th issue in 2019 of the Tér-Gazdaság-Ember Journal. The issue consists of nine scientific studies, topics are the followings: regional topics, tourism, marketing, economy, higher education and generation Z.

The first study illustrates territorial governance and the role of institutions in development policy, the next one describes the economic relation between Hungary and the EU. We continue with two papers are written by foreign authors from Portugal and Spain, studies are related to wine tourism with case studies and the advertising language of the Vienna Metro. The next two papers show the capital maintenance disclosure in Hungary and Slovakia and the competitiveness of SMEs in Hungary. Two papers illustrate topics related to the higher education: the study-abroad process of international students and homepages of higher education institutions. The last scientific paper highlights the role of employer branding for generation Z.

At the end of this issue a study shares the experiences about the corporate strategy transformation in terms of the evolution of shared service centres (SSC) written by an employee from ExxonMobil Üzletsegítő Központ Magyarország Kft. She was a student at the university and now working as a Global Process Advisor at the company. We happy to share that Kautz Gyula Faculty of Business and Economics has been working effectively with the corporation since 2017. The primary goal of the article is to extend the general knowledge about the SSC phenomenon.

There are also two conference reports in this issue about a conference in Portugal and in Hong Kong.

Papers are language proofread by two colleagues from the Széchenyi István University and two colleagues from the ExxonMobil Üzletsegítő Központ Magyarország Kft. in the framework of the cooperation with the company.

Győr, 31 December 2019

Adrienn Reisinger Editor in Chief
Adrienn Dernóczy-Polyák Vice Editor

STUDIES

Territorial Governance and the Role of Institutions in Development Policy – About Conditions of Functional Space Construction from Unitary State Perspective



Abstract

During the past twenty years the proliferation of networked governance forms can be experienced all over Europe, which do not harmonise with statutory state spaces. Parallel to this, in planning theory there is discussion about the modernisation of planning and the birth of new spatial categories, about “soft spaces”, which render state boundaries fuzzy and allow the space construction for public-private networks. The precondition of this process has been the rescaling of state territories and the decentralisation or devolution of state power to multi-scalar new spatial entities. This also means that sub-national governments, city-regions have been mobilised and have been given new fields of action for the assertion of their interests, while national governments have kept their control over them. Networked governance, formulated in functional spaces, ought to place into multi-level governance structure gain its legitimacy, and multi-level governance is the analytical framework of the investigation of spatial space construction in the article. The new paradigm of the cohesion policy of the EU, which puts emphasis on integrated development approach provides for the broader framework of the topic.

The article reveals the different characteristics of territorial governance efforts in Central Eastern Europe, especially in Hungary, compared to highly developed countries. In this latter country significant hindrances in the adaptation of governance structures can be recognised horizontally on the one hand, and on the other the very weak vertical connections between the different political levels, owing to the rejection of decentralisation by the state. The analysis based on the institutional and regulatory environment points out the lack of decent authorisation of the local and subnational levels for network-building and taking part in the national planning scheme. The new conservative state philosophy stresses the statutory state spaces and favours standardisation unlike the mainstream of the European perception on territorial governance.

Keywords: state rescaling, regional development, statutory state spaces, functional spaces, territorial governance, spatial planning

INTRODUCTION

In the last quarter of a century, new forms of governance have been rapidly spreading, which is a process typical of the old member states in the first place. Territorial communities – involving non-governmental and business organisations – create new functional spatial units at different territorial levels, in fact, even at so-called intermediate levels, which differ from the administrative territorial divisions of the respective states. Representatives of the three sectors, in some cases together with the higher education and academic sector, aim at the socio-economic development of the local area. Increasingly more people believe that in certain public policy areas it has become necessary for the nation states to give up their decision-making monopolies and give space to the operation of different networks, because in the frameworks of the globalised world their assets are insufficient for the effective and successful implementation of state functions.

The process is inseparable from economic development as capital, labour, money and goods move in space, and become imbedded and externalised from a territorial aspect. In this respect, state institutions and their territoriality served as an important infrastructure and as the geographical frameworks of territorial scales until the late 1970s, but a re-scaling has taken place since then. The institutional scenes of the capitalist economy are now dominantly supra- and sub-national organisations – think of the new sub-national spatial units like city regions, institutions formalising cross-border cooperation etc. that appeared in the European countries as an effect of decentralisation and regionalisation. This process does not change, however, the fact that “Only the state can take on the task of managing space on a grand scale” – as emphasised by Lefebvre (1978, 298 in Brenner, 1999).

Already in the 1990s academics argued that market-oriented economic policy must be based on functional subsidiarity and the cooperation of the public and private sector. The decentralisation of decision-making and the principle of subsidiarity must be implemented not only in the relationship between the state and the territorial units but also horizontally, among the sectors and among the actors of the public and private sector. In the focus of cooperation are the relationship between the state and the economy and between the state and its citizens, while the state is that activates non-governmental organisations and economic actors to involve in a dialogue-oriented bottom-up approach in the public policy procedure to participate.

This is evidently interrelated with the recognition by the nation states: there is a correlation between their competitiveness and the governance capacity of the state, and bad governance jeopardises the operation of the economy. In fact, in the new economics of competitiveness, the competitiveness of states themselves is a comprehensive notion.

The territorial decentralisation of the state was compared by Capellin (1997) to the act of a company that externalises some of its activities, knowing that they produce

loss along the value chain. In other words, it flattens its value chain and purchases the respective functions, products and services from the market. The point of this is to get cost advantages and become more competitive. In order to achieve the latter, it becomes a member in vertical and horizontal networks, and cooperates.

The task of the institutions of the public sector is to integrate the policies of the participants of the networks and stimulate the birth of common scenarios, goals and development capacities, and also to technically assist their implementation. Governments must take on a catalyst role in the creation of new societal solutions, for which they must assist the integration of the supplementary resources of different actors. In fact, governmental levels must even stimulate network type cooperation with financial supports (Capellin, 1997).

The goal of the paper, in the light of the above, is to demonstrate a novel form of networked governance which leads to the birth of so-called functional or “soft” spaces from the aspects of the space creation by the state, and territorial division. The object of the analysis is the intentional and controlled rearrangement of power and territory, manifested in states providing space for the development and implementation of public policies in the framework of functional territorial units better satisfying the needs of the economy. This means to some extent the abandonment of the characteristics of hierarchical states and the acceptance of the new governance structures that relativize administrative territorial division. The structure of the paper is as follows: chapter one is a summary of the *raison d’être* of the category called functional or “soft spaces”, of their main features; chapter two is about the major conceptual features of territorial governance and connected that to multi-level governance as the analytical framework in the management of spatial spaces; while chapter three is an analysis of the public administration system and the system of spatial development units in effect in Hungary, enumerating from institutional and regulatory aspects the conditions for the application of the concept of territorial governance and functional spaces. During the processing of this issue the paper is mostly built on literature references and secondary data.

1. EXPRESSION OF NON-STATE CENTRED SPATIAL VIEW IN THE MODERNISATION OF SPATIAL PLANNING

Traditionally states shape their territories in normative ways with territorial structures fitting into the administrative boundaries of elected representative organs. It has been a problem for a long time, however, that these boundaries seem increasingly too rigid and inflexible for the solution of socio-economic problems, and so since the 1990s statutory space construction has been supplemented in several countries of the Union by functional spatial units established by the governing networks, whose boundaries are designated by the participating stakeholders themselves. The selection of intermediary levels from the aspects of the spatial division of the state,

and their authorisation with planning competencies (city regions, sub-national and supra-local levels) are manifestations of a non-state centred spatial view. Besides the planning of space use within the administrative boundaries, spatial planning with its fuzzy boundaries is now also accepted, manifested in development strategies without direct legal effect (Allmendinger et al., 2015).

The penetration of spatial planning is also the expression of a modernisation attempt, an indispensable precondition of what was the devolution or decentralisation of the power of the state, for the benefit of sub-national territorial units. Since the 1990s a political and institutional reform has taken place in the member states of the EU during which the states have rescaled their territorial structures (Herschel-Newman, 2003) both functionally and in the geographical sense. This is called the first step; the second one was the networked governance reform as a political strategy. The appearance of spatial planning was embedded into the restructuring process of the local and sub-national levels (Brenner, 2003).

Recovering from the world economic crisis that started in 2008, the state found its role, as opposed to the former welfare functions and its efforts to harness the market, in the promotion of the operation of the market (competitive localism). Related to this, the market support attitude of the planning of space use has been replaced by a growth oriented planning view, the interpretation of spatial planning, and thereby strategic planning, as governance emerged (Allmendinger et al., 2015). Also, planning was forced to become more transparent, accountable and sensitive towards the diverse expectations of the public. This meant that states somewhat seceded from planning. A condition for this was that public policy networks, in possession of adequate central state authorisation, should create their development strategies for spatial units of optimum size, with a primary focus on economic development.

Spatial planning strategies can give quick answers to challenges, as opposed to the plans made in a painstaking, long planning procedure regulated within the frameworks of the hierarchical state. This planning methodology is called soft spatial planning by Faludi (2010). The governance networks affect the operation of the state, the use of integrated attitude, and make the state do more active planning, as their members are interested in the decrease of the transaction costs. These networked groups can also be considered as driving forces of integrated and joint sectoral policy making, as they are suitable for overcoming bureaucratic slowness during the implementation of policies (Faludi, 2010).

As regards the origin of spatial planning, it is believed to be a continental European concept that has different theoretical foundations, as it is related to regional geography, organisational sociology, institutional system capacity building and discourse analysis. Spatial planning has several features that distinguish it from its predecessor, the land-use planning (Allmendinger-Haughton, 2010):

- it promotes the elaboration of longer term strategic future visions,
- creates integration among the plans and activities of sectors,
- follows the view of sustainable development,

- generates the link between business, the non-governmental and the public sector, promoting their dedication to joint developments.

Spatial planning parallel to the legally binding state planning procedure provides a communication space in which interests pro and contra development are articulated; also, due to its capacity of conflict management it leads to decision-making on the basis of consensus.

It is obvious that planning activity is not the only way for the creation of functional spaces; they can just as well be generated by environmental issues or the solutions of problems of cross-border regions. Already the Territorial Agenda (2007) made it clear that territorial governance and public policy networks have an outstanding significance from cohesion aspect in the EU, as governance can relate to any procedure that influences societal decision-making, encompassing as it does all those forms of collective actions that focus on public issues.

Faludi warned us that usually neglected in the discourse on territorial cohesion is whether the related spatial unit is part of the administrative territorial division of the state or a functional space created by the participants in governance (Faludi, 2012); then since 2010 there has occurred a shift in European Cohesion Policy to a new paradigm. The new paradigm emphasises the encouraging of underutilised potential enhancing regional competitiveness in functional economic areas (Barca, 2009). It is said that the new functional approach, promoted by the EU supports interventions at the right scale, i.e. actions that may penetrate from neighbourhood areas through regions right to functional areas, depending on the decision of the respective member state (Böhme et al., 2011). Likewise, Scott pointed out, that the new territorial solutions suggested by the EU targets spatial flexible and multi-level institution-building and highlights the integrated development approach (Scott, 2013). In this respect for the current European planning period introduced new tools can be mentioned, the Integrated Territorial Investment (ITI) and the Community-led Local Development (CLLD) which promote strategic and integrated interventions into functional spaces designed by the cooperating actors. The implementation of the integrated development initiative shows a narrow connection to territorial and urban governance for serving better territorial and economic cohesion throughout the EU member states. The explanation of integrated development in the Urban Agenda for the EU (2016) makes it clear that vertical and horizontal (multi-level and cross-sectoral) cooperation can contribute to effective solutions of main social and economic problems of urban areas and the territorial cohesion. Integrated territorial governance interlinked with territorial cooperation became undoubtedly one of the main components of the concept of European Territorial Cohesion presented by Madeiros (2016).

These are the reasons for the application of network governance so that public administrative borders can be crossed and spaces can be re-shaped in certain cases, as required by the geographical, economic and social conditions. The Urban Agenda can also be quoted (2016) in which the European Commission stresses

the strengthening of the governance across administrative borders; the implementation of strategic urban planning with a place-based and human-centred attitude. It furthermore promotes the creation of networks and the exchange of knowledge among cities of different sizes and different levels of governance.

In summary we can say that the application of the modern tools of networked governance can improve the quality of the decision-making process itself, just like the quality of its outcome. The essence of network model is mediation, communication and the creation of possibilities, i.e. the creation of innovation, using the contemporary language (Brenner, 1999). This means a temporary summary of resources and competencies, subordinate to certain public policy goals, moving away from the territorial division of the state and the spatial structure of public administration, crossing the borders thereof. And for this purpose the birth of supra-national and sub-national level cooperation should be promoted.

2. THE RELATIONSHIP OF TERRITORIAL GOVERNANCE AND MULTI-LEVEL GOVERNANCE (MLG) IN THE MANAGEMENT OF FUNCTIONAL (SOFT) SPACES

The specification of the concept for the management of functional spatial units other than the state administrative territories led to the definition “soft spaces” (Benz, 1994; Allmendinger–Haughton, 2009; Faludi, 2010). The preliminaries of the crystallisation of this concept can be found in German language literature (Benz, 1994; Knieling et al., 2003), but “the specification comes from those English authors who examined the effect of devolution during the English and Irish practice of planning” (Haughton–Allmendinger, 2007). The majority of researchers are of the opinion that the concept “soft spaces” expresses the strategic view typical of networked governance, i.e. can be interpreted as a break from the formalised scale and legally binding rules of state planning.

In addition, in the concept of those who believe in constructivist spatial theory, space is a relational dimension, not an absolute pre-existing one, it is made up from relationships among societal phenomena, i.e. it is a societal product (Farágó, 2013). Thus, governance implemented with the participation of different actors conceptualises functional spaces outside political-administrative borders and the internal territorial division of nation states (Walsh et al., 2012, 5): for the state government the adequate division of space is statutory state spaces with permanent borders and covering space without overlaps. The state, however, is motivated in a rapidly changing environment to reconsider its spatial structure and the division of decision-making centres. A suitable tool for this is the application of soft spaces that are usually born out of the cooperation of territorial actors. However, even in this relationship – as generally – the normative state and law are the static elements, and economic flows are the dynamic one. In order to integrate

the two (top-down and bottom-up initiatives and structures), it is typical to create new functional spaces; these, however, are made up by the basic spatial units of public law, following a different logic. The explanation for this is the fact that public stakeholders are necessary participants in networks, while the state must be the regulator of the rules.

The spatial units of governance were multiplied, as there is nothing in the way of overlaps by the soft spaces. Consequently, the scale of the appearance, of non-statutory (functional) spaces may be (Allmendiger et al., 2015, 4-5) at European, macro-regional, sub-national or regional city-regional, and also local and supra-local levels. This correlates with the fact that while in the 1990s a development model based on regions appeared first, a decade later another spatial formation, city region was in the focus, as a basic engine of the global economy (Scott, 2001).

Around the new millennium, in the discourse on cohesion policy and spatial planning the concept of multi-level territorial governance (hereinafter MLG) appeared, focusing on the territorially flexible decision-making mechanism. As territorial governance leads to the division of responsibility among the different tiers of government, and is a concept more comprehensive than government, MLG is necessary for the state to keep its influence over its territorial units, parallel to allowing the stakeholders in networked governance to contribute to balanced and coordinated development. The latter are social formations that require legitimacy, in which actors of the public, non-governmental and business sector cooperate with some planning, development or thematic objective. Their existence also bears a danger, as they are suitable for the destabilisation of existing structures; so the connection of the formal and informal spaces in the practice of power necessarily requires multi-level governance.

In Jessop's opinion "the capacity of governance is a function of the effective cooperation of powers mutually dependant, within and beyond the state". In this sense governance is a procedure implementing horizontal coordination among sectoral policies, territorial levels and public and non-public actors, built on flexible partnership and voluntary participation (Jessop, 2003; in Kaiser, 2014, 85). This is the starting point of multi-level governance that is an analytical framework for the understanding of European integration, and can be interpreted in the context of European public policy making, emphasising coordination and partnership both horizontally and vertically. The EU operates as a multi-level system, in which competencies are located to different levels, but the different levels must join a common will formulating procedure whose method is determined by the supra-national and the national level (Jachtenfuchs-Kohler-Koch, 2004).

The model of multi-level governance was recommended earlier for the European Community by Marks, who also later participated in its elaboration (Marks, 1993; Marks-Hooghe, 2004). The widely used typology by Marks and Hooghe (2004) differentiates between two types of multi-level governance. The first type is actually the system of the federal or classis distribution of power when competencies are divided among a finite number of governments with no overlaps, each of

which has a general and exclusive authority over the respective area, and governance is the interactions among them. This is typical for the operational principle of decentralised states in which formal power is scattered among supra-national and sub-national, and also local levels. At the same time this is where the vertical branch of MLG is expressed. The second type of MLG concept is different from the first approach. Contrary to the former in networked governance there may be governing networks with territorially overlapping competencies, designed for the solution of different social, economic or environmental problems. This latter form of governance satisfies the demands of cooperation horizontally among diverse sectors (Marks-Hooghe, 2004).

In addition, it is part of the MLG approach that the member states should not monopolise public policy making; decision-making competencies should be divided among the actors of the different territorial levels and the chance for collective decision-making should be general. From this time on the central level of the member state is not the exclusive factor in decision-making procedures. In the case of decentralised state administration, besides the national governments the sub-national authorities are also able to work out their own sectoral policies in accordance with their territorial endowments, and the dynamic approach of MLG allows the maximum utilisation of their territorial capital for a balanced development (Davoudi et al., 2008). This also means that sub-national governments have mobilised and were given new fields of action for the assertion of their interests, while national governments have kept their control over them.

3. ADAPTATION OF TERRITORIAL GOVERNANCE IN WESTERN AND CENTRAL EASTERN EUROPE

We can observe the widespread use of the governance structures of sub-national levels in highly developed member states of the EU. The primary objective of this is economic development, with the assistance of cooperation across administrative borders. This resulted first in the creation of regions as competitive sub-national territorial units, followed by decentralisation favouring city regions (city-regionalism), which is a still ongoing process.

The positive side of decentralisation and devolution concomitant with this is the birth of coordination in the targeted territorial units among public policy sectors formerly disintegrated, like e.g. planning, housing, employment, business development, transportation etc. This is well illustrated by a process in England, which gave more autonomy to cities and the municipalities cooperating with them in their hinterland, also to counties, as it is a state intention to broaden their functions and the policy fields in their competencies. In England the state made so-called multi-area agreements with the city regions, by which it authorised them to operate in a cross-administrative boundary way in the areas that can be taken as the economic footprint of the cities. The “redistribution” (rescaling)

of state power shows towards devolution, which can be interpreted as a complex organic development involving several tiers. By this, a new scale of government (state governance) was born in England (Harrison, 2012).

As regards the institutionalisation of urban spaces, there is a rather wide gap between Western Europe and Central Eastern Europe. Most of the post-socialist states are still suffering large-scale territorial inequalities within their countries and the problems of economic competitiveness. In the last decade and a half, it has been rare to position their big cities in the sense that their fragmentation was eliminated. The explanation for this is complex. There are no traditions of horizontal cooperation among municipalities, on the one hand, and their relations to the other sectors are even weaker. On the other hand, there is no top-down state policy that assists the birth of cooperation and functional areas by decentralisation and financial means.

It is especially in the V4 (Visegrád 4) member countries where an adaptation constraint and catch-up effect towards the Western big city governance methods has existed for a long time. Breakthrough, however, is blocked by several factors, the most important being the rigid municipal and administrative boundaries in the Eastern European area. In contrast, in Poland it is a positive phenomenon that the foundation of metropolitan associations, led by agglomeration councils, is now possible; the central government is still reluctant to carry out a real decentralisation in favour of big city regions, to authorise them for sovereign actions. Consequently, these councils as delegated organs cannot be empowered with spatial planning competencies yet (Mikula-Kaczmarek, 2016, 41-42), i.e. they are not able to carry out strong governance.

The aim of the next chapter is to outline the environmental conditions for the institutional adaptation of governance in Hungary. It is a unitary country, so the issue should be examined within the context of the decentralisation and centralisation of public administration. Public governance, and also governance theory itself are based on plural and pluralist states and offer alternative discourse. Consequently, it makes a regime other than Public Administration and NPM, in its own right. When we choose unitary states as a framework for our analysis, however, it is clear that Public Administration (PA) is in its centre, as, regarding its core, it refers to government where policy making and implementation take place within the government, in a vertically integrated closed system. As a result of this, the key mechanism for the distribution of resources is provided by hierarchy. The public sector uses its hegemony in the implementation of public policies and in the provision of public services (cf. Osborne, 2010).

A recent analysis has highlighted the fact that the Hungarian spatial structure is not efficient from a geographical and regional policy point of view in dealing with territorial-economic problems (Szabó, 2018). In agreement with this statement, we are convinced that the causes of the efficiency deficit also include institutional and governance failures.

3.1. MAIN CHARACTERISTICS OF INSTITUTIONAL ENVIRONMENT IN THE UNITARY STATE – THE CASE OF HUNGARY

In 2012 the Hungarian state made a return from the successful transformation towards the decentralised Western state model from the basic model of the unitary state, the essence of which is hierarchy (Wollmann, 2012, 49). The reason for this, as seen by several researchers, is the fact that decentralisation and the failed regionalisation attempt were implemented as part of the Europeanisation process, and was driven by the need to meet external expectations: the constraint of integration of the Hungarian public administration into the European Administrative Space, on the one hand, and the need to absorb the resources of the Structural Funds on the other hand. The process thus lacked any internal motivation (Pálné Kovács et al., 2016). We can add that a dominant push towards restoration was the considerable efficiency deficit of the decentralised public administration, accompanied by weak economic performance.

Since 2011 the Hungarian state has reshuffled the tasks among the different levels of government, with normative tools. During this, as opposed to the decentralisation tendencies of Europe during the last three decades, the sub-national self-government level has been deprived of practically all its former public service functions. It is a worrying fact that county self-governments, i.e. the representative organs of the sub-national level have not been given any future scenario in the government's strategy about the Public Administration and Public Service Development approved in 2015^[1].

Besides this in Hungary central power has returned, after the years of regionalisation, to the strict administrative boundaries; in fact, it has reinforced the administrative significance of the county borders and introduced districts as a new tier in state administration. As regards the offices of the administrative districts, they are administrative state agents without representative organs and independent legal personality, constituted in 2013 at the supra-local level, in a total of 198 territorial units by the Parliament for all the tasks that it had withdrawn from the local self-governments, formerly managed by the local government offices of the villages and towns.

All institutions of the previous reforms in the systemic change in the self-governmental sector were overruled by one single act, the new Act on Local Governments.^[2] The implementation of an administrative system favouring centralised public administration was started, i.e. the significance of the municipality sector, which had represented decentralisation in the relatively balanced dual administrative model, lessened. We can also add that the essence of the organisational restructuring included the “nationalisation” of approximately 400 municipal tasks and competencies. The standardisation may be justified in state authority affairs,

[1] Government Decree No 1052/2015. (16 February) Public Administration and Public Services Development Strategy 2014–2020.

[2] Act No. CLXXXIX of 2011 on Local Governments in Hungary

but in the field of public services it led to the withdrawal of the local capacities and the decrease of local autonomy. One explanation for this is that the removal of the level of decision-making from the stakeholders and the tasks to be accomplished resulted in a very significant deficit of information.

In the system of PA, the sub-national level (county level) appears exclusively as the competency area of the government offices. The central actor in regional development is formally the sub-national level, the county self-governments that were assigned with the coordination of the development objectives of municipalities and the economic and non-governmental sector. However, it has barely any relations to the civil and business sphere.

Meanwhile most of the administrative state agents have been amalgamated in government offices at sub-national level. Instead of coordination among the sectors it is integration and centralisation that are used as tools in the operation of them. The all-pervading centralisation leads to introversion, and so the Government's strategy wants to solve almost all tasks with central state tools.

3.2. THE NEW ARCHITECTURE OF THE REGIONAL POLICY INSTITUTIONS IN RELATION TO NETWORKED GOVERNANCE AND SOFT SPACES

In Hungary public tasks and decisions were removed from the local communities, and not on the basis of the subsidiarity principle, as it was not the sub-national level that was given the tasks as auxiliary ones. In several public policy areas of strategic importance, the tasks were delegated to state organs (e.g. county government offices, hospital maintenance organisations, Klebersberg Institution Maintenance Centre etc.). In addition, there are only large-scale state institutions that are allowed to carry out investments establishing communal infrastructure and human infrastructure (construction of hospitals, schools and swimming pools etc.). The reaction of the municipalities to this was necessarily the elimination of a large number of existing institutionalised cooperation (Somlyódyné Pfeil, 2017).

Apart from the distribution of the EU's funds, in practice, inter-municipal co-operations in associations between Hungarian cities and their hinterland cover a narrow content, mostly designed for the common provision of some human public services (social care, maintenance of kindergarten, providing basic medical services, family and child protection etc.). It is worrying in the light of the situation described above that in the co-operations of the municipalities, joint planning activity is not pursued all, and neither is interest representation towards other state organs or maybe other sectors. Frequently, there is no comprehensive institutionalised co-operation between the core city and its hinterland (Somlyódyné Pfeil, 2017). The practice of the use of the development resources funded by the EU has receded from the strategic goals launched in the Partnership Agreement made with the EC; 23 big towns with county rank and their hinterlands are now separately developed and financed from each other, which does not advance functional space-construction.

From an institutional approach the new, regional development policy is embedded into the public administration organisation and has a public law character. Currently the National Interest Reconciliation Forum for Regional Development has not worked for years. The fragmentation of local and sub-national level also exists from several aspects, from planning development, and territorial and economic development. In the first year of the current planning cycle, in 2014 all towns with the county rank prepared their new Urban Development Strategy and the document making its foundation, the urban development concept. In relation to this, the Hungarian government transplanted the framework regulation of partnership negotiations into the national legal regulation, and prescribed as an obligation for this the approval of the partnership plan.^[3] Researches on the effectiveness and impacts of the norm, however, failed to indicate any improvement compared to the previous practice, as regards the quality of the inclusion of socio-economic partners. On the participation scale, the partnership realised during the planning procedures of the towns with county rank were classified as the category of symbolic participation (tokenism) (Bajmócy et al., 2016). Research identified three forms of participation, which do not include the interpretation of planning as governance^[4].

In Hungary the state did not establish permanent planning capacities for development planning tasks. At the national level, the Planning Institute of National Economy, founded in 2011 for the enactment of the Partnership Agreement, only existed until 2015. At the level of the regions, the regional development agencies that had functioned well at NUTS2 level before 2012 were dissolved, and only a small part of their capacities was integrated into the offices of the county self-governments. At the level of municipalities, setting up the plans is a service purchased from the market by a broad circle of local governments.

Hungary has long been criticised for the lack of reconciliation of public policy priorities and resource allocation (OECD, 2015). This continuously mentioned problem can also be interpreted as follows: the planning documents are formally accepted. The symptoms of inefficiency can be seen in practice in Hungary, often in the implementation of investments other than those specified in the development strategies, and in the fact that the allocation of development resources follows other purposes. There is no recognition that the significant part of actual development actions could be implemented by the actors involved, by which they could increase the resources and competitiveness of the area. The weak participation of the economic and non-governmental sector also determines the outcome of planning; the goals will be less suitable for economic development and the improvement of

[3] Government Decree No. 314/2012. (8 November) on the concepts of settlement development, integrated settlement development tools and strategies and their special legal institutions.

[4] Forms of participatory planning in the analysis cited (Bajmócy et al., 2016, 60–61): 1) Lack of chance of cooperative possibility; 2) One-sided communication of information by planners and/or politicians; 3) Possibility of the statement of opinions by potential stakeholders, without feedback; 4) Inclusion of selected stakeholders into the non-transparent bargaining process about the plans.

the living conditions of the inhabitants. Accordingly, networked governance can be rarely seen in the practice of planning; we may occasionally encounter efforts like this in a few big Hungarian cities (e.g. Miskolc or Győr)^[5].

It is difficult to explain why there has been a lack of political and economic interest on behalf of central government over recent years towards the creation of a large-scale metropolitan region institutionalising the Budapest agglomeration. The former institution was the Budapest Agglomeration Development Council, whose establishment was obligatory, but it exerted no substantive impact on the development of the metropolitan area. The council was also abolished on January 1, 2012. Nevertheless, the agglomeration of Budapest is not referred to as an agglomeration even in the narrative in the National Development Strategy; it has been re-qualified as the surrounding area of the capital city by the legislator (Somlyódyné Pfeil, 2014a).

For the examination of the functional territorial areas it is important that the legislator gives authorisation for the establishment of spatial (regional) development councils. Spatial development councils are those institutions that would be capable of the development of functional spatial units, as they can be created by crossing or reaching beyond administrative borders, especially the borders of the counties. The creation of one type was ordered by the legislator, e.g. the Lake Balaton Development Council and the Tokaj Wine Region Development Council as obligatory founded institutions. The other type can be established by general assemblies of the counties on a voluntary basis. We have to be doubtful even in this case, however, that spatial councils can actually be organised bottom-up. They are state organs, actually, as the members of the councils are specified by the legislator: membership consists of ministers, and the chairman and one delegated member of each county general assembly. Representatives of the chambers and the economic and NGO sector participate in the activity of the council as permanent invitees^[6].

The spatial (regional) development councils cannot have real development functions, however, as they have no economic sovereignty. This means that the ones obligatorily founded work from state support, while even this chance is denied to the ones created on a voluntary basis. They work out the development concept and programme of their respective functional regions, but those are approved by the government. Summarising the characteristics of the institutions we can conclude that they have limited chances to govern effectively the functional spatial units mobilising of the relevant forces in producing integrated and coherent outcomes in regional policy.

It is worrying that, in comparison with the period before 2012, very little cooperation for regional and economic development has survived in the urban areas of Hungary with the participation of the municipalities. On the other hand,

[5] As regards Győr, a town with county rank, the first splinters of economic governance can already be seen: the municipality has good relationships with both the business and the academic sector. For more information, see Fekete (2018).

[6] Act XXI of 1996 on Regional Development and Spatial Planning Par. 15-16.

there is a strikingly high number of cross-border cooperation with economic and tourism development intentions, with the participation of municipalities. At first glance it is remarkable that Hungary is the leading country in the EU with 22 of the EGTC-s registered in Hungary. The operation of the EGTC-s, however, is less effective, which clearly correlates to the weakening of the power positions of the municipality sector. An explanation for this is that they cannot reach even in their cross-border cooperation beyond their competencies given by the state by the internal law, which is a limitation. In several fields of public policy, the approval of the nation state is necessary for turning nationalised tasks into objects of cross-border cooperation. As the circle of public services that make up a part of state sovereignty is expanded, the competencies of the stakeholders concerned is much narrower now; they are unable to use all the available advantages in the EGTC-s. Central state organisations must be involved in several fields of public policy.

The examination of the 13 European territorial groupings operating in the Slovak–Hungarian border area and registered in Hungary brought similar results. Authors classified groupings into four categories, the majority of them were in the category “Rent seeking”, but the category of so-called “Entrepreneurs” was also present, the essence of which is that EGTC-s offer their members project management services and most of their income is from the market. Not surprisingly, no grouping was classified into the categories “Grant intermediaries” and “Public service providers.” (Törzsök-Majoros, 2015)

We are also aware of the fact that several EGTC-s have their own development strategies, but these have not been made with the methodology of governance. The groupings do not have strong enough relations with the business and non-governmental sector, their existence is a function of the availability of support from the EU and the state. This allows us to conclude that the EGTC-s fail to fulfil their roles, as the state policy related to the border regions does not give sufficient support for their activities. Also, the EGTC-s can rely on an amount of state support for their operation.

In comparison to the introduced status in the previous period (2004–2011) para-state institutions were made for the tasks of regional development: so-called development councils operated at four levels, i.e. national, regional, county and micro-regional level. Regional development councils were the dominant elements in this institutional structure. On the one hand, there were those institutions that provided participation on legal grounds for the municipalities in decision-making at higher levels, on the vertical branch of governance. On the other hand, horizontally civil interest representation was institutionalised in the decision-making process at all development council levels with the assistance of so called Civil Reconciliation Forums, although the civil sector was weak. They have all since been abolished (Somlyódyné Pfeil, 2014b).

All things considered, in Hungary a change of governance and a turn in the style of government occurred in 2012 (Figure 1).

Figure 1 Map of Regional Development Institutions in Hungary, 2019

Criteria	National Inter-reconciliation Forum for Regional Development	Spatial Development Council	Territorial Development Consultancy Forum at Regional Level	County Self-government	Spatial development municipal association	EGTC (Cross-border cooperation)
Structure	hierarchical	partly hierarchical and partly networked	hierarchical	decentralised	heterarchical	heterarchical/networked
Actors	closed (designated public law members)	partly open (selective involvement)	closed (designated representative members)	closed (representative members)	exclusively municipalities	open (public actors)
Organisational form	administrative state agent	administrative state agent or inter-communal association	obligatory inter-municipal association	sub-national self-government	voluntary communal association	voluntary public law association
Territorial scope	statutory state space	functional region	statutory state space	statutory state space	supra-local functional space	functional space/ cross-border region
Results orientation	consultative	planning design authorisation + project orientation	consultative	planning design authorisation + project orientation	consultative	planning design authorisation + project orientation
Targeting	defined	open	defined	defined	open	open

Source: Author's own illustration based on Knieling (2003, 468)

In summary *from the side of the actors* we can interpret the existing situation as follows: the state does not promote either the co-operation of the actors of public law or multi-actor cooperation. Finally, *from an institutional aspect* we can see that as an effect of the dominance of the hierarchy the state directly nationalised the institutions of territorial development, i.e. filled them with actors of public law, exclusively, or relocated competencies from decentralised institutions to administrative state agents. In the opinion of academics (Hoffman I., 2014), territorial development has become a state task in Hungary, which has narrowed down its scope of action.

4. CONCLUSIONS

Bottom-up initiatives in themselves are usually not sufficient for economic development and interventions at the right scale. The inclusion of certain state institutions from a higher level is also necessary for the achievement of economic effects. It means the amalgamation of facilitation, enforcement and negotiation in order to involve all actors. Experience suggests that an adequate package of public policy tools is crucial for the solution of problems. Without this, cooperation will only be effective in the sheer “weaving ties” of partners (Gore, 2018, 158).

It is not typical for the Hungarian state to empower newly created territorial institutions and decentralise its competencies to functional units (functional regions, city regions, EGTC-s, CLLD-s etc.). If we look at the state and within that the institutional system of regional development policy, we can see that the quantitative expansion of the state sector and the hierarchical transformation of governance structures have been peculiar since 2012, which is definitely against any networking effort (Horváth M., 2014). Consequently, its territorial units and the companies operating in them are less able to acquire place-specific economic advantages in order to attract capital than their European counterparts – despite the fact that this would give them a competitive edge in the global economy. On the other hand, it is not enough to formally create governance structures: the capacities and skills of the actors should also be developed. The conclusion could be that, contrary to decentralised states, in unitary states the conditions for the operation of the mechanisms of multi-level governance are usually missing. Of course it is a key question for the future of the cooperation whether the central state is willing to concede some of its competencies and tools for the benefit of the sub-national levels and stakeholders of other sectors.

In the centralised state some factors can be identified as the most important hindrances to the successful implementation of the European cohesion policy and the application of governance methods:

- State-centred public administration blocks the operation of multi-level governance.
- Coordination among the sectors is problematic.
- Sectoral and regional policies at sub-national level are lacking.

- The real network governance is not supported by the institutional structure.
- The state gives seeming authorisation for creating bottom-up functional spatial units (regional development council, territorial development association of municipalities), but does not supports its effective performance.
- Urban areas do not make territorial planning units.
- Social capacities are mostly neglected in the processes of the making and implementation of regional policy.

As our analysis done for Hungary highlighted, since 2012 the formation of space has been done with normative tools, exclusively, which is connected to the reinforcement of the administrative boundaries, and this is not favourable for the birth of functional areas and governance structures in them. There are hardly any institutionalised arenas for horizontal co-operation, and unfortunately this is true not only for rural areas but even more so for urban regions. The missing practice in cross-sectoral co-operation raises serious problems for the implementation of strategic planning that is irreplaceable also in public administration, as planning is a substantial field for the implementation of governance, incorporating the communication and joint learning process among the actors of different sectors and levels.

NOTE

Some parts of the article have been presented by the author in the Conference with the title “Spaces Crossing Borders – The First Central and Eastern European Planning Conference” held at the Corvinus University of Budapest, 23–23. May 2018. The title of the presentation was: The adaptation of Territorial Governance from Unitary State Perspective.

REFERENCES

- Allmendinger P.-Haughton G. (2009) Soft spaces, fuzzy boundaries, and metagovernance: the new spatial planning in the Thames Gateway. *Environment and Planning A*, 41, pp. 617–633.
- Allmendinger P.-Haughton G. (2010) Spatial planning, devolution, and new planning spaces. *Environment and Planning C*, 28, pp. 803–633.
- Allmendinger, P.-Hauthon, G.-Knieling J.-Othengrafen, F. (eds.) (2015) *Soft Spaces in Europe. Re-negotiating governance, boundaries and borders*. Routledge, London and New York.
- Bajmócy, Z.-Gébert, J.-Málovics, Gy.-Juhász, J.-Méreiné Berki, B. (2016) *A helyi gazdaságfejlesztés folyamat aspektusai. Hazai megyei jogú városok interjú elemzése*. Szegedi Tudományegyetem Műhelytanulmányok MT-GTKKK 2016/3. Discussion Papers. University of Szeged, Faculty of Economics., Szeged.
- Barca, F. (2009) *An Agenda for a Reformed Cohesion Policy: A place-based approach to meeting European Union challenges and expectations*. Brussels. http://ec.europa.eu/regional_policy/archive/policy/future/pdf/report_barca_v0306.pdf Downloaded: 11 06 2017

- Benz, A. (1994) *Kooperative Verwaltung: Funktionen, Voraussetzungen und Folgen*. Nomos, Baden-Baden.
- Böhme, K.-Douce, P.-Komornicki, T.-Zaucha, J.-Świątek, D. (2011) *How to strengthen the territorial dimension of 'Europe 2020' and the EU Cohesion Policy*. Report based on the Territorial Agenda 2020. Prepared at the Request of the Polish Presidency of the Council of the European Union. Warsaw. http://ec.europa.eu/regional_policy/sources/docgener/studies/pdf/challenges2020/2011_territorial_dimension_eu2020.pdf Downloaded: 16 01 2015
- Brenner, N. (1999) Globalisation as Reterritorialization: The Re-scaling of Urban Governance in the European Union. *Urban Studies*, 36, 3, pp. 431-451. In: Jelinek, Cs.-Bodnár, J.-Czirfusz, M.-Gyimesi, Z. (eds.) *Kritikai városkutatás. Társadalomelméleti Könyvtár*. L'Harmattan, Budapest. 2013. 182-213. (A globalizáció mint területi visszaágazódás: A városi kormányzás léptékváltásai az Európai Unióban. Fordította: Pósfai Zs.).
- Brenner, N. (2003) Metropolitan Institutional Reform and the Rescaling of State Space in Contemporary Western Europe. *European Urban and Regional Studies*, 10, 4, pp. 297-324.
- Cappellin, R. (1997) Federalism and the network paradigm: guidelines for a new approach in national regional policy. In: Danson, M. W. (ed.) *Regional Governance and Economic Development. European Research in Regional Science 7*. Pion Limited, London pp. 47-67.
- Davoudi, S.-Evans, N.-Governa, F.-Santangelo, M. (2008) Territorial Governance in the Making Approaches, Methodologies, Practicies. *Boletín de la A.G.E. N.º 46*, pp. 33-52. <http://www.age-geografia.es/ojs/index.php/bage/article/viewFile/677/631> Downloaded: 10 04 2011
- Faludi, A. (2010) „Beyond Lisbon: soft European spatial planning”, *diP - The Planning Review*, 182, pp. 14-24.
- Faludi, A. (2012) Multi-level (Territorial) Governance: Three Criticisms. *Planning Theory & Practice*, 13, 2, pp. 197-211. http://81.47.175.201/flagship/attachments/Multi_level_Territorial_Governance_Three_Criticisms.pdf Downloaded: 15 07 2016
- Faragó L. (2013) Térleméleti alapvetések konstruktivista ismeretelméleti megközelítésben. *Tér és Társadalom*, 27, 4, 3-29.
- Fekete, D. (2018) Economic Development and Economic Governance Through the Example of the city Győr. *DETUROPE*, 10, 1, pp. 97-115.
- Gore, T. (2018) Cities and their hinterlands 10 years on: Local and regional governance still under debate. *People, Place and Policy*, 11, 3, pp. 150-164. DOI: 103351/ppp.2017.2566876563
- Harrison, J. (2012) Life after Regions? The Evolutions of City-regionalism in England. *Regional Studies*, 46, 9, pp. 1243-1260.
- Houghton G.-Allmendinger P. (2007) 'Soft places in planning. *Town and Country Planning*, 76, pp. 306-308.
- Herrschel, T.-Newman, P. (2003) Die Governance europäischer Stadtregionen. *Informationen zur Raumentwicklung*, 8-9, pp. 543-555.
- Hoffman, I. (2014) *Bevezetés a területfejlesztési jogba (Introduction to the Regional Development Law)*. ELTE Eötvös Kiadó, Budapest.
- Horváth, M. T. (2015) *Magasfeszültség. Városi szolgáltatások. (High Tension. Urban Services)* Dialóg Campus, Budapest-Pécs.

- Jachtenfuchs, M –Kohler-Koch, B. (2004) Governance in der Europäischen Union. In: Benz, Arthur (Hrsg.): *Governance - Regieren in komplexen Regelsystemen. Eine Einführung*. VS Verlag für Sozialwissenschaften, Wiesbaden. pp. 77-101.
- Jessop, B. (2003) Governance and Metagovernance: On Reflexivity, Requisite, Variety, and Requisite Irony. In: Bang, H. P. (ed.): *Governance as Social and Political Communication*. Manchester University Press, Manchester. pp. 142-172.
- Kaiser, T. (2014) Overlooking Multi-level Governance: a Territorial Dimension. In: Ágh, A.-Kaiser, T.-Koller, B. (eds.): *10 years after. Multi-level governance and differentiated integration in the EU*. Blue Ribbon Research Centre, King Sigismund Business School, Budapest. 81-121.
- Knieling, J. (2003) Kooperative Regionalplanung und Regional Governance: Praxisbeispiele, Theoriebezüge und Perspektiven. *Informationen zur Raumentwicklung*, 8-9, pp. 463-478.
- Knieling, J.-Fürst, D.-Danielczyk, R. (2003) *Kooperative Handlungsformen in der Regionalplanung. Zur Praxis der Regionalplanung in Deutschland*. Reihe Regio Spezial, Band 1. Dortmund Vertrieb für Bau- und Planungsliteratur, Dortmund.
- Lefebvre, H. (1978) *De l'État: les contradictions de l'État modern*. Vol. 4. Union Générale d'Éditions sociales, Paris.
- Medeiros, E. (2016) *Territorial cohesion: An EU concept*. *European Journal of Spatial Development*. No. 60. [https://repositorio.ul.pt/bitstream/10451/35722/1/Medeiros%20Eduardo_2016\(1\).pdf](https://repositorio.ul.pt/bitstream/10451/35722/1/Medeiros%20Eduardo_2016(1).pdf) Downloaded: 08 10 2019
- Marks, G. (1993) Structural Policy and Multi-level Governance in the EC. In: Cafruny, A. W.-Rosenthal, G. G. (eds.): *The State of the European Community*. Vol. 2. The Maastrecht Debates and Beyond. Boulder Col, Harlow Longman. pp. 391-410.
- Marks, G.-Hooghe, L. (2004) Contrasting Visions of Multi-Level Governance. In: Bache, I.-Flinders, M. (eds.): *Multi-Level Governance*, Oxford University Press, Oxford. pp. 15-30.
- Mikula, L.-Kaczmarek, T. (2016) Metropolitan integration in Poland: the case of Poznań Metropolis. *International Planning Studies*, 22, 1, pp. 30-43. DOI: 10.1080/13563475.2016.1256191.
- OECD (2015) *Hungary: Towards a Strategic State Approach*, *OECD Public Governance Reviews*. OECD Publishing. <http://dxdoi.org/10.1787/9789264213555-en>
- Osborne, Stephen P. (2010) (ed.) *The New Public Governance. Emerging Perspectives on the Theory and Practice of Public Governance*. Routledge, London and New York.
- Pálné Kovács, I.-Bodor, Á.-Finta, I.-Grünhut Z.-Kacziba, P.-Zongor, G. (2016) Farewell to Decentralization: The Hungarian Story and Its General Implications. *Hrvatska I Komparativna Javna Uprava*, 4, pp. 789-816.
- Scott, A. J. (2001) Globalisation and the rise of city-regions. *European Planning Studies*, 9, 7, pp. 813-826.
- Scott, W. A. (2013) Trends and Visions of Regional Policy in Europe - New Regionalism. University of Eastern Finland. PhD Lecture held in the Doctoral School of Regional Policy and Economy of the PTE (19 04 2013)
- Somlyódyné Pfeil, Edit (2014a) The Changing Roles of the State and their Impact on Urban Policy. In: Somlyódyné Pfeil, E. (szerk.): *Industrial Districts and Cities in Central Europe*. 176 p. Universitas-Győr Nonprofit Kft., Győr. pp. 46-63.

- Somlyódy Péter E. (2014b). The End of Regionalism in Hungary? An Assessment of Local Governance Before and After. In: Pálné Kovács, I.-Profiroiu C. M. (eds.): *Regionalisation and Regional Policy in Central and Eastern Europe: Selected Revised Papers from the 21st NISPAcee Annual Conference* May 16-18, 2013 Belgrade, Serbia. NISPAcee, Bratislava. pp. 87-107.
- Somlyódy Péter E. (2017) Chances of Effective Urban Policy in Hungary Under the Influence of the European Cohesion Policy. *DETUROPE*, 9, 3, pp. 141-161.
- Szabó. P. (2018) Térszerkezeti kihívások és fejlesztési térségek Magyarországon. *Tér Gazdaság Ember*, 6, 2, 35-50.
- Territorial Agenda of the European Union (2007) *Towards a More Competitive Europe of Diverse Regions* (To be presented for adoption by Ministers responsible for Territorial Development on the Occasion of the Informal Ministerial Meeting to be held in Leipzig on 25 May 2007.)
- Törzsök, E.-Majoros, A. (2015) A magyar-szlovák határ mentén létrejött EGTC-k összehasonlító elemzése. (*Comparative analysis on the EGTC-s established along the Hungarian-Slovakian Border*). Kutatási jelentés (Scientific Report). Civitas Europica Centralis Alapítvány, Budapest.
- Urban Agenda for the EU (2016) 'Pact of Amsterdam' Agreed at the Informal Meeting of EU Ministers Responsible for Urban Matters on 30 May 2016 in Amsterdam, The Netherlands. http://ec.europa.eu/regional_policy/sources/policy/themes/urban-development/agenda/pact-of-amsterdam.pdf.
- Walsh, C.-Jacuniak-Suda, M.-Knieling, J.-Othengrafen, F. (2012) *Soft Spaces in Spatial Planning and Governance: Theoretical Reflections and Definitional Issues*. RSA Annual Conference, Delft. www.regionalstudies.org/uploads/conferences/presentations/european-conference-2012/presentations/walsh-et-al.pdf. Downloaded: 06 09 2012
- Wollmann, H. (2012) Local Government Reforms in (Seven) European Countries: Between Convergent and Divergent, Conflicting and Complementary Developments. *Local Government Studies*, 38, 1, pp. 41-70. DOI: 10.1080/03003930.2011.638710.

Analysis of the intensifying economic relations between Hungary and the European Union



Abstract

The connections between Hungary and the European Union (and its predecessors) have had quite a long history. Hungary has now been a member state of European integration for a decade and a half, and the decade and a half preceding the accession was spent establishing and strengthening the relations as well as pursuing accession negotiations. The objective of this study is not to describe and analyse the official stages of integration but to present the types of social, economic and political steps and tendencies which characterised the connections of the two parties in the period under consideration. Of course, where appropriate, there are references in the study to official political documentation but we focus more on the longer-term tendencies. Regarding the methodology of the study it is important to highlight that secondary data was analysed for the work. The key was to identify relative positions of Hungary and to analyse the deviations from the average rates of general macroeconomic indicators and foreign trade and capital flow data of the countries in question.

Keywords: integration, international trade, investment, economic development, institutions

INTRODUCTION

Despite the fact that Hungary could be considered as a culturally inherent part of Europe, Hungary's state socialist historical heritage and specific social, political and economic development path led many to consider European integration of the country as some kind of re-unification or return process. This materialised or could materialise to an undoubtedly more advanced social, economic and political bloc (Balázs, 2003).

In the course of the accession process an almost peripheral condition was intended to be preserved in the countries verbally seeking to join, so that a work sharing method suitable to the centre could be developed and maintained. In hindsight this can be seen more clearly by analysing the global processes (Bogár, 2006).

At this point we clearly cannot overlook the inappropriate attitude of the academic elite, the economist intelligentsia, in addition to the Hungarian political sphere, as they did not make the effort needed when pointing out that the series of measures taking place in the 90s could result in the country finding itself on a path like this, undesirable in terms of national strategy. As László Józsa and Ferenc Somogyi point out in their illuminating publication published in 2013, unfortunately, the Hungarian economic thinking is led by entirely different considerations than finding the right national strategic trend – they might even find it difficult to interpret this concept.

The study processes the subject in four chapters. The first chapter introduces the events preceding Hungary's EU-accession. The second unit of the study presents the most important macroeconomic and fiscal policy trends of Hungary related to EU membership. In the next structural unit, I examine the foreign trade trends of Hungary, using an international comparison. And the last chapter shows the structure of FDI flow, also in an international perspective. After these sections the conclusions were formulated.

1. THE ANTECEDENTS OF HUNGARY'S ACCESSION TO THE EU

It is only in recent years that the recognition of the fact that a longer-term social-economic equilibrium (György, 2017) should be found and, possibly, new-old but well-functioning economic policy recipes should be followed (Tatay, 2017). However, these ideas are still often described with cynical attributes in certain circles (for example, 'resentment economics').

However, we have every right to be pleased that as a result of clearly successful crisis management, economic policy practice and a series of interventions, the Hungarian economic policy has become a point of reference even in an international sense (Matolcsy-Palotai, 2018).

Returning to the background, Hungary's path towards EU membership was also marked by the fact that the most important objectives and tasks implemented included political sovereignty, economic policy interventions and the establishment of a market economic institutional system. Hungary, just as Poland, entered into institutional contact with the EEC, the legal predecessor institution of the EU, by the end of the 1980s (Losoncz, 2011).

Surprisingly, the four countries of the group now called the Visegrád Group (abbreviated as: V4 countries) joined at the same time, on 1 May 2004, despite the fact that they started the accession process and negotiations at different times and with different goals. After the political change of regime, it was first Hungary and Poland among the countries of the Visegrád Group that opened towards the EU. Following the partition of Czechoslovakia, Czechia and Slovakia also submitted their official requests for accession. In the first years of the so-called eastern expansion process, two groups of countries seeking to join were distinguished. Later, however, the European Union made the decision that eight former socialist countries (Poland, Czech Republic, Slovakia, Hungary, Slovenia, Latvia, Lithuania and Estonia) and Cyprus and Malta, two island states seeking to strengthen their previous partnership with the EU, would be able to join the EU in 2004. Bulgaria and Romania, still treated as members of the eastern expansion, joined the EU in 2007, thus, the community enlarged to 27 member states. Croatia, which joined the EU in 2013, was not classified into the group of the eastern expansion but it is the first joining member among the so-called Western Balkan countries.

However, we are well aware that it is remarkably similar to the countries above in terms of economic history with the difference being it was strongly affected by the Yugoslav war. Therefore, these countries constitute the circle to which Hungary's performance can be compared. Of course, we can safely say that Hungary on the one hand, cyclically deviated a large extent from the general path of the region, (Oblath, 2014), and on the other hand, there were some internal development contradictions that could be observed within each country.

The accession negotiations between Hungary, several other Central and Eastern European countries – not all the countries of the 2004 accession – and the EU started in 1998. 31 accession chapters had to be talked through; these consultations were carried out in a bilateral manner. It is important to highlight that the situation of agriculture was a key issue for Hungary. It is also important to note that bilateral relations with Germany clashed during the negotiations at numerous points due to the national interests of Hungary (Hettyey, 2018).

The negotiating chapters were very similar to the 35 chapters used today. These negotiations gave huge legislative tasks to the Hungarian government during the accession process: they had to harmonise the national legislation with the EU. Furthermore, around the turn of the millennium, Hungary had already gradually become an integral part of the EU in regard to at least the economic relations and the economic-financial legal system. In this sense, therefore, 2004 can merely be considered as an administrative time limit (Lentner, 2016).

The brief description of the eastern expansion shows us that a kind of credibility deficit characterised the relationship between Hungary and the EU already in the accession negotiations. The community did not appreciate at all that Hungary had built its relations with the EU for a longer period and more intensely than the majority of the other Eastern and Central European states. At the end of the accession negotiations, therefore, the relation between Hungary and the EU became cold, which can, of course, be deemed to be the harbinger of the poignant conflict, which we have experienced since 2010, already as a member of the EU. As an additional element of this conflict, we must highlight the formulation of the Copenhagen Criteria. This document has been accepted by the aspirants and has received little help from the EU – in particular, the building of a functioning market economy and the ability to compete with competitive pressure and market forces within the European Union.

2. THE MACROECONOMIC ASPECTS OF THE EU INTEGRATION

The literature discussing the development of the forms of regional economic associations identifies a variety of advantages and driving factors of belonging to a given form of integration. In the case of a form of integration at the minimum level of customs union (the EU is at a much higher level than this) it may be noted that the internal market of the given form of integration is markedly separate from

the countries outside of it, and this, in a favourable case, will have a positive impact on the side of consumers or even that of producers (Palánkai et al., 2011).

Moreover, the equilibration of the development level of the member states can be a factor for the successful operation of an integration process (Palánkai, 2010).

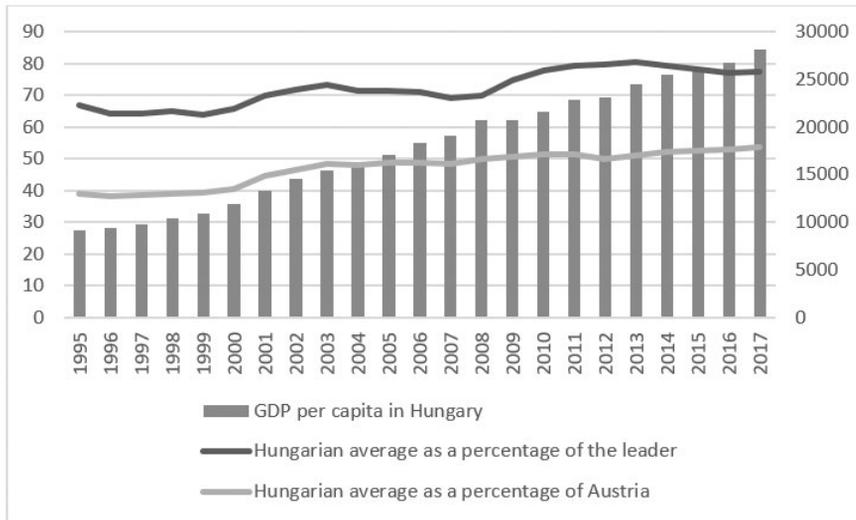
However, it must also be emphasised that both the European integration and global economy achieved such a high level of development that indicators developed for the measurement of these complex integration processes are often incorporated in academic analyses (Bache et al., 2011). These indicators also deal with the integration of the social and political system of given countries and groups of countries (Ágh, 2012). These can already be regarded as categories which have a strongly normative content that appears as a dark side in the case of these indicators. The integration of Hungary has got intraregional aspects as well, as stated by Sági and Engleberth (2018).

In this study we first point out the decisive aspects of Hungary's EU integration by using the economic indicators in a direct sense. Within this group of indicators, by using a kind of deductive logic, we believe the indicators cover a larger scope, and accordingly, we point out the shifts of the relative situation of the average Hungarian standard of living. Subsequently, foreign trade data and data of foreign working capital flow are discussed, which are complemented by fiscal and economic policy dimensions.

The monitoring of how welfare levels of a given country are progressing in comparison with Western European countries, which are considered developed, played a major role in each of the EU member states that joined after 2004, including Hungary. In the given years, this could be supported by the primarily positive experience of the previously joined countries, the trust in the inclusion following the so-called transitional crisis (Patai et al., 2019). Moreover, it can be clearly seen that measurements against and comparisons with the Austrian standard of living became accepted in the twentieth century (Tomka, 2016). Considering the fact that today, even according to the classification of the World Bank, Hungary falls into the category of countries with the highest income, and embedding the not too favourable expected growth prospects of the future in our approach, we can consider this attitude outdated. This, however, is unlikely to change the choice of values of our societies.

The welfare performance of the Hungarian national economy can be approached by comparing the country's performance to one or several specific reference values, or by expressing it with specific values. The first figure of the study presents the evolution of the Hungarian gross domestic product (GDP) per capita in Purchasing Power Standards compared to the data of the applicable Austrian GDP per capita and the respective leading country of the 11 former socialist states admitted after 2004 in the period between 1995 and 2017. The latter means which country had the highest value in terms of the GDP per capita in Purchasing Power Standards in a given year; in certain years, the list was led by the Czechia, Slovenia and Slovakia, respectively.

Figure 1 The evolution of Hungary's GDP per capita in Purchasing Power Standards expressed in American dollars, and the evolution of the GDP per capita expressed as a percentage of Austria and the leading regional state

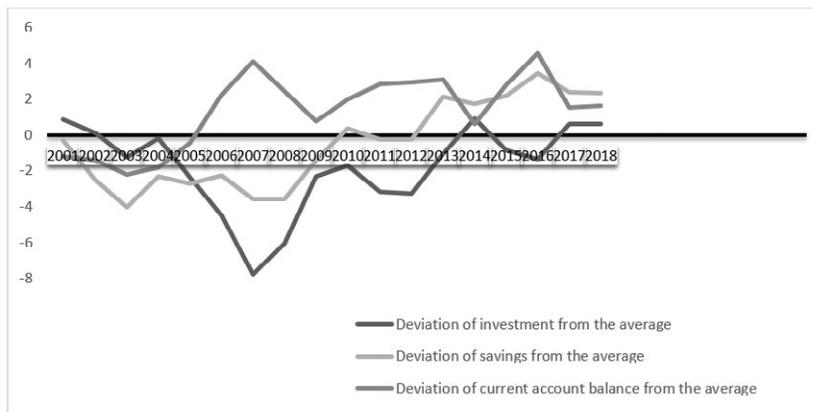


Source: Edited by the author based on the data of the World Bank

The values of the given year expressed in percentages are shown on the left-hand axis of figure 1. The values of the GDP per capita expressed in dollars are on the right-hand axis. It is clear that the value of the GDP per capita did not increase steadily, but the dynamics were almost continuous until 2006, subsequently, however, in 2013, 2014 and 2017 there was a significant increase. Compared to Austria, the country was able to strengthen to almost 55% from a value below 40%, but it was only able to catch up with the respective regional leader in terms of the longer-term trend: the momentum broke exactly around 2003-2004 (at the time of the accession to the European Union), and the improvement in this comparison is not clear even after 2013.

Figure 2 and the subsequent figures already show the reader the aspects of economic performance linked to the internal social and budgetary policy. Here, the term 'average' means in each case that the benchmark is comprised of the 11 countries joining the EU in 2004. During the subsequent EU expansions (including Hungary), with approximately the same development historical features as Hungary, the indicators express the relative situation compared to the average of these countries. The values concerning 2018 are only values estimated by the IMF.

Figure 2 The evolution of Hungary's investment value, savings at national level and current account balance compared to the countries of the region between 1995 and 2018



Source: Edited by the author based on the data of IMF WEO published in October 2018

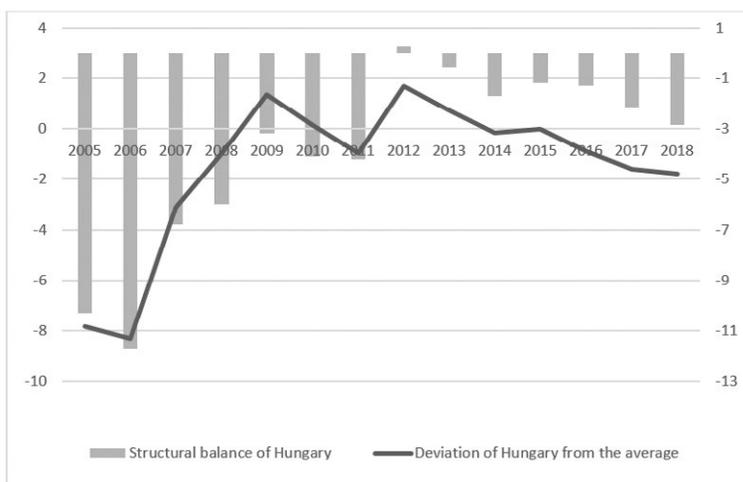
Value 0 plays a major role in this figure, as in certain periods the Hungarian society and economy under- or over-performed compared to the regional average. A very positive development occurred clearly in the current account balance in 2005, and from then on the Hungarian balance showed a steadily greater surplus compared to the GDP than in the other countries of the region. However, in the case of investments it is just after 2004 that a strong relative decline occurred, which only moved into a positive over-performance territory in 2014 and after 2017. The relative savings position only shows a positive situation before 2001 and after 2010. It is only in few years that all three indicators were simultaneously in positive territory: for instance, in 2017 and in 2018.

The most important indicators showing the position of trade in goods and services with foreign countries (complemented, of course, by capital flow and other transactions) is the balance of the current account compared to the GDP. By examining this indicator, we can firmly conclude that even in terms of the entire period we are right now in the most favourable position against all our benchmarks. In 2016 our current account balance was better by at least two percentage points than the euro zone's, and we were in a better position by four percentage points than the Visegrád countries or other countries in the region. The EU membership must have had a very positive impact on the trend, knowing also our export market from the previous figures. It is doubtful, of course, as to what extent this performance is temporary or a consequence of the weakening forint. Besides all this, we can consider this latter result as the greatest macroeconomic success after our accession to the European Union, especially regarding the years after 2010. In addition, we also draw attention to the fact that in today's extremely

complicated international economic connections we cannot solely consider a current account balance asset as if it were the real savings of the given nation state against “foreign countries”. It would also be important to highlight what proportion in this indicator is accounted for by the resource flow of transnational and multinational companies in regard to all corporate organisations.

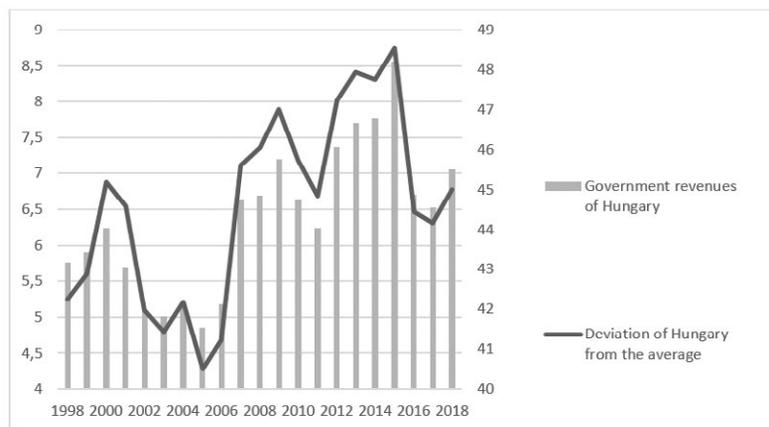
The third figure presents the absolute and relative position of the Hungarian structural balance. Here, the data available constrained the temporal limits of the figure between 2005 and 2008. As a consequence, we can only analyse the positions following Hungary’s accession to the EU. The right-hand axis shows that the structural balance was only positive in 2012, from then on, however, the liabilities cannot be considered too large. This also allows us to see that the strongly negative relative situation only lasted until 2007 (we can use the values of the left-hand axis for this purpose), and after 2008 the Hungarian balance showed smaller deviations compared to the regional average both in positive and negative directions. We must note, that the Council of the European Union requested a correction of the Hungarian balance, but this did not lead to a deficit of more than 3%.

Figure 3 The evolution of Hungary’s structural balance expressed as a percentage of GDP and compared to the average of the countries of the region between 2005 and 2018



Source: Edited by the author based on the data of IMF WEO published in October 2018

Figure 4 The evolution of the revenues of Hungary's public finance expressed as a percentage of the GDP and deviation from the average value of the region between 1998 and 2018



Source: Edited by the author based on the data of IMF WEO published in October 2018

The fourth figure points out one of the elements of the structural balance, the path of the government revenue between 1998 and 2002. The figure clearly shows that the value of the government revenues exceeded 40% of the GDP in each year under examination, and in 2015 it already exceeded the value of 48%. This becomes particularly interesting when examining the relative situation as we can see (if we read the values of the left-hand axis) that the Hungarian public finance concentrates significantly more revenues in each year than the regional average; actually, this figure is the greatest in Hungary in nearly each year.

Interestingly, rather a decreasing tendency was typical until 2004–2005, however, during the years spent in the EU the value of both indicators increased steadily, showing a co-moving tendency in nearly the whole period under examination. The crisis that started in 2007, of course, forced the decision makers of economic policy to reevaluation. We can appreciate this tendency in a way that the Hungarian government increased the role of the state despite the fact that the last big crisis did not give rise to a real paradigm shift in regard to economic theory and in the academic sphere, which was different from the previous experiences.

The analysis of real economic and fiscal policy, economic policy tendencies cast new light on the analysis. Unfortunately, the Hungarian economic operators and the Hungarian society were placed in a position to lose their leading regional position just after the accession to the EU. This made our country mistrust and disappointed in the EU, and a series of extremely unfavourable economic policy decisions worsened the situation of Hungary in the mid-2000s. Both fiscal political integration and the favourable reverse of the current account balance resulted in an improvement in this situation, but the significant decrease in the debt and the continuous over-performance compared to the region is still not forthcoming.

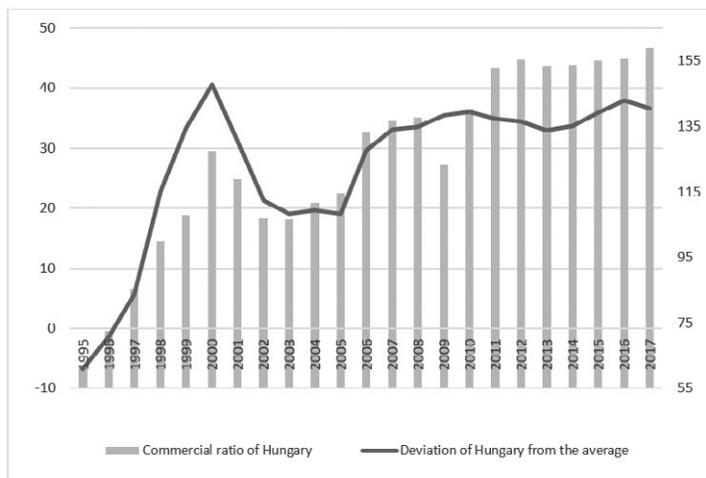
For the analysis of the future prospects of Hungary and the continent a broader-spectrum examination would be necessary. The 21st century will most certainly not bring rates of growth similar to those in the 20th century. All this can lead to the advent of comparative examinations based on relative positions against absolute values: I strived to implement this approach on the pages above, and I will do so in the subsequent parts. It is very important to mention, that in future studies, I have to deal with the consequences of the common policies of the European Union, with the impact of EU transfers or with the effects of the integration of the single European market. This kind of analysis can help to express better the role played in Hungary's European integration, the EU membership and the domestic economic policy environment in the development of the indicators:

3. FOREIGN TRADE ORIENTATION

By examining the foreign trade orientation of Hungary, in this paper we address the question as to what extent the import and export of the country is linked to the EU. By examining the tendencies, we distinguish commercial relations with old EU members and those maintained with newer EU members, as integration prior to the accession can be captured through the relations with the old 15 member states.

In one of my previous papers (Pintér, 2018) I pointed out the breakdown of the proportion of the export of goods and services arriving in Hungary from 1991 among the old member states of the EU, the countries of Eastern and Central Europe and the rest of the world. The examinations indicated that during nearly the entire period it was Western Europe that had the highest proportion of imports, however, the newly joining EU members supply to the Hungarian market was increasing to a larger and larger extent.

Figure 5 The value of Hungary's foreign trade expressed as a percentage of the GDP and the evolution of the deviation from the average value of the region between 1995 and 2017

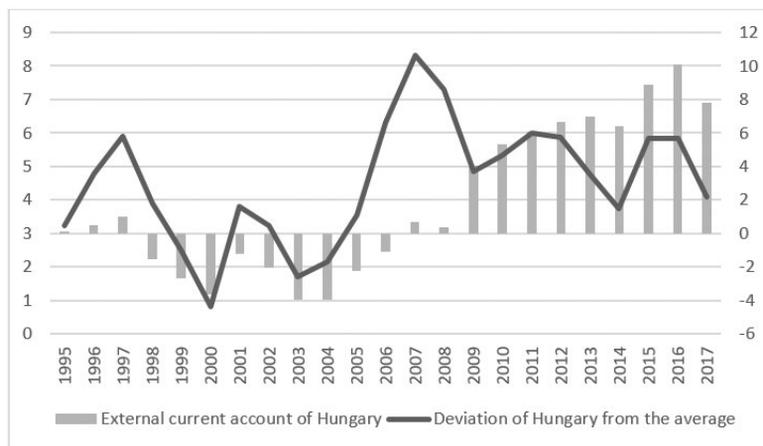


Source: Edited by the author based on the data of the World Bank

The fifth figure demonstrates the role of trade in the case of Hungary starting from a one level higher point of reference. The so-called commercial ratio published by the World Bank means that in each year the value of exports and imports are added up, then the amount is compared to the country's GDP. It is generally true that in the case of smaller states this indicator is higher as the role of smaller internal market is offset by the foreign sector. Looking at the right-hand axis of the figure we can see that in the initial period the amount of foreign trade accounted for 75–95% of the GDP, and following an unsteady growth, this value has steadily increased to above 140% by today. With these figures Hungary ranks among the top in the EU as a whole, with Luxembourg and Belgium showing similarly high values. Our accession to the European Union in 2004 definitely boosted the proportion of foreign trade, and from this point on, this value has not fallen back below 110%. This allowed Hungary to achieve an increasing relative proportion compared to the other countries with similar historical heritage in terms of development. As indicated by the left-hand axis of the figure this value is higher than the average values of the region by 30–40 percentage points. Considering the fact that only Romania and Poland have populations significantly larger than Hungary's, it can be stated that Hungary is exposed to the foreign trade tendencies to a disproportionately large extent. With regard to the rate that the two main components of the foreign trade indicator, i.e., export and import, represent relatively to one another we cannot draw any conclusions from figure 5. This gap is filled by figure 6, which shows the evolution of Hungary's external current account balance as a percentage of the GDP. When imports exceeded exports, the

indicator was, of course, in deficit, its value was negative while in other years the account balance was in surplus. The period between 1998 and 2006 was an example of the former case, and 2007 was an example of the latter one.

Figure 6 The value of Hungary's external current account expressed as a percentage of GDP and the evolution of deviation from the average value of the region between 1995 and 2017



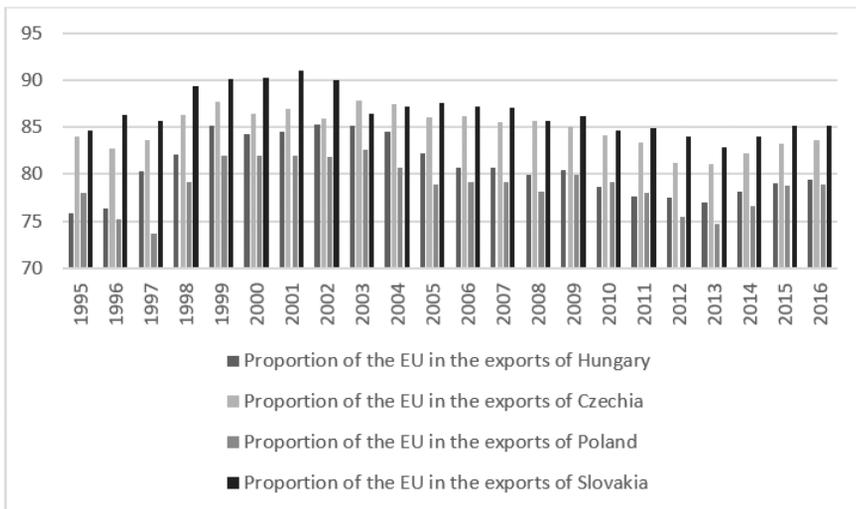
Source: Edited by the author based on the data of the World Bank

The evolution of the external current account expressed as a percentage of the GDP can be tracked on the right-hand axis of the figure. It is clearly visible that the indicator becomes largely in a surplus from 2009, and this dynamic was still not broken after 2010. The only exception was 2014. It can be inferred from this trend that the foreign trade proportion rose particularly high in such a way that it was successfully converted to an external current account balance that remained steadily in a surplus, by taking advantage of the trend. All this, of course, does not reduce the risk that the economic performance of the country significantly depends on the performance of the external markets. We will see in the subsequent parts of the study that this exposure appears excessively in the direction of one geographical region, which raises the need for the strong diversification of foreign trade. Further analyses need to be carried out in order to assess which region fills the dominant position in our foreign trade and to assess what kind of position Hungary holds in comparison with countries with similar characteristics to ours.

As a theoretical outlook, it can be stated that the integration theories name certain threshold values and threshold percentages for the identification of the rate of integration. In anticipation of the subsequent data, it is completely safe to say that Hungary has clearly formed an integral part of the EU's economy since the middle of the nineties, considering both exports and imports. In his paper

published in 2010, Tibor Palánkai says that integration crosses the minimum dependence threshold if domestic trade exceeds 10% of the aggregated GDP. In our analysis there are percentage values much higher than this, so we can state that we are deeply integrated in the market of the European Union and we also cross the dependence threshold. All this is confirmed by the fact that our country is considered as an explicitly open small economy on a global scale, which means a significant degree of globalisation and integration even at a global level. Both the advantages and disadvantages of this must be taken into account.

Figure 7 The proportion of the European Union in the exports of the Visegrád countries between 1995 and 2016

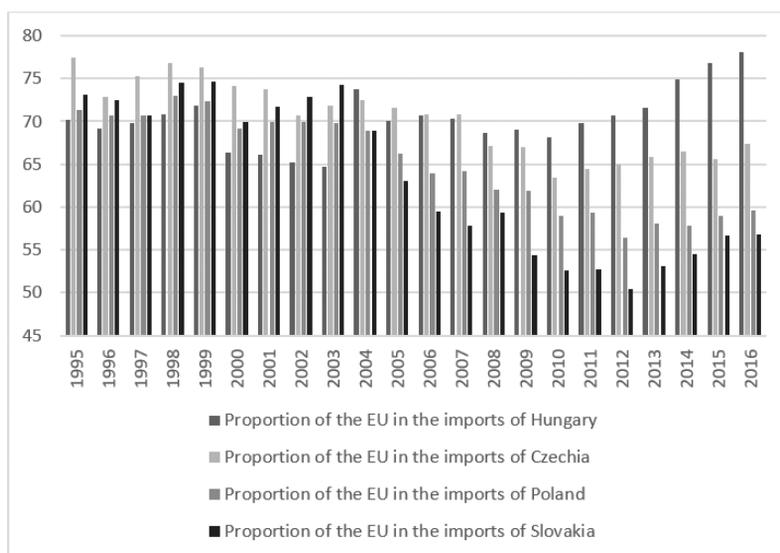


Source: Edited by the author based on the data of the WITS

World Integrated Trade Solution (WITS) is a software-based database that makes foreign trade data broken down by country available, mostly based on the data of the World Bank and the UN institutions. By using this database, in figures 7, 8 and 9, we can highlight even more the deeper components of the foreign trade structure of Hungary. Unlike in the other figures of the study, here the base sample is not composed of the 11 regional EU member states, but only the four Visegrád countries (Poland, Czechia, Slovakia and Hungary). The base year is 1995 in the case of all three figures. Figure 7 above shows the trends of the proportion of the EU in the export of the V4 countries. It is clear that although there are deviations in the percentage values, the EU reaches at least 70% of the total exports in the case of each state. It is typically Slovakia that produces the highest percentage in nearly all the years under examination, sometimes even exceeding 90%, and Poland represents the lowest values. Hungary's values were between 75 and 85 percent, ranking between Poland and Slovakia in terms of scale.

If we consider the EU share within imports, we can reveal much larger differences. While in the years before the EU accession the countries showed approximately the same proportions in their EU-related imports, in the period after 2004 we can observe divergent paths as shown by figure 8. During recent years the European Union shows a proportion of only around 50 and 55% in the imports of Slovakia, and this proportion remains below 60% in the case of Poland as well. In the case of Czechia this path shows stability, for Hungary, however, the imports related to the EU is dynamically increasing after 2010, and represents the highest value of the entire period in 2016.

Figure 8 The proportion of the European Union in the imports of the Visegrád countries between 1995 and 2016



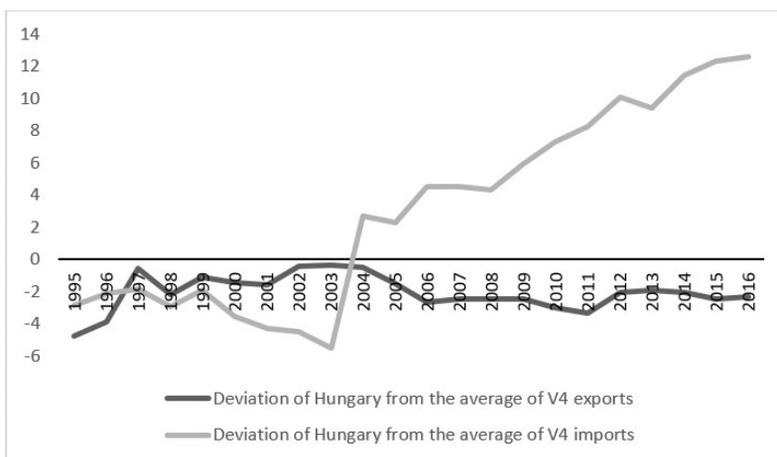
Source: Edited by the author based on the data of the WITS

Therefore, the tendency of figure 9 cannot come as a surprise. In this figure we attempted to identify the foreign trade position of Hungary in the direction of the EU relative to the V4 countries. It is clear that the role of the EU grew in the imports of Hungary following 2004, and the relative deviation from the regional average turned from negative to positive at this point. The increase in relative exposure in terms of the EU imports clearly intensified up until 2013, while Hungary produces values minimally below the Visegrád average in terms of exports. Both trends can be surprising. Given that Hungary was one of the countries in the region it was able to improve its external current account balance the most. It can be stated that it is certainly the additional export markets outside of the EU that gave a boost to the achievement of this position. However, our economic development generated

a significant relative EU-related import increase that the growing export was still able to outweigh in the years after 2009.

All in all, it can also be noted that our commercial exposure in the direction of the EU is not significantly larger compared to the Visegrád countries. However, it may not be called into question that the countries form an integral part of the EU in commercial terms. They do so to such an extent that already represents a too high EU proportion, so the demand can arise for a greater degree of diversification in terms of commercial and external relations. Firstly, it can and could be countered by the fact that during this period former commercial partners also joined the EU (Romania, Bulgaria, Croatia); secondly, an increasingly powerful sanctions policy emerged from the EU's side in the direction of Russia; thirdly, the multi- and transnational companies owned and controlled by earlier EU members took a dominant role in boosting the economic performance of the region; therefore, the intensification of resource flows within the corporate value chain and the organisation could easily increase the proportion of the European Union in a statistical sense.

Figure 9 The deviation of Hungary's EU-related exports and imports compared to the average of the Visegrád countries, expressed as a percentage, between 1995 and 2016



Source: Edited by the author based on the data of the WITS

The statements above are clearly confirmed by the fact that if we examine the integration of the Hungarian economy only based on exports then it is clear that the market outlet of the goods and services flowing out of Hungary has come from the circle of EU members since the middle of the nineties. It is remarkable that 2004 means some kind of censorship here, too, as the ratio of the regional countries shows a significant decrease, however, in the case of countries outside of the EU it cannot be said that an unambiguous trend would arise, rather a kind of cyclical fluctuation determines our exports in this direction, as I explained in one of

my previous studies (Pintér, 2018). The steady proportion of the countries outside of the EU, between 20-25%, highlights that the integration into the economy of the EU was even too successful, as Hungary's economy is not characterised by a healthy diversification in terms of external markets. Knowing that immediately prior to the most recent Great Recession, then following it, it is precisely Europe and the EU that were the biggest economic losers among the great regions of the world, it can be stated that it would be necessary to diversify our external economic relations to a greater degree. The economic governmental interconnection getting closer and closer, and the EU growth cycles more or less synchronising – in certain years only a few countries are able to produce a GDP growth deviation larger than 2-3 percentage points compared to the EU average and not even always upwards – project that our external commercial pattern requires a more active economic policy intervention routine. This realisation is likely to become stronger in the other countries of the region as well.

4. TRENDS OF INTEGRATION IN TERMS OF THE FDI FLOW

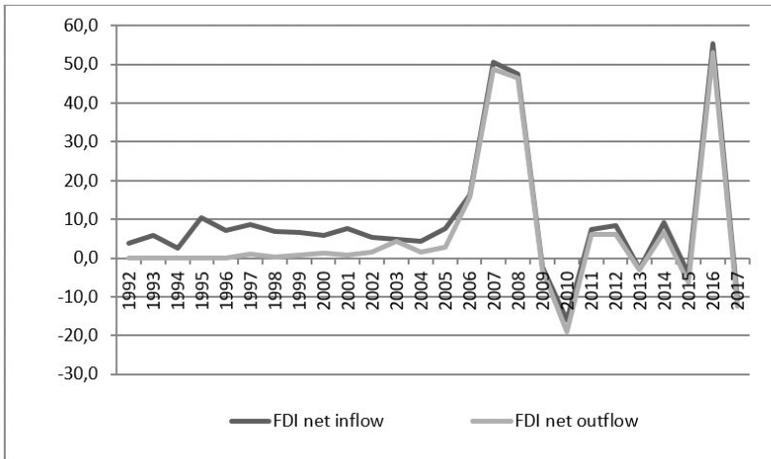
The extent to which Hungary integrated into the global process of foreign working capital flow can also be regarded as the indicator of the country's integration into the EU. Of course, as an opening we could have raised the question as to what capital flow intensity characterises Hungary in terms of the global average, but within the framework of this study we only discuss what is the volume of the inflow and outflow of the FDI to Hungary, and, subsequently, we also take into account from where the capital came to Hungary. We consider it as essential information that Hungary is primarily a capital importing country. That is why the countries investing capital here are to be examined, although it would also be an interesting question in which direction and for what purpose our capital export is carried out, whether our endeavours can be linked to the EU expansion strategy or whether it is the countries with a similar level of development that appear in the exports.

The figure below, which is the 10th one in the study, summarises the data available at the World Bank in relation to Hungary. As a technical addition, it can be noted that there are some values over 100% and also negative ones in the table. This is because in 2009 and 2010, for example, capital inflow reached a significantly negative balance, that is, the capital was withdrawn from Hungary due to the crisis, while the share of the EU exceeding 100% in some cases shows that compared to the other regions of the world negative inflow occurred, for example in 2008, but at this time still a positive capital flow appeared from the EU. All these comments are also true of the data of the Visegrád countries and the flows of the other countries of the region since these states have experienced similar tendencies.

By analysing the net outflow and inflow it is important to note that the two flow indicators were nearly-fully moving together after 2004. Therefore, it was again the year of the accession to the EU that meant the initial change, and this

had an impact on the capital flow processes. In the previous period the flow seems to be significantly higher compared to the outflow, while after 2004 there are much higher values, although the surplus of the inflow was hardly perceptible. The crisis starting in 2007 made itself felt with little delay, the FDI flow was characterised by cyclicity after 2011, however, both categories showed an exceptionally high volume, a peak value, in 2016.

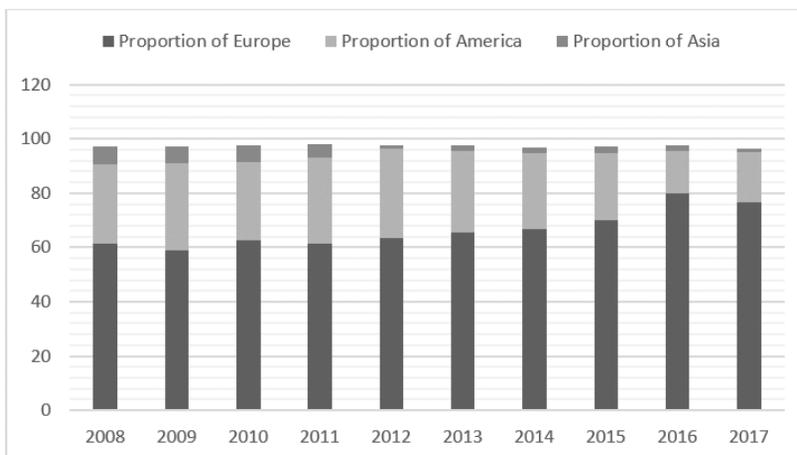
Figure 10 The net inflow and outflow to and from Hungary expressed as a percentage of the GDP between 1992 and 2017



Source: Edited by the author based on the data of the World Bank

Concerning Hungary's working capital flow position within the region I have already found in a previous study (Pintér, 2018) that after the accession to the European Union in Hungary a proportion more considerable than the regional average is represented by the EU as an entity sending working capital to the country. Between 2008 and 2011 this resulted in risk arising from our greater exposure turning into loss, as significant EU-related divestment was taking place in Hungary. This situation is, of course, not independent from the economic crisis peaking in that period, and the uncommon economic policy solutions and the sectoral special taxes introduced later triggered strong responses. Nonetheless, we can state that Hungary is strongly connected to the European Union also in terms of capital inflow. This is confirmed by the following figure 11, which shows the distribution of the FDI stock located in Hungary according to the sending territorial entity's continental position. It can be observed that despite the relation in the political scene, which is sometimes contradictory even occasionally hostile, the proportion of Europe as a continent was continuously increasing (in which mostly the EU member states, but also Switzerland played a major role). Nevertheless, the American continent and Asia rather show a downward trend.

Figure 11 The distribution of the FDI stock in Hungary based on the continent of origin, expressed as a percentage, between 2008 and 2017



Source: Own editing based on the data of the World Bank

As we could do and did so in the case of the evolution of trade relations, we must make the observation here as well that it would be necessary to diversify the capital flow relations in a geographical sense. This is justified by the proportion of nearly 80% of the European continent, as well as the fact that the centre of global growth is continuously shifting to the direction of the Pacific region. Accordingly, both the American and the Asian continent should be provided with a larger proportion. As a natural result of EU membership, the capital from the internal market of the European Union can appear most easily in Hungary, and this is exactly the reason why the distribution observed is natural. The new economic and political world order emerging and the consideration based on geopolitical and economic organisation model ideas can, however, make the diversification of the capital flow relations justified. We consider it very important to note, that according to the IBM's Global Location Trends Annual Report 2019, Hungary reached the 5th place after the 7th place from one year before in the category: Top-ranking destination countries by estimated jobs, per million inhabitants.

5. CONCLUSIONS

The purpose of the study was to provide a clear picture of the economic relations between Hungary and the EU. For this, I considered it important to summarize the history of EU-accession of Hungary. After that, the tendencies, which can describe the intensifying relations, were presented. The processed data include macroeconomic, fiscal policy, foreign trade and capital flow indicators. The tendencies and internal structure of these data serve as an empirical basis for drawing conclusions.

It is difficult to assess the economic and social experience of our years spent in the European Union so far. Based on most of the economic indicators, Hungary was not considered an isolated country within the region even at the beginning of the nineties, and nowadays it is connected to the global economic space even more closely, and the EU membership plays a major role in it.

The issue of Hungary's EU integration does not only have economic but also social and political aspects. According to the simplest interpretation of the term 'integration' we had to examine to what extent Hungary has become an organic part of the European Union, serving the soundness and development of a larger entity. We were not able to examine this question holistically and with due scientific thoroughness at present, due to its own simplicity, as not enough time has passed for us to be able to examine the relation of the EU and Hungary from sufficient distance and a perspective of sufficient scale.

However, we were able to give an answer to the question as to whether the EU plays a significant role in the economic life of Hungary from the aspect of foreign trade and capital flow indicators. Our answer is clearly: yes. This means that we saw values above the threshold values defined in the integration theories.

It can be considered to be a positive result that over the last decades, in terms of relative standard of life, Hungary has been able to catch up with Austria, the most significant country of reference in historical terms. Although there has been convergence compared to the respective leading state of the region too, it is a negative finding that Hungary is not in the top three countries according to categories per capita within the group of countries in question, while it was steadily there at the beginning of the period. The trends of the indicators with significant societal and institutional aspects showed that there was a climbing-back compared to the regional partner countries and, of course, the competitor countries following the lows after the accession.

In the analyses of western literature one of the most problematic data is undoubtedly the Hungarian state with a larger size compared to the standard of living and the regional countries, and this is proved by the highest governmental revenue ratio compared to the GDP. Accepting this fact and view, however, we have to point out that one of the biggest enigmas of economic theory and paradigm formation is the following: why didn't the last crisis, which can be compared to the crisis between 1929 and 1933 in terms of scale, cause the correction or change of the dominant neoliberal economics? The crises of the 1970s linked to the oil price explosion eroded the positions of the Keynes's economic policy in favour of active state intervention within a short period of time, however, the rejection of the minimalist state concept did not occur as a result of the next big crisis – at least at the level of theories. Despite the changelessness of the academic approach, in Hungary we witnessed some significant innovations in economic policy over the last decade, and the fact mentioned above can be considered as one of the results of this.

The external trade and capital flow indicators show an excessive unilateralism, the geopolitical considerations and the pressure for diversification raise the need for the creation of a structure more heterogeneous than this, and all this, of course, can be the breeding ground for further debates.

REFERENCES

- Ágh A. (2012) Demokráciakutatás a politikai és közpolitikai elemzés keresztútján: a demokráciák minősége és teljesítőképessége. *Politikatudományi Szemle*, 21, 2, 55-72.
- Bache, I.-George, S.-Bulmer, S. (2011) *Politics in the European Union*. Oxford University Press, Oxford.
- Balázs P. (2003) *Európai egyesülés és modernizáció*. Osiris, Budapest.
- Bogár L. (2006) *Magyarország és a globalizáció*. Osiris, Budapest.
- György L. (2017) *Egyensúlyteremtés - A gazdaságpolitika missziója*. Századvég, Budapest.
- Hettyey A. (2018) „A magyar pozíció teljes körű érvényesítésére nincs esély”: Magyarország európai uniós csatlakozási tárgyalásai és a német külpolitika. *Külgügyi Szemle*, 17, 1, 30-47.
- IBM (2019) *Global Location Trends. 2019 Annual Report: Trade regulations and digital disruptions affect the economic outlook*. IBM Institute for Business Value.
- Józsa L.-Somogyi F. (2013) A magyar közgazdaságtan útkeresései - 2013. *Valóság*, 56, 6, 15-29.
- Lentner Cs. (2016) *Rendszerváltás és pénzügypolitika. Tények és tévhitek a neoliberais piacgazdasági átmenetről és a 2010 óta alkalmazott nem konvencionális eszközökről*. Akadémiai, Budapest.
- Losoncz M. (2011) *Az Európai Unió Rómától Budapestig*. Tri-Mester, Tatabánya.
- Matolcsy Gy.-Palotai D. (2018) A magyar modell: A válságkezelés magyar receptje a mediterrán út tükrében. *Hitelintézeti Szemle*, 17, 2, 5-42.
- Oblath G. (2014) Gazdasági instabilitás és regionális lemaradás - Magyarország esete. *Külgazdaság*, 58, 5-6, 5-42.
- Palánkai T. (2010) Az integráció mérésének lehetőségei. *Köz-gazdaság*, 5, 4, 47-72.
- Palánkai T.-Kengyel Á.-Kutasi G.-Benczes I.-Nagy S. Gy. (2011) *A globális és regionális integráció gazdaságtana*. Akadémiai, Budapest.
- Patai M.-Parragh L.-Lentner Cs. (2019) *Hungary in a Changing World*. Éghajlat, Budapest.
- Pintér T. (2018) The Integration of Hungary into the European Union - Economic Aspects. *Civic Review*, 13, 1, pp. 165-183.
- Sági J.-Engleberth I. (2018) Regional Development and Well-Being of Regions in Hungary. *Civic Review*, 13, 1, pp. 184-194.
- Tatay T. (2017) Közgazdasági elméletek és gazdaságpolitikai alternatívák. *Új Magyar Közigazgatás*, 10, 4, 57-62.
- Tomka B. (2016) *Gazdasági növekedés, fogyasztás és életminőség. Magyarország nemzetközi összehasonlításban az első világháborútól napjainkig*. Akadémiai, Budapest.

ONLINE REFERENCES:

- IMF World Economic Outlook, October, 2018: <https://www.imf.org/en/Publications/WEO/Issues/2018/09/24/world-economic-outlook-october-2018>
- World Bank Open Data: <https://data.worldbank.org/>
- World Integrated Trade Solution: <https://wits.worldbank.org/>

Wine Tourism and Sustainability – A Case Study



Abstract

The wine tourism industry has a significant contribution to Portugal's socio-economic development. Considering the importance of sustainability for the wine tourism sector, companies are increasingly starting to set goals and objectives based on sustainable development. This study aims to present the case study of a large Portuguese company, describing the way these organisations promote sustainability in the sector of wine tourism. The qualitative research method adopted was based in documentary analysis. Content analysis revealed that the mechanisms used to promote and implement sustainable practices were recognised by the community. In the practical domain, the study can stimulate companies to implement practices in order to promote sustainability and also to contribute to adding value to tourism associated with wine.

Keywords: sustainable tourism, wine tourism, sustainability, Douro region.

INTRODUCTION

Tourism is one of the largest economic sectors in the world and its importance for the global economy is irrefutable, since it creates employment and incorporates a huge cultural, environmental and heritage value (Nepal et al., 2019). Also, sustainability is an extremely important element for businesses reflecting growing concern for environmental, social and economic issues (Kraus et al., 2017). In this sense, companies face challenges derived from sustainability issues, such as climate change and water and energy availability, given that their activities cause some negative impacts (Flores, 2018). Notably, the wine industry is also concerned with sustainability (Flores, 2018).

Sustainability has been gained increasing attention from companies, (López-Pérez et al., 2017) and currently this topic is of growing relevance, since the companies can be a vehicle for sustainable development (Kraus et al., 2017). Thus, sustainability has become a key factor in social science (Yu et al., 2015). In addition, academic studies on wine tourism have surged in recent years (Montella, 2017).

Considering Nepal et al. (2019, 145) is vital “reconsider the impacts of tourism, and support policies for making tourism an important contributor to the United Nation’s Sustainable Development Goals (SDGs), specifically the SDG 13 - managing tourism sustainably requires reducing the impact of the sector on climate change”.

Accordingly, sustainability in the wine industry has become an important subject for the International Organization of Vine and Wine (Flores, 2018, 2302).

The author mentions that “the discussion of sustainability in the wine industry raises many concerns, starting with agricultural activities (viticulture), followed by industrial operations and management processes (winery) and distribution. Furthermore, the enhancing of wine tourism emphasizes this discussion” (Flores, 2018, 2302).

It is possible to verify that companies are encouraged to participate in sustainability practices (Mark-Herbert and von Schantz, 2007) and the industries whose core business is the exploitation of natural resources reinforce the need to implement specific measures in this area. These measures are related to ethical issues (Boiral-Heras-Saizarbitoria, 2017), thus representing an important aspect for the conservation of biodiversity (SCBD, 2010).

According to González (2017), wine production companies with experience of wine tourism are contributing to the social, economic, environmental and cultural sustainability of the territories, and wine tourism is emerging as a profitable industrial sector, able to generate local and rural economic development (Marzo-Navarro-Pedras-Iglesias, 2012).

As is well known, tourism is on the increase in Portugal. According to the report of World Travel & Tourism Council, tourism grew by 8.1% in 2018, obtaining the highest rate among the countries of the European Union. Regarding the sector of wine production and commercialization, it is also notable that they have a significant impact on the national economy and consequently in the Gross Domestic Product (for example: according to data released by the Institute of Vine and Wine, in Portugal in 2018 wine export increased by 3% compared to the previous year and amounted to 806 million euros). Thus, given the relevance of these sectors, the objective of this study is to understand how a company of the wine industry promotes wine tourism, contributing to the sustainable development of the region where it is inserted (Douro region) and to identify a set of good practices implemented for promoting sustainability. For this study, the qualitative approach was used with the presentation of a case study with a Portuguese company.

The structure of this paper is composed as follows: section 2 concerns the literature review; section 3 describes the methodology; section 4 presents and discusses the implications and, lastly, the conclusions, limitations and future lines of research are mentioned in section 5.

1. LITERATURE REVIEW

Nowadays sustainability is an urgent arising problem (Mejía-Dugand et al., 2016), and its definition is related to three dimensions - economic, social and environmental (Elkington, 1997). In turn, McWilliams et al. (2014) advise the companies joining these three vectors (also called the Triple Bottom Line) on how to carry out their daily activities. According to Klewitz (2017), sustainability-oriented innovations allow companies to reduce the use of resources they use: for instance, environmental technologies are considered to have a strong relevance

for sustainability (Kanda et al., 2015). Regarding the implementation of a strategy of sustainability, this integrates aims and policies that must be settled in the different departments of the company (logistics, production, marketing, communication and human resources management) as explained by Baumgartner (2014).

Shnayder et al. (2016) identify that the environmental dimension includes everything that is related to the actions of the company that affect the environment. The authors add that in this dimension there are topics such as pollution, waste, recycling, environmental protection and biodiversity. In turn, Rao and Holt (2005) argue that the production phase plays a critical role in ensuring that the products/services provided by a company are ecologically correct, i.e., considering eight relevant aspects: i) raw materials that do not harm the environment; ii) replacement of environmentally questionable materials; iii) take environmental criteria into account; iv) take into account environmental design considerations; v) optimization of the solid waste reduction process and emissions; vi) use of cleaner technological processes to save energy and water; vii) selective separation of waste (recycling) and viii) incorporate principles of environmental management and quality.

In relation to the social dimension, the authors describe the corporate actions that affect people, i.e., subjects related to health, human rights, security and justice (Shnayder et al., 2016). In a complementary manner, Font et al. (2016) identify the following sustainable practices in social dimensions: i) support for local community development and heritage conservation; ii) promoting gender equality in employment practices; iii) actively encourage respect for the culture of the region where the company is inserted; iv) consider whether the premises are suitable for persons with reduced mobility; v) collaborate with social and charitable projects; vi) encourage clients to contribute to social initiatives; vii) promote the balance of work and family life.

And the third dimension - economic dimension - refers to profit and includes everything that is related to the financial status of the company as indicated by Shnayder et al. (2016). Font et al. (2016) describe some practices included in this dimension: i) encourage customers to consume local products; ii) choose employees from the region where the company operates whenever possible; iii) encourage clients to contribute to charitable activities; iv) the salaries of employees are fair and above the industry average; and v) choose suppliers that contribute to local development.

Tourism is an essential tool in the development and regional economic growth, believing to be one of the “weapons” to avoid desertification and economic stagnation of the regions (Opperman, 1993) and it is considered as a factor of extreme importance in promoting regional development (Jackson-Murphy, 2006). The World Tourism Organization (1998) defines sustainable tourism as the development of tourism that meets the needs of tourists, but at the same time preserves and improves the opportunity for future development. As argued by Wu (2009, 2) “sustainable tourism meets the needs of today’s tourists without taking away from

the future generations the resource necessary to satisfy their own needs". Thus, sustainable tourism management policies should aim to minimize the impacts associated with the environment (Nepal et al., 2019). However, from the perspective of Lu and Nepal (2009), sustainability is perceived as a complex concept for tourism. Nevertheless, sustainable tourism has been investigated in specific industries such as food and wine (Montella, 2017).

Concerning to wine tourism, Hojman and Hunter-Jones (2012) state that it is an important activity because it is emerging as a profitable sector and can generate significant economic development (Marzo-Navarro-Pedraja-Iglesias, 2012), but also contributes to the differentiation of a region in the tourism market as explained by Popp-McCole (2016).

According to Hall and Mitchell (2000), visiting winery companies has become an important form of tourism in many regions around the world, thus wine tourism can be defined as the interaction between visitors and the wine production team, management systems and other attributes of wineries (Carlsen-Boksberger, 2015). Considering Montella (2017), wine tourism has increased and today it represents a key element to leverage for improving wineries' performances for several reasons: i) wineries' economic interest, and ii) availability of local events that are linked to wine production. In turn, Alonso and Liu (2012), given the direct relationship between sustainability, grape/wine production and wine tourism, mention that there are many reasons why sustainability is gaining in importance in the wine industry. From the perspective of Montella (2017), it contributes to local development, which guarantees the interest in sustainability.

Poitras and Getz (2006) claim that sustainable wine tourism depends first on a general approach to tourism development that is based on the three pillars: economic, environmental and social. Further, Gázquez (2015) states that sustainable wine tourism depends on the identification and management of issues pertaining to the resources used, namely: i) land and water, ii) labour, iii) capital, and iv) infrastructure inputs necessary for grape growing and winemaking.

In a complementary manner, Nowak and Washburn (2002) affirm that the promotion of sustainable methods in wine production is being increasingly implemented in order to achieve competitive advantages, contributing to the construction of brand value. The wine industry, and specifically wine tourism, is increasingly referred to in the sustainability discussion, for example, in terms of environmental concerns (Alonso-Liu, 2012). By way of example, Ohmart (2008) indicates that one of the objectives of sustainable viticulture is to contribute positively to the local community by leaving a small environmental footprint and Peris-Martínez (2013) adds that wine tourism is related to sustainability through several environmental benefits, such as: reduction of carbon dioxide, protection against erosion, preservation of native fauna and species (which can be determined as grape varieties).

2. METHOD

2.1. TYPE OF STUDY

The study is of the exploratory type, contemplating the subjectivist approach and the method of research is qualitative with the presentation of a case study, following the structure of Yin (2014), where the qualitative research method seeks to identify relationships and becomes more efficient when the study intends to deepen a phenomenon.

To achieve the objective defined, this paper studies a single case related to the sustainability practices and wine tourism services development by the Portuguese company Sogrape Vinhos S.A. It was founded in 1942, is a family-owned company focused on the production of quality wines and the innovation and development of Portuguese brands, with more than 830 hectares of vineyards. The company has developed a marketing strategy for the international markets in order to promote Portuguese wines, as well as tourism services such as: providing various programmes of visits to its cellars, wine tasting, providing a hotel unit. Note that these activities are a historic element of Oporto (and the Douro region), inviting visitors to experience its heritage and culture.

2.2. COLLECTION OF INFORMATION AND ANALYSIS

For this study all information was collected through secondary data. More precisely, internal documents and other publications belonging to the company were consulted, namely a scientific paper related to the company, two internal documents with relevant information (Report of Sustainability 2017; Account report 2017), a press release, as well as the company's websites.

The data were subjected to a content analysis, which consists of a set of techniques for systematic analysis of texts (Mayring, 2000) and in the critical understanding of the meaning of communications (Chizzotti, 2006). Table 1 presents the documents representing the secondary data used in the study.

Table 1 Sources of secondary data

Documents	Code
Scientific Paper	D1
Report of Sustainability 2017	D2
Account report 2017	D3
Press release	D4
Company's website I	D5
Company's website II – restaurant & hostel	D6

Source: Own elaboration

3. CASE PRESENTATION: DISCUSSION AND IMPLICATIONS

3.1. SOGRAPE VINHOS S.A. CASE STUDY

Sogrape Vinhos S.A. was founded in 1942, is a family-owned company focused on the production of quality wines and the innovation and development of Portuguese brands, with more than 774 hectares of vineyards in several regions of Portugal: Douro (509 hectares), Alentejo (120 hectares), Bairrada (62 hectares), Dão (49 hectares) and Vinhos Verdes (34 hectares). At present, the company has a total of 18 farms, 15 winemaking centres and 9 bottling lines. Sogrape Vinhos S.A. has a presence in several countries in Europe, Asia, America, and Africa. It has about 700 hectares of vineyards planted in four countries on three continents (Argentina with 372 hectares, Chile with 169 hectares, Spain with 144 hectares and New Zealand with 15 hectares). The company has its own distribution channels, not only in Portugal, but also in four other countries: the United Kingdom, Angola, Hong Kong and Brazil. A marketing strategy for international markets was developed by the company in order to promote Portuguese wines and two of its most emblematic wine labels are Sandeman Port and Casa Ferreirinha wines. In addition to the production of wines, the company has several touristic programmes which are held in Douro region, for example: visits to the vineyard with wine tasting at Quinta do Seixo, visits to its cellars (Cockburn's Port Cellars) and the company manage also a lodging unit named The House of Sandeman Hostel & Suites.

Regarding the sustainability policy implementation, Sogrape Vinhos S.A. has developed several practices based on its values and ethics, so the company is committed to carrying out its activities in a responsible and sustainable way, contributing to environmental and social preservation in the places where it is located and has pledged to take care of its employees (D3). In conclusion, the company has defined a model of internal government to achieve this theme, translated into a strategy based on four priorities: i) ensure sustainable production and consumption; ii) protect the environment and life on earth; iii) skills development and iv) involving stakeholders (D3).

In sum, Sogrape Vinhos S.A. is a large Portuguese company whose brand and product are widely recognized; as such, the company is strongly established on the Portuguese market as well as on the international market. Furthermore, the company has a broadly structured sustainability policy.

3.2. SUSTAINABLE PRACTICES

3.2.1. ENVIRONMENTAL DIMENSION

Concerning environmental concerns and the consequent implementation of sustainability policies, Sogrape Vinhos S.A. has developed several practices taking into account that the environmental dimension includes everything related to the company's actions that affect the environment (Shnayder et al., 2016).

The company also ensures that its hectares of vineyards are certified according to the Integrated Production Mode, that is, it is a practice that integrates concerns to achieve economic, social and environmental balance, so that its viticulture is sustainable. In addition, the company states that at this time, a test phase is being implemented in order to practice organic production. Sogrape Vinhos S.A. is also committed to the development of functional biodiversity projects for the integration of viticulture practice in the surrounding ecosystem (D5). In particular, regarding the environmental sustainability, Sogrape Vinhos S.A. implements several practices: waste management, wastewater treatment, atmospheric emissions control, energy management, LED lighting technology introduction, among others (D2). All these measures represent concern with environmental management with the objective of reducing the environmental impact of their activities (Nunes-Bennett, 2010) including practices related to the reduction of waste, recycling, environmental protection and biodiversity (Shnayder et al., 2016).

In this sense, António Graça (Head of Research and Development) says *“the company's commitment is not only to produce good wines, but also to respect Nature!”* (D5) and Fernando da Cunha Guedes (Chairman) adds *“we have the responsibility to contribute actively to an environmentally, economically and socially sustainable sector, animated by a culture of network cooperation to reduce threats and optimization of opportunities”* (D2). This evidence is in line with the Annunziata et al. (2018) statement: the companies are concerned with linking sustainable practices to organizational performance.

According to Munoz-Villamizar et al. (2018), companies should consider compliance with regulations and certifications to evaluate and improve their sustainability practices. In this sense, the Head of Research and Development of the company argues that *“we reinforce our commitment to sustainability through certifications such as ISO 9001 and by ISO 14001. All grapes are produced according to Sustainable Agriculture Directives - Integrated Production, ensuring that our vineyards comply with the international sustainable viticulture scheme”* (D2).

In addition, a Quality System was developed, which meets the standards required for the agro-food industry. Thus, the company is certified by the BRC - British Retail Consortium - which is a global reference for food safety and the IFS - International Food Standard (D5).

According to Rao-Holt (2005, 903), *“the production phase plays a critical role in ensuring that the products/services provided by a company are environmen-*

tally friendly”; to this end, Sogrape Vinhos S.A. developed several actions aiming to achieve the Environmental Sustainability in Viticulture: i) The company is a founding board member of PORVID - Portuguese Association for Grapevine Diversity, a joint public-private effort to conserve, study, evaluate and deploy to growers the unique biodiversity of Iberian varieties, ii) agricultural protocols for water savings, iii) agricultural Protocols for Soil Conservation, iv) Agricultural Protocols for Energy Savings and v) Agricultural Protocols for Integrated Pest Management (D1).

In sum, according to the sustainability report of the year 2017, the environmental management system is transversal to the whole company (D2).

3.2.2. SOCIAL DIMENSION

In relation to the social dimension the company has 551 employees (41% are female, 59% are male) (D2) and for the company, one of its strategic axis is investment in human capital and in its development (D3), therefore 6450 hours were dedicated to their training (D2).

The company was the main driver of the European project “Wine in Moderation” in Portugal, a project which aims to promote moderation and responsibility in wine consumption. It is also one of the founders of the National Alcohol and Health Forum, a structure promoted by the Institute of Drugs and Drug Addiction with the objective of creating, at a national level, a platform representative of all civil society stakeholders committed to strengthening the actions necessary to minimize the harmful effects caused by excessive consumption of alcohol (D5).

At the level of the patronage actions, it is observed that the company has an active collaboration not only with local agents, namely, Banco Alimentar Contra a Fome (Oporto), Liga de Amigos de St. António, and the Association of Bagos d’Ouro, but also with organizations that promote culture: Serralves Museum, House of Music and the Association of Friends of the Coliseum (D5) In view of the foregoing, is possible to verify the fact that “emerging from social issues such as poverty and unemployment, many companies have implemented sustainability initiatives in order to help solve and prevent social problems and to promote social welfare in local communities” (Barron-Chou, 2017, 40).

As indicated by Wilkinson et al. (2001), the company must recognize value and promote the skills of its employees as well as their development and well-being. Adhering to this perspective, for Sogrape Vinhos S.A., employees are the most important audience of the company (D2). In 2017, Sogrape Vinhos S.A. developed an internal communication system which emerged as a strategic project. This project guides the development of the internal communication: it facilitates the dialogue between all employees from different departments promoting interaction and enhancing synergies through a collaborative culture of transparency; it promotes the development and the giving of a voice to all employees regardless of their function or hierarchical level; it aims to increase employee involvement and to promote the alignment of internal communication throughout the company Sogrape S.A. (D2).

For the company, “People are our Grapes”, that is, the company assumes with conviction, that employees are a priority element for the success of the company, since only with qualified professionals is it possible to face the daily challenges. Thus, related to the practices directed at its employees, the company encourages the continuous improvement of its competences through an annual training programme (for example, coaching programmes, creative thinking, marketing and leadership) as well as their health and well-being (e.g. health insurance and retirement pension plan). This evidence corroborates with Johnson (2006), when the author argues that the training programme provided to employees is positively related to the improvement of the company results.

Also, the gender-based equality of opportunity is an issue valued by the company (D2). These initiatives corresponded with the assumptions of Elkington (1994), i.e., the author claims that in relation to social sustainability, a company must offer equitable opportunities, encourage diversity, promote links within and outside the community, guarantee the quality of life of its employees, together with open and accountable governance structures.

Finally, a global digital platform was developed in order to facilitating internal communication, fostering a sense of unity and a collaborative culture and information sharing (D3). These occurrences present real action which supports Pullman et al. (2009) who indicate that social sustainability focuses on internal communities (i.e., human resources).

3.2.3. *ECONOMIC DIMENSION*

The data disclosed in the company’s sustainability report for the year 2017, in the economic dimension showed that 138 million euros was the economic value generated; the economic value distributed was 56 million euros and an amount of 102 million euros relates to purchases made to suppliers (D2). In relation to business growth, it connects the profitability and longevity of the business (D3). So, is evident that sustainable development is a way to ensure continued growth in revenue and profitability (Graça et al., 2017).

Another initiative is related to Sustainable Customer Service Practice (D1), as explained by Graça et al. (2017, 577), “the company has a Client Service Team, being that the company assessed its clients’ satisfaction through questionnaires and implemented improvements from identified opportunities”. In addition, Service performance indicators are regularly shared with the team and “the team met daily to analyse the previous day’s performance through specific key-performance indicators and planned for the coming days by adjusting work plans and improvement measures”. In sum, “the team interact with clients using their own collaborative models (web platforms, portals, websites, etc.) thus respecting their culture and strategies”. This innovation reflects one of the practices presented by Font et al. (2016), that consists of encouraging customers to consume local products.

According to the sustainability report of 2017, donations and other investments in the community were made to the amount of approximately € 100,000. In addition, in 2017 Sogrape Vinhos S.A. acquired grapes from 2,424 wine growers from all regions where it operates, thus contributing to the economy of families and communities (D2). This evidence corresponds to what the literature presents: the economic dimension is related to direct economic impacts and indirect economic impacts, i.e., the company is committed to activities with a positive return at a local level as is explained by Corbo et al. (2014).

Another element worthy of note is the Denomination of Origin, that is, the brands produced by the company come from specific origins, possessing distinctive and specific characteristics of the regions of production, contributing to the value of these regions and enjoying the character that they confer to the wines. These characteristics, together with the know-how, allow the production of consistent and unmistakable wines that the consumer values, leading to their loyalty (D2). In this way, brands generate value, since the brands of wines produced by Sogrape Vinhos S.A. are a differentiating factor, creating value for the company's customers and for consumers, and a quality seal. The relevance of brands makes the difference and is at the basis of sustainability (D2).

In this way, the production of wines with denomination of origin is undoubtedly beneficial in economic terms, given the added value associated with the products with this association between sustainability and local products (Miglietta et al., 2018). In particular, the wine industry has incorporated sustainability into its business strategy for some time, since sustainable practices become not only a matter of communication but are important actions to ensure the continued availability of resources, growth and future growth (Graça et al., 2017).

In sum, Sogrape Vinhos S.A. invested in a series of projects and initiatives aimed at building an ever stronger and profitable company for the future (D3).

3.3. WINE TOURISM SERVICES

Parallel to the production activity, a set of wine tourism services were developed (D3): visits to cellars Ofley/Sandeman/Ferreirinha, and Quinta do Seixo. In addition, as a symbol of the capacity for entrepreneurship and innovation, 'The House of Sandeman Hostel & Suites' and 'Sandeman The George Restaurante & Terrace' was established. The company's vision presented here confirms the perspective of González (2017), who states that wine tourism combines cultural aspects related to wine culture that develop in the wine regions over time. In turn, Montella (2017) declares that specific forms of wine tourism can be visitor facilities and events at wineries, wine-themed interpretation and information centres, wine museums, wine-themed villages, and wine tours, etc.

Regarding to the touristic programme of Quinta do Seixo, Sogrape Vinhos S.A, through the Sandeman brand, seeks to attract more visitors to the Douro and explain a little more about this region and the origin of its wines. Hence, they

offer a guided tour of the winery, the wine cellar and the robotic wineries, a visit complemented by multimedia that explains the entire cycle of wine production and a Port wine test (selected crops) in a room with a panoramic view over the Douro (D5). Thus, there are six types of visits available, from guided visits through cellars and vineyards, wine tastings, outdoor experiences and contact with nature, and enjoying the landscape of the Douro through picnics (D5). Another option is related to the visits to the Ferreira Museum. The exhibition provides the unique opportunity to enjoy a collection of artefacts used in the production of Port wine, including marking instruments used to mark the pipes, as well as other curiosities related to the Portuguese wine industry (D5).

These strategies corroborate with Montella (2017, 1), “wine tourism grew not only because of wineries’ direct economic interest, but also because of the availability of local events that are linked to food and wine production; in some cases, events have stimulated tourism flows and have represented the chance for local wineries to get connected with tourists”.

By defining priorities and focusing resources in order to make a relevant impact (D3), based on a contact with the history of Port and Sandeman wines (D4), other wine touristic services were developed: i) The House of Sandeman Hostel & Suites and ii) Sandeman The George Restaurante & Terrace. Therefore, the company wishes to promote happiness (D6). For the company, the originality, as well as the entrepreneurship and innovation capacity are key areas (D3); for instance, ‘The House of Sandeman Hostel & Suites’ is the first branded hostel. It has twelve suites and forty-three hostel beds in four rooms, with a total capacity for sixty-seven guests (D4) and ‘Sandeman The George Restaurante & Terrace’ presents an innovative offer in the Douro region. This space intends to be a place for after-work. It is composed of different areas: an esplanade, a cafeteria & bar, and a restaurant (D6).

The initiatives described previously corroborate with Poitras-Getz (2006, 425), “the wine and tourism industries must also be concerned about long-term economic sustainability in the face of increasing competition from other destinations, as well as from potential market shifts”.

In sum, Sogrape Vinhos S.A. has a wide range of wine tourism services (visitor centre and tasting room, hotel unit) based on the premise “People, origins, geographic traditions, and brands and wines for every moment of life” (D3).

3.4. SUSTAINABLE PRACTICES: A SYNTHESIS

According to Graça (2017, 571), “the wine industry has incorporated sustainability into its business strategy for a long time and today, most business sectors view sustainable development as a way of ensuring continuous growth”.

Adequate understanding of the interrelationships between tourism, the underlying economy and the natural environment is essential for the formulation of effective tourism policy policies (Nepal et al., 2019). Accordingly, some countries

are including sustainability when planning the strategic development of their wine tourism offers. Wine-producing countries are not only seeking a differentiation strategy, but they are also trying to manage tourism flows and natural resources (Montella, 2017).

Considering the sustainable practices described above, based on the company's internal documents, it is possible to verify that sustainable development is a concern for the company under study. In this regard, Sogrape Vinhos S.A. developed a Sustainability Strategy for the period 2018-2022 in which four priorities were defined as previously indicated: i) to ensure sustainable production and responsible consumption, ii) to protect the environment, iii) to develop people's skills and iv) to involve its stakeholders.

At the moment, several practices are being implemented with positive results and consequently with a relevant contribution to diminish the impact on the environment but also, on the other hand, to increase the socioeconomic impact of company's activities. In a brief way, the following table presents a summary of the evidence obtained by the analyse of the secondary data framed in the topic of sustainable practices and wine tourism (table 2).

Table 2 Sustainable practices in several areas of the company

Sustainable Practices	Production	Tasting Room	Visitor Centre	Hotel Unit
Certification	√	√	√	√
Energy saving	√	√	√	√
Recycling	√	√	√	√
Waste Management	√	√	√	√
Integrated production	√	n.a.	n.a.	n.a.
Reducing carbon emissions	√	n.a.	n.a.	n.a.
Annual training programme	√	√	√	√
Health insurance	√	√	√	√
Pension plan for retirement	√	√	√	√
Internal communication system	√	√	√	√
Sustainable customer service practices	√	√	√	√
Support of R&D* projects	√	n.a.	n.a.	n.a.

Source: Own elaboration

Note: n.a. (not applicable) and √ (sustainable practice implemented in a specific area)

* Activities for supporting Research & Development projects and Education to enhance Community's Environment

3.5. AWARDS AND RECOGNITION

Sogrape Vinhos S.A. based on its mission and vision, has implemented several sustainable attitudes and it is evident that for the company there are substantial concerns with the perceived value provided by both wine tourism and sustainable winegrowing practices (Baird et al., 2018). Consequently, as an outcome of the implementation of good practices, several prizes awarded to the company are presented as follows:

- A. in 2016, the company received an international sustainability award in the worldwide wine business called the International Award for Excellence in Sustainable Viticulture awarded by the Texas Botanical Research Institute. This is the only international prize that deals with sustainability in wine production and the criteria for the award include innovative and sustainable practices and the applicant's impact on air, water and land in viticulture and winemaking, as well as being socially responsible (Graça et al., 2017, 573). Thus, for Sogrape Vinhos S.A., this award made it possible to reinforce the consumer's confidence in wine in relation to its products - Sandeman Port wines and Casa Ferreirinha Douro wines (D1).
- B. in 2017, Portuguese magazines "Jornal Expresso" and "Revista Exame Informática" awarded a prize to the company within the Research and Development area, highlighting the company's performance in the search for innovative solutions using technology, that is, the investment made within the framework of the MicroWine^[1] project with the objective of studying and understanding the impact of microorganisms on wine production (D4).
- C. in 2019, the Botanical Research Institute of Texas once again recognized the excellence of the company's practices in ensuring the sustainability of its business in the environmental, economic and social spheres (D4). Casa Ferreirinha and Sandeman, two of the most prestigious references in the Sogrape Vinhos S.A. portfolio, have recently been honoured in the US under the "2019 International Award for Excellence in Sustainable Winegrowing". According to António Oliveira Bessa, CEO of Sogrape Vinhos, S. A, "*with the attribution of these prizes are recognized the efforts of these brands of Sogrape to support their winemaking activities through innovative practices that minimize negative impacts on the atmosphere, water, soils and areas where their vineyards and facilities are inserted, as well as important aspects such as responsibility business*" (D5).
- D. in 2019, Sandeman - the Port Wine brand of Sogrape Vinhos S.A. has two wine tourism projects recognized as part of the 'Best of Wine Tourism 2019' awards. The international awards 'Best of Wine Tourism' highlights every year the best that has been done in the area of wine tourism (D5). Sandeman Caves

[1] MicroWine project is a European network that promotes the collaboration between the business community and academia.

were considered the best project in the category of Art and Culture. The House of Sandeman Hostel & Suites emerges from this competition by being recognized with the award for best design in the Accommodation category (D5). According to João Gomes da Silva, company administrator, *“these distinctions support the strategy for wine tourism followed by the brand in 2018. The redevelopment of the Sandeman Caves and the opening of the first branded hostel in the Caves building serve the greater purpose of creating a true road map of sophisticated, laid-back and unique Sandeman experiences”* (D5).

In sum, these distinctions are based on several components such as: i) concerns about soil conservation and biodiversity; ii) agricultural practices in Integrated Production mode; iii) actions aimed at reducing energy consumption, thermal energy recovery, minimization of industrial compressed air leakage and photovoltaic energy implementation plan; iv) reduction of the weight of glass bottles and the use of recycled materials in the packaging; v) increasing appreciation of agricultural and industrial waste; vi) sustainable practices of customer management and customer service; vii) training programme for employees; viii) conditions offered to employees at the canteen level, medical services, gymnastics, nutritionist, health and life insurance and pension fund; and ix) the active form of R&D participation both internally and externally. Finally, the fact that Sogrape Vinhos S.A. was the founder of PORVID - the Portuguese Association for Vine Diversity which also was a crucial element in this process of evaluation and consequently in the awarding of prizes.

4. CONCLUSIONS

In Portugal, it is usually the larger companies that develop more cohesive sustainability policies. The case study presented here aimed to illustrate a set of practices inserted in the sustainability policy of the Portuguese company Sogrape Vinhos S.A. which contributes to the promotion of tourism in the region where it operates.

It was verified that there is a set of sustainable practices directed to the various stakeholders of the company, as well as several certifications (ISO9001 and ISO14001; BRC - International Food Standard, etc). This reflects a strategic tool for the development of processes and permanent improvement. Another important element is the active participation of the company in several R&D projects, as well as sponsorship actions with private and public entities, but also in partnerships with several organizations with a strong social contribution.

Regarding the wine tourism, several services were established. These aim to provide unique experiences based on culture, history, origins and heritage. Note that an innovation action was the opening of the first branded hostel entitled “The House of Sandeman Hostel & Suites” which serves the greater purpose of creating a true script of sophisticated experiences based on wine.

Therefore, the awards and recognitions that the company has won are incentives to proceed with the planning and successful execution of its sustainable practices.

Thus, this case study can contribute to the practice in order to stimulate the companies of the sector to develop policies and actions in the scope of sustainability.

One limitation of this study arises from the fact of studying only one company. Therefore, a future line of research would be a study with more companies with developed sustainable practices and promoting the wine tourism. Another future line of research could be to carry out a similar study in other geographical regions of the country.

ACKNOWLEDGEMENT

This work is financed by National Funds through the FCT Foundation for Science and Technology - Project UID/GES/04630/2019.

REFERENCES

- Alonso, D.-Liu, Y. (2012) Wine region, new concept and sustainable development: Winery entrepreneurs' perceived benefits from wine tourism on Spain's Canary Islands. *Journal of Sustainable Tourism*, 20, pp. 991-1009. DOI: 10.1080/09669582.2011.651220
- Annunziata, E.-Pucci, T.-Frey, M.-Zanni, L. (2018) The role of organizational capabilities in attaining corporate sustainability practices and economic performance: Evidence from Italian wine industry. *Journal of Cleaner Production*, 171, pp. 1300-1311. DOI: 10.1016/j.jclepro.2017.10.035
- Baird, T.-Hall, C. M.-Castka, P. (2018) New Zealand Winegrowers Attitudes and Behaviours towards Wine Tourism and Sustainable Winegrowing. *Sustainability*, 10, 797. DOI: 10.3390/su10030797
- Baumgartner, R. J. (2014) Managing Corporate Sustainability and CSR: A Conceptual Framework Combining Values, Strategies and Instruments Contributing to Sustainable Development. *Corporate Social Responsibility and Environmental Management*, 21, pp. 258-271. DOI: 10.1002/csr.1336
- Barron, K.-Chou, S. Y. (2017) Toward a spirituality mode of firm sustainability strategic planning processes. *Society and Business Review*, 12, 1, pp. 46-62. DOI: 10.1108/SBR-01-2016-0008
- Boiral, O.-Heras-Saizarbitoria, I.-Testa, F. (2017) SA8000 as CSR-Washing? The Role of Stakeholder Pressures. *Corporate Social Responsibility and Environmental Management*, 24, pp. 57-70. DOI: 10.1002/csr.1391
- Chizzotti, A. (2006) *Pesquisa em ci ncias humanas e sociais* (8a ed.). S o Paulo, Cortez.
- Clarlsen, J.-Boksberger, P. (2015) Enhancing Consumer Value in Wine Tourism. *Journal of Hospitality and Tourism Research*, 39, 1, pp. 132-144. DOI: 10.1177/1096348012471379
- Corbo, C.-Lamastra, L.-Capri, E. (2014) From environmental to sustainability programs: A review of sustainability initiatives in the Italian wine sector. *Sustainability*, 6, pp. 2133-2159. DOI: 10.3390/su6042133

- Elkington, J. (1994) Towards the Sustainable Corporation: Win-Win-Win Business Strategies for Sustainable Development. *California Management Review*, 36, 2, pp. 90–100. DOI: 10.2307/41165746
- Elkington J. (1997) *Cannibals with forks: the triple bottom line for 21st century business*. Oxford, Capstone Publishing.
- Flores, S. S. (2018) What is sustainability in the wine world? A cross-country analysis of wine sustainability frameworks. *Journal of Cleaner Production*, 172, pp. 2301–2312. DOI: 10.1016 /j.jclepro.2017.11.181
- Font, X.-Garay, L.-Jones, S. (2016) Sustainability motivations and practices in small tourism enterprises in European protected area. *Journal of Cleaner Production*, 137, pp. 1439–1448. DOI: 10.1016/j.jclepro.2014.01.071
- Gázquez-Abad, J. C.-Huertas-García, R.-Vázquez-Gómez, M. D.-Romeo, A. C. (2015) Drivers sustainability in Spain Wine Tourism. *Cornell Hospitality Quarterly*, 56, 1, pp. 106–117. DOI: 10.1177/1938965514549657
- Graça, A. R.-Simões, L.-Freitas, R.-Pessanha, M.-Sandeman, G. (2017) Using sustainable development actions to promote the relevance of mountain wines in export markets. *Open Agriculture*, 2, pp. 571–579. DOI: 10.1515/opag-2017-0060
- González, M. L. (2017) Enoturismo y entornos sostenibles. *Arbor*. DOI: 10.3989/arbor.2017.7 85n3005
- Hall, M.-Mitchell, R. (2000) Wine tourism in the Mediterranean. A tool for restructuring and development. *Thunderbird International Business Review*, 42, 4, pp. 445–65. DOI: 10.1002/1520-6874(200007/08)42:4<445::AID-TIE6>3.0.CO;2-H
- Hojman, D. E.-Hunter-Jones, P. (2012) Wine tourism: Chilean wine regions and routes. *Journal of Business Research*, 65, pp. 13–21. DOI: 10.1016/j.jbusres.2011.07.009
- Jackson, J.-Murphy, P. (2006) Cluster in Regional Tourism, An Australian Case. *Annals of Tourism Research*, 33, 4, pp. 1018–1035. DOI: 10.1016/j.annals.2006.04.005
- Johnson, A. (2006) Lessons learned from six-sigma in R & D. *Research Technology Management*, 49, 2, pp. 15–19. DOI: 10.1080/08956308.2006.11657364
- Kanda, W.-Mejía-Dugand, S.-Hjelm, O. (2015) Governmental export promotion initiatives: awareness, participation, and perceived effectiveness among Swedish environmental technology firms. *Journal of Cleaner Production*, 98, pp. 222–228. DOI: 10.1016/j.jclepro.2013 .11.013
- Klewitz, J. (2017) Grazing, exploring and networking for sustainability oriented innovations in learning-action networks: an SME perspective. *Innovation: The European Journal of Social Science Research*, 30, 4, pp. 476–503. DOI: 10.1080/13511610.2015.1070090
- Kraus, S.-Burtscher, J.-Niemand, T. -Roig-Tierno N.-Syrjä, P. (2017) Configurational Paths to Social Performance in SMEs: The Interplay of Innovation, Sustainability, Resources and Achievement Motivation. *Sustainability*, 9, 10, pp. 1–17. DOI: 10.3390/su9101828
- López-Pérez, M. E.-Melero, I.-Sesé, F. J. (2017) Does Specific CSR Training for Managers Impact Shareholder Value? Implications for Education in Sustainable Development. *Corporate Social Responsibility and Environmental Management*, 24, 5, pp. 435–448. DOI: 10.1002/csr.1418
- Lu, J.-Nepal, S. K. (2009) Sustainable tourism research: An analysis of papers published in the Journal of Sustainable Tourism. *Journal of Sustainable Tourism*, 17, 1, pp. 5–16. DOI: 10. 1080/09669580802582480

- Mark-Herbert, C.-Von Schantz, C. (2007) Communicating corporate social responsibility. *Electronic Journal of Business Organization*, 12, 2, pp. 4–11. DOI: 10.1016/j.pubrev.2017.06.007
- Marzo-Navarro, M.-Pedraja-Iglesias, M. (2012) Critical factors of wine tourism: incentives and barriers from the potential tourist's perspective. *International Journal of Contemporary Hospitality Management*, 24, 2, pp. 312–334. DOI: 10.1108/09596111211206196
- Mayring, P. (2000) Qualitative Content Analysis. *Forum: Qualitative Social Research*, 1, 2, Art. 20. <http://nbn-resolving.de/urn:nbn:de:0114-fqs0002204> Downloaded: 15. 03. 2019.
- McWilliams, A.-Parhankangas, A.-Coupet, J.-Welch, E.-Barnum, D. T. (2014) Strategic Decision Making for the Triple Bottom Line. *Business Strategy and the Environment*, 25, 3, pp. 193–204. DOI: 10.1002/bse.1867
- Mejía-Dugand, S.-Kanda, W.-Hjelm, O. (2016) Analyzing international city networks for sustainability: a study of five major Swedish cities. *Journal of Cleaner Production*, 134, pp. 61–69. DOI: 10.1016/j.jclepro.2015.09.093
- Miglietta, P. P.-Morrone, D. (2018) Managing Water Sustainability: VirtualWater Flows and Economic Water Productivity Assessment of the Wine Trade between Italy and the Balkans. *Sustainability*, 10, 2, pp. 1–19. DOI: 10.3390/su10020543
- Montella, M. M. (2017) Wine Tourism and Sustainability: A Review. *Sustainability*, 9, 1, pp. 1–11. DOI: 10.3390/su9010113
- Munoz-Villamizar, A.-Santos, J.-Viles, E.-Ormazabal, M. (2018) Manufacturing and environmental practices in the Spanish context. *Journal of Cleaner Production*, 1, 78, pp. 268–275. DOI: 10.1016/j.jclepro.2018.01.026
- Nepal, R.-Irsyad, M. I.-Nepal, S. K. (2019) Tourist arrivals, energy consumption and pollutant emissions in a developing economy-implications for sustainable tourism. *Tourism Management*, 72, pp. 145–154. DOI: 10.1016/j.tourman.2018.08.025
- Nunes, B.-Bennett, D. (2010) Green operations initiatives in the automotive industry: An environmental reports analysis and benchmarking study. *Benchmarking: An International Journal*, 17, pp. 396–420. DOI: 10.1108/14635771011049362
- Nowak, L. I.-Washburn, J. H. (2002) Building brand equity: Consumer reactions to proactive environmental policies by the winery. *International Journal of Wine Marketing*, 14, pp. 5–19. DOI: 10.1108/eb008743
- Ohmart, C. (2008) Green wine without greenwashing? *Wines & Vines*, 89, 7, pp. 77–79.
- Opperman, M. (1993) Tourism Space in Developing Countries. *Annals of Tourism Research*, 20, 4, pp. 535–556. DOI: 10.1016/0160-7383(93)90008-Q
- Peris-Martínez, M. B. (2013) Valoración ambiental de viñedos mediante métodos multicriterio. Aplicación a la valoración del viñedo del término municipal de Requena. *Revista digital de Medio Ambiente «Ojeando la agenda»*, 22: 3–29. <https://mirevistadigital.files.wordpress.com/2013/03/revista229.pdf>. Downloaded: 18. 01. 2019.
- Poitras, L.-Getz, D. (2006) Sustainable wine tourism: The host community perspective. *Journal of Sustainable Tourism*, 14, pp. 425–448. DOI: 10.2167/jost587.0
- Popp, L.-McCole, D. (2016) Understanding tourists' itineraries in emerging rural tourism regions: The application of paper-based itinerary mapping methodology to a wine tourism region in Michigan. *Current Issues in Tourism*, 19, pp. 988–1004. DOI: 10.1080/13683500.2014.942259
- Pullman, M.-Maloni, M. J.-Carter, C. R. (2009) Food for thought: social versus environmental sustainability practices and performance outcomes. *Journal of Supply Chain Management*, 45, 4, pp. 38–54. DOI: 10.1111/j.1745-493X.2009.03175.x

- Rao, P.-Holt, D. (2005) Do green supply chains lead to competitiveness and economic performance? *International Journal of Operations & Production Management*, 25, 9, pp. 898–916. DOI: 10.1108/01443570510613956
- SCBD (Secretariat of the Convention on Biological Diversity) (2010) *Global Biodiversity Outlook 3*. <http://www.cbd.int/doc/publications/gbo/gbo3-final-en.pdf>. Accessed 28 Jan 2019.
- Shnayder, L.-van Rijnsoever, F. J.-Hekkert, M. P. (2016) Motivations for Corporate Social Responsibility in the packaged food industry: an institutional and stakeholder management perspective. *Journal of Cleaner Production*, 122, pp. 212–227. DOI: 10.1016/j.jclepro.2016.02.030
- Wilkinson, A.-Hill, M.- Gollan, P. (2001) The sustainability debate, *International Journal of Operations & Production Management*, 21, 12, pp. 1492–1502. DOI: 10.1108/01443570110410865
- World Tourism Organization (1998) Guide for Local Authorities on Developing Sustainable Tourism; WTO: Madrid, Spain, p. 9. <https://www.e-unwto.org/doi/pdf/10.18111/9789284402809> Downloaded: 18. 12. 2019.
- Wu, C.-W. (2009) Sustainable development conceptual framework in tourism industry context in Taiwan: Resource based view. *Conference of International Journal of Arts and Sciences*, 2, 1, pp. 1–11.
- Yin, R. K. (2014) *Case Study Research: Design and Methods*. 5th ed., SAGE Publications, Thousand Oaks, CA.
- Yu, Y.-Choi, Y.-Zhang, N. (2015) Strategic corporate sustainability performance of Chinese state-owned listed firms: A meta-frontier generalized directional distance function approach. *Social Science Journal*, 52, 3, pp. 300–310. DOI:10.1016/j.soscij.2013.07.010

INTERNET SOURCES:

- Report of Sustainability (2017) Sogrape Vinhos, S. A. https://www.sograpevinhos.com/app/uploads/infofinanceira/rel_suste_2017.pdf Downloaded: 11. 03. 2019.
- Account report (2017) Sogrape Vinhos, S. A. https://www.sograpevinhos.com/app/uploads/infofinanceira/rel_cons_2017.pdf Downloaded: 12. 03. 2019.
- Press Release (2017) Sogrape Vinhos, S. A. <https://www.sograpevinhos.com/blog/category/noticias/> Downloaded: 15. 03. 2019.
- Company's website I (2019) <https://www.sograpevinhos.com/> Downloaded: 04. 03. 2019.
- Company's website II - restaurant & hostel (2019) <https://thehouseofsandeman.pt/?lang=pt-pt> Downloaded: 18. 03. 2019.

Advertising Language in Social Marketing. The Case of the Vienna Metro



Abstract

The aim of this study is to analyse the advertising language of the printed advertisements used by the public company Wiener Linien in its four campaigns between October 2016 and September 2018 to promote good manners. The methodology is based on direct observation of the campaigns under study and content analysis. Among the main results obtained from the analysis, the following conclusions stand out: the message was addressed to all users of the Vienna metro in general, and to male youngsters / adults and/or foreigners, in particular. The message included the good manner rules that Wiener-Linien intended to be observed. German was the language used in the ads, but Anglicisms and technical terms of criminal jargon were also used. Although initially the topics were quite varied, their number was reduced in the following campaigns. All advertisements included an image and a short text.

Keywords: social marketing, advertising language, civic education campaigns, Vienna Metro, Wiener Linien

INTRODUCTION

In 2018, Vienna was named the best city in the world to live in by the Economist Intelligence Unit ranking^[1]. One of the factors analysed annually to make that choice is the quality of public transport. In this sense, Vienna is undoubtedly one of the cities that offers the best service to its citizens, not only in terms of the punctuality and frequency of its public transport, but also regarding its safety, cleanliness, and comfort.

Among the many factors that have contributed to achieve this top quality in its means of transport in general, and the underground in particular, several social marketing campaigns (and, specifically, the language used in them) must be highlighted. These campaigns were launched by the company that manages the Vienna metro to make the “Hausordnung der Wiener Linien” known, that is, make the rules that intend to promote public spiritedness among all the users of

[1] Economist Intelligence Unit (EIU) is a division of research and analysis affiliated with the British magazine *The Economist*.

this means of transport known, precisely because of its public nature, in order to avoid behaviour that may offend other travellers^[2].

Although some campaigns have been launched to remind travellers of current prohibitions (e.g. no smoking, or no drinking alcoholic beverages), obligations (e.g. pets, especially dogs, must be kept muzzled and on a lead), or desired behaviour (e.g. let passengers off the underground train carriages before trying to get on; or giving up seats to elderly people, pregnant women, parents with young children, or people with reduced mobility), this study will focus on the campaigns that have to do with the prohibition of eating in the metro (“das Essverbot”), which came into force, on a general basis, on 15 January, 2019^[3].

Eating on the underground is a habit that had been noticed and described as “annoying” in recent times. Nonetheless, as indicated by Wiener Linien, the objective of this prohibition is not to raise taxes, therefore, several information campaigns were launched prior to its coming into force. In addition, despite the prohibition, people who trespass this law will not get a fine for the time being. Special conditions of metro users will be taken into consideration when applying the new rule. Exceptions due to medical conditions (e.g. diabetic passengers) or age (babies and young children) will be made.

While there have been several ways to publicise these campaigns, which have featured advertising in the form of posters, information panels, postcards, stickers, ads in newspapers, a 60-minute spot for Vienna cinemas, a song, and even actors in the train carriages, only print advertising will be analysed in this paper.

Finally, it should be taken into consideration the fact that these campaigns have also benefited from media publicity, mainly newspaper articles, in which in addition to informing of the ban, the controversy raised by some adverts (especially those from campaign 3, carried out in August 2018) has been echoed.

[2] Similarly, Wiener Linien joins other public transport companies in different cities around the world that also want their transportation system to improve in cleanliness and comfort, avoiding behaviours that may be annoying to their users. For example:

-Metropolitan Transportation Authority (M.T.A.), in New York, “*allow riders to eat on trains, though they do prohibit carrying liquids in an open container*” (Fitzsimmons, 2017). But, in 2017, M.T.A. considered “*whether to establish new guidelines for eating on the subway, to eliminate fires caused by trash on the tracks, and some types of eating that are not appropriate on the subway*” (Fitzsimmons, 2017).

-Washington’s subway bans eating, drinking or smoking on trains “*because of the labour and cost associated with maintaining the cleanliness of the transportation system as well as for safety reasons*” (Fitzsimmons, 2017).

-Beijing: a new regulation was approved in 2019, prohibiting consumption of food and drink on the underground, as well as also smoking electronic cigarettes and using counterfeit tickets. Uncivilized behaviour, such as selling products or playing loud music, was also banned (Wen, 2019). Violations “*would be included in the passenger’s credit record and the person could be forbidden from taking the subway*” (Wen, 2019).

Cities like Singapore, Nanjing and Xiamen have already banned eating and drinking on the subway (Wen, 2019).

[3] Previously, the prohibition of eating had come into force only on line 6 (U6), for a trial period since 1st September, 2018.

The aim of this study is, therefore, to analyse the advertising language of the printed advertisements that the public company Wiener Linien used in its four civic education campaigns between October 2016 and September 2018, with the ads related to the habit of eating being the ones that will be analysed in more detail.

Thus, the paper has been structured as follows: (1) theoretical framework (where the main concepts are defined and explained); (2) case study: analysis of the campaigns of Vienna metro; and, finally, (3) the main results and conclusions.

1. THEORETICAL FRAMEWORK

1.1. SOCIAL MARKETING

Social marketing, also called marketing of social causes, has become a key tool for all types of organizations (public and non-profit organizations, and even companies) – Alves and Galan-Ladero (2019).

Since 1971, when the first definition of social marketing was published by Kotler and Zaltman (1971, 5) (“the design, implementation and control of programs calculated to influence the acceptance of social ideas and implies considerations of product planning, price, communication, distribution and marketing research”), social marketing has grown in popularity and has been applied to different areas (Alves-Galan-Ladero, 2019), such as public health, education, the environment, etc.

A later definition described it as “the use of marketing techniques and principles to influence an objective public that voluntarily accepts, rejects, modifies or abandons behaviour for the benefit of individuals, groups or society as a whole.” (Kotler-Lee, 2005, 115) Thus, social marketing focuses on accepting, modifying, changing, discouraging, or abandoning ideas, beliefs, attitudes, values, practices and behaviours (Andreasen, 1994).

Different complementary approaches are coordinated in social marketing to achieve the realization or modification of behaviours or ideas (Santesmases, 1999):

1. A legal approach (through laws, regulations, sanctions, ...);
2. A technological approach (based on innovations that help to achieve the desired behaviour);
3. An economic approach (reducing the cost of achieving the desired behaviour, or increasing the price to discourage unwanted behaviour); and
4. An informational approach (focused, above all, on persuasive information).

According to Kotler and Lee (2005), in order to create a successful social marketing program to change behaviours, the planning process should comprise several steps (Alves-Galan-Ladero, 2019):

1. Defining the Problem, Purpose, and Focus.
2. Conducting a Situation Analysis.

3. Selecting Target Audiences (e.g. according to demographic, psychographic, or behaviour criteria).

4. Setting Marketing Objectives and Goals. According to Santesmases (1999), four main types of strategies can be followed in social marketing:

- *A reinforcement strategy*: when attitudes are positive and behaviours are consistent (the desirable behaviour is carried out). In this case, the objective of the strategy would be to reinforce this situation (e.g. with actions such as awards, rewards, economic or non-economic incentives, legal norms, etc.).
- *An induction strategy*: when attitudes are positive, but the socially desired behaviour is not carried out. The objective of this strategy is to try to induce the accomplishment of that behaviour (e.g. with actions such as establishing social controls, facilitating material and human resources to carry out desired behaviour, providing incentives, etc.).
- *A rationalization strategy*: when a desirable social behaviour is put into practice, but the attitude towards such behaviour is negative. The goal of the strategy is to make a change in attitude that is consistent with the behaviour (e.g. through actions such as persuasion, controls, etc.).
- *A confrontation strategy*: when attitude and behaviour are consistent but contrary to the socially desired behaviour. The goal of the strategy is to generate a change of behaviour and attitude (e.g. through economic sanctions, coercive actions, threat of punishment, or persuasive information).

5. Identifying Factors Influencing Behaviour Adoption.

6. Crafting a Positioning Statement (to design the marketing mix).

7. Developing Marketing Mix Strategies (about product, price, place, and promotion).

8. Outlining a Plan for Monitoring and Evaluation.

9. Establishing Budgets and Finding Funding Sources.

10. Completing the Plan for Campaign Implementation and Management.

Ethical aspects should be taken into consideration in social marketing in order to avoid a controversial design in the development and/or implementation of social marketing campaigns or ethical dilemmas (e.g. when campaigns focus on changing community traditions, cultural social and moral values; or the language used in the campaign – political [in]correctness -, use of guilt or fear appeals, etc.) – Alves and Galan (2019).

In the particular case of social marketing applied to public transport, the academic papers are actually scarce.

1.2. COMMUNICATION AND ADVERTISING. ADVERTISING LANGUAGE

On the one hand, *communication* has to do with exchanging messages between individuals. Based on Shannon's Mathematical Theory of Communication (1948), the following factors must intervene to make communication possible:

- *Sender*: who produces or encrypts the message, and issues it;
- *Receiver*: who receives and decrypts it;
- *Code*: set of signs (and rules on how to combine them) which the sender and the receiver share, at least partially;
- *Message*: information that the sender sends to the receiver. It is encrypted by the sender, using the code;
- *Channel*: via which the message circulates (physical element that establishes the connection between the sender and the receiver);
- *Context*: the supra-linguistic, political, social, historical situation, or of any other nature; that is, the temporal, spatial and socio-cultural circumstances in which the message is transmitted, and which contribute to its meaning.

On the other hand, *advertising* is a form of communication. According to Santesmases (2007, 690), advertising is defined as "all impersonal and remunerated transmission of information, made through a means of communication, aimed at a target audience, in which the sender is identified, with a determined purpose, which, immediately or not, tries to stimulate the demand for a product or change the opinion or behaviour of the consumer". The main characteristics of advertising are (Santesmases, 2007):

- It is a tool of promotion that tries to inform, persuade and/or make remember.
- It is a form of unilateral communication (there is no interaction between the sender and the receiver of the message), impersonal communication (it addresses an unidentified anonymous audience), and massive communication (it is carried out through the mass media).
- The sender is identified and is the one that controls the message.
- The publishing of the advertisement, or the use of space in the media, is paid by the sender of the message.
- It focuses on a target audience (even if the receivers of the message are not personally identified, they may have been selected according to some characteristics - demographic, socioeconomic, ...).

When speaking or writing, the language is adapted to the context. When any product (tangible or intangible) is to be promoted, strategies of language that catch the attention of the public must be taken into consideration. Therefore, advertising language has different characteristics from standard language. Some resources used in advertising language are shown in Table 1. They have been classified according to different aspects (typographical, phonic, morphosyntactic, or syntagmatic aspects).

Table 1 General resources of the advertising language.

Aspects	Resources
Typographical aspects	<ul style="list-style-type: none"> · Altering letters of different sizes · Underlining · Changing a letter for an icon · Using non-alphabetic symbols · Letters written backwards · Characters with thick strokes · Use of images between the words in a text · Changing writing direction within the text
Phonic aspects	<ul style="list-style-type: none"> · Alliteration (e.g. repetition of the same sound at the beginning of several words) · Anaphora (repetition of a word at the beginning of several sentences or clauses) · Derivation (repetition of the same etymological root) · Epanadiplosis (repetition of the same word at the end of a sentence or text) · Parallelism (repetition of words or structures in several successive units) · Polysyndeton (identical structures in which the different phrases are linked by the same conjunction) · Rhyme (correspondence of sounds at the end of two sentences or lines)
Morphosyntactic aspects	<ul style="list-style-type: none"> · Denial of the basis · Composition · Semantic group change · Foreign words · Technicism
Syntagmatic aspects	<ul style="list-style-type: none"> · Condensation · Ellipsis · Omission of the article · Nominal style · Sentence modalities

Source: Galan-Ladero, 2019

Among the specific characteristics of the German advertising language, we can point out the following (Uthess, 2008):

- Overuse of adjectives, especially superlatives;
- Use of foreign words, above all Anglicisms;
- Use of compound words;
- Play on words;
- Briefness of sentences;
- Predominance of simple sentences;
- Use of the imperative;
- Use of poetic techniques;
- Originality;
- Subjective tone.

2. CASE STUDY

2.1. CONTEXTUAL INFORMATION: VIENNA, VIENNA METRO AND WIENER LINIEN

Vienna is the capital of Austria and one of its nine federated states (“Bundesland Wien”). The city covers an area of 415 km² (Statistik Austria, 2016, 138) and is divided into 23 districts. It is the largest city in Austria and the second most populous city in Central Europe, after Berlin. The official language is German.

The population of Vienna was 1,888,776 inhabitants (on 1st January, 2018), of which 70.4% are Austrians and the remaining 29.6% (+4% compared to 2016) are from other countries (compared to 15.8% of foreigners in the country). 36% of its inhabitants were born abroad (compared to 19.2% as average of the country) - Statistik Austria (2018). The largest group of immigrants are the Serbs, followed by Turks, Germans, Poles, Romanians, and citizens from countries that were part of the Austro-Hungarian Empire (Bosnians, Croats, Hungarians, Czechs). The Viennese population has increased significantly in recent years, mainly due to immigration. The metropolitan area has a population of about 2,500,000 inhabitants.

Regarding political ideology after the Second World War, the preference of the Viennese has generally inclined towards the centre-left of the SPÖ (Sozial-Demokratische Partei Österreichs), the Social Democratic Party of Austria, the party of the current mayor of the city, Michael Ludwig. In the 2015 local elections, the extreme right-wing nationalist party FPÖ (Freiheitliche Partei Österreichs) won 34% of the votes, becoming the second political force in Vienna.

The Vienna Metro (U-Bahn Wien in German) is the metro network covering the metropolitan area of Vienna. It has five lines (U1, U2, U3, U4 and U6), and a total length of 87.4 km (Wiener Linien, 2018b). Line U5, whose project was left aside because its construction was an unaffordable challenge with the construction techniques of that time, will be inaugurated in 2023, and will be fully automated.

Underground stations (109, according to Wiener Linien, 2018b) are named after streets or areas of the city and, in some cases, after names of nearby buildings. The lines have no specific name. They are identified with the letter “U” (standing for “U-Bahn”) and a number. In addition, a different colour corresponds to each line.

Wiener Linien (Wiener Linien GmbH & Co KG) is the public company that manages the city metro (also the tram lines and local buses). It belongs to Vienna City Council. Since the 1990s, when art and culture was promoted in the different subway lines with numerous paintings and works of art, Wiener Linien, compared to other public companies in other cities in the world, has stood out for its originality in communicating with its passengers, which has meant that interna-

tional media, in addition to local and national, echoed the different campaigns that have developed throughout all these years^[4].

In this work we will focus on the analysis of the campaigns from October 2016 to September 2018, due to their special importance in the language used.

2.2 ANALYSIS OF THE VIENNA METRO CAMPAIGNS (OCTOBER 2016 – SEPTEMBER 2018)

2.2.1 ANALYSIS OF THE GENERAL ASPECTS OF THE CAMPAIGNS

Four campaigns were carried out between October 2016 and September 2018: campaign 1 (October 2016), campaign 2 (November 2017), campaign 3 (August 2018), campaign 4 (September 2018) – figures 1, 2, 3 and 4.

Figure 1 Campaign 1



Source: Wiener Linien, 2018a

1.- Sie hat die Schnauze voll. Von Hunden ohne Beißkorb.

It gets up her nose. Dogs without muzzles. (She is fed up to the back teeth. With dogs without muzzles).

2.- Ihm stinkt's. Dass du neben ihm deine Pizza isst.

He's cheesed off (it stinks and that bothers him). Because you eat your pizza next to him.

[4] For example, the priority of the most recent campaigns was to find a solution to the problems of unpleasant odours in trains:

- In the summer of 2018, Wiener Linien distributed 14,000 deodorants among users in a single day (July 16, 2018, at U6 - El País, 2018), to combat the bad smell in underground trains in summer (some trains do not have air conditioning, so they heat up easily, causing the perspiration of the passengers - Justo, 2019).
- In September 2018, the consumption of “smelly” food was banned in the U6; in January 2019, the ban on eating of all lines came into force.
- In the summer of 2019, they began to perfume some of the trains on lines U1 and U6, which are the busiest in Vienna, with different aromas through the ventilation system (Justo, 2019).
- They have also carried out “an online survey to determine the favourite scent for underground users”, with the idea of being able to perfume the wagons with that scent in the summer of 2020, and even throughout the year.

- 3.- Sie kotzt es an. Wenn du neben ihr dein Bier trinkst.
She is sick (of it). When you drink beer near her.
She is sick (to the back teeth). Of you drinking beer next to her.
- 4.- Ihm geht's dreckig. Weil du deinen Mist liegen lässt.
He's in a pretty bad state (angry). Because you litter / leave your litter behind.
- 5.- Sie kann's nicht mehr hören. Dass du so laut telefonierst.
She's sick of hearing it. You speak on the phone so loud.

First part: several idioms to express that they are fed up (something bothers them)
 Second part: the reason why they are fed up (what bothers them)

Figure 2 Campaign 2



Source: Wiener Linien, 2018a

- 1.- Beißkorbmuffel müssen draußen bleiben.
Muzzle wearers must stay outside
- 2.- Draußen essen ist out.
Eating inside is out
- 3.- Promille müssen draußen bleiben.
Blood alcohol must stay outside
- 4.- Für alles offen. Nur nicht für lautes Telefonieren.
Open for everyone. Except for those who speak loud on the phone.

Figure 3 Campaign 3



Source: Wiener Linien, 2018a; Google, 2018

- 1.- Alle Fahrgäste finden's wohlriechend feiner, Nur nicht Lukas, der isst Käsekrainer.
All passengers find it pleasant-smelling. Except for Lukas, who eats Käsekrainer (sausage).
- 2.- Nur nicht Lukas, der isst Käsekrainer.
Except for Lukas, who eats Käsekrainer (sausage).
- 3.- Alle Fahrgäste machen die U-Bahn schöner. Nur nicht Rudi, der isst Döner.
All passengers make the metro nicer. Except for Rudi, who eats Döner.
- 4.- Alle Fahrgäste machen die U-Bahn feiner, Nur nicht Rainer, der isst Käsekrainer.
All passengers make the metro better / of higher quality. Except for Rainer, who eats Käsekrainer (sausage).
- 5.- Alle Fahrgäste tragen kurze Hose. Nur nicht Markus, der trägt eine Dose.
All passengers wear shorts. Except for Markus, who carries a can (play on words with 'tragen' = wear/carry).
- 6.- Alle Fahrgäste sind leise. Nur nicht Babsi, die hört Heavy-Metal, blöderweise.
All passengers speak quietly. Except for Babsi. She listens to heavy metal at full volume.

Figure 4 Campaign 4



Source: Wiener Linien, 2018a

- 1.- Pizza Kriminale
Pizza criminals
- 2.- Nudelfall ungelöst
Noodle case unsolved
- 3.- Tatort Leberkäs
Crime scene meatloaf
- 4.- Klare Scharftat
Clear biting crime

Ihr Essen riecht so Kriminell, dass der Verzehr in der U6 jetzt verboten ist. Bitte essen Sie geruchsintensive Speisen nur draußen.

Your food smells so antisocial that eating in the U6 is now prohibited. Please only eat odour-intensive foods outside.*

**'kriminell' allows a play on words in German since it means 'criminal', but also 'antisocial, disruptive' (informal language)*

The first three campaigns included the habit of eating as one of the topics, alongside with other existing prohibitions (such as the ban of drinking alcohol on the underground, or having pets not wearing a muzzle and/or being kept on lead), or habits considered to be annoying (such as listening to loud music, talking on the mobile phone, or leaving litter). Only the last campaign focused exclusively on food.

The first campaign comprised five ads, one of them on eating on the underground; the second campaign had four ads (one of them on the eating topic); the third campaign included six ads (four of them on food); and the fourth campaign had four ads, all about eating on the underground.

Between the first and second campaign, over one year elapsed (13 months); between the second and third campaign, 9 months; between the third and fourth one, only a month (a possible reason for this short interval might be the coming into force of the prohibition and the need to make the new rule known to the general public. Another reason might be the attempt to change the focus of attention after the controversy^[5] raised by campaign 3).

[5] This will be discussed later.

With regard to the type of advertising used, formats such as billboards, panels, mupis, opis, stickers, postcards or flyers were used, but also others such as songs, spots for the cinema, and even actors performing in the carriages, all intended as reinforcement activities. In addition to advertising, the campaigns have had great publicity in the media.

2.2.2. ANALYSIS OF THE ADVERTISING LANGUAGE IN THESE CAMPAIGNS

The advertising language of the four campaigns of the Vienna metro object of this study will be analysed. This analysis will be done campaign for campaign, starting with a description of the common characteristics of all the adverts. In all of them, the advertising message combines image and text.

In general, aspects such as the number of campaigns and ads in each of them, the interval between campaigns and whether the prohibition of eating on the underground was already in force or not have been analysed.

In particular, the adverts of each campaign have been analysed in search of phonetic, lexical-semantic and syntactic features typical of the advertising language.

The method followed to carry out this study is based on direct observation of the campaigns under study, and their content analysis. This study has also been completed with information provided by Wiener Linien itself, via email, as well as with information available on the Internet and in the written press. The search engine “Google” has been used to obtain all the adverts of the campaigns carried out in the analysed period and news published in the media about these campaigns.

Campaign 1

This first campaign consists of 5 ads, all with the same layout. Each one deals with a norm of civic behaviour that Wiener Linien company tries to promote:

- Pets must wear a muzzle;
- Do not take smelly food;
- Do not drink alcoholic beverages;
- Do not leave litter;
- Do not speak loud on the phone.

All the adverts have the same layout: in the foreground, the face of a person looking straight ahead can be seen. Both sexes and all ages are represented (children, youngsters, adults and the elderly). A person who seems to be a foreigner appears in one of the ads (he has Asian features).

When analysing the text, it can be remarked that a special use of the full stop has been made (it divides into two sentences what is actually just one). The characters are written in white, and are of different sizes (large size for the first part, small size for the second part). With regard to syntax, the text consists of a main clause (first part) and a subordinate clause (second part). About morphology, third

person singular pronouns have been used in the first part and second person singular ones in the second part.

The text is short (between 9 and 11 words). The features of the text suggest that the main target age group is young people because of (1) informal language (the receiver is addressed using a familiar form, idioms and contractions are used), and (2) the topics discussed (young people use their smart phones constantly, they listen to loud music, drink alcohol, eat fast food, and leave the leftovers - litter - on the underground).

Therefore, although the campaign is aimed at all users of the metro, regardless of sex, age or nationality, the language used seems to be especially addressed to young people.

Campaign 2

This campaign consists of 4 ads, all with the same layout, and each one deals with a good-manners rule:

- Pets must be kept on a muzzle;
- Do not eat smelly food;
- Do not drink alcoholic beverages;
- Do not talk loud on your mobile phone.

There is a person in each advert. This time you can see what he/she has in his/her hand: a dog, a hamburger, a beer, or a mobile phone. An optical illusion is created: the receiver of the message seems to be inside the train and sees these people being left out.

Both genders are present in these ads, but there are men in 3 of them, and a woman in only one of them. With regard to age, it is restricted to young people and adults. One person again seems to be a foreigner. Therefore, this campaign seems to focus above all on men, aged between 25 to 60.

Regarding the text, punctuation is not relevant, save in one of the ads (the full stop should be a comma). The characters are white, all of the same size (they look like subtitles in a film). As for syntax, the text consists of a simple sentence (4 words), except for one that has phrases (8 words). There is a double entendre or play on words in the text with “inside” and “outside.” Besides location, they also mean inclusion (if rules are obeyed) and exclusion (if they are not followed). Antonyms are also used, as well as foreign words, puns and paradoxes. Formal language is used because (1) it intends to be universal (it is not addressed to a specific person), (2) idioms are not used either, and (3) there are no contractions.

Campaign 3

Campaign 3 consists of 6 ads, and 3 topics are included:

- Do not eat on the underground (4 ads);
- Do not drink alcoholic beverages;
- Do not listen to loud music.

Unlike in the first two campaigns, in the third one, non-real images have been used (they are cartoons in which some sheep can be seen, one of them is black – “the black sheep”).

As for the text, black characters have been used, all of them of the same size. A full stop divides a sentence into two: a main clause (first part) and a subordinate clause (second part). The language is more informal (contractions are used). Personification is used (sheep are named) as are foreign words.

This campaign was very controversial^[6], and was under criticism because:

- it identifies people with sheep: it implies that not people, but a flock is transported;
- the black sheep was identified as the foreigner, so the campaign was accused of racism and xenophobia (it was similar to the ads used in an election campaign by the Swiss right-wing party SVP): in an ad, the black sheep ate “döner”, so it could be automatically associated with Turkish culture; in another ad, it could be easily associated with the Croats, because of the similarity between the Croatian flag and the sweater worn by the black sheep (which besides, was called Lukas, the most popular male name in Croatia^[7]);
- It also caused nuisance to people who were called the names used in the ads.

Campaign 4

This campaign consisted of 4 ads, all on the same topic: eating on the underground (do not eat smelly food on the metro).

The image was real again. It focused on the remains of different types of food (pizza, noodle, Leberkäse, spicy food) – thus, different cultures were represented (the Mediterranean, Asian, Austrian, ... culture).

All the ads present scenes of a crime (criminal investigation series are in fashion): food is “the body of the crime” (the ban on eating in the metro was already in force). The text is very brief (two words in each advertisement: one referring to food, the other referring to a crime). The characters are printed in white. Phrases and compound words are used. Language is formal (because it refers to a rule).

A summary of the main aspects of this analysis is offered in Table 2.

[6] Many comments about these campaigns were published on mass media and social networks.

[7] According to Croatia Week (2018).

Table 2 Summary of the analysis

	Campaign 1	Campaign 2	Campaign 3	Campaign 4
Ads	5	4	6	4
Topics	5 · Pets · Food · Alcohol beverages · Litter · Mobile phones	4 · Pets · Food · Alcohol beverages · Mobile phones	3 · Food (4) · Alcohol beverages · Music	1 · Food
Image	Foreground: the face of a person (who looks straight ahead)	A person grabbing something (a dog, hamburger, beer, or mobile phone)	Cartoons (sheep - “the black sheep”) Racism! Xenophobia!	Food (“crime”)
Target public	All metro users (young users, foreigners)	Youngsters & Adults (males)	All metro users	Youngsters & Adults
Linguistic text	White characters (different size) Special use of the full stop Main+subordinate clauses 3 rd person sing. + 2 nd person sing.	White characters (same size) Simple sentences or phrases Play on words Antonyms Foreign words Paradoxes	Black characters (same size) Special use of the full stop Main+subordinate clauses Contractions Foreign words Personification	White characters Phrases Compound words
Type of language	Informal	Formal	Informal	Formal
Text length	Short (9-11 words)	Short (4-8 words)	Short (6-12 words)	Very short (2 words)

Source: Galan-Ladero, 2019

3. RESULTS

Among the main results obtained after this analysis, the following ones stand out:

- The message is addressed to the users of the Vienna metro in general, but to the young / adult male or foreign public, in particular.
- The message is constituted by the rules of civic behaviour that Wiener-Linien intends to promote. The message focuses on the habit of eating smelly food, which can be annoying to other travellers. First, the focus was placed on it being annoying, then on banning it.
- German was used, but some foreign words were included, mainly Anglicisms. Technical terms, typical of criminal jargon, were also used.

- Four advertising campaigns have been launched (each campaign has between four to six ads). Although initially the topics were varied (e.g. five different topics in campaign 1), the number has been reduced in the following campaigns (e.g. the fourth campaign focused on just one: the habit of eating on the underground).
- The first three campaigns drew attention to the nuisance eating on the underground caused to other travellers, and encouraged its elimination or “exclusion”. In contrast, the last campaign aimed at drawing attention to the fact that eating on the underground had already been prohibited, and therefore, it is an offence against the law.
- In all the advertisements, the advertising message had an image (real or not) and a linguistic text, with characteristics of advertising language: at an orthographic level (special use of the period) at a phonic level (alliteration, rhyme), at lexical – semantic level (foreign words – mainly Anglicisms, but also words from Turkish or Italian -, technical terms, compounds – some of them were made up -, adjectives in the comparative degree, idioms, puns, double entendre, etc.), and at syntactic level (sentence brevity, and use of phrases instead of sentences).

Table 3 summarizes the results obtained comparing the texts of each campaign according to the general resources of the advertising language (mentioned in Table 1).

Table 3 Summary of the main results

Level	Type	Examples
Orthographic level	Punctuation (special use of the full stop)	· “Alle Fahrgäste machen die U-Bahn schöner. Nur nicht Rudi, der isst Döner.” · “Sie hat die Schnauze voll. Von Hunden ohne Beißkorb.”
	Alliteration	· “Dass du neben ihm deine Pizza isst.”
Phonic level	Rhyme	· “Alle Fahrgäste tragen kurze Hose. Nur nicht Markus, der trägt eine Dose.”
	Foreign words	· “Rudi” (remind of an English word: “rude”) · Pizza (Italian word) · Döner (Turkish word)
Lexical-semantic level	Technicism (criminology jargon)	· (Nudel)fall ungelöst · Tatort
	Compound words	· Fahrfair (German+English: made up words) · Nudelfall, Scharftat (German+German: made up words) · Tatort (German+German: real)
	Proper names	· Markus · Lukas
	Comparative adjectives	· schöner · feiner
	Idioms	· Sie hat die Schnauze voll
	Symbol	· Black sheep
	Play on words	· Ihm stinkt’s
	Equivocal (double entendre)	· Drinnen essen ist out”
	Litote	· Bitte essen Sie geruchsintensive Speisen nur draußen.
	Paradox	· Drinnen essen ist out”
	Personification	· Sheep called by proper nouns (Rainer)
Syntactic level	Brevity	· Between 2 and 12 words (average: 6.75)
	Syntagmas	· Klare Scharftat
	Simple sentences	· Drinnen essen ist out.
	Complex sentences	· Ihm stinkt’s. Dass du neben ihm deine Pizza isst. (noun clause) · Alle Fahrgäste finden’s wohlriechend feiner, Nur nicht Lukas, der isst Käsekrainer. (relative clause) · Ihm geht’s dreckig. Weil du deinen Mist liegen lässt. (adverbial clause)

Source: Galan-Ladero, 2019

4. CONCLUSIONS

The aim of this study is to analyse the advertising language of the printed advertisements that the public company Wiener Linien used in its four campaigns between October 2016 and September 2018 to promote good manners.

The main conclusions of this study are:

- Social marketing has played a key role in these campaigns. The legal and informative approaches stand out. The four main strategies in social marketing could be observed in these campaigns:
 - *Reinforcement strategy*: for people who have positive attitudes towards civic norms and develop a correct behaviour (the aim of these campaigns was to remind passengers of the desired civic behaviour).
 - *Induction strategy*: for people who have positive attitudes towards the civic norms but do not carry out the desired behaviour (with the new regulation and these campaigns, they are expected to make the effort and behave properly).
 - *Rationalisation strategy*: for people who have a negative attitude, but carry out the desired behaviour just to avoid fines (in this case, the aim is to change their attitude by means of a lot of information. During that trial period fines were not given).
 - *Confrontation strategy*: for people who have a negative attitude towards civic norms and do not carry out the desired behaviour (with the new rule in force, and the threat of sanctions, they can be pushed into changing their behaviour; ads remind about the new regulation).
- Ethical aspects should be taken into consideration in any case, to avoid campaigns becoming controversial (as it happened in campaign 3).
- All elements involved in the communication model are present:
 - Sender: Wiener Linien.
 - Receiver: the message is addressed to the users of the Vienna metro in general, and to male young / adult users, or foreigners, in particular.
 - Message: the rules of civic behaviour that Wiener-Linien intends to promote. Among them, the message focuses on the habit of eating smelly food, what can be a nuisance to other travellers. First, the focus was placed on its annoying character, to proceed to ban it later on.
 - Code: German was used, specifically German advertising language. Some foreign words were included (mainly, Anglicisms), and technicisms (typical of criminal jargon) were also used.
 - Channel: the message has been transmitted through four campaigns, using advertising media. Some of them (e.g. billboards, posters, stickers, etc.) have used written language (these are the ones that have been analysed in this study) and others (e.g. songs, performances on the underground, or the spot for Viennese cinemas) have used spoken language.

- Context: the context in which this act of communication takes place is the city of Vienna, specifically the metro, between October 2016 and September 2018. Vienna is a cosmopolitan city with a population of nearly two million inhabitants, of which about a third are foreigners. To this figure, we must add the high number of people who visit the city every year.
- Although at first the topics in the campaigns were varied, they were reduced campaign for campaign. Finally, ads focused only on one topic: the habit of eating on the underground. The first three campaigns aimed at drawing attention on how annoying smelly food is for travellers and at encouraging its elimination or “exclusion”. In contrast, the last campaign aimed at drawing attention to the fact that eating on the underground is already forbidden and it is therefore an offence against the law.
- Regarding layout, the advertising message included an image (real or not) and a linguistic text in all the ads. Images of people were used in campaigns 1 and 2, images of animals in campaign 3, and of things in campaign 4. Although the campaigns were addressed to the general public, they focused on a male young / adult audience (especially campaigns 2 and 3).
- Regarding the linguistic text, after analysing the four campaigns, the presence of many advertising language features was noticed: at orthographic level (special use of the period), phonic level (alliteration, rhyme), lexical-semantic level (foreign words - especially Anglicisms, but also words from Turkish or Italian -, technicisms, compound words - some were made up -, adjectives in the comparative degree, idioms, puns, double entendre, etc.) and at syntactic level (short sentences, use of phrases instead of sentences).
- It has also been noticed that the ten characteristics of German advertising language are present in these campaigns.

To sum up, this case study is an example of the key role of social marketing in general, and advertising language in particular, when promoting civic education.

Anyway, some limitations should be considered in this study. For example, although a qualitative content analysis is appropriate to this paper, other qualitative research methods, such as focus groups and/or interviews, or concept tests, could have completed this study.

Consequently, as further research, it could be interesting:

- to use focus group method and interviews to complement this study (e.g. focus groups made up of users of the Vienna Metro, to find out what their opinions about the campaigns; or interviews to some members of the Communications Department of the Vienna Metro, to discover their opinions about the campaigns, and the results obtained);
- to check the post tests, to know what Vienna citizens (or the target groups, in particular) think about the campaigns, how they “understood the messages”, and what the responses to the campaigns were (e.g. in local, national or indeed international mass media, in social media, etc.).

- to link a qualitative and quantitative research to the effectiveness of these campaigns (both qualitative and quantitative research would complement each other, and the study would be very complete).
- It could be also interesting to compare these campaigns with others developed in other cities (e.g. London, Madrid, New York, Paris, Toronto, Washington, etc.) and study their effects and consequences.

REFERENCES

- Alves, H.-Galan-Ladero, M. (2019) Theoretical Background. Introduction to Social Marketing. In: Galan-Ladero, M.-Alves, H. (eds.): *Case Studies on Social Marketing. A Global Perspective*. Springer, Switzerland. pp. 1-10.
- Andreassen, A. (1994) Social Marketing: Its Definition and Domain. *Journal of Public Policy & Marketing*, 13, 1, pp. 108-114.
- Galan-Ladero, M. G. (2019) Análisis del lenguaje publicitario. Campañas de Wiener Linien: 10/2016-09/2018. Paper presented on the course: *Lingüística Alemana I, del Grado en Estudios Alemanes [German Linguistics I - Degree on German Studies]*. University of Salamanca. Unpublished.
- Kotler, P.-Lee, N. (2005) *Corporate Social Responsibility: Doing the Most Good for Your Company and Your Cause*. John Wiley & Sons, USA.
- Kotler, P.-Zaltman, G. (1971) Social Marketing: An Approach to Planned Social Change. *Journal of Marketing*, 35, 3, pp. 3-12.
- Santesmases, M. (1999) *Marketing. Conceptos y Estrategias (Marketing. Concepts and Strategies)*. 4th edition. Piramide, Madrid.
- Santesmases, M. (2007) *Marketing. Conceptos y Estrategias (Marketing. Concepts and Strategies)*. 5th edition (reviewed). Piramide, Madrid.
- Shannon, C. E. (1948) A Mathematical Theory of Communication. *The Bell System Technical Journal*, 27, July, October, pp. 379-423, 623-656.
- Uthess, S. (2008) *Printmedien*. Klett Verlag, Stuttgart.

ONLINE REFERENCES:

- Croatia Week (2018) TOP 10 Most Popular Girls & Boys Names in Croatia. *Croatia Week*, 8th March. <https://www.croatiaweek.com/top-10-most-popular-Girls-boys-names-in-croatia/> Downloaded: 29. 12. 2018.
- Fitzsimmons, E. G. (2017) M.T.A. Reconsidering an Age-Old Tradition: Eating on the Subway. *The New York Times*. July 18. <https://www.nytimes.com> Downloaded: 06. 12. 2019.
- Justo, D. (2019) *La solución del metro de Viena para acabar con los malos olores en los trenes*. https://cadenaser.com/ser/2019/07/18/internacional/1563426641_457872.html Downloaded: 06. 12. 2019.
- Statistik Austria (2018) Österreich. Zahlen, Daten, Fakten 17/18. https://www.statistik.at/web_de/statistiken/menschen_und_gesellschaft/bevoelkerung/bevoelkerungsstand_und_veraenderung/bevoelkerung_zu_jahres-_quartalsanfang/index.html Downloaded: 27. 12. 2018.

- The Economist Intelligence Unit (2018) The Global Liveability Index 2018. https://pages.eiu.com/rs/753-RIQ-438/images/The_Global_Liveability_Index_2018.pdf Downloaded: 27. 12. 2018.
- Wen, X. (2019) New regulation prohibits consumption of food, drink in Beijing subway cars. *China Daily*. May 17 <https://www.chinadaily.com.cn/china/society> Downloaded: 06. 12. 2019.
- Wiener Linien (2018a) Corporate Information. <https://www.wienerlinien.at> Downloaded: 27. 12. 2018.
- Wiener Linien (2018b) Zahlen, Daten, Fakten 2017. https://www.wienerlinien.at/media/files/2018/betriebsangaben_2017_243485.pdf Downloaded: 27. 12. 2018.

Capital maintenance disclosure in Hungary and Slovakia after Directive 2013/34/EU implementation



Abstract

Capital maintenance concepts are relevant aspects of profit determination and subsequent dividend distribution with significant impact on the sustainable development of entities. The assessment of capital maintenance is based on the information disclosed in financial statements which are compiled in accordance with international or national legislation. The aim of this paper is to identify similarities and differences in capital maintenance disclosure in financial statements with emphasis on equity after Directive 2013/34/EU implementation in Hungary and Slovakia. Due to the wider extent of information required to be disclosed by large entities, growth, retention and erosion of capital can be assessed more precisely than in small or micro entities.

Keywords: capital maintenance, financial statements, equity, IFRS (International Financial Reporting Standards)

INTRODUCTION

Capital maintenance concepts are relevant aspects of profit determination and subsequent dividend distribution with significant impact on the sustainable development of entities. The assessment of capital maintenance is based on the information disclosed in financial statements, which are compiled in accordance with international or national legislation.

The aim of the paper is to compare capital maintenance disclosure after implementation of Directive 2013/34/EU in Hungary and Slovakia. The focus is on the statement of financial position from reported financial statements with emphasis on equity and its components. This paper represents secondary research based on analysis of national and international legislation, literature and other publications in the field of capital maintenance and its reporting. The starting point of research are definitions of key concepts of capital maintenance according to IASB Conceptual framework and the Directive 2013/34/EU implementation, which brought major changes into national member state accounting legislation. By the method of comparison, there were identified differences and similarities in financial statement components with a focus on equity presentation according to IFRS, Act C of

2000 on Accounting, as in effect and Act No. 431/2002 on Accounting, as in effect. The summary of main findings about financial and physical capital maintenance reporting is presented in the Conclusion.

1. CAPITAL MAINTENANCE IN THE EUROPEAN REGULATION

Capital maintenance has not been a popular topic in the last two decades of scientific research. The focus of managers and owners is on the performance of an entity, mostly measured by profit after tax or by distributed dividends. However, concepts relating to capital maintenance are significant because they reflect the economic reality of a business environment in which the entity performs its business activity (Jianu et al., 2017). Capital maintenance is also a key concept for sustainable development on a long-term horizon (Brätland, 2008). If an entity distributes profit to an extent that the resources left in the entity do not cover the restoration of fixed assets and input purchases, it can lead to inability to maintain capital or productive capacity in the short term and causes bankruptcy in the long term. (Jianu et al., 2011; Pakšiová, 2017)

Capital maintenance is observed from two points of view: financial and physical. These are defined in the Conceptual Framework for Financial Reporting issued by the International Accounting Standards Board (IASB). Under the financial capital maintenance concept, the profit is recognized when “the net assets at the end of the period exceeds the financial amount of net assets at the beginning of the period”. (IASB, 2010, 4.59a) There is a need to exclude contributions or distributions from owners during the investigated period. Units of constant purchasing power and nominal monetary units are also suitable for financial capital maintenance measurement. Under the physical capital maintenance concept “profit is earned only if the physical productive capacity (or operating capability) of the entity at the end of the period exceeds the physical productive capacity at the beginning of the period, after excluding any distributions to, and contributions from, owners during the period”. (IASB, 2010, 4.59b)

The main difference between these concepts is how to deal with price changes of assets and liabilities. Under the financial concept profit is indicated by the increase of nominal monetary capital over the period. A more fair view is provided by financial capital maintenance measured in constant purchasing power units. In the case of physical capital maintenance, current cost measurement is applied, and associated price changes are treated not as profit or loss but as capital maintenance adjustments. Thus, these capital maintenance adjustments cannot be distributed as dividends resulting in a positive impact on the financial capital maintenance or productive capability. Nowadays, fast technological development requires more attention to the increase of economic effectiveness by maintaining the latest equipment and other technical achievements.

For capital maintenance assessment the structure and the extent of information disclosed in financial statements is crucial. Capital maintenance is a key topic not only for entities reporting under International Financial Reporting Standards (IFRS), but also for small and medium sized entities which fall under particular national legislation. In the European Union significant convergence efforts exist for the harmonization of information reported in financial statements. Harmonization of information reported in financial statements is progressed through step by step convergence of accounting and reporting legislation at the international and national level.

Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the Annual Financial Statements, Consolidated Financial Statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC (hereinafter the “Directive 2013/34/EU”) represents a milestone in accounting legislation which brought lots of major changes into investigated national legislations. Directive 2013/34/EU had to be implemented in member state national legislation by 20 July 2015. Act C of 2000 on Accounting in Hungary, as in effect and Act No. 431/2002 on Accounting in Slovakia, as in effect were affected. The aim of the directive was to decrease administrative burden on smaller entities and the “think small first” principle was applied in the regulation making process. In this paper we abstract the analysis of audit regulation and consolidated groups and their financial statements regulation which are also significant parts of the examined directive. The first chapter of Directive 2013/34/EU deals with the scope, definitions and categories of entities. According to the directive, entities are divided into four categories but only 3 categories were implemented into Hungarian and Slovak regulation as shown in Table 1.

Table 1 Criteria for categorization into size classes according to Directive 2013/34/EU, Hungarian and Slovakian Act on Accounting

Categories of entities	Directive 2013/34/EU	Act C of 2000 on Accounting, as in effect	Act No. 431/2002 on Accounting, as in effect
Micro	Not exceeds a) balance sheet total: 350 000 €; b) net turnover: 700 000 €; c) average number of employees during the financial year: 10	Not exceeds a) balance sheet total: 100 million HUF (312 500 €); b) net turnover: 200 million HUF (625 000 €); c) average number of employees during the financial year: 10	Not exceeds a) balance sheet total: 350 000 €; b) net turnover: 700 000 €; c) average number of employees during the financial year: 10

Small	Not exceeds a) balance sheet total: 4 000 000 €; b) net turnover: 8 000 000 €; c) average number of employees during the financial year: 50.	Not exceeds a) balance sheet total: 1 200 million HUF (3 750 000€); b) net turnover: 2 400 million HUF (7 500 000 €); c) average number of employees during the financial year: 50. (simplified annual report)	Not exceeds a) balance sheet total: 4 000 000 €; b) net turnover: 8 000 000 €; c) average number of employees during the financial year: 50.
Medium sized	Not exceeds a) balance sheet total: 20 000 000 €; b) net turnover: 40 000 000 €; c) average number of employees during the financial year: 250	not defined	not defined
Large	Exceeds a) balance sheet total: 20 000 000 €; b) net turnover: 40 000 000 €; c) average number of employees during the financial year: 250.	Exceeds a) balance sheet total: 1 200 million HUF (3 750 000€); b) net turnover: 2 400 million HUF (7 500 000 €); c) average number of employees during the financial year: 50. (annual report)	Exceeds a) balance sheet total 4 000 000 €; b) net turnover: 8 000 000 €; c) average number of employees during the financial year: 50.

Source: Author's processing based on Directive 2013/34/EU, Act C of 2000 on Accounting, as in effect and Act No. 431/2002 on Accounting, as in effect

An entity belongs to one of the categories if on the reported date of the financial statements it meets two of three criteria in two immediately consecutive accounting periods. The extent of information reporting required by an entity is based on the size of the entity as determined by Table 1. Large entities & public-interest entities require the highest disclosure of financial & non-financial information.

As a result of the entity size categorization, there are differences in the extent of information provided in financial statements between micro, small and large entities. Our attention will be devoted to the differences in financial statement disclosure requirements and structure with emphasis on equity; one of the main indicators of capital maintenance.

2. COMPARISON OF THE HUNGARIAN AND SLOVAKIAN REGULATION OF FINANCIAL STATEMENT

Due to the similar historical background and harmonization of accounting and reporting regulation the structure and content of financial statements are similar according to IFRS and the accounting legislation in Hungary and Slovakia. The structure of financial statements for large and public interest entities according to these three types of regulation is shown in Table 2.

Table 2 Comparison of components of financial statements for large and public-interest entities according to Act on accounting and IFRS

Components of financial statements according to IFRS (IAS 1 article 10)	Act C of 2000 on Accounting, as in effect (article 19)	Act No. 431/2002 on Accounting, as in effect (article 17)
Statement of financial position as at the end of the period	The balance sheet shows assets in descending order of liquidity and resources in descending order of maturity for current and previous financial year of each item.	The balance sheet shows information on the assets and liabilities of the accounting entity and the difference between them, to a date to which the financial statements are prepared and to the date to which the financial statements are prepared for the immediately preceding accounting period.
Statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements		
Statement of profit or loss and other comprehensive income for the period	The profit and loss statement, contains the main factors influencing the origin and modification of the profit or loss, and the development of components of the after-tax profit for current and previous financial year.	The profit and loss statement present expenses, revenues and profit or loss for the accounting period and for the immediately preceding accounting period.
Notes, comprising significant accounting policies and other explanatory information (comparative information in respect of the preceding period)	The notes on the accounts includes all quantified data and explanatory information in addition to those contained in the balance sheet and in the profit and loss account and also information relating to any unique or special activities as prescribed by separated legislation (e. g. regulation about banks, insurance and public sector entities)	The notes contain information explaining and supplementing the information contained in the balance sheet and the profit or loss statement and/or other explanatory and supplementary statements and information. The notes include overview of changes in equity and overview of cash flow for the period.
Statement of changes in equity for the period		
Statement of cash flows for the period		

Source: Author's processing based on IFRS, Act C of 2000 on Accounting, as in effect and Act No. 431/2002 on Accounting, as in effect

The decrease in administrative burden for smaller entities can be identified in Hungarian legislation, according to which large entities are required to disclose financial statements including balance sheet, profit or loss statement and notes. Besides financial statements there is a requirement for preparing a business report for large and public-interest entities. Small entities are obliged to prepare financial statements in a simplified format and the notes contain less detailed information than large entities. On the other hand, financial statements of large and small entities have corresponding content and structure. Therefore, the administrative burden reduction for small entities is questioned, because the requirements for accounting procedures are not reduced. Micro entities disclose only these statements: balance sheet and profit and loss statement. In the Slovak Republic entities in every size category are obliged to prepare all three financial statements, but requirements for the extent of information decreases in direct proportion with the entity's size. Administrative burden is theoretically decreased for small and micro entities by reducing line items required in statements and simplifying reporting requirements although in practice, the administrative burden generally does not decrease. When the entity fulfils the criteria of the upper category, it has to deal not only with more wide disclosure requirements, but also with more measurement techniques and accounting procedures. For example, the wider disclosure requirements increase the obligation of information disclosure in the notes. An additional measurement technique requires fair value be applied to a wider extent in large entities. Moreover, the categorization and possible of differences in the implementation of Directive 2013/34/EU decreases the comparability of financial statements in general. Financial statements of large entities can be considered comparable, but the overwhelming majority of entities should be classified as medium, small and micro (Gláserová et al., 2017).

According to accounting legislation in Hungary and Slovakia the financial statements have to be prepared in line with general accounting principles. With regard to administrative burden, the principle of cost-benefit shall be applied to ensure that the cost of information acquisition is in proportion with the usefulness of information disclosed in financial statements. (Act C of 2000 on Accounting, section 16, par. 5; Act No. 431/2002 on Accounting, as in effect, section 17 par. 9) The principle of cost-benefit cannot be recognized in the financial statement requirements for large and small entities in practice because both entity financial statements are based on the same accounting procedures. The reporting of relevant information about an entity should be assessed in terms of the significance of the information and the expense incurred for obtaining it in relation to benefits from the disclosure (Tumpach-Baštincová, 2014). Comparison of financial statement content for small and micro entities is shown in Table 3.

The administrative burden is the minimum for subjects, which are not within the scope of accounting legislation in Hungary such as entities under Act CXLVII of 2012 on the Fixed-Rate Tax of Low Tax-Bracket Enterprises and on Small Business Tax, as in effect and private entrepreneurs. Private entrepreneurs keep

records in simple-entry booking or keep records only about cash income under Act CXVII of 1995 on Personal Income Tax, as in effect (Ambrus-Borbély, 2015). In Slovakia the accounting legislation has a few paragraphs dealing with private entrepreneurs, but they are mostly regulated by income tax legislation according to Act No. 595/2003 Income Tax Act, as in effect. In both countries, there is a strong connection between accounting and tax legislation from which the most significant areas are income tax and value added tax.

Significant differences between two national legislations regulating financial statements are found in the criteria for compiling, content, disclosure of notes and business report.

According to the Directive 2013/34/EU implementation in Hungarian legislation new paragraphs were introduced regulating information disclosed in the notes of large entities, which are the following:

- amount and nature of revenues, costs and expenses exceeding the amount or occurrence stated in accounting policy,
- proposal of after-tax profit use and distribution,
- explanatory information to balance sheet and profit and loss statement items should be presented in the order as these items are presented in particular statement,
- extent of information provided about consolidated group and its members have increased,
- changes in equity and their components,
- number of employees, wages and payroll contributions presented for each group of employees,
- the number of shares and their nominal value, types of share and some relating information,
- other material revenues and expenses quantified impact on corporate tax,
- information about financial instruments and inventory impairment and its changes.

Table 3 Comparison of financial statement component for small and micro entities according to Hungarian and Slovak legislation

Type of entity	Act C of 2000 on Accounting, as in effect	Act No. 431/2002 on Accounting, as in effect
Small	the statements, balance sheet and profit and loss statement, provide information aggregated and less detailed the notes contain less information	the statements, balance sheet and profit and loss statement, are the same as for large entities, but they do not have obligation to disclose the same extent of information. For example, information about receivables and payables to related parties are not compulsory the notes are simplified and not required to provide the overview of changes in equity and overview of cash flow
Micro	the statements, balance sheet and profit and loss statement, contains less items and simplified regulation the notes are not prepared	the statements, balance sheet and profit and loss statement, contains less items the notes are more simplified than in the case of small entities

Source: Author's processing based on Act C of 2000 on Accounting, as in effect and Act No. 431/2002 on Accounting, as in effect

The notes in Hungary are reported in the following structure (Siklósi-Veress, 2018):

1. Basic information about the entity
2. Additional information to balance sheet including off-balance sheet items, overview of changes in equity and cash-flow statement
3. Additional information to profit and loss statement
4. Other information.

The content of the notes in Slovakia is included in lower level regulations and not in Act C of 2000 on Accounting, as in effect, as in Hungary. The lower level regulations are Measures of the Ministry of Finance of the Slovak Republic that deals with the accounting and the compilation of financial statements for each category of entities. Before implementation of Directive 2013/34/EU there was only one measure dealing with financial statements in double-entry booking until 2013, when the measure for micro entities was introduced and in the subsequent year measures for small and large entities were introduced. The Measure of the Ministry of Finance of Slovak Republic for large entities requires information be presented in the notes in the following structure:

5. Basic information
6. Information about accounting principles and methods
7. Information that explains and complements the balance sheet items
8. Information that explains and complements the profit and loss statement items

9. Information about off-balance sheet assets and liabilities
10. Events after the date on which financial statements are compiled
11. Other information
12. Overview of changes in equity
13. Overview of cash flow. (Measure of the MFSR No. MF/23377/2014-74)

According to both national regulations the notes for small entities are simplified and they do not include overview of changes in equity and overview of cash-flow. The notes for small entities in Slovakia contains 7 chapters versus 9 for large entities. For small entities, the last two chapters are excluded. (Measure of the MFSR No. MF/23378/2014-74) The main difference between Slovakian and Hungarian legislation can be identified in the case of micro entities which in Hungary are not required to prepare the notes. The micro entities' notes consist of the following three chapters:

14. Basic information
15. Information about accounting principles and methods
16. Information that explains and complements the balance sheet and the profit and loss statement items. (Measure of the MFSR No. MF/15464/2013-74)

In addition to the information extracted from the entity's basic financial statements, the information in the business report also assists investors and other users in decision-making (Lovciová, 2017). The business report is a compulsory part of financial statements for large and public-interest entities in Hungary. The business report is not disclosed together with the financial statements because the regulation considers it an individual report. According to the legislation, the business report must be available to all interested parties at the address of the entity and must be provided to all interested parties to make whole or partial copies. (Act C of 2000 on Accounting, as in effect, section 154. par. 12) In the Slovak republic entities required to prepare a business report have to deposit it into the Register of financial statements not later than one year from the end of a particular accounting period. (Act 431/2002 on Accounting, as in effect, section 23a, par. 8) Business reports are obliged to compile entities which are subject to audit with the exception of branches of foreign banks or insurance entities and similar entities according to Act 431/2002 on Accounting, as in effect article 17a paragraph 1 b. Audit of financial statements is compulsory based on size criteria or by listed conditions. The size criteria are examined during two accounting periods and at least two of the following conditions have to be fulfilled:

- total assets exceed 1 000 000 €;
- net turnover exceeds 2 000 000 €;
- average calculated number of employees exceeds 30 in the accounting period.

Total assets are determined from the balance sheet in gross amounts. (Act 431/2002 on Accounting, as in effect, section 19, par. 1) Net turnover includes revenue from the sales of goods, merchandise and services after deducting

discounts. Net turnover includes other revenues after deducting discounts for an accounting unit whose business activities include revenues other than those resulting from the sales of goods, merchandise and services. (Act 431/2002 on Accounting, as in effect, section 2, par. 15) Listed conditions of compulsory audit are the following:

- entity whose securities have been admitted to trading on regulated market,
- entity, that is the subject to this requirement under a separate regulation (e. g. regulation about banks, foundations),
- entity that should prepare its financial statements in accordance with article 17a (according to which entities prepare financial statements based on IFRS, e. g. banks, insurance entities and others). (Act 431/2002 on Accounting, as in effect, section 19, par. 1)

According to size criteria, in Slovakia obligation of business report preparation is not only for large entities as in Hungary but also for several small entities. In the context of business report preparation, the administrative burden for small entities is lower in Hungary than in Slovakia. The more complex information about capital maintenance is provided in the balance sheet which is supplemented by information from the overview of changes in equity. The main indicator of capital maintenance is equity and the components which contain information not only about share capital but reflect different reserves, profit or loss for the period and accumulated profit or loss from previous periods. Since small and micro entities are not obliged to disclose the overview of changes in equity, examination of capital maintenance cannot be done. Due to this fact, in the next part we will pay attention to equity and its components.

3. COMPARISON OF THE HUNGARIAN AND SLOVAKIAN PRESENTATION OF EQUITY AS A KEY INDICATOR OF CAPITAL MAINTENANCE

Equity is the key indicator in the examination of capital maintenance because under the financial concept of capital changes in equity indicate the growth, retention or erosion of capital. On the other hand, there is a link in components of equity to the physical concept of capital when revaluation surplus is directly recognized in equity and not in profit and loss statements. These are the main reasons why equity is a significant indicator of capital maintenance.

The equity presentation under IFRS is within the scope of standard IAS 1 Presentation of financial statements (hereinafter IAS 1). IAS 1 defines requirements for minimum line items in the statement of financial position, among which two items are related to equity:

- non-controlling interests presented within equity and
- issued capital and reserves attributable to owners of the parent. (IAS 1, 1.54)

Further sub-classification can be made in the statement of financial position or in the notes about classes of equity and reserves. (IAS 1, 1.78) The following detailed information has to be disclosed in the statement of financial position, the statement of changes in equity or in the notes for each class of share capital:

- “the number of shares authorized,
- the number of shares issued and fully paid, and issued but not fully paid,
- par value (face value) per share, or that the shares have no par value,
- a reconciliation of the number of shares outstanding at the beginning and at the end of the period,
- the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital,
- shares in the entity held by the entity or by its subsidiaries or associates, and
- shares reserved for issue under options and contracts for the sale of shares, including terms and amounts.”

There is a requirement for description of the purpose and nature of each reserve within equity, too. (IAS 1, 1.79)

The statement of changes in equity requires some additional information:

- “total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non-controlling interests,
- for each component of equity, the effects of retrospective application or retrospective restatement recognized in accordance with IAS 8 Changes in Accounting Policies; and
- for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from:
 - profit or loss;
 - other comprehensive income; and
 - transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control.” (IAS 1, 1.106)

In contrast, the national legislation in Hungary and Slovakia exactly defines the extent of information disclosed in each part of financial statements. Due to the Directive 2013/34/EU implementation, the extent of provided information about equity may vary depending on the category to which the entity refers. As mentioned earlier, only large entities are obliged to prepare statements of changes in equity. The differences between presentation of equity for large entities in Hungary and Slovakia are shown in Table 4. However, small and large entities in Slovakia prepare the balance sheet and profit and loss statement in the same structure and with the same number of items. In Hungarian financial statements for small entities the line items marked by Arabic numbers are aggregated and in the case of equity the aggregation is only concerned about the item Revaluation reserve.

In the context of capital maintenance, the focus is on the growth of total equity excluding contributions and distributions to owners. Under the financial concept of capital maintenance, the key indicators are not just shareholders' equity line but also profit and loss of the accounting period after tax and accumulated profit and loss of the previous years. If financial capital maintenance is assessed in constant purchasing power, the differences arising from revising the nominal monetary unit to constant purchasing power are also disclosed in equity. Physical capital maintenance is more focused on productive capability, thus the equity component such as revaluation differences and value adjustments are critical as well in the assessment of growth, retention or erosion of capital.

Since capital maintenance under the physical capital concept is in the focus of our examination, in which we are mostly interested producing entities, the revaluation differences relating to financial instruments are not within the objective of our paper. Revaluation differences and value adjustments related to non-current assets are primarily regulated in standards: IAS 38 Intangible assets (hereinafter IAS 38), IAS 16 Property, plant and Equipment (hereinafter IAS 16), IAS 40 Investment Property (hereinafter IAS 40) and IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (hereinafter IFRS 5).

According to IAS 38 and IAS 16, initial recognition of an asset is in cost. For subsequent measurement to the balance sheet date, the entity shall choose from the cost model or the revaluation model. The cost model measures intangible assets and property, plant and equipment at cost less accumulated depreciation and accumulated impairment losses. The revaluation model measures assets in revalued amount, which is fair value less any accumulated depreciation and impairment. Significant impact to components of financial statements can apply the revaluation model, when the fair value of asset is higher or lower than the carrying amount. In case that the fair value is higher than the carrying amount, the amount exceeding carrying amount is recognized in equity through other comprehensive income statement in line revaluation surplus without impact on profit or loss. If in the previous accounting period the decrease in asset value was recognized as an expense in profit and loss, increase in fair value is recognized as a decrease of expenses in profit and loss statement and the remaining part is recognized in other comprehensive income indirectly presented in equity. In case fair value is less than carrying amount, the difference is recognized through expenses in the profit and loss statement. If in the previous accounting periods increase of value was recognized in revaluation surplus in equity, then the carrying amount will be decreased initially through equity in the amount of revaluation surplus, and the impact on the profit and loss statement will be in the remaining amount of difference between carrying amount and fair value. (IAS 38, IAS 16)

Table 4 Comparison of equity presentation in balance sheet according to Hungarian and Slovak legislation

Act C of 2000 on Accounting, as in effect		Measure of the Ministry of Finance of the Slovak Republic No. MF/23377/2014-74	
D.	Shareholders' equity	A	Equity line
I.	Issued capital	A.I.1.	Share capital
	Including: ownership shares repurchased at face value	2.	Change in share capital
II.	Issued capital unpaid (-)	3.	Unpaid share capital
III.	Capital reserve	A.II.	Share premium
IV.	Accumulated profit reserve	A.III.	Other capital funds
V.	Tied-up reserve	A.IV.	Legal reserve funds
VI.	Revaluation reserve	A.IV.1.	Legal reserve fund and non-distributable fund
1.	Reserve from value adjustments	2.	Reserve fund for own shares and own ownership interests
2.	Revaluation reserve from the fair value accounting	A.V.	Other funds created from profit
VII.	Net profit/loss for the accounting period after tax	A.V.1.	Statutory funds
		2.	Other funds
		A.VI.	Differences from revaluation - total
		A.VI.1.	Differences from revaluation of assets and liabilities
		2.	Investments revaluation reserves
		3.	Differences from revaluation in the event of mergers, amalgamation into a separate accounting or demerger
		A.VII.	Net profit/loss of previous years line
		A.VII.1.	Retained earnings from previous years
		2.	Accumulated losses from previous years
		A. VIII.	Net profit/loss for the accounting period after tax

Source: Author's processing based on Act C of 2000 on Accounting, as in effect and Measure of the Ministry of Finance of the Slovak Republic No. MF/23377/2014-74

Specific groups of assets are obtained as investments which are the subject of IAS 40. The standard defines two alternatives to the subsequent measurement on the balance sheet day: the revaluation model and the cost model. The chosen measurement model must be applied to all property classified as investment property. Measurement by cost model entity also has the obligation of fair value deter-

mination, because the entity is required to disclose the fair value in the notes. Applying the revaluation model, the change in fair value through gains or losses has a direct impact on the profit and loss statement. This model does not require depreciation of property (IAS 40).

The last group of non-current assets is defined in standard IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. An asset can be classified as asset held for sale, if it meets the criteria defined in the standard, while depreciation is interrupted and presentation on a separate line of the balance sheet is needed. Initial measurement is the lower of fair value less costs to sell or carrying amount. Costs to sell are “the incremental costs directly attributable to the disposal of an asset”. (IFRS 5, Appendix A) In case the asset does not meet the criteria for classification as held for sale or discontinued operations the asset shall be reclassified as a non-current asset and measured at the lower of:

- carrying amount before the asset was classified as held for sale adjusted for any revaluation, depreciation and amortization that would have been recognized if the asset had not been classified as held for sale, or
- its recoverable amount at the date of the decision not to sell.

The recoverable amount is the higher of fair value less costs to sell or value in use. “Value in use is the present value of estimated future cash flows expected from the continuing use of the asset and from its disposal at the end of its useful life.” (IFRS 5, Appendix A)

In asset disclosures, examination of impairment and its presentation in the financial statements has a significant role. Standard IAS 36 Impairment of assets prescribes applied procedures, when the recoverable amount is lower than the carrying amount. IAS 36 does not have impairment testing for assets under IFRS 5 and IAS 40 measured at fair value within the scope. “The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal or its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.” (IAS 36, 6.) Impairment losses do not have to be recognized, if at least one measurement basis, value in use or recoverable amount, is higher than the carrying amount of the asset (Bednárová-Šlosárová, 2015).

Recent trends force the application of fair value for more and more balance sheet items, which is in line with the requirement of current value measurement under the physical capital maintenance concept (Jianu et al., 2011). IFRS standard setters and academic literature consider fair value measurement and reporting a more relevant and transparent way to provide information to financial statement users. Use of fair value reporting should increase value-relevance and reflect the actual value of enterprises in public information leading to more efficient capital formation and resource allocation (Palea, 2014).

In line with continuing existence of the entity and the retention of physical capital, increase in asset fair value is more appropriately recognized as revalu-

ation surplus in equity than directly in the profit or loss statement. In this case, the carrying amount on the balance sheet increases, but unrealized profit is not directly recognized in the profit and loss statement. If unrealized profit is recognized, the risk of fictive profit distribution arises. As a result of unrealized profit, respectively fictive profit distribution causes erosion of an entity's capital endangering the entity's ability to perform production and other business activities at full capacity (Pakšiová, 2014). Therefore, assets under IAS 38 and IAS 16 can be subsequently measured by the revaluation model through equity which is most appropriate for physical capital maintenance. If assets measured under IAS 40 and IFRS 5 are subsequently measured through the profit and loss statement, risks relating to profit distribution from unrealized profits and capital erosion arise.

Act C of 2000 on Accounting, as in effect, defines revaluation reserve in the balance sheet as the sum of reserve from value adjustments and revaluation reserve from the fair value accounting. The second one relates to financial instruments which are not the subject of this paper. Reserve from value adjustments is a tool for equity increase when fair value is higher than the carrying amount after impairment reversal for the following items: concessions, licenses and similar rights and assets, intellectual property, tangible assets (assets under construction, payment on account for construction) and investments in equity instruments. The difference between fair value and carrying amount is presented in the same amount among assets on lines "Adjusted values" for each category of assets and among equity on line "Reserve from value adjustments". Value adjustments are presented individually in the balance sheet, thus the presented value of a particular asset does not increase, the fair value must be tested every year and changes must be recognized in financial statements (Siklósi-Veress, 2018). According to this act, the fair value measurement is optional, and the opinion of an auditor is required to check the regularity of establishing and recognizing value adjustments. (Act C of 2000 on Accounting, as in effect, section 59, par. 2) Revaluation reserves represent a restriction in profit distribution because after profit distribution the amount of equity less tied-up reserves and the valuation reserve should not fall below the amount of subscribed capital (Act C of 2000 on Accounting, as in effect, section 39, par. 3).

According to Act No. 431/2002 on Accounting, as in effect, fair value revaluation of non-current assets to the balance sheet day is not allowed. Measurement at fair value and subsequent fair value revaluation is more widely applied in the category of financial instruments. The aggregated line item in the balance sheet "Differences from revaluation" is the sum of financial instrument revaluation, investment revaluation reserves accounted until the end of 2009 and differences from revaluation in the event of mergers, amalgamation into a separate accounting or demerger which are not in the scope of our paper.

4. CONCLUSIONS

The aim of this paper was to identify similarities and differences in capital maintenance disclosure in financial statements with emphasis on equity in two Central East European countries.

Entities, regardless of their size, should pay attention to capital maintenance and restrict profit distribution (especially the distribution of unrealized profit) to ensure continuing existence. Capital maintenance is examined from the perspective of financial and physical capital maintenance. In this paper, similar and different features of information disclosure in financial statements after Directive 2013/34/EU implementation in Hungarian and Slovak accounting legislation were investigated. The aim of the directive was to decrease administrative burden for smaller entities by simplified requirements related to information disclosure and measurement. Theoretically, the aim of the directive is met, and it can be concluded that the administrative burden for small and micro entities is lower in Hungary than in Slovakia. However, in practice the real effects of simplification can be questioned considering the administrative burden related to taxation.

Assessment of capital maintenance is based on capital reported in the balance sheet as equity. Equity components were compared according to IFRS and accounting legislation in Hungary and Slovakia. IFRS determinates the requirements for equity disclosure and it offers more alternatives for reporting such as statement of financial position, notes or statement of changes in equity. Despite this, according to national legislation the line items of equity and its components in financial statements are directly stated. Equity is reported in less line items in Hungary than Slovakia and a changes in equity overview is compulsory only for large entities in both countries. Based on analyses of equity reporting, we deduce that national legislations support the financial concept of capital maintenance in nominal monetary units. Under the financial concept capital is maintained, if the equity amount is higher at the end of the period than at the beginning. The link between equity and capital maintenance under the physical concept (focusing on production capacity) is revaluation surplus. Physical capital maintenance asks for current cost measurement based on fair value, which is not widely applied in examined countries. Fair value measurement and revaluation mostly relates to financial assets that are not in our focus. Measurement and revaluation in fair value through revaluation surplus of non-current assets is in line with IFRS, but not in Slovakia. In Slovakia fair value revaluation relates only to financial assets.

In Hungary there is a possibility to recognize fair value increase of non-current assets in equity, but it is a subject of an auditor's opinion even if the financial statement is not the subject of an audit. In general, for the majority of entities in Hungary and Slovakia capital maintenance assessment is available under the financial concept of capital based on equity and its components. Large entities and entities preparing financial statements under IFRS disclose a wider extent of information and also have the obligation to provide statement of changes in equity which enables deeper analysis.

ACKNOWLEDGEMENT

This article is one of the partial outputs of the currently solved research grant no. I-18-105-00 entitled “Financial Analysis as a tool of Sustainable Development in enterprises of the engineering industry”.

REFERENCES

- Ambrus R. A.–Borbély K. (2015) Hungarian Accounting Regulations: Exposed to the Cross-Fire. *Theoretical Journal of Accounting*, 84, 140, pp. 9–22.
- Bednářová, B.–Šlosárová, A. (2015) *Oceňovanie ako metodický prostriedok účtovníctva*. Wolters Kluwer, Bratislava.
- Brätland, J. (2008) Resource Exhaustibility, A Myth Refuted by Entrepreneurial Capital Maintenance. *Independent Review*, XII, 3, pp. 375–399.
- Gláserová, J.–Otavová, M.–Bušovová, A.–Dřínovská, E. (2017) Impact of Transposition of the Directive 2013/34/EU into the National Laws of EU Member States Emphatically V4. *Acta Universitatis Agriculturae et Silviculturae Mendelianae Brunensis*, 65, 2, pp. 631–639.
- Jianu, I.–Jianu, I.–Gusatu, I. (2011) The physical capital maintenance concept and the new requirements of the economic environment. *African Journal of Business Management*, 5, 34, pp. 13276–13292.
- Jianu, I.–Jianu, I.–Turlea, C. (2017) Measuring the company’s real performance by physical capital maintenance. *Economic Computation and Economic Cybernetics Studies and Research*, 51, 1, pp. 37–57.
- Lovciová, K. (2017) Vybrané indikátory stavu majetkovej podstaty vykazované v účtovnej závierke ako súčasť výročnej správy. In: Pakšiová, R. (ed.): *Indikátory zmeny majetkovej podstaty a ich analýza: zborník vedeckých statí*. Vydavateľstvo EKONÓM, Bratislava, pp. 69–82.
- Pakšiová, R. (2014) *Majetková podstata podniku*. Vydavateľstvo EKONÓM, Bratislava.
- Pakšiová, R. (2017) The Critical Analysis of Profit for its Allocation Decision-Making. *Scientific Annals of Economics and Business*, 64, 1, pp. 41–56.
- Palea, V. (2014) Fair value accounting and its usefulness to financial statement users. *Journal of Financial Reporting and Accounting*, 12, 2, pp. 102–116.
- Siklósi Á.–Veress A. (2018) *Könyvvezetés és beszámolóképzés: Számviteli feladatok a gyakorlatban*. Saldo, Budapest.
- Tumpach, M.–Baštincová, A. (2014) Cost and Benefit of Accounting Information in Slovakia: Do We Need to Redefine Relevance? In: *European financial systems, 11th International Scientific Conference on European Financial Systems, Lednice, 12-13 Jun 2014*. Masaryk University, Brno. pp. 655–661.

ACTS OF LAW AND OTHER REGULATIONS

- Act No. 431/2002 on Accounting, as in effect
- Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing council Directives 78/660/EEC and 83/449/EEC

- Hungary's Act C of 2000 on Accounting, as in effect
- IASB (2010) Conceptual Framework
- IASB (2018) International Financial Reporting Standards
- Measure of the Ministry of Finance of the Slovak Republic No. MF/15464/2013-74 defining details of the arrangement, marking, and content specification of items of an individual financial statement and extent of data determined for publication from an individual financial statement for entrepreneurs using double entry bookkeeping for micro accounting units.
- Measure of the Ministry of Finance of the Slovak Republic No. MF/23378/2014-74 defining details of the arrangement, marking, and content specification of items of an individual financial statement and extent of data determined for publication from an individual financial statement for entrepreneurs using double entry bookkeeping for small accounting units.
- Measure of the Ministry of Finance of the Slovak Republic No. MF/23377/2014-74 defining details of the arrangement, marking, and content specification of items of an individual financial statement and extent of data determined for publication from an individual financial statement for entrepreneurs using double entry bookkeeping for large accounting units and public interest entity.

Enhancing the competitiveness of SMEs after the financial crisis



Abstract

The strengthening of the SME sector is one of the priorities of the Hungarian economic policy. SMEs are responsible not only for creating jobs but also for economic growth by investing in R&D and being involved in exports. Therefore, having access to funds is a basic necessity for them. After a serious setback as a result of the financial crisis and lack of capital, the SME sector began a revival due to incentives taken by the government and the central bank. The paper aims to highlight how governmental policy may intervene into financial markets by providing subsidised credit to SMEs in order to increase their competitiveness. By demonstrating the phases and the results of the Funding for Growth Scheme (FGS) the paper seeks to provide evidence for the justification of institutional support to eliminate market imperfections and stimulate growth. The paper is based on the use and analysis of secondary sources presenting a case study on the reasons for launching the Funding for Growth Scheme, a special type of external debt financing instrument for SMEs initiated by the government and provided by the central bank. Attention is paid to its impact on the volume of corporate lending in the banking sector, as well as, its effects on SMEs' investments by investigating changes in macroeconomic growth. The paper reveals that the directed loan scheme with favourable interest and a long tenor has largely induced investments in the sector that were previously postponed and increased both firm-level and national competitiveness.

Keywords: competitiveness, SMEs, government intervention, subsidised credit, Funding for Growth Scheme

INTRODUCTION

In the aftermath of the financial crisis researchers have shown an increased interest in the state and development of the SME sector. The published papers deal with the dominant role of these companies in the corporate sector in terms of number, employment, value added and export activities. Similar to other countries in the EU, SMEs in Hungary make up 99% of the corporate sector, account for more than two-thirds of its employment and generate 40% of value added, as a result, they require considerable attention from national decision-makers.

SMEs were seriously hit by the financial crisis. On the one hand they faced a drop in demand for their goods and services, on the other hand they suffered from liquidity problems due to the lending constraints imposed by financial institutions. The report Trends in Lending (MNB, 2013, 6) notes “the contractionary behaviour of the banking system” and “the overall tightness of the credit conditions”. In a

similar vein, other studies point out that there was a considerable decline in long-term investment loans, which was due to the fact that “the market for short-term SME loans became rather demand-driven, while that of development loans became supply-driven” (Szöllősi-Pogácsás, 2014, 27). Endrész et al. (2014, 74) note that the sector’s indebtedness resulted in a rise in winding-up proceedings between 2009 and 2012. Analysing demand and supply in the corporate loan market, Sóvágó (2011, 12) draws attention to the price and non-price conditions of credit supply by highlighting the fact that in addition to the real lending rate (price condition), “the lending standards (maturity or amount of loans, type of collateral, the credit scoring system” and “the creditworthiness of the borrowers (probability of default)” also affect the tightening behaviour of the banks.

Several studies have pointed out that national and firm-level competitiveness are interrelated. The competitiveness of a country depends on the competitiveness of its corporate sector, which can be supported by economic policy measures. As the crisis undermined the competitiveness of most of the corporate sector, especially that of with SMEs, the government addressed the market failure in the financial market by offering subsidised credit to the SME sector. Consequently, initiated by the Hungarian government, in 2013 the central bank launched the Funding for Growth Scheme to provide favourable lending conditions for the corporate sector.

The paper is structured as follows: The first part focuses on the theoretical framework of competitiveness and the role of the government in providing economic stimulus. The second part analyses the objectives and results of the Funding for Growth Scheme (FGS) and by highlighting the development of the SME sector during the Scheme’s availability it seeks to find out whether this targeted economic stimulus has resulted in any additionality and if yes, in what way.

The research is based on analysing economic policy measures taken by the Hungarian government and the central bank. The potentials of FGS as a subsidised credit scheme are illustrated by the time-series analysis of the SME sector in terms of employment, net turnover, value added and export capacities based on data by the Hungarian Central Statistical Office (KSH). Background information and figures on the government’s monetary stimulus with regard to the Funding for Growth Scheme are derived from the publications of the Hungarian National Bank (MNB). The data retrieved from the secondary sources are systematically combined and critically analysed to reveal whether and to what extent governmental support contributed to the financial sustainability and the additionality of investments of the Hungarian SME sector.

1. THEORETICAL FRAMEWORK

The theoretical framework of the paper is based on the concept of competitiveness and the role of the state in influencing economic processes with a special focus on the SME sector. Regarding competitiveness, the link between national and firm-level competitiveness is demonstrated in the light of the supportive role of the government and the central bank.

1.1. COMPETITIVENESS

The term ‘competitiveness’ may be defined in various ways with different features in focus. For example, the IMD World Competitiveness Centre regards it as “the extent to which a country is able to foster an environment in which enterprises can generate sustainable value” (www.imd.org), whereas in the view of the World Economic Forum (WEF) it is viewed as “the set of institutions, policies and factors that determine the level of a country’s productivity” (www.weforum.org).

Since 2005 national competitiveness has been measured by the Global Competitiveness Index (GCI), a benchmarking tool of the World Economic Forum, which includes 12 drivers of productivity. In compliance with the effects of the Fourth Industrial Revolution, GCI has been transformed into GCI 4.0 reflecting “the extent and complexity of the drivers of productivity” (WEF, 2018, vii). According to The Global Competitiveness Report 2018, Hungary takes 48th place preceded by the Czech Republic (29th), Poland (37th) and Slovakia (41st). At the same time, over the past five years, Hungary’s ranking has improved, from 63rd place (2014, 2016) to 48th (2017, 2018).

Table 1 Global Competitiveness Index

GCI	
Basic requirements	institutions, infrastructure, macroeconomic environment, health and primary education
Efficiency enhancers	higher education and training, goods market efficiency, labour market efficiency, technological readiness, market size,
Innovation enhancers	business sophistication, innovation
GCI 4.0	
Enabling environment	institutions, infrastructure, ICT adoption, macroeconomic stability,
Human capital	health, skills
Markets	product market, labour market, financial system, market size
Innovation ecosystem	business dynamism, innovation capability

Source: Compiled by the author based on WEF (2017, 2018)

The new GCI4.0 addresses the global economic challenges countries face as a result of the Fourth Industrial Revolution (4IR) and with “human capital, innovation, resilience and agility” (WEF, 2018, v) it provides a guideline for governments to aim long-term policy measures.

Chikán (2008, 21) argues that “there is no competitive national economy without competitive companies and developments in national economies have a very strong influence on companies’ competitiveness”. Defining the directions of innovative industrial development in Hungary the Irinyi Plan (2016, 12) underlines that “the competitiveness of a state is determined primarily by the competitiveness of its enterprises”. Centindamar and Kilitcioglu (2013, 20) state that “it is the firms, not nations, which compete”. All this suggests that measures improving the competitiveness of the corporate sector should be in the focus of decision-makers’ attention.

In a comprehensive assessment of the competitiveness of the Hungarian economy, the National Bank of Hungary (MNB, 2017b, 11) states that a national economy is regarded as competitive if “it utilizes its available resources optimally to attain the highest possible, but at the same time sustainable level of welfare”. Macroeconomic stability, access to funds, strong institutional and effective regulatory background serve as a basis for a predictable business environment where the availability of qualified workforce with decent wages and salaries as well as investment facilities in R&D activities may increase productivity (Figure 1).

Figure 1 Foundations and objectives of competitiveness



Source: Compiled by the author based on MNB (2017b, 12)

Firm-level competitiveness is regarded as “a capability of a firm to sustainably fulfil its double purpose, meeting customer requirements at profit” (Chikán, 2008, 24). According to findings by Centindamar and Kilitcioglu (2013, 21) a firm’s competitiveness is based on three pillars, (1) “competitive performance (output)”, (2) “firm resources (input)” and (3) “managerial processes and capabilities”, which can be further divided into smaller units serving as a measurement model for data collection. A background document on measuring competitiveness

by WIFO and ZEW^[1] (2017, 12) models a hierarchy of firm-level competitiveness indicators where competitive performance is the result of firm capabilities and competitive potential.

1.2. ECONOMIC POLICY STIMULATING THE GROWTH OF THE SME SECTOR

Growth-inducing economic policy of the government during the recession following the financial crisis is based on the phenomenon of hysteresis, which describes “a sustained, negative shift not only in the level of GDP, but also in its dynamics” (MNB, 2016a, 12). The phenomenon was widely investigated in empirical studies by Ball (2014) and Blanchard et al. (2015), indicating that recessions have a permanent effect on the level of output.

Dosi et al. (2016, 1019) point out that hysteresis is embodied by “the lower innovation rate associated with a reduction in the aggregate demand” leading to a decline in productivity, “the declining entry rate of firms in the market” as well as “workers’ skills deterioration process”.

The slow recovery provided evidence for the fact that for the stabilisation of the economy monetary policy alone is not enough (Corsetti et al., 2019). The negative spiral in Hungary in the post-crisis period required policy-makers to coordinate fiscal and monetary policy. The fiscal turnaround after 2010 was followed by a monetary turnaround in 2013, where “the former gave rise to fiscal balance, while the latter took the necessary steps for achieving price stability and financial stability, building on budgetary stability” (Matolcsy-Palotai, 2015, 31), an instrument of which was the launch of the central bank’s Funding for Growth Scheme.

The competitiveness of a country depends structurally on the efficiency and quality of financial intermediation, which is closely related to the competitiveness of the banking sector. In terms of unconventional measures central banks may use “targeted liquidity providing instruments” (Komlóssy et al., 2014, 11) to ease the financing constraint of SMEs, which may be exemplified by subsidised credit facilities including the Funding for Growth Scheme initiated by the government and provided by the Hungarian central bank.

Meiklejohn (1999, 25) mentions market failures for the justification of state aids implying that “the scale and form of the intervention must, as far as possible, be suited to the importance and nature of the problem.” Stiglitz (1994, 20) also supports the role of the government in financial markets, as it may result in improved economic performance. Based on public policies, he sets up “two alternative taxonomies, one focusing on actions, the other on objectives” (Stiglitz, 1994, 32-33), where actions refer to “regulating financial market institutions, intervening in these institutions through other than regulatory means”; while

[1] The report was completed by the WIFO: Austrian Institute of Economic Research; ZEW: Centre for European Economic Research for the European Commission.

the social objectives denote – among others – “improving macroeconomic stability, ensuring competition, stimulating growth, and providing a better allocation of resources”. Combining action with the social objective he concludes that “programs of directed credit attempt to intervene in the way that banks allocate credit” in order to allocate funds for projects with high social return. However, he also admits the unpredictable nature of investments in proportion with the available subsidy and notes that “in any country the relationship between the magnitude of the subsidy provided and the level of investment that firms undertake is uncertain.” (Stiglitz, 1994, 42)

Investigating the financing patterns of European SMEs by cluster analysis Masiak et al. (2017, 26) come to the conclusion that “SMEs in countries with lower GDP growth rates are more likely to use state subsidies” and point out – similar to Casey and O’Toole (2014) – that “SMEs in distressed countries seem to rely more on grants or subsidised bank loans which can be explained by financial constraints and the higher availability of subsidies” (Masiak et al., 2017, 32). While investigating the role of state subsidies, in addition to emphasising the value creating role due to the positive externalities of the projects and the elimination of financial constraints, Berlinger et al. (2015, 2) warn of the likelihood of low efficiency projects. González and Pazó (2008, 371, 372) regard state subsidies as an instrument “stimulating industrial R&D”, but it is still unclear “to what extent they induce firms to increase their R&D investment”. Studying the use of institutional policy in the case of credit market imperfections Antunes et al. (2014, 3) focus on the quantitative effect of credit subsidy drawing attention to the problem of misallocation and challenging the fairness of subsidising credit.

Findings in literature suggest that government intervention into the economy may relieve market imperfections and induce growth, however, it is difficult to measure its positive externalities. Evaluating the success of economic policy measures by subsidising investments in R&D, Marino et al. (2016, 1716) draw attention to the notion of “additionality as an indicator of policy effectiveness” referring to a positive relationship between investments in R&D and the economic growth generated thereby. Falk (2007) deals with several notions of additionality including resource-based and result-based concepts. The former analyses “whether and to what extent firms increase their private spending on innovation-related activities when supported”, and the latter “measures the proportion of output that would not have been achieved without” the support scheme (Falk, 2007, 667). Both the resource-based and the result-concept of additionality have their shortcomings, in the first case additional resources do not necessarily increase investments in innovation; in the second case innovations do not always result from “increased investment in tangible assets”.

Regarding government intervention in R&D activities of the corporate sector, Aerts and Schmidt (2008) point to the crowding-out effect of subsidies indicating that private money will be public money without generating additional R&D investments and does not generate additional R&D investments.

Synthesising the findings of literature on competitiveness and stimulating economic policy, the author comes to the conclusion that financial constraints hamper firm-level competitiveness and as a result, national competitiveness, as well. Due to the renewed framework of the GCI, based on the enabling environment and human capital, financial markets have gained considerable importance in providing resources for business dynamism and innovation capability. Access to funds is also a key pillar of firm-level competitiveness. Economic policies of decision-makers are generally affected by the type of externalities. Market imperfections require an interventional attitude by various actions and objectives. In light of the above findings, the paper presents the structure, objectives and results of the Funding for Growth Scheme as a special debt financing incentive for SMEs in a case study and analyses how the SME sector developed during the availability of this targeted support.

2. FUNDING FOR GROWTH SCHEME AS INSTITUTIONAL SUPPORT FOR SMES

2.1. BACKGROUND INFORMATION ON THE HUNGARIAN SME SECTOR

Over the past decade the economic status of SMEs has increased, which is mainly caused by corporations outsourcing tasks in order to cut costs. The majority of suppliers are smaller and more flexible enterprises. These companies can identify market opportunities quickly and are quick to react to changes. Although SMEs started out in the local economy, more precisely in the retail service sector, recently they have appeared in the field of innovative business services. These are mainly network-based enterprises entering the global market. The SME sector plays an important role in the production of the state's income, in foreign working capital, in investment, and, from a social point of view, in job creation and employment (Mester et al., 2015).

In Hungary the corporate sector is dominated by micro, small and medium-sized enterprises^[2], with micro enterprises prevailing (94.95%), followed by small and medium-sized companies, 4.22% and 0.69% respectively. The number of corporations employing more than 250 workers is only 994, which does not even reach 1% (0.14 %) of the total number of active companies.^[3]

Studies underline (Eurostaat, 2011; Annual report on European SMEs 2017/18; Madsen, 2015) that the SME sector's competitiveness falls behind that of large corporations, due to their overwhelming presence in low knowledge or tech-

[2] The size categories of SMEs are based on the SME definition of the European Commission. See: <http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition/>

[3] Hungarian Central Statistical Office 2017 data

nology-intensive sectors, lack of a properly qualified labour force, managerial processes and capabilities, and low level of R&D&I and export intensities.

In the corporate sector the effects of the financial crisis, first of all, hit the SME sector, especially its micro and small enterprises, as they had lower chances in obtaining external resources due to their lower profit generating abilities and information asymmetry. Recognising the economic and social significance of SMEs, several measures have been taken to improve the situation of this sector. Assistance in access to finance was one of the most important areas of intervention. Szöllősi and Pogácsás (2014, 27) note that “due to the asymmetry in the information and lower profit that financing entities have on smaller companies, small enterprises have lower chances in obtaining external sources”.

2.2. THE FUNDING FOR GROWTH SCHEME

The Hungarian National Bank (MNB) announced the Funding for Growth Scheme (FGS) in April 2013 with a view to ease SME lending and to strengthen financial stability and reduce external vulnerability. Until its gradual phasing out in March 2017, the scheme offered the most favourable conditions in terms of loan costs, the wide scope of its utilisation, the highest available loan amount, and its long tenor (Szöllősi-Pogácsás, 2014).

Unlike other forms of public aid (e.g., subsidies and grants) to specific sectors or industries, the FGS may be regarded as an unconventional monetary stimulus by the central bank in the form of a targeted loan for the SME sector disbursed by commercial banks at a fixed 2.5% interest rate for a maximum of 10 years, where the participating institutions had access to the funds at 0% interest. As a result, the interest rate of the loan disbursed was much lower than that of market-based loans. The launch of the Scheme was in compliance with Act CXXXIX Article 4(7) of 2013 on the Magyar Nemzeti Bank (Hungarian National Bank) stating that “in the event of disturbances to the credit market it shall contribute to the balanced implementation of the function of the system of intermediation in financing the economy through stimulating lending”.

2.2.1. THE PHASES AND OBJECTIVES OF THE SCHEME

The Scheme is divided into three phases each of which contained two pillars. Within the framework of Pillar 1 of the first phase (from June to August 2013), the MNB provided refinancing loans with 0 per cent interest to the participating credit institutions, which could lend further these loans to SMEs with an interest margin capped at 2.5 per cent. These loans could be exclusively used for investment, working capital financing, pre-financing EU funds, or for the redemptions of existing forint loans for such purposes. SME customers could use loans received under Pillar 2 for the redemption of foreign currency loans. Credit institutions involved in the Scheme were either direct partner banks of the MNB or other banks, integrated

savings co-operatives or credit unions that could participate indirectly through their umbrella banks (MNB, 2014).

During the first phase, the ratio of refinancing loans was extremely high, these loans accounted for all of Pillar 2 and 40 per cent of Pillar 1 (László, 2016). In the second phase from October 2013 to the end of 2015 the number of SMEs obtaining loans approached 27,000, amounting to a total of HUF 1,4021 billion where “new loans accounted for around 95 per cent of the loans granted, and nearly 60 per cent – HUF 815 billion – was intended to finance new investment directly.” (Hegedűs, et al., 2016, 22)

In the second phase it was micro enterprises that applied for most loans both in terms of number and volume for investment purposes (Hegedűs, et al., 2016). Under Pillar 1 of the second phase new investment loans, working capital loans and EU loans were disbursed while under Pillar 2 SMEs could still take out loans for the redemption of forint and foreign currency loans. (MNB, 2016b)

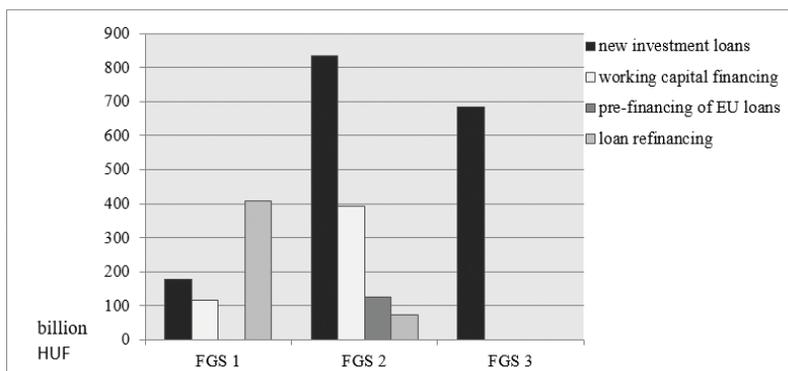
During the third phase from January 2016 to March 2017 the Scheme offered only new investment loans and leasing transactions both in forint and foreign currency while working capital financing and redemption of existing loans were not possible. Within the HUF 684.9 billion contracted loan amount, the share of new investment loans was 78%, whereas that of new leasing transactions amounted to 22 % (MNB, 2017a). (Table 2 and Figure 2)

Table 2 Overview of the FSG scheme’s objectives

	Pillar 1	Pillar 2	Total amount of loans
1st phase	new investment loan	refinancing of FX loans or FX-based loans with HUF loans	HUF 701 billion
	working capital financing		
	pre-financing EU funds		
	refinancing of HUF loans		
2nd phase	new investment loans	refinancing of HUF loans	HUF 1,425 billion
	working capital loans	refinancing of FX loans	
	pre-financing EU funds		
3rd phase	new investment loans in HUF	new investment loans in FX	HUF 685 billion
	new leasing in HUF	new leasing in FX	

Source: Compiled by the author based on MNB (2017e)

Figure 2 Distribution of loan amounts according to loan objectives



Source: Compiled by the author based on MNB (2017e)

The launch of the FGS as an integrated part of the monetary policy did not only stop the decline in lending but also provided favourable credit conditions at lower interest rates encouraging companies to invest. In addition, the Scheme also increased demand for working capital loans^[4].

2.2.2. THE TANGIBLE RESULTS OF THE SCHEME

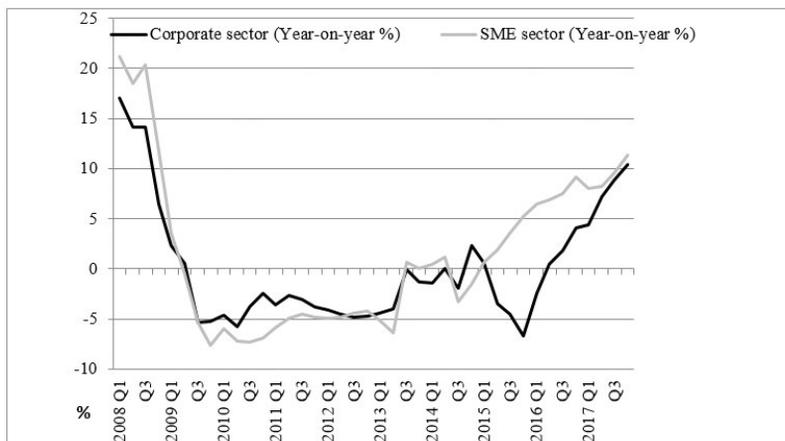
During the whole implementation period of the Scheme (from June 2013 until March 2017) approximately 40,000 SMEs were granted favourable loans with a total value of HUF 2,800 billion. As a result, from its decline SME lending was brought to a growth path contributing to the country's economic growth by 2 per cent from 2013 to 2016 and increasing employment by 20,000 people. Due to the favourable credit conditions, enterprises were able to implement deferred investments, reduce their exchange rate risk and improve their financial position. (Fábián-Pulai, 2018)

After the 3Q of 2013 SME lending exceeded the growth rate of outstanding loans in the corporate sector as a whole. This trend was significantly traceable from the second half of the Scheme's second phase (Q3, Q4 2015) to the end of the 3rd phase in Q1 2017. It can also be observed that there was a convergence between the growth rate of loans outstanding in the corporate sector as a whole and that of the SME sector, which could also be explained by the fact that by 3Q 2016 – due to the consecutive base rate cuts by the central bank – the base reached an all-time low (0.9%) and has remained unchanged since then.^[5] (Figure 3)

[4] See in more details: <https://www.mnb.hu/letoltes/hatterelemzes-final-eng.pdf>

[5] https://www.mnb.hu/en/Jegybanki_alapkamat_alakulasa [Data on base rate]

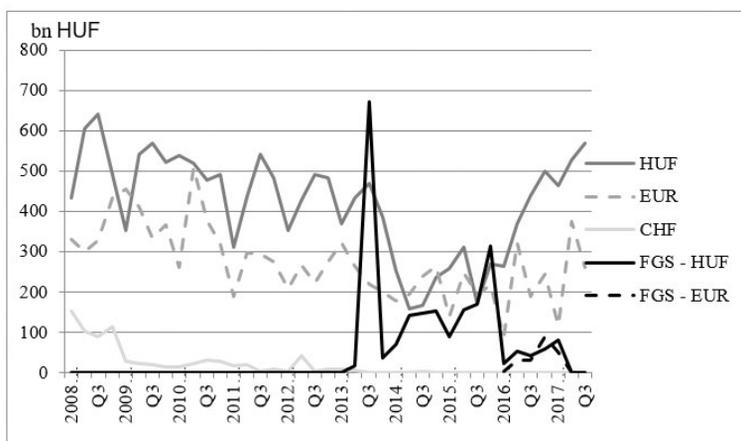
Figure 3 Growth rate of outstanding loans in the corporate sector as a whole and the SME sector, 2008–2017, %



Source: Compiled by the author based on Financial Stability Report May (MNB, 2018)

Following closure of the Funding for Growth Scheme at the end of the first quarter of 2017, there was no major decline in the volume of SME loans, although the distribution of the maturities of the loans shifted towards shorter maturities (Figure 4). This is probably attributable to the fact that SMEs tried to materialise a significant proportion of their investments requiring long-term loans in the period of the FGS. Also, the ratio of loans with maturity of over 5 years fell to below 30 per cent, but then increased to around 34 per cent by the end of 2018 Q1. This was already close to the ratios observed in the individual quarters of the FGS, although the volume of contracts in Q1 fell short of the previous quarters significantly, on account of seasonal factors.

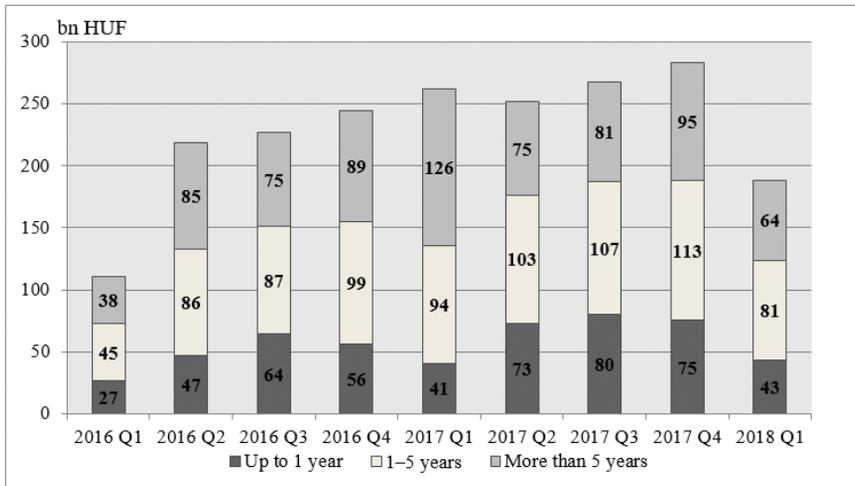
Figure 4 New corporate loans in the credit institution sector, 2008–2017, bn HUF



Source: Compiled by the author based on Trends in Lending (MNB, 2017c)

It is also worth noting that the ratio of fixed-rate loans was significantly lower in the year following the end of the FGS. After the Scheme was closed, the ratio of fixed-rate SME loans dropped, especially those with longer maturities (Figure 5). It may be due to the fact that after the FGS, banks were presumably less willing to provide fixed-rate financing with conditions similar to those of the FGS, or only at an interest rate level that was considered too high by corporations (MNB, 2018a).

Figure 5 New SME loans by maturity, 2016–2018, bn HUF



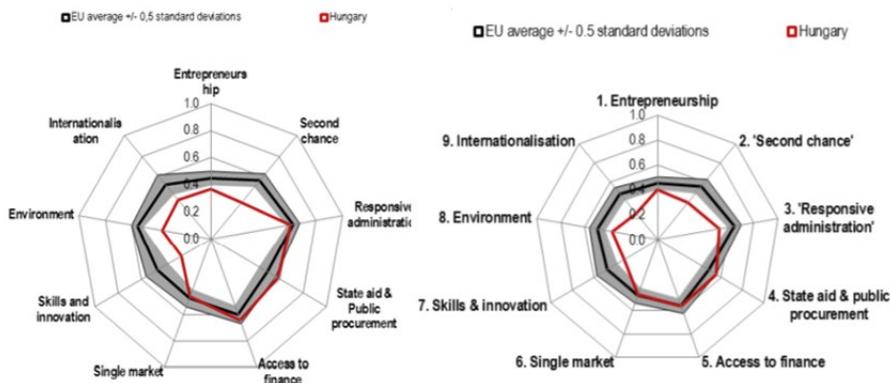
Source: Compiled by the author based on Financial Stability Report 2018 May (MNB, 2018a)

2.3. THE DEVELOPMENT OF THE SME SECTOR DURING THE FGS

The development of the Hungarian SME sector can also be illustrated by the way it implements the EU's Small Business Act (SBA)^[6] principles. Although Hungary's SBA profile (European Commission, 2017) still contains several weaknesses as it performs below the EU in terms of entrepreneurship, second chance, responsive administration, skills & innovation, environment, and internationalisation, in contrast to its 2014 performance, improvements can be detected in the field of skills and innovation, entrepreneurship and second chance. Within the examined time horizon state aid and public procurement are the only pillar where Hungary exceeds the EU average. Access to finance and single market remained in line with the EU average. (Figure 6).

[6] For more information on SBA see: https://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act_en

Figure 6 Hungary's SBA Profiles 2014 and 2017



Source: SBA Fact Sheet Hungary, 2014, 5; 2017, 4

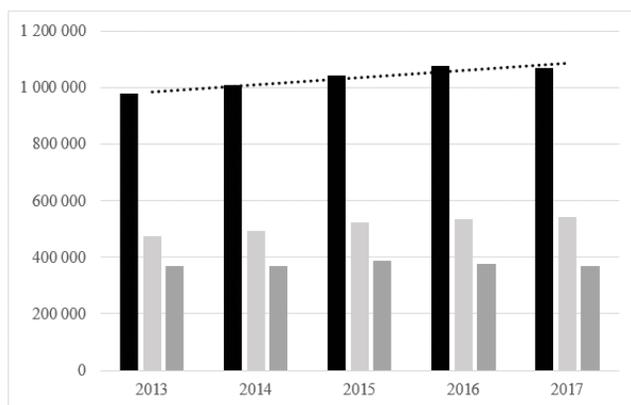
According to the EIB Investment Survey on Hungary (2017, 1) “access to finance is still a barrier for 43% of SMEs but only 20% of large firms”. The percentage of finance constrained firms significantly improved from 13% in 2016 to 9% in 2017, although this figure is still slightly above the EU average of 7% (EIB, 2017).

In line with the EU industrial policy, support to small and medium-sized enterprises is a key aspect of the Hungarian industrial policy as well. “Supportive economic policy already plays a key role in the Hungarian economy: every year, 1.5–2 percent of Hungarian GDP is spent in the form of subsidies, which have been higher than the European average for years.” (MNB, 2018b, 131)

The main objective of the SME Strategy is to improve the competitiveness of the sector with a simultaneous economic growth and increase in employment in line with the EU2020 objectives. Since “most of the factors hindering exports stem from the size of the enterprises and are related to the absence of human resources, financing and limited access to information” (MNB, 2017d, 27), the government’s SME Strategy aimed to remove these obstacles by improving access to external financing and developing the entrepreneurial environment.

The success of the Scheme may also be measured by analysing the some of the structural features of the SME sector by time series analysis. During the 2013–2017 period the number of people employed by the sector rose by 9%, with micro companies increasing the number of staff by more than 90,000 workers (9%). The number of employed workers by medium-sized companies remained relatively stable, while that by small companies also grew significantly (15%), in spite of the fact that they only account for 36% of the overall SME sector (Figure 7).

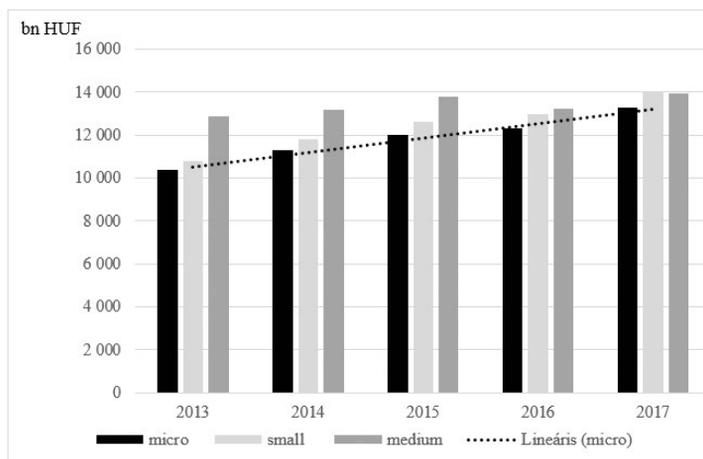
Figure 7 The number of people employed by the SME sector, 2013-2017



Source: Compiled by the author based on data by the Hungarian Statistical Office (KSH)

In the investigated period the SMEs' net turnover also showed an overall 21% improvement, out of which the increase by the small enterprises exceeded 31%, it was followed by a 28% rise by micro enterprises, while in the case of medium-sized enterprises there was only an 8.5% growth. In spite of the fact that in 2013 there was an apparent gap between the different size categories in terms of turnover, by 2017 micro and small companies seem to have caught up with medium-sized enterprises (Figure 8).

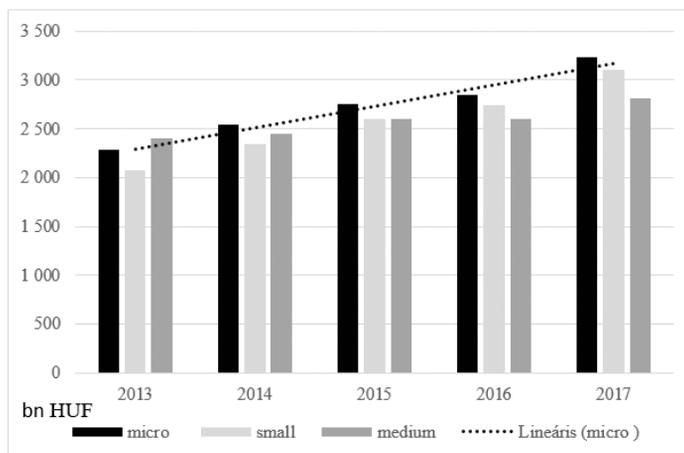
Figure 8 Net turnover by the SME sector, 2013-2017, bn HUF



Compiled by the author based on data by the Hungarian Statistical Office (KSH)

The value added at factor cost by the overall SME sector showed a 35% increase during the 2013–2017 period with small enterprises generating the highest increase with 49%, followed a 41% jump in small companies. In contrast to them, the 16% rise in medium-sized companies was rather moderate (Figure 9). It is also noteworthy to add that within the overall corporate sector SMEs distribution of value added levelled off at approximately 44% ranging between 13% and 15% depending on the different size classes^[7].

Figure 9 Value added at factor cost by the SME sector, 2013–2017, bn HUF

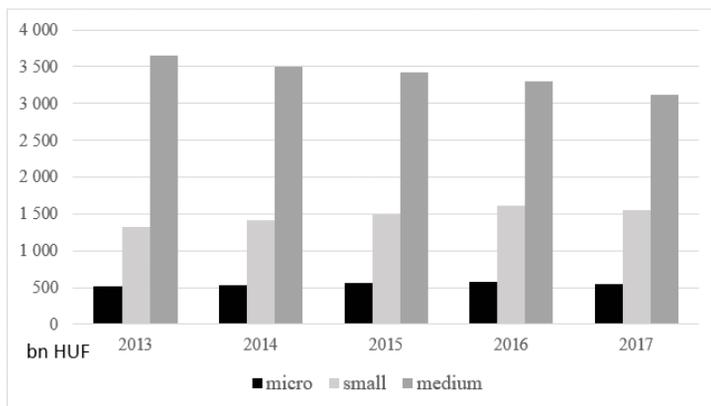


Source: Compiled by the author based on data by the Hungarian Statistical Office (KSH)

As opposed to a noticeable improvement in employment, net turnover, value added at factor cost, SME's turnover from exports slightly declined (5%) in the given period. There was a moderate increase of 6% in the case of micro enterprises and a 17.4% rise in the case of small enterprises, while medium-sized companies suffered from a 15% setback (Figure 10). All this underpins the fact that even if the financial constraints of the sector were relieved by the FGS resulting in a positive trend of SMEs' development, the sector still would require further support to enhance export activities that cannot be implemented without R&D investments resulting in competitive products.

[7] For more information see: KSH http://www.ksh.hu/docs/eng/xstadat/xstadat_annual/i_qta005.html

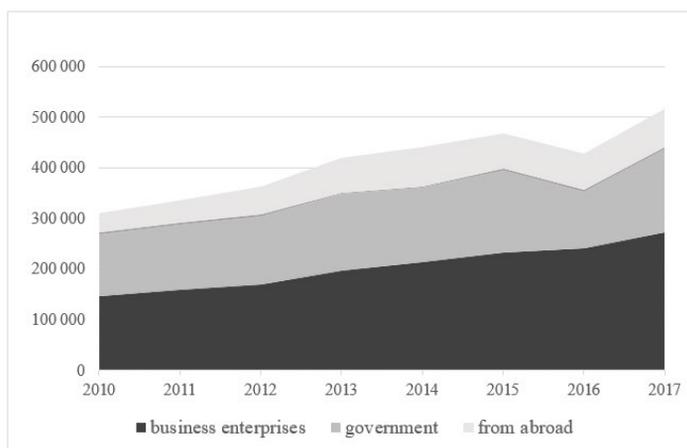
Figure 10 SMEs' turnover from exports, 2013–2017, bn HUF



Source: Compiled by the author based on data by the Hungarian Statistical Office (KSH)

The annual R&D expenditure of business enterprises well exceeded that of the government. From 2010 to 2017 spending on R&D continuously rose. On an annual basis the distribution of business enterprises expenditure varied between 47% and 56% of the total amount while that of the government fluctuated between 26% and 39%. The gap became significant after 2013 when in 2016 it reached 30% (Figure 11).

Figure 11 R&D expenditure by financial source, 2010–2017



Source: Compiled by the author based on data by the Hungarian Statistical Office (KSH)

2.4. KEY TAKEAWAYS

The secondary sources published by the MNB have enabled us to trace the reasons for the launch, the phases, and the effects of the Funding for Growth Scheme as an unconventional monetary stimulus, which managed to boost SME lending.

In the course of the Scheme, the loan objectives and the disbursed amount have undergone a change in compliance with the macroeconomic growth and the sector's needs. As a result, the third phase has only provided new investment loans and new leasing while refinancing loans, working capital loans and pre-financing of EU funds have been phased out. Due to the favourable loan conditions of 2.5% fixed interest rate and long tenor, after the 3Q of 2013 SME lending exceeded the growth rate of outstanding loans in the corporate sector as a whole.

The time series analysis of SMEs' structural indicators has shown a considerable improvement in the sector's performance: from 2013 to 2017 a 9% rise in employment, a 21% increase in the net turnover, a 35% growth in the value added at factor cost. In contrast, exports indicated a slight decline, which may be further investigated whether it is still related to the long-term effect of the crisis or has some other reasons.

Also the country's SBA profile has indicated some progress, out of which skills and innovation as well as entrepreneurship are worth mentioning, which is positive sign, as SMEs' competitiveness highly depends on investments in R&D. From the launch of the Scheme there has been a steady increase in R&D expenditure by business enterprises, which considerably exceeded the amount of money spent by the government for this purpose. Even if data were available only for the business sector as a whole, we could assume an active contribution of the SME sector to it.

Access to funds is a prerequisite for the financial sustainability of enterprises. In spite of the fact that SMEs lag behind large corporations in terms of competitiveness, their economic and social significance is inevitable. Therefore, providing state aid in the form of a favourable loan scheme to relieve market imperfections is justified, since it has largely induced the sector's postponed investments. For the provision of favourable long-term corporate loans, the Scheme (Funding for Growth Scheme Fix) was relaunched in 2019 with similar conditions.

3. CONCLUSIONS

By analysing secondary sources, the paper has presented the Funding for Growth Scheme as a directed monetary instrument to boost SME lending and enhance the sector's growth. The study has aimed to investigate how this targeted liquidity providing scheme (2013–2017) relieved the lending constraints of SMEs, returned corporate lending to a growth path that enhanced competitiveness.

Investigating the role of government intervention in the case of market failures, as well as, dealing with the phenomenon of hysteresis as a sustained negative shift in economic growth following the 2008 crisis, the paper has come to

the conclusion that the launch of the Scheme was a necessary growth-inducing measure within the unconventional monetary policy instruments by the central bank to achieve macroeconomic stability. However, this was the inevitable result of coordinating the fiscal and monetary policy instruments.

Studying the concept of competitiveness in literature the paper shares the opinion that firm-level and national competitiveness are interrelated, as the competitiveness of a state is primarily affected by the competitiveness of its enterprises, which can be boosted by the government extending the drivers of productivity including enabling environment, human capital, markets and innovation capabilities. The FGS seems to have contributed to macroeconomic stability, improving financial intermediation, employment and business dynamism. All this has been embodied by improving GDP growth, encouraging commercial banks to target SMEs with favourable conditions, increasing the number of workers by SMEs, and directing investments to R&D&I activities.

The paper has revealed that in the post-crisis period the sector's development could be largely attributed to the concerted efforts of the government and the central bank, which provided favourable conditions for access to funds. It has been pointed out that an adequate supply of funds is not only a prerequisite for the financial sustainability of SMEs but it should also serve as an engine for research and innovation improving the sector's competitiveness and enabling international presence.

However, due to the relatively short time horizon since the end of the FGS (2017), it cannot be estimated at present how efficiently this targeted support has been used, since measuring the success of R&D requires a longer time frame. This may be subject to further research with a wider source of data.

In spite of these limitations, concerning the overall improvement of the SME sector in the 2013–2017 period and advancement in national competitiveness, an indirect additionality generated by the Scheme may seem to be well-established. Due to a change in the Scheme's loan objectives, with a shift from refinancing loans and working capital loans, investments came to the forefront encouraging the financing of fixed assets and R&D. Unlike other forms of institutional support (subsidies and grants) this directed loan scheme with favourable interest and a long tenor has largely induced investments previously postponed in the sector.

ACKNOWLEDGEMENT

Research was carried out within the framework of EFOP-3.6.1-16-2016-00017

REFERENCES

- Aerts, K.-Schmidt, T. (2008) Two for the price of one? Additionality effects of R&D subsidies, A comparison between Flanders and Germany. *Research Policy*, 37, 5, pp. 806–822.
- *Annual report on European SMEs 2017/18*. European Commission: Brussels. http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review_en Downloaded: 25. 07. 2018.
- Antunes, A.-Calvacanti, T.-Villamil, A. (2014) The Effects of Credit Subsidies on Development. *Economic Theory*, 58, 1, pp. 1–30.
- Ball, L. (2014) Long-term damage from the Great Recession in OECD countries. *European Journal of Economics and Economic Policies: Intervention*, 11, 2, pp. 149–160. <https://www.elgaronline.com/view/journals/ejeep/11-2/ejeep.2014.02.02.xml> Downloaded: 27. 12. 2019.
- Berlinger, E.-Lovas, A.-Juhász, P. (2015) State subsidy and moral hazard in corporate financing. *Corvinus Economics Working Papers*, 22, pp. 1–30. <http://unipub.lib.uni-corvinus.hu/2185> Downloaded: 25. 09. 2019
- Blanchard, O.-Cerutti, E.-Summers, L. (2015) Inflation and Activity – Two Explorations and their Monetary Policy Implications. *IMF Working Paper*, 230, pp. 1–28. <https://www.imf.org/external/pubs/ft/wp/2015/wp15230.pdf> Downloaded: 12. 28. 2019.
- Casey, E.-O’Toole, C. (2014) Bank Lending Constraints, Trade Credit and Alternative Financing during the Financial Crisis: Evidence from European SMEs. *Journal of Corporate Finance*, 27, pp. 173–193.
- Cetindamar, D.-Kilitcioglu, H. (2013) Measuring the competitiveness of a firm for an award system. *Competitiveness Review, An International Business Journal incorporating Journal of Global Competitiveness*, 23, 1, pp. 7–22. <https://doi.org/10.1108/10595421311296597>
- Chikan, A. (2008) National and firm competitiveness, a general research model. *Competitiveness Review*, 18, 1/2, pp. 20–28. <http://dx.doi.org/10.1108/10595420810874583>
- Dosi, G.-Pereira, M.C.-Roventini, A.-Virgillito, M. E. (2016) Causes and consequences of hysteresis: aggregate demand, productivity, and employment. *Industrial and Corporate Change*, 27, 6, pp. 1015–1044. <https://academic.oup.com/icc/article/27/6/1015/4964717> Downloaded: 27. 12. 2019.
- *EIB Investment Survey Hungary 2017*. European Investment Bank. https://www.eib.org/attachments/efs/eibis_2017_hungary_en.pdf Downloaded: 25. 09. 2019.
- Endrész, M.-Oláh, Zs.-Pellényi, Zs.-Várpalotai, V. (2014) Macroeconomic effects of the first and second phases of the FGS in 2013–2014 In: *The Funding for Growth Scheme. The first 18 months. Essays and studies on the results of the Funding for Growth Scheme achieved to date*. MNB, Budapest. pp. 72–86. <http://www.mnb.hu/letoltes/nhp-tanulmánykötet-eng-b5-digit.pdf> Downloaded: 25. 07. 2018.
- European Commission (2014) *SBA Factsheet Hungary 2014*. <https://ec.europa.eu/DocsRoom/documents/8892/attachments/1/translations/en/renditions/native> Downloaded: 25. 07. 2018.
- European Commission (2017) *SBA Factsheet Hungary 2017*. <https://ec.europa.eu/DocsRoom/documents/26562/attachments/14/.../native> Downloaded: 25. 07. 2018.

- Eurostat (2011) *Key Figures on European Business with a Special Feature on SMEs*. Eurostat Pocketbooks. <http://ec.europa.eu/eurostat/documents/3930297/5967534/KS-ET-11-001-EN.PDF/81dfdd85-c028-41f9-bbf0-a9d8ef5134c5> Downloaded: 25. 07. 2018.
- Fábián, G.-Pulai, Gy. (2018) *A Növekedési Hitelprogram reálgazdasági hatásainak áttekintése*. MNB, Budapest. <http://www.mnb.hu/letoltes/fabian-gergely-pulai-gyorgy-nhp-novekedesi-hatasajavmnbhlonlapra.pdf> Downloaded: 25. 07. 2018.
- Falk, R. (2007) Measuring the effects of public support schemes on firms' innovation activities Survey evidence from Austria. *Research Policy*, 36, pp. 665–679.
- González, X.-Pazó, C. (2008) Do public subsidies stimulate private R&D spending? *Research Policy*, 37, pp. 371–389. doi.10.1016/j.respol.2007.10.009
- Hegedűs, S.-Hidasi, B.-Plajner, Á. (2016): Analysis of the Loans Granted in the Second Phase of the Funding for Growth Scheme. In: Bokor, Cs.-Fábián, G.-Pulai, Gy. (eds.): *Funding for Growth Scheme. Experience with the Magyar Nemzeti Bank's Instrument to Incentivise Bank Lending*. MNB, Budapest. pp. 21–35. <https://www.mnb.hu/letoltes/fgs-the-funding-for-growth-scheme-experience-with-the-magyar-nemzeti-bank-instrument-to-incentivise-bank-lending.pdf> Downloaded: 25. 07. 2018.
- Komlóssy, L.-Lehmann, K.-Vadkerti, Á. (2014) International review of lending incentives of central banks. In: MNB (2014) *The Funding for Growth Scheme. The first 18 months. Essays and studies on the results of the Funding for Growth Scheme achieved to date*. MNB, Budapest. pp. 9–25. <http://www.mnb.hu/letoltes/nhp-tanulmanykotet-eng-b5-digit.pdf> Downloaded: 18. 07. 2018.
- Laszló, A. (2016) Impact of the Funding for Growth Scheme on the Hungarian economy. *Financial and Economic Review*, 15, 4, pp. 65–87.
- Madsen, D. (2015) The Balanced Scorecard in the Context of SMEs: A Literature Review. *American Journal of Management*, 15, 2, pp. 24–41. http://digitalcommons.www.na-businesspress.com/AJM/MadsenDO_Web15_2_.pdf Downloaded: 25. 09. 2019.
- Marino, M.-Huillery, L.-Parrotta, S.-Sala, D. (2016) Additionality or crowding-out? An overall evaluation of public R&D subsidy on private R&D expenditure. *Research Policy*, 45, 9, pp. 1715–1730.
- Masiak, C.-Moritz, A.-Lang, F. (2017) Financing Patterns of European SMEs Revisited. An Updated Empirical Taxonomy and Determinants of SME Financing Clusters. *European Investment Fund Working Paper 2017/40*, https://www.eif.org/news_centre/publications/eif_wp_40.pdf Downloaded: 25. 09. 2019
- Matolcsy, Gy.-Palotai, D. (2016) The interaction between fiscal and monetary policy in Hungary over the past decade and a half. *Financial and Economic Review*, 15, 2, pp. 5–32. <https://en-hitelintezetiszemle.mnb.hu/letoltes/gyorgy-matolcsy-daniel-palotai-en.pdf> Downloaded: 29. 12. 2019.
- Meiklejohn, R. (1999) The economics of state aid. *European Economy*, 3, pp. 25–31. http://www.marketanalysis.co.uk/PDF/Academic/european_economy_state_aids_0399en.pdf#page=31 Downloaded: 25. 09. 2019.
- Mester, É.-Tóth, R. (2015) Financing SMEs – Prospects in Hungary. *Studia Mundi - Economica*, 2, 2, pp. 113–126. <http://studia.mundi.gtk.szie.hu/financing-smes-prospects-hungary> Downloaded: 25. 07. 2018.
- Ministry of National Economy (2016) *Irinyi Plan. The Directions of Innovative Industrial Development in Hungary* <http://www.kormany.hu/download/b/ib/31000/IRINYI%20Plan.pdf> Downloaded: 25. 07. 2018.

- MNB (2014) *The Funding for Growth Scheme. The first 18 months. Essays and studies on the results of the Funding for Growth Scheme achieved to date.* <http://www.mnb.hu/letoltes/nhp-tanulmanykotet-eng-b5-digit.pdf> Downloaded: 18. 07. 2018.
- MNB (2016a) *Growth Report.* <https://www.mnb.hu/letoltes/novekedesi-jelentes-2016-en.PDF> Downloaded: 27. 12. 2019.
- MNB (2016b) *Press release on the loans granted in the second phase of the Funding for Growth Scheme.* 6 January 2016 <https://www.mnb.hu/letoltes/fgs2-utilization-05-01-2016-final.pdf> Downloaded: 30. 08. 2018.
- MNB (2017a) *Press release on the loans granted in the third phase of the Funding for Growth Scheme (FGS)* 4 April 2017 <https://www.mnb.hu/letoltes/fgs3-press-release-04042017.pdf> Downloaded: 25. 07. 2018.
- MNB (2017b) *Competitiveness Report 2017.* <http://www.mnb.hu/letoltes/versenykepesse-gi-jelente-s-eng-0103.pdf> Downloaded: 25. 07. 2018.
- MNB (2017c) *Trends in Lending. 2017 November.* <https://www.mnb.hu/letoltes/hitelezesi-folyamatok-2017-november-en.PDF> Downloaded: 25. 06. 2019.
- MNB (2017d) *Growth Report.* <http://www.mnb.hu/letoltes/novekedesi-jelentes-2017-en-web.pdf> Downloaded: 25. 07. 2018.
- MNB (2017e) *A Növekedési Hitelprogram eredményei.* [Results of the Funding for Growth Scheme] <https://www.mnb.hu/letoltes/a-novekedesi-hitelprogram-eredmenyei-honlapra-20170613.pdf> Downloaded: 25. 07. 2018.
- MNB (2018a) *Financial Stability Report, 2018 May.* <http://www.mnb.hu/en/publications/reports/financial-stability-report/financial-stability-report-may-2018> Downloaded: 25. 07. 2018.
- MNB (2018b) *Growth Report.* <https://www.mnb.hu/letoltes/growth-report-en.pdf> Downloaded: 25. 07. 2018.
- Sóvágó, S. (2011) Identifying supply and demand in the Hungarian corporate loan market. *MNB Occasional Papers, 94*, pp. 5-24. <https://www.mnb.hu/letoltes/op-94.pdf> Downloaded: 18. 07. 2018.
- Stiglitz, J. (1994) *The Role of the State in Financial Markets.* Worldbank. <http://documents.worldbank.org/curated/en/239281468741290885/pdf/multi-page.pdf> Downloaded: 25. 06. 2019.
- Szöllősi, L.-Pogácsás, P. (2014) Preferential financing schemes for Hungarian SMEs and the FGS. In: *The Funding for Growth Scheme. The first 18 months. Essays and studies on the results of the Funding for Growth Scheme achieved to date.* MNB, Budapest. pp. 26-43. <http://www.mnb.hu/letoltes/nhp-tanulmanykotet-eng-b5-digit.pdf> Downloaded: 25. 07. 2018.
- WEF (2017) *The Global Competitiveness Report 2017-2018.* <https://www.weforum.org/reports/the-global-competitiveness-report-2017-2018> Downloaded: 25. 07. 2018.
- WEF (2018) *The Global Competitiveness Report 2018.* <https://www.weforum.org/reports/the-global-competitiveness-report-2018> Downloaded: 25. 06. 2019.
- What are the reasons behind the launch of FGS+? <https://www.mnb.hu/letoltes/hatterelemzes-final-eng.pdf> Downloaded: 25. 09. 2019.

LEGAL SOURCE:

Act CXXXIX of 2013 on the Magyar Nemzeti Bank. <https://www.mnb.hu/letoltes/mnb-tv-en-1.pdf> Downloaded: 05.09.2019.

INTERNET SOURCES:

- www.weforum.org
- www.imd.org
- https://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act_en
- www.mnb.hu
- www.ksh.hu

The study-abroad process of international students – towards a conceptual model



Abstract

There is a growing body of literature that recognizes the importance of internationalization in higher education. Studies show the importance of investigating international student satisfaction at higher education institutions (HEIs) with service that HEIs can provide. However, little is known about the whole study-abroad process of international students and non-school related satisfaction factors are rarely researched. The aim of this paper is to analyze the literature of international students' expectations, satisfaction, loyalty and word-of-mouth (WOM), and propose a conceptual model that describes the whole study-abroad process of international students. Furthermore, the paper intends to introduce the qualitative findings of in-depth interviews conducted with international students. Findings show that the literature lacks those studies which are relevant to non-school elements of student satisfaction, even though they could play a critical role in students' overall perceptions. Based on a thorough literature review and in-depth interviews, definitions of the studied terms are determined, their applicability to be used in the context of higher education is tested, and a conceptual model of international students' study-abroad process is drawn.

Keywords: higher education, expectations, satisfaction, loyalty, WOM

INTRODUCTION

Nowadays it has become more and more widespread that international students take up a significant percentage of each country's higher education students. In Hungary, the numbers show that in the academic year of 2017/2018, 10.7% of higher education students were international students, compared to the academic year of 2008/2009, where this percentage was only 4.4%. This can be considered a significant increase. Therefore, it can be stated that internationalization is a highly important phenomenon with HEIs targeting international students more and more intensively, which is also the case in Hungary. There are several reasons behind the growing need for internationalization, such as economic, demographic, social, political or educational.

Due to the continuously increasing number of international students, a growing body of literature studies them from several aspects, such as the main factors for choosing a specific HEI, their expectations from HEIs, their satisfaction with HEI quality, their loyalty to their HEI, and their economic potential. First of all,

it is hard for international students to decide where to go to study abroad and they take many factors into account when deciding, such as personal motivation, the country, the image of the institution, and the study program. Once they have chosen a HEI, they might have certain expectations towards it and later their satisfaction and loyalty can form.

Therefore, the aim of the current paper is to shed light on what is the relationship between foreign student expectations, satisfaction and loyalty. The paper further investigates the different types of satisfaction that can have an influence on loyalty with the help of a thorough literature review. The study also intends to identify the school-related and non-school-related factors that might influence satisfaction, and therefore, loyalty.

The current paper is comprised of four main chapters. After the introduction, the theoretical background is discussed and definitions are determined. The second chapter introduces the results of the qualitative research. Following the second chapter, the third one is concerned with the conceptual model and hypotheses appearing in the model. The last chapter draws relevant conclusions.

1. THEORETICAL BACKGROUND AND DEFINITIONS

In this chapter the theoretical background and definitions of the proposed conceptual model are discussed. Based on the secondary literature, the previous definitions of the studied concepts were examined and taken into account. On the basis of their comparison and application in different studies, the definitions of expectations, satisfaction, and loyalty were determined for higher education and international students.

1.1. EXPECTATIONS

Based on the literature review of expectations, we can conclude that in higher education studies, expectations closely related to the university and its service quality are mostly examined. In the current study, we define expectations as determining factors of other elements of the study-abroad process. We do not believe it is possible to look at expectations as a basis for comparison in the context of higher education (Shahsavari-Sudzina, 2017).

Regarding the different categorizations, expectations in higher education tend to be normative and ideal, as they are relevant for the examination of services (Higgs et al., 2005). They are normative because they are about one specific brand (a university) and students can anticipate that they are going to get a service in a certain way (Tse-Wilton, 1988). It is ideal because it is related to a feasible and ideal service (Teas, 1993).

Taking a look at expectations of time, we can categorize expectations of HEIs as forecast expectations. However, it would pose extreme difficulty in getting to

know these expectations, as students have to be asked before they even arrive at a HEI. Therefore, we can specifically get to know the expectations of international students mostly after their arrival, so these expectations are recalled expectations (Gerdes-Mallinckrodt, 2001).

It is essential to investigate the expectations' categorization of Ojasalo (2001), who differentiated between clear and fuzzy expectations. According to Ojasalo (2001), it depends on each individual whether they have expectations or not. Based on this idea, we believe that expectations should be studied from the viewpoint of 'if' students have them, not from the viewpoint of 'what' expectations they have.

In the paper we determine expectations as a mixture of those elements that are closely related to school and those that are not. Expectations are school-related, if the school is responsible for their satisfaction (e.g., knowledge transfer, university building), while they are not school-related if the university is not at all responsible or does not have an influence on them (infrastructure, number of pubs, cafés). Based on the literature, we determine the definition of expectations in higher education to be as follows: international students' expectations are those expectations that are about the whole study-abroad process, including both school- and non-school-related factors, which can affect loyalty, service of the study-abroad process and they are relevant to its entire length.

1.2. SATISFACTION

The basis of satisfaction in the present study is the disconfirmation paradigm, and we determine satisfaction to be an experience (Cardozo, 1965; Hetesi-Kürtösi, 2008). The satisfaction of international students is much more complex than taking into consideration only school-related elements. We have to take the non-school-related elements into account as well. These two together constitute the overall satisfaction of international students.

Taking the categorization of Yi (1990) into account, we can find examples for both process- and result-oriented satisfaction in higher education. Therefore, we determined that satisfaction is a combination of these two together, as satisfaction with the study-abroad process is just as important as the satisfaction after receiving the degree.

In this paper the satisfaction of international students is the comparison between expectations and experience, which is relevant to the whole study-abroad process of students and is about school- and non-school-related issues. The satisfaction can be applied during and after the consumption of the service.

1.3. LOYALTY AND WOM

Regarding international students' higher education loyalty, there is no common understanding in the literature. Therefore, in the current paper a working definition is determined, which will be tested during primary research.

Loyalty regarding international students' study-abroad process is initially determined based on the complex approach of loyalty. According to which loyalty, besides a possible repurchase, is a positive attitude, dedication, and recommendation, which can materialize during and after the study-abroad process (Oliver, 1999; Dick-Basu, 1994; Gronholdt et al., 2000). Therefore, loyalty is defined as a latent variable of the study-abroad process of international students, on which satisfaction – both school- and non-school-related – has an effect.

WOM is closely related to loyalty according to the literature. It is mostly mentioned as a determining factor for studying abroad and also as a result of satisfaction or loyalty (Shahsavari-Sudzina, 2017). Hence, in the current paper, it is determined as a result of international students' satisfaction. In many cases, WOM is determined as part of the loyalty of international students, based on the complex approach of loyalty (Shahsavari-Sudzina, 2017; Turkilmaz et al., 2018). On the basis of the literature, we determine WOM to be part of international students' loyalty.

Therefore, the loyalty definition is modified as follows: loyalty regarding international students' study-abroad process is initially determined based on the complex approach of loyalty. According to which loyalty, besides a possible repurchase, is a positive attitude, dedication, and recommendation (WOM), which can materialize during and after the study-abroad process. In our definition WOM is equal to recommendations and is consequently part of loyalty.

2. QUALITATIVE RESEARCH RESULTS

In order to test the applicability of the definitions determined above, we have conducted in-depth interviews with 17 students from different faculties and study programs at a Hungarian university. These interviews were part of a bigger scope longitudinal qualitative research, but in the current study we solely focus on the last phase of the interviews, which took place at the end of the academic year of 2017. We asked international students about the different aspects of their study-abroad process, namely their satisfaction based on the comparison between their expectations and reality, and loyalty. The results are presented below in the defined categories.

2.1. EXPECTATIONS

International students were asked about their expectations regarding the university and living in Szeged. As we have found, there are some similarities and differences between what students expect from studying in Szeged. Some students would like to get valuable knowledge and a degree (*"I would like to get a degree ..."* – Tunisian student, BSc), while others would like to get to know the culture (*"I would like to learn Hungarian. I would like to learn different languages."* – Turkish

student, BSc). Some bachelor's students are determined to get a master's degree and some master's students would like to get a PhD ("After I finish here, I might do a master's" - Kazakhstani student, BSc; "I'm interested in PhD. I would like to have a teaching career." - Columbian student, MSc).

Compared to bachelor's students, master's students recognized the importance of the degree, as they stated they can earn a higher salary with it ("You'll get a higher salary, if you have a master's degree." - Lao student, MSc; "I think I'll have a better chance at getting a better job and a higher salary." - Turkish student, MSc). PhD students had the most concrete expectations compared to the other two study programs, as they know exactly what they expect from themselves and from studying abroad ("I would like to finish my PhD in three years." - Ecuadorian student, PhD; "I would like to conduct good research and publish in good journals. I think this is all possible while doing my PhD here." - Ecuadorian student, PhD; "I expect to get a good job after finishing my PhD here." - Indian student, PhD Pharmacy).

All in all, we can conclude that bachelor's students do not have exact expectations; their expectations are rather fuzzy about what they want. They only want to have a degree abroad, to study foreign languages and get to know new cultures. Compared to this, master's students have different expectations that are connected to better work opportunities, better living conditions and salary, which are basic expectations for most of the interviewed master's students. Studying further also appears on both levels of study (bachelor's and master's) as an expectation towards self. PhD students have different expectations and reasons for coming to Hungary. They came to Hungary with the expectation of studying in a highly-ranked university, where they would like to study and conduct experiments and research in a distinguished research group and with a respected supervisor. Their expectations are related to the university the most. However, not only university-related expectations appeared. Therefore, we intend to measure expectations with both school-related and non-school-related aspects, as can be seen in table 1.

Table 1 Expectations among interviewees

	School-related	Non-school-related
Expectations	personal expectations	personal expectations
	gaining knowledge	getting to know the culture
	further studies	
	better job opportunities	
	higher salary and living standards	
	gaining practical experience	
	quality EU degree	

Source: Own compilation

2.2. SATISFACTION

Interviewees were also asked about their satisfaction with the study-abroad experience. They have mentioned numerous aspects of studying abroad and expressed both satisfaction and dissatisfaction with certain issues.

Regarding the school-related aspects, students were dissatisfied with the less practical aspect of different classes (*“There are some expectations that have not been met. I expected more practical classes. We had many theoretical ones.”* - Kazakhstani student, BSc). Students were also dissatisfied with the high level of bureaucracy and its presence at the university (*“Administrative issues are a nightmare. If there are international students at a university, everything should be on the webpage in English too.”* - Tunisian student; BSc). After finishing the degree, no one helped the students in regards to what to do next and how to enter the job market (*“Nobody came and talked to us or e-mailed us about what opportunities we have.”* - Tunisian student; BSc). Master’s students were clearly more satisfied with the university than bachelor’s students (*“I am totally satisfied. I learnt a lot culturally, at the university, in every aspect.”* - Columbian student, MSc; *“Actually, it has exceeded my expectations. I feel at home in Szeged.”* - Lao student, MSc). There was only one master’s student who was not satisfied at all (*“Honestly, I am not satisfied. I studied for the exams and not to know certain stuff. I was always stressed.”*), but she liked the activities outside school (*“With that side, I am satisfied.”* - Algerian student, MSc). Most PhD students were very satisfied with the school-related aspects of studying abroad (*“I really love research and teachers here. Everyone is kind and supportive.”* - Indian biologist student, PhD; *“The university was good, I got a lot of help from my teachers. That’s why I could finish in three years.”* - Namibian student, PhD). There are very few factors they are dissatisfied with (*“I don’t think we get the appropriate journals, as the university does not buy many of them.”* - Indian pharmacology student, PhD; *“We could have learnt more current statistical methods.”* - Namibian student, PhD).

Students also mentioned some aspects they were satisfied or not satisfied with in connection with factors not closely related to school. It is an important finding that they think of learning in Hungary as an experience, which could either be positive or negative (*“It was not the happiest experience of my life. It was not what I expected, but I got to know many nice and good people and I learned a lot from it.”* - Tunisian student, BSc). Regarding life in Szeged, students said that in a small city like Szeged there are not too many opportunities (*“There is nothing in Szeged. You cannot choose from prestigious places and lower-value places. Every place has the same concept.”* - Tunisian student, MSc). PhD students like the country, the living conditions and free-time activities so much that they would be happy to stay here in the future (*“Living conditions are better than I expected. I don’t have to sit in traffic jams each day.”* - Ecuadorian student, PhD; *“I am more satisfied with outside school things than research-related ones. I always go out.”* - Indian pharmacology student, PhD). However, they do not like the fact that

the rent is usually higher for international students than for Hungarians (*“Living conditions are good, but I just got to know that the price is different for international students.” - Namibian student, PhD*).

Due to the number of interviewees and results, and the length limitations of the current paper, the main ideas and aspects of school-related and non-school related satisfaction are summarized in table 2.

Table 2 Satisfaction among interviewees

	School-related	Non-school-related
Satisfaction	teachers and coordinators	making friends
	gaining knowledge	Szeged = university city, home
	good teaching methods, quality classes	less traffic, no crowds
	well-organized school, infrastructure	nice, happy, helpful people
	wider views	getting to know the culture
	open for improvement	everyone knows everyone
	research methodology, individuality	living conditions
	quality publications, research projects	free-time activities
	conference participation opportunities	
Dissatisfaction	bureaucracy	location
	learning alone and not for knowledge, but for tests	lack of job opportunities
	status of university buildings	boring city
	bad teachers	lack of travel
	ineffective communication	pessimistic Hungarians
	stress	poor social life
	English language barriers	lack of variety in local restaurants and pubs
	poor journal availability	higher rent price for foreigners
	old methodology	
	useless courses	
	lack of help	
	lack of professional programs	

Source: Own compilation

Based on the results of the interviews and the literature review, we intend to examine both school-related and non-school-related satisfaction, and measure school-related satisfaction with tangibles (equipment and facilities), teachers’ competences, content of curriculum, attitude, reliability of staff, and delivery of curriculum, while we intend to measure non-school-related satisfaction with

living in Szeged, international atmosphere, public places, places to spend free-time, and job opportunities.

2.3. LOYALTY AND WOM

Interviewed students were also asked about whether they feel loyal to the university and if yes, what does it mean for them to be loyal. Our aim with this was to find out if loyalty exists in higher education among international students or not, and if yes, how can we define it. We also intended to examine what the role of positive word-of-mouth is in loyalty. Based on the complex approach to loyalty, we asked students if they would choose this university and study-abroad program again and if they would recommend it to others or not.

Results are variable in the case of interviewed students, as we can find extremely loyal and attached students (*"In the first year I wanted to transfer to Budapest, but in second year, when I was asked if I wanted to go or not, I said no. Budapest is a beautiful city, but I love Szeged much more."* - Kazakhstani student, BSc). Results in connection with repurchase and recommendation are different, but as table 3 shows most interviewees would choose and recommend this specific study-abroad process and experience (*"Yes, I have already recommended it to some of my friends. I have even convinced one of my friends from Budapest to transfer to Szeged."* - Kazakhstani student, BSc; *"Yes, I would definitely choose it again. I don't have to think about it."* - Columbian student). There are some students, who had already recommended studying in Szeged to others at the time of the interview, and the person was already studying in Szeged (*"Yes, for sure. One of my friends is in Szeged. I recommended for him to study in Szeged. Another friend of mine will also come to Szeged because I recommended it."* - Laos student, MSc; *"I have already recommended it to my cousin and to my brother. My brother could have gone to Ireland to university. He wanted to go there but I recommended him to come here and he'll finish BME next year."* - Indian informatics student, PhD). Due to dissatisfaction, there were students who would not choose to study in Szeged again (*"It is a hard question, I don't know. I am not sure I would survive."* - Turkish student, MSc). PhD students would also choose to study in Szeged again (*"Coming here was the best choice of my life. This is a dream come true."* - Indian biologist student, PhD; *"Szeged is perfect for studies."* - Indian informatics student, PhD). There was only one student who would not choose to study in Szeged again (*"This is a very hard question. My answer is no. Sorry but I have to be honest. This does not mean that the University of Szeged is not a good university and that Szeged is not a good city"* - Vietnamese student, PhD).

Table 3 Repurchase and recommendation intentions of interviewees

	Yes	No	Maybe
Repurchase	12	3	2
Recommendation	16	-	1

Source: Own compilation

When asked about whether they feel loyal or not, most students felt loyalty towards the study-abroad process. They also defined what loyalty means for them one by one, which resulted in very interesting answers. For one student, loyalty means defending the university against others, as she felt that Szeged is her home (*“Some of my Kazakh friends study in Budapest and in Debrecen. I invited them to Szeged and they said that there is nothing there. I don’t know if this is loyal or not, but I defended Szeged and I even searched for the ranking and sent it to them. For me, this is loyalty, defending my university and my city.”* - Kazakhstani student, BSc). Others define loyalty as the feeling of pride (*“I am loyal and I think when I finish the university and will be working, I’ll always say with proudness that I studied here and I was here.”* - Vietnamese student, BSc). Master’s students defined loyalty as respect of university traditions and making the university better in any way possible (*“I consider myself loyal to both my Columbian university and to the University of Szeged. Loyalty for me means the respect of traditions and those acts that would make the university even better.”* - Columbian student, MSc). Another student feels that they are the ambassador of the university (*“For me loyalty means that I represent the university well in an international environment.”* - Turkish student, MSc). It is an important finding for the conceptualization of the current paper that some students think loyalty means positive WOM (*“Yes, I think I am loyal. For me loyalty means that I recommend the university whenever they ask me what is the best place for studying. I always say the University of Szeged.”* - Lao student, MSc). According to PhD students, loyalty means saying positive things about the university no matter how hard the situation is (*“Yes, I am loyal. No matter how hard the situation gets, I don’t think I’ll say anything bad about my university and my bad experience here. I think this is loyalty.”* - Indian informatics student, PhD), or respecting the values taught by the university throughout their future working life (*“What I first think of is how we are going to do our jobs, when we finish and how we are going to respect the values we learnt at the university.”* - Ecuadorian student, PhD). Reciprocity also appears as loyalty (*“For me loyalty means giving something back to the university, as it has already given me so much, so I have to give something back with my research.”* - Indian pharmacy student, PhD). Due to the limitations of the paper, the answers and interpretations of loyalty of students are summarized in table 4.

Table 4 Factors behind participants' loyalty regarding school and non-school issues

School-related	Non-school-related	Both
emotional attachment (sad goodbye, love, pride, grace, friendships and workplace connections)	Szeged (home, friends, fun, homesickness, attachment)	Szeged (university city, university and student life)
respect of traditions and values	Hungary (good universities)	repurchase
positive WOM (university ambassador)		recommendation
reciprocity		emotional attachment (relatedness, longing to return, friends, happy memories and remembrance)
		positive word-of-mouth (defense, convincing)

Source: Own compilation

Results regarding loyalty show that there are similarities and differences in students' opinion on what loyalty towards the study-abroad process means for them. Even a Bachelor's student can be devoted to the university and a PhD student could be less connected to it. Additionally, repurchase intentions and the willingness to recommend the study-abroad process and the University of Szeged, emotional connection, attachment, love and pride also appear. We intend to study the concept of loyalty based on these above-mentioned factors.

3. THE CONCEPTUAL MODEL AND HYPOTHESES

Due to the gap found in the literature, a new conceptual model is being formed on the basis of the literature review and the results of in-depth interviews. In this chapter, hypotheses are presented with the relevant theoretical background. Our hypotheses are based on the findings of our qualitative studies, and will be further studied separately later with a quantitative method, due to the limitations of the current paper. Therefore, in this study, their formation and conceptualization is introduced.

In previous literature, researchers have realized a connection between expectations and satisfaction. The international and national literature has been highly concerned with consumer satisfaction. It is essential that a customer is satisfied with the purchased product or service, so that it would satisfy their needs, desires and aims (Oliver, 1999). Moreover, the satisfaction is based on the comparison made between the expectations and experience (Oliver, 1999; Yi, 1990). Regard-

ing the definition of satisfaction, there has been no common ground and definition. Therefore, in this current study the definition of satisfaction is determined based on the aim of the research. We consider higher education a service, so we have to take the peculiarities of satisfaction with services into account (Zeithaml, 1981). In the case of services, consumers have higher expectations, among which there are experience and trust (Zeithaml, 1981). Regarding the measurement of satisfaction, the SERVQUAL method intends to measure both service expectations and performance, while the SERVPERF method only relies on measuring the service performance (Cronin-Taylor, 1994).

Higher education literature has been concerned with the relationship between international students' expectations and satisfaction. Many of these studies apply the SERVQUAL method in comparing expectations with the experience of students (Jager-Gbadamosi, 2013; Chui et al., 2016), and in this way determining student satisfaction. Other studies are based on consumer indexes and determine expectations as modifying factors of satisfaction among which we can find both school-related and non-school-related factors (Malota et al., 2014; Malota 2016; Shahsavari-Sudzina, 2017; Molnár et al., 2017). Therefore, we can conclude that expectations can have an effect on satisfaction, both on school- or non-school-related elements.

H1: Expectations have an influence on school-related satisfaction.

H2: Expectations have an influence on non-school-related satisfaction.

If we take a look at international students' satisfaction, we can differentiate between school-related and non-school-related satisfaction. Most satisfaction studies concentrate on the service quality dimensions of higher education institutions (HEIs). These dimensions are determined and measured arbitrarily. Elliot and Healy (2011) measured student satisfaction based on 11 dimensions, which were effectiveness of higher education, academic atmosphere, university life, academic accessibility, individual support, efficiency, financial aid and effectiveness, efficiency in enrollment, sense of security, service excellence and student-oriented institution. Lee (2010) also researched satisfaction with HEI quality and concluded that this satisfaction can vary based on the students' country of origin. Lenton (2015) investigated education, students' tests, feedback and institutional support for students, the organization, resources and personal development. Cardona and Bravo (2012) applied a such a model, in which education, the educational process, infrastructure, environment's atmosphere, interaction and communication between the teachers and administrative workers were studied. One of the most comprehensive grouping of school-related factors could be attributed to Owlia and Aspinwall (1996), who examined six different quality dimensions of higher education satisfaction, which were tangibles (equipment and facilities), competence (teaching skills, theoretical and pragmatic knowledge), attitude towards understanding students' needs, content of curriculum,

curriculum transfer (effective presentations and feedback) and reliability. Based on the sources, we can conclude that students' school-related satisfaction could be grouped around six main factors, which are tangibles (equipment and facilities), competence (of teachers and administrative staff), content and delivery of curriculum, reliability and attitude of HEI professionals. These six factors might be the underlying factors of international students' school-related satisfaction.

However, satisfaction of international students might not solely be related to school. There are several other, not specifically school-related issues that can alter their satisfaction and overall loyalty. In this paper, these are called non-school-related satisfaction determinants. Among the first to highlight this phenomenon was Evans (1972), who concluded that social life of students, international environment and living conditions also have an influence on student satisfaction. There are numerous not specifically school-related factors, such as living costs, job opportunities (Schertzer-Schertzer, 2004), personal and social life (Mihanovic et al., 2016), social and cultural opportunities (Hetesi-Kürtösi, 2008), cultural and sport opportunities (Aldemir-Gülcan, 2004), and the opening hours of public facilities (Abdullah, 2006), which can have an influence on students' satisfaction. Moreover, evidence suggests that the influence of non-school-satisfaction determinants could be even higher than those of school-related factors. Therefore, we believe that these factors can be considered underlying factors of non-school-related satisfaction.

Consumer satisfaction is crucial, but it is not always enough to result in loyal consumers; however it is essential for success and value creation (Reichheld, 2003). The literature consists of different definitions regarding loyalty. While some scholars initially stated that loyalty is equal to satisfaction and consumer retention, others believe that it can be measured by repurchase (Oliver, 1999), or by building and retaining a customer base. According to the complex approach to the notion, loyalty is not only repurchase and attachment but includes the recommendation of the product or service to others (WOM - word-of-mouth) (Oliver, 1999; Reichheld, 2003). The current study is based on the latter definition.

Many previous higher education studies have proven the connection between satisfaction and loyalty of international students (Owlia-Aspinwall, 1996; Elliot-Healy, 2001; Schertzer-Schertzer, 2004; Alves-Raposo, 2007; Lee, 2010; Cardona-Bravo, 2012; Lenton, 2015). The vast majority of studies regarding student satisfaction and loyalty focuses exclusively on school-related satisfaction and loyalty (Lee, 2010). Researchers have listed some main factors behind students' loyalty, such as the availability of study programs, location, size and complexity of the HEI, quality of teaching, feedback from and communication with teachers (Jager-Gbadamosi, 2013), a proper study pace, student support facilities, tangibles and equipment. In some of these studies WOM and its role is crucial in understanding international students' loyalty (Alves-Raposo, 2007). Based on the evidence from these studies we suppose that satisfaction with closely school-related issues has an effect on the loyalty of international students.

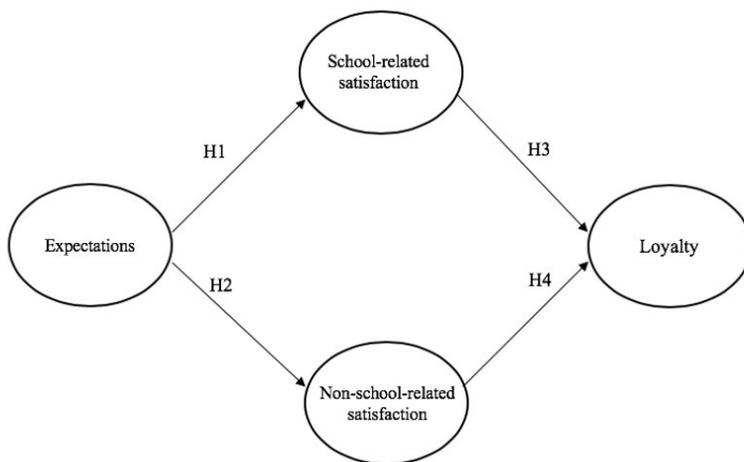
H3: School-related satisfaction influences loyalty.

Despite the extensive literature of higher education and international students' satisfaction, few studies are concerned with not closely school-related factors that might influence the satisfaction of students (Schertzer-Schertzer, 2004; Machado et al., 2011; Mihanovic et al., 2016; Császár-Alpek 2018; Miklós et al., 2018). However, most of the examined factors in these studies are related in a certain way to the education or to the university of students, even though they are listed as non-school elements. Despite their categorization, the studies shed light on the importance of non-school elements and on the fact that students' happiness also depends on factors outside the classroom (Schertzer-Schertzer, 2004). Even though school-related and non-school-related satisfaction are clearly divided in the study of Schertzer and Schertzer (2004), they examined domestic students, not international ones. Mihanovic et al. (2016) examined satisfaction with the residential area and with outside school entertainment and leisure activities. Machado and et al. (2011) did research regarding satisfaction with demographic factors, such as the city and the international atmosphere of the city. In our previous pilot research, we examined both school-related and non-school-related satisfaction and their effects on loyalty and found that satisfaction with non-school-related elements influenced loyalty more than school-related ones. Therefore, the next hypothesis is as follows:

H4: Non-school-related satisfaction influences loyalty.

Based on the previously examined literature and the hypotheses, the conceptual model of international students' study-abroad process can be seen on figure 1. It is important to highlight that due to the limitations of the current paper, the hypotheses were formed based on the literature review and on qualitative research. They will be further studied and tested in the framework of a future research.

Figure 1 Conceptual model of international students' study-abroad process



Source: Own compilation

4. CONCLUSIONS

The aim of the current paper was to examine the study-abroad process of international students, with special emphasis on international students' expectations, satisfaction, and loyalty. It was also among the scope of the study to study the above-mentioned phenomenon with qualitative in-depth interviews to see how they appear in the context of higher education.

Based on the literature, it can be seen that our new conceptual model partly fits the previously conceptualized models. Aldemir and Gülcan (2004) exposed the fact that expectations and institutional factors have an influence on students' satisfaction, and Mekic and Mekic (2016) stated that HEI service quality factors affect student satisfaction, which has a further impact on student loyalty. SERVQUAL and its modifications have been used extensively to show the effect of expectations on the satisfaction of HEI students (Jager-Gbadamosi, 2013; Chui et al., 2016), similar to the CSI (Consumer Satisfaction Index) model in which researchers showed a link between expectations and satisfaction, and satisfaction and loyalty (Alves-Raposo, 2007). Other indexes have also been applied to determine the factors influencing satisfaction (Shahsavari-Sudzina, 2017).

Compared to previously studied models and literature, the current model separates satisfaction into two different factors, school-related and non-school-related satisfaction. Studies have distinguished between different types of satisfaction but according to different concepts. Mihanovic et al. (2016) differentiated between satisfaction with faculty facilities, loyalty, accommodation and student life and looked at these factors' effect on students' performance. The model also contains

specific latent variables, as it is our intent to see what influence these factors have on international students' school-related and non-school-related satisfaction. We handle these factors as separate categories, while school-related and non-school-related satisfaction would be measured by different scale questions.

The qualitative primary research shows that the studied concepts of expectation, satisfaction, loyalty and WOM can be studied together. Moreover, the answers of foreign students helped us understand what they expect, what they are satisfied with, and how they define the concept of loyalty in the case of studying abroad.

Based on secondary and the primary research, a conceptual model of international students' study abroad process has been drawn. In order to specify and test the model, further studies are needed, which would enable us to test our variables, as the concept of categorization between school-related and non-school-related expectations and satisfaction is relatively new to the field and it intends to fill a gap in the literature.

It is crucial to look at both of these aspects because the study-abroad process does not stop with the experience of the HEI but it also includes factors such as the city, environment, free-time activities, facilities to spend free time at, infrastructure and so on. Therefore, we believe it is of key importance to examine these factors jointly.

REFERENCES

- Abdullah, F. (2006) The Development of HedPERF: a New Measuring Instrument of Service Quality for the Higher Education Sector. *International Journal of Consumer Studies*, 30, 6, pp. 569-581.
- Aldemir, C.-Gülcan, Y. (2004) Student Satisfaction in Higher Education: A Turkish Case. *Higher Education Management and Policy*, 16, 2, pp. 109-122.
- Alves, H.-Raposo, M. (2007) Conceptual Model of Student Satisfaction in Higher Education. *Total Quality Management*, 18, 5, pp. 571-588. <https://doi.org/10.1080/14783360601074315>
- Cardona, M. M.-Bravo, J. J. (2012) Service Quality Perceptions in Higher Education Institutions: The Case of a Colombian University. *Estudios Gerenciales*, 28, pp. 23-29.
- Cardozo, R. (1965) An Experimental Study of Customer Effort, Expectation, and Satisfaction. *Journal of Marketing Research*, 2, 3, pp. 244-249.
- Chui, T. B.-Ahmad, M. S.-Bassim, F. A. -Zaimi, A. (2016). Evaluation of Service Quality of Private Higher Education Using Service Improvement Matrix. *Procedia - Social and Behavioral Sciences*, 224, pp. 132-140.
- Cronin, J. J.-Taylor, S. A. (1994) SERVPERF Versus SERVQUAL: Reconciling Performance-based and Perception-Minus-Expectations Measurement of Service Quality. *Journal of Marketing*, 58, 1, pp. 125-131.
- Császár, Zs. M.-Alpek, L. B. (2018) A nemzetközi hallgatók vidéki egyetemvárosokra gyakorolt gazdasági szerepe Magyarországon Pécs példáján. *Közép-Európai Közlemények*, XI, 2, 41, 30-41.

- Dick, A. S.–Basu, K. (1994) Customer Loyalty: Toward and Integrated Conceptual Framework. *Journal of the Academy of Marketing Science*, 22, 2, pp. 99–113.
- Elliot, K. M.–Healy, M. A. (2001) Key Factors Influencing Student Satisfaction Related to Recruitment and Retention. *Journal of Marketing for Higher Education*, 10, 4, pp. 1–11.
- Evans, C. M. (1972) *A Study of Personality Need Factors with Respect to College Student Satisfaction in a Small Church Related College Located in a Southern State*. Counseling and Personnel Services. (CG008971).
- Gerdes, H.–Mallinckrodt, B. (1994) Emotional, Social, and Academic Adjustment of College Students: A Longitudinal Study of Retention. *Journal of Counseling and Development*, 72, pp. 281–288.
- Gronholdt, L.–Martensen, A.–Kristensen, K. (2000) The Relationship Between Customer Satisfaction and Loyalty: Cross-industry differences. *Total Quality Management*, 11, 4–6, pp. 509–514.
- Hetesi E.–Kürtösi Zs. (2008) Ki ítéli meg a felsőoktatási szolgáltatások teljesítményét és hogyan? A hallgatói elégedettség mérési modelljei, empirikus kutatási eredmények az aktív és a végzett hallgatók körében. *Vezetéstudomány*, 39, 6, 2–17.
- Higgs, B.–Polonsky, M. J.–Hollick, M. (2005) Measuring Expectations: Forecast vs Ideal Expectations. Does it Really Matter? *Journal of retailing and consumer services*, 12, 1, pp. 49–64.
- Jager, J.–Gbadamosi, G. (2013) Predicting Students' Satisfaction Through Service Quality in Higher Education. *International Journal of Management Education*, 11, pp. 107–118.
- Lee, J-W. (2010) Online Support Service Quality, Online Learning Acceptance, and Student Satisfaction. *The Internet and Higher Education*, 13, 4, pp. 277–283.
- Lenton, P. (2015) Determining Student Satisfaction: An Economic Analysis of the National Student Survey. *Economics of Education Review*, 47, pp. 118–127. <https://doi.org/10.1016/j.econedurev.2015.05.001>
- Machado, M. L.–Brites, R.–Magalhaes, A.– Sá, M. J. (2011) Satisfaction With Higher Education: Critical Data for Student Development. *European Journal of Education*, 46, 3, pp. 415–432.
- Malota, E.–Bereczki D.–Borgström M. (2014) *A felsőoktatási mobilitást akadályozó és ösztönző tényezők Magyarországon*. 2. kötet. Tempus Közalapítvány, Budapest.
- Malota E. (2016) *Hallgatói véleményfelmérés 2016*. Magyarország és a Magyar felsőoktatás a külföldi hallgatók szerint. TKA, Budapest.
- Mekic E.–Mekic, E. (2016) Impact of Higher Education Service Quality on Student Satisfaction and its Influence on Loyalty: Focus on First Cycle of Studies at Accredited HEIs in BH. In: *ICESoS 2016, Proceedings*, pp. 43–56.
- Mihanovic, Z.–Batinic, A. B.–Pavicic, J. (2016) The Link Between Students' Satisfaction with Faculty, Overall Students' Satisfaction with Student Life and Student Performances. *Review of Innovation and Competitiveness: A Journal of Economic and Social Research*, 2, 1, pp. 37–60.
- Miklós, B.–Nagy, Gy.–Karl, M. J. (2018) A külföldi egyetemisták szabadidő-eltöltési és tárhaználatti mintázatai Szegeden. *Közép-Európai Közlemények*, XI, 2, 41, 54–66.
- Molnár L.–Molnárné K. Cs.–Gulyásné K. R. (2017) Hallgatói klaszterek az EDUCATIO modell alapján, Miskolci Egyetem, In: Bányai E.–Lányi B.–Törőcsik M. (szerk.): *Tükröződés, társtudományok, trendek, fogyasztás*. Pécsi Tudományegyetem, Közgazdaságtudományi Kar, Pécs. 613–620.

- Ojasalo, J. (2001) Managing Customer Expectations in Professional Services, Managing Service Quality: *An International Journal*, 11, 3, pp. 200–212.
- Oliver, R. L. (1999) Whence Consumer Loyalty? *Journal of Marketing*, 63, pp. 33–44.
- Owlia, M. S.-Aspinwall, E. M. (1996) A Framework for the Dimensions of Quality in Higher Education. *Quality Assurance in Education*, 4, 2, pp. 12–20.
- Reichheld, F. F. (2003) The One Number You Need to Grow. *Harvard Business Review*, 81, 12, pp. 46–54. https://doi.org/10.1007/978-3-642-20110-3_2
- Shahsavar, T.-Sudzina, F. (2017) Student Satisfaction and Loyalty in Denmark: Application of EPSI Methodology. *PLoS ONE*, 12, 12 e0189576.
- Schertzer, C. B.-Schertzer, S. M. B. (2004) Student Satisfaction and Retention: A Conceptual Model. *Journal of Marketing for Higher Education*, 14, 1, pp. 79–91. https://doi.org/10.1300/J050v14n01_05
- Teas, R. (1993) Expectations, Performance Evaluation, and Consumers' Perceptions of Quality. *Journal of Marketing*, 57, 4, pp. 18–34.
- Tse, D.K.-Wilton, P.C. (1988) Models of Consumer Satisfaction Formation: An Extension. *Journal of Marketing Research*, 25, pp. 204–212.
- Turkyilmaz, A.-Temizer, L.-Oztekin, A. (2018) A Casual Analytic Approach to Student Satisfaction Index Modeling. *Annals of Operations Research*, 263, 1–2, pp. 565–585.
- Yi, Y. (1990). A Critical Review of Consumer Satisfaction. *Review of Marketing*, pp. 68–123.
- Zeithaml, V. (1981) How Consumer Evaluation Processes Differ Between Goods and Services. In: J. H. Donnelly-W. R. George (eds.): *Marketing Services*. American Marketing Association. pp. 186–190.

Can Homepage Openness be a Signal of Institutional Quality in Higher Education?



Abstract

This exploratory study analyses a rarely investigated element of online marketing of higher education institutions (HEIs) using a sample of 150 doctoral/research universities (DRU) and 150 liberal arts colleges (LAC) from the USA. Using quantitative analysis, it primarily examines the homepage of the institutions' websites according to various aspects of openness (availability of the homepage in foreign languages and for visually impaired users, presence and type of search options and social media links on the homepage, and the number of news articles published on the website in a given week). Besides the analysis of the whole sample, the types of institutions (i.e., DRUs and LACs) as well as higher or lower ranked institutions according to an HEIs ranking list are also compared using these dimensions. The main findings are that DRU homepages provide more advanced search opportunities, present a higher number and different order of social media links, and publish a greater volume of news than LAC websites. The higher ranked DRUs present the most news, followed by lower ranked DRUs, and then higher ranked LACs; the lowest number of news items were provided by lower ranked LACs. Moreover, in the case of LAC institutions a significant negative correlation was also identified between their rank and the number of news items displayed, while no significant correlation was found in the case of DRUs.

Keywords: higher education marketing, online marketing, website openness, signalling

INTRODUCTION

Nowadays, similar to profit-oriented businesses, HEIs also have to compete for their customers; moreover, due to globalization competitors can come from abroad and not only from the region or country of the institution (Bagley-Portnoi, 2014; Hemsley-Brown-Oplatka, 2006). Thus, to stay competitive, it is essential for HEIs to use marketing tools well-trying in the profit oriented sector. One type of these tools includes various online marketing options that are increasingly important in influencing consumer behaviour of younger generations making up the primary target group of higher education (Popa, 2015). Within the broad range of online marketing tools one of the cornerstones is the use of institutional websites; in many cases this is the communication channel and interface through which prospective students first encounter the HEI (Misley-Vámos, 2017; Schimmel et al., 2010). Therefore, their first impressions of the institution can be based on it (Wilson-Meyer, 2009). The items of information on the website and their struc-

ture and accessibility (i.e., the “openness”) largely determines the image of the HEI (Kent-Taylor, 2002; McAllister-Spooner, 2009; Middleton et al., 1998), thus its marketing value is especially high, since it can facilitate or hinder the “purchase” of the product (in this case an educational program) (Misley-Vámos, 2017).

The primary aim of this research is to reveal the relationship between the openness of HEIs’ websites (the availability of news and of a search engine on the website, the accessibility of the website – i.e., in foreign languages and for visually-impaired users – and the availability of social media links in our understanding) and institutional quality (approximated by their type – i.e., doctoral/research universities vs liberal arts colleges – and their ranking). Based on signalling theory (Teoh-Hwang, 1991), it is hypothesized that the websites of higher quality HEIs are more open than those of lower quality ones. To answer our research question and to examine our hypothesis a primary research study was conducted in which the openness of websites of 300 US-based HEIs belonging to three quality classes were examined, based on certain openness-signalling factors found primarily on their homepages.

After reviewing the literature, the methodology of the primary research is introduced, followed by our detailed results. As is usual in exploratory studies, the discussion of results puts more emphasis on those measures that provide more options for analysis. Finally, the paper ends with a discussion and conclusion.

1. LITERATURE REVIEW

1.1. THE ROLE OF INSTITUTIONAL WEBSITES IN HIGHER EDUCATION MARKETING

The selection of a higher education institution is a high involvement activity, as the financial, psychological, and social risks of the choice are quite high (Kotler-Fox, 1995; Ramasubramanian et al., 2003). In addition, higher education is a credence good (Darby-Karny, 1973), since it is difficult for the consumer to evaluate the service even after trial (Pham-Lai, 2016; Zeithaml, 1981). In the case of services with these characteristics, information-gathering becomes more critical in the decision making process (Kotler-Fox, 1995), as one can expect a greater information need is required prior to purchase.

Nowadays, the primary tool to fulfil that information need is the Internet (Benjamin-Lee, 2005), which allows fast, convenient, and virtually free gathering of information. Thus, HEIs’ webpages are especially important in the information search stage of the consumer decision making process. The webpage is found to be the gateway to other forms of communication between the HEI and prospective students; this has been confirmed by several studies (Schimmel et al., 2010; Wilson-Meyer, 2009).

Numerous papers have already discussed the importance of institutional websites as a marketing tool in higher education marketing. These studies can be classified into three categories (Klassen, 2002): 1) examination of what students expect from HEIs' websites (e.g., McKnight-Paugh, 1999; Mechitov et al., 2001; Ng et al., 2003; Schimmel et al., 2010); 2) practical advice about how HEI websites can be used to increase the number of applications to an institution (e.g., Poock-Lefond, 2001; Schimmel et al., 2010); and 3) analysis of current websites (e.g., Gordon-Berhow, 2009; Kiss-Kun, 2018; Kittle-Ciba, 2001; Klassen-Sitzman, 2000; Lee-You, 2011; Ooi et al., 2010; Will-Callison, 2006; Wilson-Meyer, 2009; Zhang, 2017). The current study aims to broaden the literature in the third field by using a methodology not used before, to the best of the authors' knowledge, on a US sample.

1.2. OPENNESS OF HIGHER EDUCATION INSTITUTIONS' WEBSITES

Few studies have so far examined websites' openness explicitly and none of them have assessed the websites of HEIs. Yavuz and Welch (2014) examined the factors affecting the openness of local governments' websites. Based on their work, one can define website openness as the extent to which it provides information about the organization's decision making and other processes and enables the audience(s) to contact the organization. The Cyberspace Policy Research Group (CyPRG) characterized governmental website openness similarly, "as a function of two interrelated elements: transparency and interactivity. In this study transparency refers to the extent to which an organization provides explicit information about work and decision processes, procedures, events, activities, and outcomes" (CyPRG, 2011, cited by Yavuz-Welch, 2014, 575). Interactivity is defined as the quality of communication between the organization and visitor taking place on the website, and it indicates the ease with which users are able to access data or people (La Porte et al., 2001).

In summary, research on HEIs' website openness should consider – among others – transparency, i.e., the availability of news and a search engine on the website and the accessibility of the website in foreign languages and for visually-impaired users, and interactivity, i.e., the availability of social media links.

A previous research study on the web presence of American universities (Will-Callison, 2006) found that only 79.9% of analysed homepages offered news and events. In contrast, in a recent study by Lee and Merle (2018), 99% of American universities' websites examined were found to offer news stories.

As online users have become accustomed to convenience, they have begun to expect that websites have a search engine, which helps prospective students and other important HEI site visitors to quickly locate pertinent information (Kittle-Ciba, 2011). Unfortunately, ineffective search functions not only inhibit the acquisition of desired information but also can increase the level of frustration, which may lead to the termination of the connection with the HEI (Poock-Lefond, 2001).

That's why offering advanced search options on the website is very important. A longitudinal research study by Kittle and Ciba (2001) found a steady increase in the proportion of HEI websites with a search engine: from 27.1% in 1997, through 41.2% in 1998 to 57.9% in 1999; however, the types of search engines were not assessed in this study. In a more recent study by Lee and You (2011) it was found that 100% of 11 top ranked American universities offered search engine options.

Translation of webpages into different languages is particularly pertinent in view of the increasing international competition of HEIs, and thus an emphasis is on universities to market to every region of the world without barriers (Chapleo et al., 2011). In a comparative study of American and Taiwanese top ranked universities (Lee-You, 2011), it was found that only 10% of American, and 100% of Taiwanese universities offered foreign language versions of their websites. The low level of American websites available in foreign languages may be attributed to the extensive global use of the English language (Chapleo et al., 2011).

According to Varma et al. (2016) 3.2 million Americans (1% of the total population) had some level of visual impairment in 2015, and it is estimated that 1 million Americans (0.3%) were legally blind. Moreover, the number of people with visual impairment or blindness in the United States is expected to double to more than 8 million by 2050. The number of Americans with disabilities attending college is also steadily increasing (Harper-DeWaters, 2008). It is a necessity, therefore, for HEIs to ensure website accessibility to visually impaired users. In this sense, most American HEIs' websites perform poorly, and accessibility has been worsening: the percentage of websites considered to be accessible to visually impaired users in 1997 was 64.4%, in 2002 it was 15.6% (Hackett-Parmanto, 2005), while in 2007 only 8% of examined sites met the strictest requirements of accessibility (Harper-DeWaters, 2008). A possible explanation for this unfavourable trend is that as webpage designers have included more complex web design components such as images and streaming video, it requires more effort to make the websites accessible for users with disabilities (Hackett-Parmanto, 2005).

A previous research study on HEI websites (McAllister, 2012) found that the majority (67%) of websites of the world's top 100 universities featured an RSS feed; the proportion is even higher in the case of top American universities (84%). A significant share of the websites of the world's top 100 universities also offered social media links (42% YouTube, 39% Facebook, 39% Twitter), similar to American institutions (78%, 75%, and 72%, respectively). A more recent study (Lee-Merle, 2018) found that an RSS feed was available on only 62.4% of US-based universities' websites, and among social media links, Twitter was the most common (89.1%), followed by Facebook (87.6%), YouTube (76.7%), Instagram (28.7%), and Pinterest (16.8%).

1.3. DIFFERENCES IN THE OPENNESS OF HIGHER EDUCATION INSTITUTIONS' WEBSITES BASED ON THEIR QUALITY

Wilson and Meyer (2009) examined US-based HEIs' homepages and found that more services and information were available (indicating a higher level of openness in our understanding) through the websites of doctoral/research institutions than through those of community colleges. According to them this probably results from different levels of institutional resources (both financial and human) rather than intent. Although the differences are understandable, they may still send an unintentional message to prospective students. In contrast, Carlos and Rodrigues (2012) found no difference in website quality of the three types of Portuguese HEIs (university, polytechnic, and concordat), measured using the five dimensions; only one item, i.e., interactivity, showed differences at a level of significance of 10%.

A study by Gordon and Berhow (2009) showed that doctoral universities' websites scored higher in providing more information and were easier to use than those of liberal arts colleges; however, they did less well in areas promoting online interactions with prospective students. In the study, a higher level of interactivity of liberal arts colleges was explained by less organizational complexity, as Taylor et al. (2001) found that the size and organizational complexity of an organization tended to work against web-based dialogues, since complex organizations were less likely to respond quickly to environmental pressure. According to the findings of Gordon and Berhow (2009), Tier 3 institutions (in an institutional ranking) excelled in their dialogic feature, which could be explained by their efforts to jump from Tier 3, or their bottom half status on the list. Thus, they worked aggressively to improve their ranking, and the higher level of dialogic features may be an indicator of their overall campaign to be a college "on the move" within the ranking system.

Klassen (2002) and Klassen and Sitzman (2000) examined differences between websites of top- and lower-ranked US universities according to their ability to build relationships with students. Both of these studies found that top-ranked schools have more interactive capabilities and are better at using websites to respond to consumer demand. They argued that the effectiveness of websites as a marketing tool relates to the willingness and ability of schools to not just build but effectively maintain and successfully operate websites. Here, again, possible differences in financial and human resources are implicitly cited by the researchers. So, despite the fact that Internet marketing is a relatively low-cost and a widely available tool and in contrast to the statement made by Lee and You (2011), HEIs do not enjoy similar abilities to use it to their marketing advantage.

On a less abstract level, Lee and Merle (2018) examined the relationship between HEIs' rankings and the inclusion of social media links on their websites. Their findings confirm previous studies in that the availability of an RSS feed, and YouTube, Facebook, and Twitter accounts were significantly positively correlated

with ranking (the Point Biserial correlations were 0.393, 0.222, 0.199, and 0.186, respectively). However, no significant correlations were found in the case of Instagram or Pinterest.

2. MATERIAL AND METHODS

To answer our research question, a primary research study was conducted by reviewing various homepages of US-based HEIs. The use of an American sample is justified by the fact that the American higher education market provides the most HEIs in one national market in the world. However, the findings of the current study may facilitate the understanding of other higher education markets, too, since our research is not only a descriptive one, but aims to reveal relationships between variables, and these relationships are likely to be non-country-specific.

2.1. DATA COLLECTION AND SAMPLE

The population of the current study was HEIs of the USA. One of the most complete lists of these institutions at the time of our research was available on findthebest.com^[1], which ranked the two categories (hereinafter: types) of HEIs, namely doctoral/research universities (DRUs) and liberal arts colleges (LACs), based on several factors. Both HEI types were included in our research, from all HEIs (4355 in the academic year 2016/17^[2]) we chose institutions for which all required data was provided on the website, since rankings were based on that data. Altogether 826 HEIs fulfilled this criterion. From these 826 HEIs 300 institutions were chosen to make up our sample, 150 DRUs and 150 LACs; 50 of each type from the top, the bottom, and the middle of the ranking.

The majority of the data collection was conducted on 16 and 17 July 2018, by university students^[3]. These were the ideal data collectors as they are the people who most closely resemble those wishing to choose an institution to apply to and they can therefore provide valuable information about the perception of HEIs' online marketing activities. The HEI websites selected for examination were assigned to the students as evenly as possible, so each student had to deal with institutions of each type: half were DRUs, and half were LACs, and the first student was assigned to the first HEI in the ranking, the second student to the second ranked, etc. Although two students did not complete their assigned work, which left data incomplete, due to the method used to assign HEI websites to students, as mentioned above, errors resulting from the data collectors' mistakes were evenly distributed in the sample and did not cause any distortions.

[1] The website - after several years of market presence - is not available any more.

[2] <https://www.statista.com/statistics/306880/us-higher-education-institutions-by-state/>, accessed: 23.10.2018.

[3] Students were paid in proportion to the number of websites they analysed.

2.2. RESEARCH AND DATA ANALYSIS METHODS

The openness of HEI websites was examined by a quantitative analysis. The current study did not aim to provide a complete analysis of HEI websites; in the majority of examinations only homepages were assessed because this element of the website is encountered by all visitors, and only those who already have an interest in the institution will navigate to further content.

During data collection students manually recorded the availability of homepages in foreign languages (noting which languages), for visually impaired users (yes/no), availability of a search engine (no/simple/advanced/calendar/other) and social media links (noting which ones), and the number of news items on the homepage and/or on the “News” or similar sub-site published in the week before the data collection (9–15 July 2018).

Data was analysed by both simple descriptive statistics (e.g., mean, standard deviation, frequencies) and more complex statistical methods (independent samples *t* test, Welch test, Cramer’s *V* test, Wilcoxon test, Mann-Whitney *U* test, Spearman and Pearson correlations, ANOVA).

3. RESULTS

The results will be discussed by variables characterizing the openness of HEI websites. First, findings based on the total sample will be introduced, also covering differences between DRU and LAC institutions where applicable, followed by comparisons of openness according to institutional ranks, where computable.

3.1. FOREIGN LANGUAGES, VISUALLY IMPAIRED USERS, SEARCH ENGINES

In our sample, only two HEI homepages were available in a language other than English. In some cases, however, Google Translator was available through a link on the homepage, but because it is independent from HEI, these options were not regarded as a foreign language availability. In sum, we can conclude that American HEIs’ websites are not generally available in foreign languages. Since none of the 300 HEI homepages offered a version for visually impaired users, this variable could not be used for analysis among variables, either.

Among the 300 institutions in our sample only 6 did not offer a search option on their homepage. All these institutions fell into the LAC category. Due to low prevalence, the difference between institutional types could not be examined statistically. When the quality of search engines was taken into account (a search option is seen as more advanced if it offers any kind of extra options, such as a calendar, a multi-attribute search option, etc.) it was found that DRUs possessed more advanced search engines in a notably larger proportion than LACs. Among

150 LACs 9 (6%) offered more advanced search options on the homepage, while among 150 DRUs this figure was more than double, i.e., 20 (13%).

Due to the high level of homogeneity of the sample, correlational analyses between availability (in foreign languages, for visually impaired users, of search engines) and institutional quality (ranking, type) could not be performed.

3.2. PRESENCE OF SOCIAL MEDIA LINKS

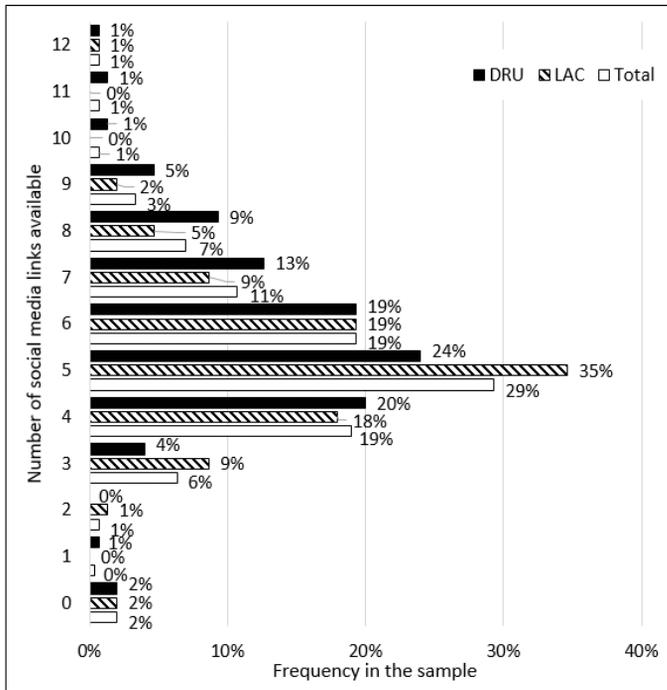
It is important to note that in the current research only those social media links were examined that were available through the website. Besides links to social media on homepages, links on other pages of the websites accessible by 1-2 clicks were also taken into account. The spatial order of the links was calculated as follows: first, links on the homepage, followed by links on other pages (in both cases from left to right, from top to bottom, except when there were obvious columns).

In this research social media is understood as everything HEI websites seemed to treat as social media, if it was not obviously incorrect. The following broadly defined social media links were identified in our sample: Facebook, Twitter, Instagram, YouTube, LinkedIn, Flickr, Snapchat, Pinterest, Google+, RSS feed, Tumblr, iTunes, Vimeo, Foursquare, Spotify, Soundcloud, institutional blogs, Sina Weibo, Futurity, Medium, Metirlink, William Jewell Photo, Alumni UMBC, My Juniata, Mopaw, My ASU, ASU Alert, Last.fm, Bear in Mind podcast, #UNOproud, Escores, Uva-Wise Live Webcast, Issuu, FLC Connects, and Storify.

Our results show that 6 institutions (2%) in the sample did not present any social media links, with three (2%) in each of the two categories, LACs and DRUs. Thus, no significant difference was detected between the two categories of HEIs.

The number of social media links per HEI website is shown in figure 1. The most common number of links per website were 4, 5 or 6, and about 68% (203) of the sample fell into this category. The “average link density” was 5.42 per website (standard deviation: 1.82 links per website).

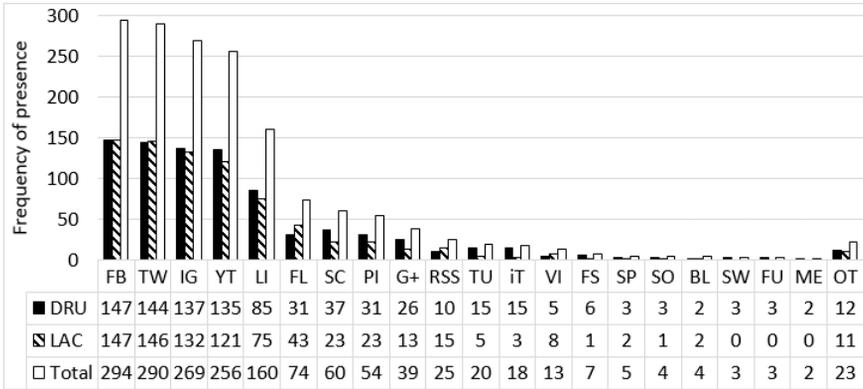
Figure 1 The number of social media links on HEIs' websites by HEI type and in total, n = 300



Source: authors' own calculations based on primary data collection
 Note: values are rounded

Figure 2 shows how many times each social media link was present in the sample (links with only one appearance were omitted). Practically, based on the frequency of social media links, three groups could be identified. Facebook, Twitter, Instagram, and YouTube made up the first group, occurring in more than 85% of HEIs in the sample. LinkedIn is one-element group, being present on websites of about half of the sample. The third group contains social media occurring on a maximum of 25% of HEIs examined; all social media not yet mentioned belong to this group.

Figure 2 Frequency of the presence of social media links on HEI websites by type of HEIs and in total, n = 300



Source: authors' own primary data collection

Notes: the social media types are shown on the horizontal axis (FB=Facebook, TW=Twitter, IG=Instagram, YT=YouTube, LI=LinkedIn, FL=Flickr, SC=Snapchat, PI=Pinterest, G+=Google+, RSS=RSS feed, TU=Tumblr, iT=iTunes, VI=Vimeo, FS=Foursquare, SP=Spotify, SO=Soundcloud, BL=Sina Weibo, FU=Futurity, ME=Medium, OT=Other)

Statistically significant differences between the media presence frequencies of LACs and DRUs were found only in some cases using the Cramer's V test (V values in parentheses). The difference was significant at 1% in the case of iTunes (0.17); at the 5% level in the case of YouTube (0.13), Google+ (0.13), and Tumblr (0.13); and at 10% in the case of Snapchat (0.12). In each of these cases DRUs used the given medium more frequently. All other social media showed lower V values than 0.10. Thus, we can conclude that DRUs and LACs do not differ in whether they include social media links on their websites, but DRUs use more of them and they use some of them more frequently.

Table 1 provides information about the order of social media links on webpages. The spatial order seems to be important, since while the difference between the frequencies compared to the sample size is minimal, especially in the case of Facebook vs Twitter, and these two versus Instagram and YouTube, the number of first-place appearances of Facebook was 243, while that of Twitter, Instagram, and YouTube was only 30, 12, and 3, respectively.

Table 1 Absolute and relative place rank frequencies, n = 300 (pcs, %)

Social media	Place, from left to right and from top to bottom (reading direction)												Total
	1	2	3	4	5	6	7	8	9	10	11	12	
Facebook	243 (82)	34 (12)	12 (4)	3 (1)	2 (1)								294 (100)
Twitter	30 (10)	203 (70)	32 (11)	14 (5)	6 (2)	4 (1)		1 (0)					290 (100)
Instagram	12 (4)	30 (11)	115 (43)	66 (25)	28 (10)	14 (5)	3 (1)	1 (0)					269 (100)
YouTube	3 (1)	11 (4)	82 (32)	101 (39)	40 (16)	9 (4)	8 (3)	2 (1)					256 (100)
LinkedIn		4 (3)	24 (15)	34 (21)	55 (34)	28 (18)	9 (6)	4 (3)	1 (1)		1 (1)		160 (100)
Flickr	1 (1)	3 (4)	6 (8)	16 (22)	20 (27)	16 (22)	5 (7)	6 (8)		1 (1)			74 (100)
Snapchat	2 (3)		6 (10)	12 (20)	13 (22)	15 (25)	9 (15)	1 (2)	1 (2)			1 (2)	60 (100)
Pinterest			3 (6)	8 (15)	13 (24)	14 (26)	10 (19)	3 (6)	3 (6)				54 (100)
Google+		5 (13)	5 (13)	3 (8)	8 (21)	9 (23)	7 (18)	1 (3)			1 (3)		39 (100)
RSS feed		1 (4)		2 (8)	8 (32)	6 (24)	2 (8)	3 (12)	2 (8)	1 (4)			25 (100)
Tumblr	2 (10)	1 (5)	1 (5)	2 (10)	5 (25)	2 (10)	3 (15)	1 (5)	1 (5)	2 (10)			20 (100)
iTunes			1 (6)	2 (11)	4 (22)		2 (11)	6 (33)	2 (11)		1 (6)		18 (100)
Vimeo			1 (6)	2 (11)	4 (22)		2 (11)	6 (33)	2 (11)		1 (6)		18 (100)
Foursquare			1 (14)		1 (14)	1 (14)	2 (29)		2 (29)				7 (100)
Spotify				1 (20)				3 (60)				1 (20)	5 (100)
Soundcloud					1 (25)	1 (25)			1 (25)	1 (25)			4 (100)
blogs				1 (25)	2 (50)	1 (25)							4 (100)
Sina Weibo					1 (33)				2 (67)				3 (100)
Futurity					2 (67)		1 (33)						3 (100)
Medium					1 (50)						1 (50)		2 (100)
Other	1 (4)		1 (4)	2 (8)	4 (15)	7 (27)	7 (27)	2 (8)	1 (4)	1 (4)		0	26 (100)
Total	294	292	291	272	215	128	69	37	16	6	4	2	1626

Source: authors' own calculations based on primary data collection

Note: rounded proportions of relative place ranks in % are in brackets

The Wilcoxon test was used to examine differences in the spatial order of social media links on the website. We found that in the case of six link pairs, the order of links is not accidental: at the 1% level of significance: Facebook vs Twitter ($Z = -11.67$, $N = 290$), Twitter vs Instagram ($Z = -9.35$, $N = 266$), Instagram vs YouTube ($Z = -3.55$, $N = 238$), and YouTube vs LinkedIn ($Z = -4.63$, $N = 146$); and at the 5% level of significance: Pinterest vs Google+ ($Z = -2.09$, $N = 16$), and Google+ vs RSS feed ($Z = -11.67$, $N = 7$). We can conclude that in the case of the HEIs in our sample a typical order of placement of social media links exists.

When comparing the spatial order of social media links on websites of DRUs versus those of LACs, only one pair showed a significant difference in the Cramer's V test: Instagram was displayed ahead of YouTube on DRUs' websites to a significantly greater degree than on LACs' websites ($V = 0.16$, $p < 0.05$), although Instagram was found to be ahead of YouTube more frequently in both of the two types. All other social media pairs showed lower V values than 0.121.

In accordance with our research question, we also examined whether social media link types present on the websites and their order imply a rank of the HEI and vice versa. Four rankings were used in the current research: a DRU ranking, a LAC ranking, a mixed ranking containing DRUs and LACs independent of their type, and a LAC&DRU ranking, where the individual rankings of DRUs and LACs are integrated (i.e., there are two first, two second, etc. ranked institutions).

First, we examined whether there is a relationship between the appearance of social media links on the HEI website and the HEI rank by using the Mann-Whitney U test (table 2). Facebook and Twitter were omitted from this examination, since they were present on almost all websites; beside this, social media links appearing on less than 20 websites were also omitted in order to conduct the analyses.

Table 2 shows that typically there is no relationship between the HEIs' ranks indicating institutional quality and the appearance of social media types. The only exceptions are Flickr and YouTube: higher ranked LACs and DRUs (in rankings by type and in the LAC&DRU ranking) tend to present a Flickr link on their websites more often than lower ranked institutions; and higher ranked DRUs tend to present a YouTube link more often than lower ranked ones, both at the 10% level of significance. Thus, in the case of HEIs, although some social media (i.e., Flickr, YouTube) links' appearance on the institutional websites may be a rather weak signal of institutional quality, in the majority of cases this role could not be identified.

Table 2 Relationship between the presence of social media links and institutional ranks
(Mann-Whitney *U* test), n = 300

		Mixed			LAC			DRU			LAC&DRU		
		0	1	<i>U</i>	0	1	<i>U</i>	0	1	<i>U</i>	0	1	<i>U</i>
Instagram	MR	114.54	110.01	2255.00	151.32	149.85	4113.00	152.76	150.24	4099.50	147.95	150.79	4090.50
	N	24	196		31	268		31	269		31	269	
YouTube	MR	119.73	109.04	2573.00	169.67	146.61	4744.50	171.52	146.89	4707.00*	164.23	148.14	5028.00
	N	30	190		44	255		44	256		44	256	
LinkedIn	MR	107.28	112.99	5643.00	153.42	146.99	10651.50	155.84	145.83	10452.50	155.04	146.53	10564.00
	N	96	124		140	159		140	160		140	160	
Flickr	MR	113.92	100.95	4144.00	155.38	133.63	7113.50'	155.69	134.66	7190.00'	155.49	135.26	7234.00'
	N	162	58		225	74		226	74		226	74	
Snapchat	MR	107.09	123.78	3340.00	148.50	155.98	6811.00	148.70	157.69	6768.50	148.29	159.33	6670.00
	N	175	45		239	60		240	60		240	60	
Pinterest	MR	109.13	116.49	3424.00	150.58	147.36	6472.50	150.99	148.28	6522.00	150.75	149.35	6580.00
	N	179	41		245	54		246	54		246	54	
Google+	MR	110.29	111.80	2811.00	150.58	146.04	4808.50	151.81	141.76	4748.50	151.59	143.19	4804.50
	N	190	30		261	38		261	39		261	39	
RSS	MR	111.51	100.45	1799.00	151.51	133.46	3011.50	151.95	134.54	3038.50	152.19	131.90	2972.50
	N	200	20		274	25		275	25		275	25	
Tumblr	MR	111.06	103.38	1518.00	151.46	129.65	2383.00	151.87	131.38	2417.50	151.41	137.80	2546.00
	N	204	16		279	20		280	20		280	20	

Source: authors' own calculations based on primary data collection

Notes: MR = mean rank, 0 = no link on the website, 1 = link is present on the website,

* significant at 10%.

We also examined the quality signalling potential of displaying social media links in the reverse order compared to the order in which they are usually presented (see table 1). For instance, Facebook is usually ahead of Twitter, thus it is interesting to check whether placing Facebook behind Twitter is related to the ranks of HEIs. Deviation from the regular order may be a signal, if it is related to higher quality, or it may be a simple coincidence; moreover, it may also indicate that the HEI is not aware of the typical order, and thus it may signal lower quality. Cases with too low frequencies to be analysed were omitted. Based on our results, the "Twitter ahead, Facebook behind" order was significantly related to higher ranks in the mixed ranking (where DRU and LAC are ranked as part of the same population) but not in any other rankings. No unusual order of any other link-pairs was found to be related to the HEI ranks in any of the rankings (Table 3).

Table 3 Unusual order of social media link-pairs vs HEI rankings (Mann-Whitney U test),
n = 300

	Ranking sample																										
	Mixed						LAC						DRU						LAC & DRU						Number of media		
	1	0	U	1	0	U	1	0	U	1	0	U	1	0	U	1	0	U	1	0	U						
Twitter > Facebook	MR	112.05	75.96	1673.00***	146.84	133.55	4522.00	147.51	132.95	4498.00	147.08	135.65	4606.00	147.80	131.10	4424.00											
	N	187	27		249	40		250	40		250	40		250	40												
Instagram > Twitter	MR	97.81	98.91	2643.00	131.65	139.27	4828.50	132.16	139.77	4852.00	131.92	140.85	4801.00	134.55	128.60	4916.00											
	N	162	33		218	47		219	47		219	47		219	47												
YouTube > Instagram	MR	86.49	92.93	3455.00	118.39	119.95	6608.00	118.00	121.83	6525.50	117.43	122.73	6442.50	114.95	126.59	6083.00											
	N	108	69		144	93		145	93		145	93		145	93												
LinkedIn > YouTube	MR	59.47	53.55	1294.00	74.16	70.72	2240.50	74.55	71.42	2274.50	74.67	71.18	2263.00	75.04	70.46	2227.50											
	N	76	38		96	49		97	49		97	49		97	49												
Flickr > LinkedIn	MR	21.60	17.17	138.00	26.14	22.72	246.50	26.02	22.85	249.50	25.68	23.22	258.00	22.72	26.43	243.00											
	N	20	18		25	23		25	23		25	23		25	23												

Source: authors' own calculations based on primary data collection

Notes: N = number of social media links available on the website, MR = mean rank, 0 = the social media link-pair is in typical order, 1 = the social media link-pair is in an unusual order, *** significant at 1% level. In the first column greater means higher rank (e.g., Twitter > Facebook means that Twitter was ranked higher than Facebook).

3.3. NUMBER OF NEWS ITEMS ON THE WEBSITE

When examining the news on their websites, only HEIs providing at least one news item were taken into account. Beside this, two of our data collectors did not complete the recording of news assigned to them. Among the remaining 215 HEIs 55 did not publish any news in the examined week; therefore, the sample size in these examinations was only 160.

The average number of news items published on HEIs' websites was 5.069 (standard deviation = 6.312); it was 3.000 ($N_{LAC} = 72$, standard deviation = 3.021) and 6.761 ($N_{DRU} = 88$, standard deviation = 7.676) in the sub-samples of LACs and DRUs, respectively. The difference between the two types is significant ($t = -4.215$, $p < 0.001$), thus we can conclude that DRUs provide more news items on their websites on average than LACs.

The within-institution-type ranks of HEIs (LAC&DRU) and the number of news items published in the week examined showed a very weak but significant linear correlation ($r = -0.173$; $p = 0.029$; $N = 160$); the Spearman rank correlation, however, was not significant ($p = 0.110$; $N = 160$). In the sub-sample of LACs ($N_{LAC} = 72$) a somewhat stronger linear correlation (considered weak and not uncorrelated with confidence) ($r = -0.239$; $p = 0.043$) and a significant weak-moderate rank correlation ($\rho = -0.394$; $p = 0.001$) were found. In the sub-sample of DRUs ($N_{DRU} = 88$) neither the Pearson correlation ($p = 0.104$), nor the Spearman rank correlation ($p = 0.918$) were significant.

The mixed ranking (when institution type is not considered) showed linear and rank correlational relationships with the number of news items only at the 10% level of significance ($r = -0.163$; $p = 0.070$; $\rho = -0.176$, $p = 0.051$; $N = 160$). On the LAC-only subsample, both correlations were significant and weak ($r = -0.280$; $p = 0.035$; $\rho = -0.391$, $p = 0.003$; $N_{LAC} = 57$). The DRU subsample presented no significant linear ($p = 0.274$) or rank ($p = 0.772$) correlations between the mixed rank and the frequency of news articles ($N_{DRU} = 67$). Thus, we can conclude that the higher a LAC's rank, the more news items are published on its website.

If institution type (DRU vs LAC) is combined with ranking within type (below and above the median) in a two-dimensional matrix, then examination of the four groups determined by the two dimensions (DRUs in the first half of the ranking, DRUs in the second half of the ranking, LACs in the first half of the ranking, LACs in the second half of the ranking) may provide useful findings regarding the relationship between institutional quality and the number of news items published on HEIs' websites. The group means and statistics of the ANOVA of the four categories are presented in table 4.

Table 4 The average number of news items published on the website by HEI categories formed by type and by rank, n = 153

Category	N	Mean	Standard deviation	F	p
DRUs in the first half of the ranking	44	7.705	10.140	6.342	<0.001
DRUs in the second half of the ranking	44	5.818	3.817		
LACs in the first half of the ranking	36	3.833	3.317		
LACs in the second half of the ranking	36	2.167	2.467		

Source: author's own calculation based on primary data collection

Based on table 4, we can state that significant differences exist in the number of news items on websites by institutional type and rank. As was previously shown, DRUs displayed significantly more news items than LACs (independent of their ranks), and higher-ranked institutions also published more news items than their lower ranked counterparts (independent of their types). If the two variables are combined, according to our results the most news items were published by DRUs in the first half of the ranking, followed by DRUs in the second half, then LACs in the first half of the ranking. The fewest news items were displayed by LACs in the second half of the ranking.

4. DISCUSSION AND CONCLUSIONS

The main objective of this study was to explore whether the openness (the amount of information presented) of HEIs' websites could serve as a signal of quality. Our sample consisted of 300 HEIs from the USA. The American higher education market was chosen because it features the highest number of institutions in the world in one country and the available rankings.

To measure homepage openness - based on the literature and on the limitations of the available data - we have used the following quantitative variables: availability of the website in foreign languages, availability of the website for visually impaired visitors, providing any - and any advanced - search tools, the presence, number, and order of HEIs' social media links on the website, and the number of news items presented on the website.

Similar to previous research studies by Wilson and Meyer (2009) and Gordon and Berhow (2009) our study found statistically significant differences between the two types of HEIs:

- DRUs more frequently offered advanced search opportunities;
- DRUs tended to provide significantly more social media links on their websites;
- some social media was used more frequently by DRUs: iTunes, YouTube, Google+, Tumblr;
- DRUs provide more news on their websites on average than LACs.

We have found connections between a given HEI's rank and its information providing behaviour:

- integrated ranks of HEIs (LAC&DRU) and the number of news items published on the websites showed a significant, weak linear correlation;
- in the sub-sample of LACs both linear and rank-correlations were significant, but weak and weak-moderate, respectively;
- most news items were published by DRUs in the first half of the ranking, followed by DRUs in the second half, then LACs in the first half of the ranking, and finally, LACs in the second half.

Based on the above-mentioned findings, our paper has fulfilled its primary objective and provided quantitative evidence of the hypothesized connections between the openness of HEIs' websites and the institutions' two quality measurements: their type (DRU or LAC) and their rank. This result supports the signalling hypothesis in online marketing communication of higher education institutions. Although not all examined openness variables could be analysed by HEI type/rank or were found to have a significant relationship with the selected measures of institutional qualities, this does not represent a serious weakness in the signalling hypothesis. The only message of such a finding is that not every component of marketing communication has (yet) been confirmed to play a role of a signal.

The three most important limitations of our investigation are its spatial focus on the USA, the use of one time cross sectional data, and the use of only one quality ranking (in spite of the fact that both the country and the ranking were chosen to provide the largest available target population). As a consequence, our conclusions are not automatically transferable to other regions with different higher education markets, time periods, or customer segments with largely distinct concepts of quality. However, due to the fact that the largest higher education market in the world and a ranking list that covered the largest number of HEIs on that market were chosen, one would not expect great surprises or at least not too frequently.

A natural and interesting direction for further research – beyond extending the current examination to new target populations, and/or introducing new kinds of quantitative data, and/or repeating the data collection multiple times to enable a time series analysis –, is qualitative data analysis. Openness could be measured not only by the amount of information presented on the websites but also by the topic or content and the tonality of the data shared.

ACKNOWLEDGEMENT

The authors wish to thank the University of Debrecen Faculty of Economics and Business for their financial support for this research.

REFERENCES

- Bagley, S. S.–Portnoi, L. M. (2014) Setting the Stage: Global Competition in Higher Education. In: Bagley, S. S.–Portnoi, L. M. (eds.): *New Directions for Higher Education*. Jossey-Bass, San Francisco. pp. 5–11. DOI: 10.1002/he.20109
- Benjamin, B.–Lee, J. (2005) Enhancing Your Web Site as a Recruitment Tool by Implementing Chat Technology. In: Smith, P.–Smith, C. L. (eds.): *Proceedings of the 2005 ASCUE Conference*. Association of Small Computer Users in Education (ASCUE), pp. 31–39.
- Carlos, V. S.–Rodrigues, R. G. (2012) Web site quality evaluation in Higher Education Institutions. *Procedia Technology*, 5, pp. 273–282. DOI: 10.1016/j.protcy.2012.09.030
- Chapleo, C.–Carrillo Durán, M. V.–Castillo Díaz, A. (2011) Do UK
- Darby, M.–Karni, E. (1973) Free Competition and the Optimal Amount of Fraud. *Journal of Law and Economics*, 16, 1, pp. 67–88. DOI: 10.1086/466756
- Gordon, J.–Berhow, S. (2009) University websites and dialogic features for building relationships with potential students. *Public Relations Review*, 35, 2, pp. 150–152.
- Hackett, S.–Parmanto, B. (2005) A longitudinal evaluation of accessibility: higher education web sites. *Internet Research*, 15, 3, pp. 281–294. DOI: 10.1108/10662240510602690
- Harper, K. A.–DeWaters, J. (2008) A quest for website accessibility in higher education institutions. *The Internet and Higher Education*, 11, 3–4, pp. 160–164. DOI: 10.1016/j.iheduc.2008.06.007
- Hemsley-Brown, J.–Oplatka, I. (2006) Universities in a competitive global marketplace – A systematic review of the literature on higher education marketing. *International Journal of Public Sector Management*, 19, 4, p. 316–338. DOI: 10.1108/09513550610669176
- Kent, M. L.–Taylor, M. (2002) Toward a dialogic theory of public relations. *Public Relations Review*, 28, 1, pp. 21–37. DOI: 10.1016/s0363-8111(02)00108-x
- Kiss, M.–Kun, A. I. (2018) Milyen imázst közvetítenek a magyar felsőoktatási intézmények honlapjai? *International Journal of Engineering and Management Sciences (IJEMS)*, 3, 3, pp. 355–370. DOI: 10.21791/IJEMS.2018.3.29
- Kittle, B.–Ciba, D. (2001) Using college web sites for student recruitment: A relationship marketing study. *Journal of Marketing for Higher Education*, 11, 3, pp. 17–37. DOI: 10.1300/J050v11n03_02
- Klassen, M. (2002) Relationship marketing on the Internet: the case of top- and lower-ranked US universities and colleges. *Journal of Retailing and Consumer Services*, 9, 2, pp. 81–85. DOI: 10.1016/S0969-6989(01)00028-5
- Klassen, M.–Sitzman, E. (2000) At the intersection of demand creation, demand fulfillment: which schools are getting there first and why? *Journal of Marketing for Higher Education*, 10, 1, pp. 43–53. DOI: 10.1300/J050v10n01_04
- Kotler, P.–Fox, K. F. A. (1995) *Strategic Marketing for Educational Institutions*. Prentice Hall, Englewood Cliffs, NJ.
- La Porte, T. M.–Demchak, C. C.–Friis, C. (2001) Webbing governance: Global trends across national-level public agencies. *Communications of the ACM*, 44, 1, pp. 63–67.
- Lee, N. M.–Merle, P. F. (2018) Media relations and universities: an assessment of digital newsrooms. *Journal of Marketing for Higher Education*, 28, 2, pp. 232–246.

- Lee, J.-You, M. (2011) Marketing Management on Collegiate Website: A Comparison of USA and Taiwan University Admissions Web-pages. In: *e-CASE & e-Tech Conference Proceeding*. The organization of e-CASE & e-Tech, <http://192.192.83.167/ir/bitstream/987654321/1219/2/434.pdf>, accessed: 15.02.2018.
- McAllister-Spooner, M. (2009) Fulfilling the dialogic promise: A ten-year reflective survey on dialogic Internet principles. *Public Relations Review*, 35, 3, pp. 320–322. DOI: 10.1016/j.pubrev.2009.03.008
- McAllister, S. M. (2012) How the world's top universities provide dialogic forums for marginalized voices. *Public Relations Review*, 38, 2, pp. 319–327.
- McKnight, O.-Paugh, R. (1999) Floating a university Web sites: If you're going to fish, bring the right bait. In: *Proceedings of the 1999 Symposium for the Marketing of Higher Education*. American Marketing Association, Chicago. pp. 156–162.
- Mechitov, A. I.-Moshkovich, H. M.-Underwood, S. H.-Taylor, R. G. (2001) Comparative analysis of academic Web sites. *Education*, 121, 4, pp. 652–662.
- Middleton, I.-McConnel, M.-Davidson, G. (1998) Presenting a model for the structure and content of a university World Wide Web site. *Journal of Information Science*, 25, 3, 219–227. DOI: 10.1177/0165551994232693
- Misley H.-Vámos Á. (2017) Marketing a felsőoktatásban: weboldalak elemzési szempontrendszer a magyar és nemzetközi szakirodalom alapján. *Magyar Pedagógia*, 117, 4, pp. 365–380. DOI: 10.17670/MPed.2017.4.365
- Ng, C. K.-Parette, P.-Sterrett, J. (2003) Evaluation of a graduate school Web-site by graduate assistants. *College Student Journal*, 37, 2, pp. 242–260.
- Ooi, T. C.-Leong Ho, H. W.-Amri, S. (2010) Education websites and their benefits to potential international students: a case study of higher education service providers in Malaysia. *Current Issues in Education*, 13, 1, pp. 1–36.
- Pham, H.-Lai, S. L. (2016) Higher Education as an Extended Duration Service: An Investigation of the Determinants of Vietnamese Overseas Student Loyalty. *Journal of Studies in International Education*, 20, 5, pp. 454–471. DOI: 10.1177/1028315316662978
- Pooch, M. C.-Lefond, D. (2001) How College-Bound Prospects Perceive University Web Sites: Findings, Implications, and Turning Browsers into Applicants. *College and University*, 77, 1, pp. 15–21.
- Popa, A. L. (2015) Understanding Students' Needs for a More Effective Online Marketing in the Higher Education System. *Annals of the University of Oradea - Economic Science Series*, 24, 1, pp. 1278–1284.
- Ramasubramanian, S.-Gyure, J. F.-Mursi, N. M. (2003) Impact of internet images: impression-formation effects of university web site images. *Journal of Marketing for Higher Education*, 12, 2, pp. 49–68. DOI: 10.1300/J050v12n02_04
- Schimmel, K.-Motley, D.-Racic, S.-Marco, G.-Eschenfelder, M. (2010) The importance of university web pages in selecting a higher education institution. *Research in Higher Education Journal*, 9, 1, pp. 1–16.
- Taylor, M.-Kent, M. L.-White, W. (2001) How activist organizations are using the Internet to build relationships. *Public Relations Review*, 27, 3, pp. 263–284.
- Teoh, S. H.-Hwang, C. Y. (1991) Nondisclosure and Adverse Disclosure as Signals of Firm Value. *The Review of Financial Studies*, 4, 2, pp. 283–313. DOI: 10.1093/rfs/4.2.283

- Varma, R.-Vajaranant, T. S.-Burkemper, B.-Wu, S.-Torres, M.-Hsu, C.-Choudhury, F.-McKean-Cowdin, R. (2016) Visual impairment and blindness in adults in the United States: Demographic and Geographic Variations from 2015 to 2050. *JAMA Ophthalmology*, 134, 7, 802-809. DOI:10.1001/jamaophthalmol.2016.1284.
- Will, E. M.-Callison, C. (2006) Web presence of universities: Is higher education sending the right message online? *Public Relations Review*, 32, 2, pp. 180-183. DOI: 10.1016/j.pubrev.2006.02.014
- Wilson, J. L.-Meyer, K. A. (2009) Higher Education Websites: The “Virtual Face” of Diversity. *Journal of Diversity in Higher Education*, 2, 2, pp. 91-102. DOI: 10.1037/a0015443
- Yavuz, N.-Welch, E. W. (2014) Factors affecting openness of local government websites: Examining the differences across planning, finance and police departments. *Government Information Quarterly*, 31, 4, pp. 574-583. DOI: 10.1016/j.giq.2014.07.004
- Zeithaml, V. A. (1981) How consumer evaluation processes differ between goods and services. In: Donnelly, J. H.-George, W. R. (eds.): *Marketing of Services*. American Marketing Association, Chicago. pp. 186-189.
- Zhang, T. (2017) The Marketization of Higher Education Discourse: A Genre Analysis of University Website Homepages in China. *Higher Education Studies*, 7, 3, pp. 64-79. DOI: 10.5539/hes.v7n3p64

The role of employer branding for generation Z based on HR expert interviews and their effects on the implementation of investments



Abstract

Differences between the various generations were always present at workplaces. This phenomenon exists for a long time, since different generations perceive the same workplace or task differently, and also evaluate the conditions offered by employers differently. However, it is a fact that the gap has never been so great between the active generations working at the same workplace as it is today. The study presents partial results of the research of generation Z, aiming to get acquainted with and explore the specific features of selecting Human Resources Professionals (HR) in order to increase employment, especially through the applicability of the tools of employee branding. Employers find it difficult to offer tasks and an atmosphere which would be optimal, attractive and inspirational for employees with different value systems and different socialization backgrounds. Based on the results of the generation Z research project, this study presents tools that can be implemented in the employee branding process for the potential employees from generation Z. The main purpose of this study is to explore the range of tools that can be implemented in brand building that may be well targeted to the generation Z as potential employees and to provide a practical insight into the tools that can be implemented in branding process. The study also discusses what kind of generation challenges an HR specialist is facing today and what are the effective solutions and practices to use. The study presents the sub results of a primary research process. In the framework of the research, qualitative and quantitative methods were used. The study focuses on the results of the qualitative phase. In the frame of that expert interviews with HR specialists were conducted with the help of a semi-structured interview. The outcome of this research demonstrates what the HR specialists believe the benefits of employer branding are once they are able to act with a conscious and strategic approach to HR activities. The results presented by this study will provide insights into how HR professionals see the benefits of employer branding, and how they can engage with HR activities in a conscious and strategic way.

Keywords: employer branding, generation Z, targeted HR-communication solutions

INTRODUCTION

The labour market is on a worldwide scale transformation. Perspectives like the balance between work and private life, stress-free work environment, and inspirational labour conditions are becoming more and more important.

HR experts report that the actual quality and/or quantity deficiencies of the labour force are becoming more of a problem. Therefore, it's no surprise that for employers, a hard question is presented in how they can find and keep good labour force. Lack of labour force does not impact sectors negatively; it has a detrimental effect on the entire economy. There are professions with a huge demand of workforce.

A competitive wage is not enough, and multiple other not so motivational factors may come up in a company, like the over-regulated enterprise bureaucracy, the incorrect temperature of the office, the lack of further learning, etc. Extra income is more often integrated into the baseline wage nowadays. Apart from hardships during recruitment and actually keeping employees, the hardships of different generations working together is also causing further friction, which HR experts have to deal with.

Based on this changes and challenges we decided to analyse the employer branding solutions used by the HR experts and try to identify the most relevant and effective tolls in case of generation Z.

In the frame of the research project qualitative and quantitative methodologies were used. In the frame the study is focusing on the first step's results, present the main conclusions of HR experts' interviews and mini-focus group interviews with the member of generation Z. The goal was to understand what challenges and hardships experts in practice perceive on the labour market, and what they experienced concerning generation gaps. What methods do they employ, in order to connect with the generation Z? Do they have any HR or HR communication techniques, activities, campaigns which they believe to be more effective, based on their empirical experiences? Would they recommend them to other employers wishing to connect with the generation Z?

1. OVERVIEW ON THE HUNGARIAN LABOUR MARKET FROM THE ASPECT OF EMPLOYER BRANDING

1.1. CHARACTERISTICS OF THE LABOUR MARKET, GENERATION CHALLENGES

Observing today's Hungarian labour market, it is obvious that the quantitative and qualitative composition of the workforce is becoming increasingly problematic. This challenge emerges as an absolute obstacle to corporate growth and the development of investments. The recovery of investments has an absolute positive impact on the economy. During the economic crisis in 2008, the downturn in the investment sector had a direct negative impact on the performance of the economies. The currently perceptible positive change has the same effect,

with the opposite sign. This kind of cyclical sensitivity makes us contemplate the components of the investment sector, such as exploring labour market problems, getting acquainted with the relationship between choice and brand building, and identifying generation-specific changes in unemployment and structural rearrangement. The research focuses on the extent to which and how the factors revealed affect the labour market demand of the investment sector, the changes they make in terms of age-related differences between generations, and the factors that may reduce the frictions of different generations in a work area. Different age groups, preferences and corporate strategies are required in the selection process. The shortage of labour and, in particular, the shortage of skilled workers has an impact on the feasibility of investments, taking into account the recently started wage inflation, which drive the conclusion that the planned budget is not going to be sustainable any longer (Fodor et al., 2017).

The paper concentrates on the labour market situation, selection and generation Z. Economic policy has also recognized the difficulties of labour migration and lack of qualification in the recruitment process of companies, and has taken a number of measures, such as the raising of the minimum wage, the modification of public employment rules, and the stimulation of domestic mobilization. The employment rate of those aged between 15 and 64 increased to 68.7% from July 2017 to September 2017. There is also some improvement in the unemployment rate over the past year. According to the International Labour Organization, the Hungarian unemployment rate in the second quarter of 2017 amounted to 203.1 people, which is a significant decline since the crisis. Between June and August 2018, the average employment rate for this age group was 4 million 484 thousand and the employment rate rose to 69.4%. It is interesting to look at the tendency when the number of employees working in the public sector has increased, while the number of those who work abroad has decreased according to the CSO 2018 June-August Flash Report (KSH, 2018).

Overall, the number of Hungarian employees showed a positive trend in 2017 and 2018 and could be increased with the aforementioned government measures (Europa.eu, 2017).

1.2. THE CONNECTION BETWEEN LABOUR MARKET AND EMPLOYER BRANDING

Conscious, well-organized and coordinated employer branding is considered an effective strategic tool to respond to the challenges of the labour market. The empirical experience with job advertisements shows, that more and more companies are turning to the typical branding tools used in marketing for decades, which help distinguishing the job positions, the place of work, brand positioning the employer as a brand and make them more attractive.

The global labour market is also changing. Work-life balance, a stress-free work environment and an inspirational workplace atmosphere are becoming

increasingly important. The importance of the Employer Branding is on the rise for many companies. These companies have a higher proclivity to respond to employee needs as well as adapting their brand to this expectation. Employer branding means both external and internal branding simultaneously, and their combined presence provides tangible results. Employer brand is the image created by the company, which each institution possesses, and it affects the composition and qualifications of employees and candidates. A well-established employer brand can be a tangible competitive advantage for gaining talented labour force. However, there are a number of examples where it just assists the recruitment process or intensifies the effectiveness of internal communication. Employer branding is a complex concept: the company and the employee work closely together in the organization and both the hardship and the success are directly or indirectly borne together (Fodor et al., 2019).

The key role of employer branding is to provide a logical framework for management, which simplifies and focuses on priorities, improves productivity, improves recruitment and other HR processes, promotes employee retention and commitment. Thus, it is important to have the right Employer Branding strategy, which communicates well with new employees, both about the employees and the company. Candidates have a chance to see a real picture of a company that could be a good fit for them. This makes the job selection decision easier, and also provides companies a better chance finding the really valuable workforce who can be a useful member of the selected workplace on the long run (Hrportal.hu, 2009, Profession.hu, 2018).

According to HR specialists, the real volume and / or quality of the workforce is becoming increasingly problematic. Consequentially employers are becoming more and more concerned aiming to find and retain good workforce. One of the reasons for labour shortage is the fewer new entrants in the domestic labour market. 15 years ago, nearly 189,000 young people aged 24 were entering the labour market, while this number did not reach 128,000 by 2015, according to CSO data. The other main reason is the fact that many people decide to go abroad for the chance of a higher salary. This makes recruitment even more difficult, since in most cases employers are in need of well-trained and experienced team members (Hrportal.hu, 2017).

Competitive compensation is not sufficient however, as there are many demotivating factors in a company, such as over-regulated corporate bureaucracy, inappropriate office temperature, or the lack of individual improvement opportunities (Csiszárík-Kocsir, 2016; Kis, 2016). Benefits are getting incorporated into the basic salary. Direct head-hunter methods come in the forefront, while online data upload is losing its importance. Wage tension is becoming a common phenomenon. New staff members have to be offered higher salaries, which creates unpleasant tensions between new entrants and those already at work (K. Kópházi, 2016).

Selection and retention of talents both play an important role in HR policy. According to Joseph Renzulli's "three-circle talent model," 3 basic factors

determine talent: above average ability, creativity, and task commitment. The Czeizel model includes four mental abilities (general intellectual, specific mental, creativity and motivation). Talent Management is a fairly popular research area within human resource management. The prerequisite for the management is four basic elements: planning, organization, management, and controlling. These factors play an important role in the recruitment, selection, retention and, last but not least, motivation of the workforce. Strategic planning is a key part of maintaining long-term co-operation. There is a need for a well-established and regularly supervised employer brand that can simultaneously involve and retain talented employees (Borgulya-Konczosné, 2017; Giger, 2006).

To be able to build an employer's brand efficiently and effectively from a strategic point of view, we need to know the brand's values. To make this brand appealing we also need to know what the employees are looking for. Therefore, the focus of the research was taken on the members of generation Z, as the potential target group of prospective employee/consumer needs, values and characteristics.

1.3. CHARACTERISTICS OF GENERATION Z AS WORKFORCE

Members of generation Z – the target group of the primary research project – were born into a world which is defined by the various digital technologies: they are the IT, or Digital X (DY) generation. Generation Z, who entered the labour market in the first years of the 21st century, is characterized by rapid changes. It is not by mere chance that they got their name from the expression “zappers”, or “switcher, hopper”. They live their lives in a much faster pace than their predecessors. If there is something they do not like – such as a job – they are ready to change immediately. Compared to the previous generations they represent an entirely different world: modern technology, IT, the online world reached the adult age at the same time with them, becoming a part of their personalities (Tari, 2011; Kis, 2016).

They live their social relations in the real and virtual world at the same time. For them it comes natural that their everyday communication, emotional and social life, creative spirit and playfulness are performed on the internet, with the help of mobile phones and other digital devices, with each other, and shared in front of the greatest audience. Members of the digital X generation practically never knew a world without internet, telecommunication or television. Maybe this is why they are battling with the lack of interpersonal skills, and the inability for active listening? (Fodor et al., 2017)

Job-hopping is natural for generation Z. They move on without compromises, they are jumping between workplaces just like a monkey jumps from tree to tree. Anytime they feel the need, they won't get stuck at a company, they will not worry about having a steady income or a fix desk somewhere. They are brave, they take initiative, and have less doubts regarding their own abilities and limitations. They have a practical mind-set, they appreciate the indirect, informal environments, and the freedom of the individual. They are building a new world, since they do not

represent a traditional office work culture, as they are able to perform their tasks in any part of the world with the help of internet, and they create their own virtual communities. Spiritual literature identifies them as the star or crystal generation. They are characterized as being rather smart than wise, and they feel comfortable in the world of technology. They are not good with words and emotions, and they are able to realize their desires even if the cost is high. They will not implement their revolutionary ideas individually, but they will rather serve the society in collaboration with each other. 97 percent of young people considers the protection of the environment important, and 74 percent of them already practices green behaviours such as recycling or selective waste collection, and purchasing energy-saving light bulbs. When having to choose between two workplaces, they rather prefer the one with a conscious CSR strategy and an environment-conscious way of thinking (Nordström-Ridderstrale, 2004; Kovács, 2017).

For members of the digital generation, personal relations are decisive, and they use the internet as a tool facilitating the maintenance of existing friendships and relations. The five most attractive occupations according to them are veterinarians, teachers, policemen, doctors, and of course football players, though 64 percent of them aspires to become their own boss as an adult instead of having to work for somebody. This is an important information for companies. They will have to establish such an organizational structure and culture, which supports individual work and has a flat hierarchy. The trend of “flattening” of organizations will continue in the beginning of the 21st century. Compared to the size of the organization, the levels within the hierarchy will decrease. The number of employees reporting to a single leader, and the number of employees supervised by the leader will increase, however hierarchical levels will disappear. The number of positions reporting to the CEO will grow, while the number of hierarchical levels in between will fall. Divisional leaders will get closer and closer to the CEO, they will work under a tougher control, but at the same time for a higher salary, and with an incentive that stimulates their long term interest (Kissné András, 2010; Tari, 2011).

2. RESULTS

2.1. METHODOLOGICAL BACKGROUND OF THE RESEARCH

The paper presents the partial results of a research project, supported by the New National Excellence Program of the Ministry of Human Resources (ÚNKP-18-3-III).

In the framework of the project we analysed the factors influencing the career and job choice of generation Z through qualitative and quantitative techniques in the context of consumer and expert surveys. We also reviewed the opinions of the HR specialists on the employer’s side in the framework of expert interviews. Our goal is to provide points to help employers to focus on generation Z to effectively

aim for a target group-oriented employer branding strategy, as well as to examine employer expectations and selection methods and compare the differences between them (Fodor et al., 2017).

The first phase of the research project was the qualitative examinations. We conducted focus group interviews with the members of generation Z in order to be able to establish the standardised questionnaire. Afterward we used the questionnaires during the second, quantitative research step. We also initiated qualitative expert interviews with HR and Employer Branding experts, to identify the employer's ideas about the characteristics of generation Z.

In the frame of the qualitative phase we made focus-group interviews with the members of generation Z, as potential employees. We conducted thirty mini-focus interviews, using semi-structured interview guides and snowball sampling method. The only recruiting condition was that all interviewees should be the member of generation Z. All of the interviews have been recorded and the results were processed using a traditional content analysis methodology.

The main research questions of that qualitative phase were as follows.

- What does the generation think about career, success, and the preferred and disadvantaged workplace?
- What does their career, success in work mean, and what factors help them achieve their individual goals most effectively?
- How can the career goals that they formulate be achieved?
- What do they expect from a good job? Which employer's activities and programmes may be most target group-specific for them?
- What kind of generation problems do the members of the sample perceive? How open are they to work with other generations, what are its advantages and disadvantages?

The other, parallel qualitative research step was the expert interview with the HR and Employer Branding experts. The recruiting of the subjects was also done with the snowball method in this case, so the results are not a representative one, all the presented results and conclusions are valid in case of the sample. Interviews were conducted with automotive suppliers, manufacturing and development companies - HR managers of large and multinational companies and with HR specialists. All five companies were located in Hungary but were foreign-owned: two operate in the capital city, one in Békés, one in Csongrád and one in Veszprém County. Of these five companies, the smallest had a population of 300, the largest had a population of 3,700 full time employees.

Our goal was to learn the challenges and difficulties faced by the analysed participants of the labour market and what they experience regarding generational differences.

- What are the methods applied to address generation Z?
- Are there HR, HR communication techniques, activities, campaigns that were judged effective on the basis of their empirical experience and would they recommend it to other employers wishing to open up to generation Z?

In the second phase, the quantitative survey has been implemented. Again, the non-representative snowball method was applied during the sampling process, and we have recruited respondents with the same filter criteria regarding their age. While conducting the surveys, we have used a standardized questionnaire designed by the results of the qualitative method. With the application of the CAPI method, we have received 1,178 valid filled questionnaires as a result of the survey. The partial results of the first phase of the research project are introduced in previous studies (Fodor et al., 2017).

The paper demonstrates the partial results of the qualitative phase comparing the employer and employees' ideas regarding to the research questions. The chapter shows the results of the qualitative research, compare the revealed characteristics of the employee side (generation Z) in the light of the previous X and Y age groups and present the expectations and experiences gained through the interviews of HR specialists in the selection of the employees.

2.2 RESULTS OF THE FOCUS GROUP INTERVIEWS WITH THE MEMBER OF GENERATION Z

We were interested in what young people think about the conditions of entering the world of work, and how they perceive their own opportunities on the labour market. They all agreed that in the fact it is difficult to find a job, and it is even harder to find a proper workplace.

The majority of responders claimed that a higher level of education means a greater change (chance?) in finding a suitable workplace. According to them as future employees, the greatest challenge is to find a job which makes them happy and is lucrative at the same time. They believe that finding and maintaining the proper balance between work and free time will later become a problem. The results of focus interviews indicate that the importance of the work-life balance is also taken into account regarding the preferences in the selection of a workplace.

In a separate topic we have examined the aspects considered by generation Z when they are choosing their next employer. They prefer flexible working hours, since it is important to have time for themselves. The atmosphere of the workplace is another important aspect. They would like to make sure they join an organization with an attractive work environment, a place where they feel good while performing their work. They are able and willing to work hard, as explained, to achieve their goals and dreams, but only if their efforts are recognised and compensated. Self-fulfilment, self-management and an inspiring working atmosphere are also significant factors. A number of experts have already highlighted that these young people show the greatest level of sensitivity towards receiving not only a salary, but also an identity from the company. Members of generation Z were asked about what they believe which factors are necessary for a successful career of a young beginner.

According to the participants, a beginner can only be successful today, if he is flexible, able to cope with load, up-to-date, well-informed, enthusiastic and motivated, can take up the “constant speed” of work and adapt to the expectations demanded by an ever accelerating pace of the world.

In order to obtain these characteristics and competencies, and generally for a successful start, mentors play a significant role. Young people agreed that it would be quite useful to have a supporting person (a mentor), who would prepare them to be ready for work.

They feel that the best possible way to implement this is within the frame of education (as an optional course), or to offer it at an affordable price as a training session, where managing directors, HR experts, successful people in particular fields would present the most important advices based on their personal experiences.

Beginners could receive personalized information and instructions about how they should prepare for an interview, and where they should gather information from about the job opportunities. What should they take into consideration when having to fit in at a workplace, and what kind of rights and obligations does an employee have, thus receiving practical and useful information and guidance.

We have asked participants to describe how they imagine their perfect workplace. The results revealed that at an ideal workplace, there is a good team, an expert leadership, there is no stress, yet a high-paced and diverse work awaits those who wish to work there (Figure 1).

Figure 1 Association of ideal workplace in case of generation Z



Source: Own qualitative research, 2017 – focus group interviews

As a summary of the results of focus group interviews, it can be established that a flexible workplace offering development opportunities and diversity in the scope of duties represent the ideal workplace for the young people involved in the research. They like to work in teams, to belong somewhere, and they are willing to put in a great effort, if they receive positive feedback and recognition.

They are also aware of the fact that finding a good workplace is a difficult task. However, they do not hesitate for a moment to change or to move on, if they do not feel comfortable at a workplace.

They also experience that beginners today have to face great expectations that are prerequisites of success, such as skills, ability to cope with load, and self-motivation. Many of them gather information from the internet, they spend most of their time in the online world, and their relations are also formed there. They expect the opportunities offered by the online world to exist in the world of work as well: home office, flexibility, task-orientation, “gamification”, as if the workplace was also a part of the augmented reality.

2.3. RESULTS OF THE SPECIALIST INTERVIEWS

Based on the results of the interviews with HR specialist we could say that in the current labour market environment not only finding the right workforce, but keeping it as well as retaining its motivation is challenging for professionals. Keeping the workforce is an essential issue for employer branding, since low fluctuation is a professional factor increasing the brand value in the selection process, and means a kind of “quality workplace” in communication. This is an absolute positive message for the future employee, and one of the best recruitments for professionals. Workers are more attracted to the workplace where they meet with a satisfied workforce.

Typically, more prepared candidates ask questions at job interviews.

- What is labour migration like?
- What about paid sick leave?

These considerations clearly reflect how long-term planning can be done in a given place, how demanding the job is for the employee. Experts have clearly emphasized, that in the current market conditions, the consistency of internal and external communication is even more appreciated. We must not forget the encouragement of the current employees, while recruiting new ones.

That is why we have looked separately at what they do for the employees to create a better employee-employer relationship. All the experts agreed that family days are more important for employees than corporate events, which provide an excellent opportunity for workers’ family members to get an insight into what they are doing, and where the wife, husband, father or mother works. Some employers also invite parents on maternity leave to these corporate events, with the aim of maintaining the bond between the workplace and them. Several companies invite their already retired colleagues to such events as they are able to report their experiences to younger colleagues credibly with a perspective, showing an example to current staff.

Just as every brand, employer branding is built from the inside, feeds from the inside, so this is the basis of its credibility. Current employees are the best messengers, ambassadors of any company.

It is far more credible if someone who works there speaks positively about a job, compared to a manager who wants to recruit people to work there. In connection with corporate events, family days have been mentioned several times, the Christmas banquets, the regular team buildings, whereas the purpose is to strengthen the community, team spirit and ease any internal tension. Some of the members mentioned the following in connection with the greater consistency of internal communication and internal processes: Organizational development, efforts to optimize corporate processes.

These are complex and lengthy processes, cost, time and labour-intensive projects, but HR experts say they can do a lot to help simplifying internal business systems and increase their efficiency. However, the necessity and the expected benefits of these developments must be explained to the staff in every case. Without the necessary education, such projects will also have less efficiency; internal acceptance and support are key factors for such process development provisions as well.

There were four HR managers among the interviewees where the blue collar workers were dominant. They were unanimously in the opinion concerning to internal communication. In the internal communication toolkit, besides the generational differences, attention must be paid to the different information needs of the intellectual and blue collar employees as well as to the fact that a blue collar worker and an office worker have different possibilities to read internal news. "We pay particular attention to using both online and offline communication channels to get information to both divisions. In addition, personal consultations are also available for staff members (HR reception hours, employee briefing, one to one meetings)."

The larger number of the HR experts involved in the interviews highlighted the importance of career path support and ensuring individual development opportunities, as these considerations contribute very much to the overall employee satisfaction. They also agreed that it is important to ensure adequate flow of information to provide the staff with the information: they need clear goals, competencies and responsibilities. They pay attention to make their appearances fit for the virtual, dynamic, and innovative needs of the generation Y and Z, using "gamification" and an interactive communication style.

Most of the experts have stressed that a number of methods are used to manage the internal brand professionally so that they can meet all the needs and expectations. To this end, they provide their employees with business phones, home-based work opportunities, free health care, and options to exercise social responsibility. Some people mentioned the lack of internal communication when there is insufficient coordination, cooperation between the HR and marketing communication activities of the outside target group.

Experts agreed and highlighted the importance of CSR in employer branding. Similarly, earlier research shows that for generation Z it is really important to work in a company whose value system and corporate mission fit into their own value system (Fodor-Jäckel, 2018).

3. CONCLUSIONS

As the generation differences and the challenges of Hungarian labour market generate much more attractive answers from the HR specialists could be useful for the practice to understand the requirements of the potential employees and based on that create a well-targeted HR-communication strategy. The main aim of the study was to explore the most important elements of a success employer branding strategy in case of generation Z.

With the help of the relevant theoretical background we analysed the most important features of generation Z as a potential employee, on the other hand the most important challenges which a HR expert has to face nowadays. The study presents the sub results of a primary research project focuses on the experts' interviews results which has been made with the help of a semi-structured guide. Since the snowball sample making methods were used during the recruiting process only local value results are presented in the study.

The companies taking part in the primary research were clear on how one of the cornerstones of their success is human resources. They named successful recruitment and keeping employees as key factors in keeping their competitiveness.

An important conclusion is that the experts believe that the successful solution for market challenges is cooperation. As part of this, they named the necessity of synchronising education institutions, expert organisations, and the interests of the companies on the employer side.

As another important pillar, they stressed the importance of taking part in education: in a technological environment which develops quickly, and becomes more specialised each day, companies also have to take part in education. Due to the sector's trends, actual job descriptions will transform in the future, and they also have to prepare their colleagues for this. An excellent opportunity for this is internal courses, advanced courses, and the option of specialisation.

Generation gaps are also challenges, both in recruitment and in keeping qualified, talented personnel. On the side of the employer, this demands an adaptation initiative and flexibility when facing a generation's needs. This makes it necessary to realise that HR and HR communication tools have to be tailored to the employee ranks in question.

While in the case of the generation Z, individual goals, individualism in general, and the possibility of realising personal career and path of life clearly gained an increase in importance, older generations believe that trustworthiness, stability and transparency are more important. This is why we need the long-known differentiation of marketing to be adapted to HR as well: identification of the needs of target groups, in this case, employees, and solutions tailored specifically to these needs. Therefore, highly standardised solutions will lose their efficiency in calling out to the employees having more and more heterogeneous demands, and will have less of an effect on keeping them.

ACKNOWLEDGEMENT

The paper is supported by the new national excellence programme of the ministry for human resources.

REFERENCES

- Borgulya Á.–Konczosné Szombathelyi M. (2017) *Vállalati kommunikációmenedzsment*. L'Harmattan kiadó, Budapest.
- Csiszárík-Kocsir Á. (2016) A pénz boldogít, vagy sem? – A jólétet befolyásoló tényezők egy kvantitatív kutatás tükrében. In: Juhász Gy.–Korcsmáros E.–Huszárik E. (szerk.): „Korszerű szemlélet a tudományban és az oktatásban.” A Selye János Egyetem Nemzetközi konferenciája. Selye János Egyetem, Komarno. 73–83.
- Europa.eu (2017) *A munkaerőpiac rövid áttekintés*. www.ec.europa.eu Downloaded: 03. 03. 2018.
- Fodor M.–Jäckel K. (2018) What does It Take to Have a Successful Career Through the Eyes of Generation Z - Based on the Results of a Primary Qualitative Research. *International Journal of Lifelong Education and Leadership*, 4, 1, pp. 1–7.
- Fodor M.–Jäckel K.–Szilagyai T. P (2017) Challenges of starting a success career from the aspect of the Z generation. In: Fehér-Polgár P. (szerk.): *FIKUSZ 2017 - Symposium for Young Researchers: Proceedings*. Budapest. pp. 93–107.
- Fodor M.–Jäckel K.–Szemere T. P.–Almádi B. (2019) The Practical Aspects of Employer Branding in the Light of the Findings of Qualitative Primary Research. *Journal of Intercultural Management*, 11, 3, pp. 66–86.
- Giger, M. (2006) *Renzulli's Three-Rings Conception of Giftedness*. (April 2006, updated 16 Dec 2007) www.gigers.com Downloaded: 29. 09. 2017.
- Hrportal (2009) *Employer Branding, ami vonzza a tehetséget*. www.hrportal.hu Downloaded: 16. 10. 2017.
- Hrportal (2017) *Top 6 labour market trends*. www.hrportal.hu Downloaded: 02. 10. 2017.
- Kis T. (2016) *X Y Z generációk a munkahelyen: bevonzani, motiválni, megtartani*. www.pbkik.hu Downloaded: 14. 10. 2017
- Kissné András K. (2010) *Hogyan motiválhatóak a különböző generációk tagjai?* www.hrportal.hu Downloaded: 17. 09. 2017.
- K. Kópházi A. (2017) A motiváció szerepe a munkavállalói lojalitás megteremtésében. *Humánpolitikai Szemle*, 18, 4, 51–56.
- Kovács K. (2017) „Akarsz-e játszani?” – *Gamification az üzleti életben*. www.mindset.co.hu Downloaded: 15. 10. 2017.
- KSH (2018) *Június-augusztusi gyorsjelentés*. www.ksh.hu Downloaded: 10. 10. 2018.
- Profession.hu (2018) *Mindent az Employer Brandingről és a megvalósítási folyamata*. www.profession.hu Downloaded: 03. 04. 2018.
- Nordström, K. A.–Ridderstrale, J. (2004) *Karaoke Kapitalizmus - Az emberiség menedzsmentje*. Wolters Kluwer Kft.
- Tari A. (2011) *Z generáció*. Tericum Kiadó, Budapest.

INFORMING STUDY

The corporate strategy transformation in terms of the evolution of shared service centres



Abstract

The article intends to reflect how a shared service center (SSC) verifies the academic pillars of the corporate strategic planning. It supports to understand the base concept of a shared service center and then connection is built up between the corporate strategy and the organization structure change. The core relationship goes through an evolution and prove how this organization matures from a cost effective stage (SSC) through effectiveness (BSC) to a transformation factory and RPA (Robotic Process Automation) catalyst to enhance the corporation footprint (GBC). The goal with this paper is to share and spread the knowledge so that the future generation can get familiar with the globally organized shared service center phenomenon; and understand their potential employer's core operation and strategic thinking. The study can give significant benefit from both the employers' and employees' prospective if SSC, BSC or GBC buzz words bear clear message and expectations with straightforward alignment in a potential future common work.

Keywords: shared service centre, corporate strategy, global business centre

PORTER'S THREE GENERIC STRATEGIES & SBU

Strategic business unit (SBU) is an independently managed profit center or division that can run as a separate unit with its own strategic objectives. Each SBU goes with different generic strategy that results above-average net income. Not all the strategy is suitable for all SBUs. There are many factors like organizational structure, control and quality management process, available human, technological or other long term asset resources or even the management's leadership skills and style determine that the SBU follows cost leadership, differentiation or focus strategy (Porter, 1980).

Cost leadership strategy's objective is that the aggressive efficient scale leads to cost reduction that is relatively low compared to the competitors. In this matter the organization follows the approach how the cost can reduce the most effective way (e. g. maximize the asset capacity) that usually works at large corporations that have enough magnitude for the economy of scale.

Differentiation strategy committed to have a product or service with adequate distinctive features to create additional customized value for that additional premium price is charged. Material cost investment and proper market acceptance is required to generate the expected margin.

Focus strategy has mission in a special market niche where the competitive advantage is highly utilized. The targeted market segment could be cost-sensitive or prefer the superior and high quality product or service.

SHARED SERVICE CENTRE PHENOMENON

While in the late 1980s and early 1990s the world voted for decentralization, nowadays the centralization is in focus to reach efficiency by standardized and cheaper operation. The abbreviation of SSC (shared service center) or BSC (business support center) – recently renamed GBC (global business center) appeared in the worldwide business dictionary when the large and strongly decentralized organizations aimed for an alternative solution to be more effective with their basic transactional operations. The structure of multiple locations does not maintain the lean process. The lean process is based on the approach that the end customer value is created via the Japanese 3M (Liker, 2004). The mura, muda and muri meaning waste in the Japanese language (muri = unreasonableness, mura = non uniformity). Elements – like waiting, conveyance, correction, overprocessing – are in the “wheel of waste” is eliminated by the centralized organizational structure.

The similar transactional base supplemental activities like human resources, finance, accounting, information technology and customer service are lopped from the core business and set aside into a centralized but separated organization. By SSC concept both the main business and the business supported transactional service line can focus on their own strategic decisions. *SSC operates as an independent legal entity but it is still integrated with the core business' processes.*

- What are the root causes for a global organization to decide to change its business model?
- What short and long term benefits are expected after the organizational structure change?
- Why does a global corporation decide to *join the SSC world*?
- Is it only an indisputable cost effectiveness decision?
- Alternatively, can the low cost mindset turn into service differentiation strategy where the high data integrity provides meaningful support for the business lines?
- Does a worldwide global organization gain competitive advantage and strategic growth via an SSC that does not work only as a “robot”, but rather as an essential business partner of the key operation?

The above listed questions are looking for the verification that the robust organization structure change – like the shared service center concept – will create added value for the organization.

In the current highly competitive, matured and globalized market there is an ongoing and significant pressure to keep the target margin and to maintain

the sustainable competitive advantage. This current environment has proper fit for the low cost strategy. The `product` of an SSC is their service itself that is required to be provided at lowest cost. The multinational corporations (MNCs) with extended across borders *multi locations base sites of a global corporation could be ineffective as the repetitive transaction base processes and their facilitated infrastructure are duplicated and the same data provided from various sources.*

The *economies of scale* and an effective lean process can be reached if the non-value-added activities (waste) are eliminated by moving them to one central location. The new SBU is primarily launched on a low cost location with low labor cost, low price at the real estate market but with adequate infrastructure (logistic, telecommunication). The *good-level education with adequate human resource* are critical for a settlement. The *local taxation system* with the startup governmental subsidy are also essential to determine the strategic site of the newly built SSC. If the targeted place is economically and technologically feasible then other key critical factors like *quality of the future workforce, the cultural and language challenges* and *external environments* (political and macroeconomic stability (e. g. inflation rate)) needs to be measured.

Basically, we can say that the *primary reason for companies to implement a shared service strategy is to keep the cost at the lowest possible level and gain competitive advantage by low cost strategy.* The question is if this strategy can support the long term objectives.

STRATEGY CONCEPT AT BUSINESS CENTRES: LOW COST MAKER OR DIFFERENTIATOR?

In addition to the cost reduction approach, in my opinion the *SSCs can create strategic value* for the core operation. The new organizational structure sets customer-vendor (business - and service lines) roles in place that incite a continuous improvement mindset. A centrally located SSC shares the knowledge easily, generates new ideas, improves the processes continuously with active involvement of the latest technology. The SSC based organization structure results in more flexibility to add and eliminate SBUs like having merger, acquisition (M&A) or divestment. In this corporate strategy the organization can pay more attention to the core business while the SSC manages the service line`s transactions.

The main factors and the designated outcome of the SSC strategic partnership are as follows (ORACLE, 2014):

Driving factors:

- Limited access to management information,
- Poor mentality of the back office working attitude,
- Low quality and high cost at the service lines operation,
- Strong market competition,
- Mergers and acquisitions,

- Missing standards and effectively operated IT infrastructure.
- Resulted outcomes:
- Improved support in the management decision making with effective resource alignment,
- Cost effective labor force,
- Lower taxation including governmental subsidy,
- Economies of scale with lower fix cost,
- Strong customer orientation approach,
- Centralized and standardized best practises,
- Global and high quality control framework,
- Advantage in centralized IT infrastructure,
- Reduced asset duplication,
- Improved concise and time communication.

At the beginning of the SSC`s lifecycle (Genpact, 2015) the cost reduction with the capability improvement is the main goal. This becomes later a default expectation. The SSC is expected to reach a higher level when the organization is actively responsible for the extended and effective process improvements generating growth and delivering additional earnings.

We can differentiate four main lifecycles of a SSC (Santosh, 2013):

1. 1st (startup) phase – 0-2 years: The organization has its focus on stabilization and the realization of the planned savings. Primarily, the transferred process remains untouched and minor steps are done towards the reorganization. At this earlier stage the relocation from a high cost site to a low cost site could mean 15-35% G&A expense drop (Cacciaguidi-Fahy et al., 2002). In this phase the key strategic points are the flawless transition without major gaps, signing of the service level agreement, stabilizing the resources (people, process and technology) and starting to reduce the process complexity.
2. 2nd (matured) phase – 2-5 years: In the 2nd stage the organization works on the efficiency, span the controls and stabilize the productivity leading to a reduced cost base operation. It consolidates the supervisory and higher level of management roles across the funtions which is the key element as the SSC moves towards the process-focused organization structure. The goal of this phase is to have a “well-oiled machine” in order to assure the smooth operation. PwC defined a four step formula, which is the core of this phase: simplify, standarize, centralize and optimize (PwC, 2008).
3. 3rd (functional excellence) phase – 5-10 years: After 5 years usually the organization serves the flawless execution of the migrated functions. The site is fully optimized for the business purpose and is able to contribute to the strategic decision making. The SSC is embedded into the “body” of the organization: has ownership in the wall-to-wall processes on both cross functional and geographical level. At this stage the SSC supports the heart of the company’s strategy. The goal is not only the short and mid term perfor-

mance, but also the added value for the long term outcome such as establishment of process maps, definition of R&R (roles & responsibilities), finalizing of the KPI metrics, improvement on the working capital, giving influence on the customer interfaces, and implementing product development initiatives.

4. 4th (innovation and automation hub) phase - 15+ years: The site enhances its functionality further. This differentiation base SSC is already the strategic business partner of the business with innovative solutions. The strategy transition is also highlighted in the renaming. The SSC / BSC is replaced with the new brand of GBC which stands for global business center. The GBC provides embedded transformation capability that is essentially beneficial in case of M&A. Having integration capability into standard processes by experienced transition resources. The GBC is also an “incubator” for innovation, provides automation, robotics and cognitive computing solutions. The GBC has a “non-traditional” functionality, creates process ownership and represents cross functional visibility.

SUMMARY

The key message of the study is to highlight how Porter’s base theory goes practise. The SSC is able to work for the corporation to achieve cost leadership strategy in parallel with the differentiation strategy. The conscious strategic objectives creating added value and competitive advantage both short term and long term:

- Extensive cost drop due to reduced labour cost with appropriate cost and chargeback model
- Active cooperation and *strong management support* from both “sender” and “receiver” subsidiaries
- Increased *efficiency by centralized process* that completes the task with standardized and technically improved working files.
- *High quality and data integrity* in the service due to the deep process knowledge that is continually maintained by well-organized training programs for the long term sustainability.
- *Enhanced controls framework by defined R&R (roles & responsibilities)*, auditor verified control calendar and catalogue, well maintained accounting and reporting guideline including detailed desk manual description.
- Well established *communication process* and communication protocol across the organization via *global virtual network* including various location and cross functional involvements.

For the reason that SSC concept of a global corporation keeps the competitive advantage both globally (*inside: functions as business partner and serves the business line as client*) and locally (*outside: be attractive SSC as a workplace in Budapest*) the below focus areas are recommended:

- Enhanced focus on the local cultural discrepancies: the HQ base intensive corporate culture presence might be able to easily overwrite the local needs. *The elements of the local cultural iceberg could be regarded more carefully.*
 - *For Asia:* To have more focus on the individuals by one-to-one sessions or given feedback in written as in Asia region the collectivistic attitude^[1] is more dominant and the individuals do not express their own expectation about the job and long term career development.
 - *For Latin America:* To have intensive training program about time management. Set regular meeting reminder and have more focused and stronger coordination for the global meetings with South American participants
- Social collaboration: To improve the informal interaction channels across the organization to have more facility to exchange the knowledge and keep the sustainable competitive advantage. E. g.: *intranet base social media* within the corporation.
- Global continues improvement mind-set: To enhance the cross functional communication channels via *CI network* with active involvement of advanced technology. Business and non-business and functional departments need ask for continuous support and automation opportunities proactively and not waiting for the latest technology solution whether it offers its potential solution.

It is not a question anymore that a centralized service centre is an effective strategic model that is able to reduce the uncertainty of the business environment and realize high earnings on the investment. The dilemma is only how often, when and which way the service needs to be upgraded to improve the scalability, the standardization and the capabilities that is critical to preserve the differentiator strategy as competitive advantage.

NOTE

The study was based on the author's Final Exam paper at Central European University in 2017.

REFERENCES

- Cacciaguidi-Fahy, S.-Currie, J.-Fahy, M. (2002) *Financial Shared Services Centres: Opportunities and Challenges for the Accounting Profession. The Association of Chartered Certified Accountants, London.* <https://www.accaglobal.com/content/dam/acca/global/PDF-technical/outsourcing-publications/rr-079-002.pdf> Downloaded: 10. 09. 2018.
- Genpact (2015) The rise of intelligent operations. <https://www.genpact.com/exclusive-content/The-rise-of-intelligent-operations.pdf> Downloaded: 10. 10. 2019.

[1] <https://geert-hofstede.com/national-culture.html>

- ORACLE (2014) *Generating Significant Value with Oracle ERP Shared Services. An Oracle White Paper.* <http://www.oracle.com/us/products/applications/ebusiness/erp-shared-services-1539807.pdf> Downloaded: 10. 09. 2018.
- Porter, M. E. (1980) *Competitive Strategy.* Free Press, New York.
- PwC (2008) *How to design a shared service center that works.* https://www.pwc.com/us/en/issues/efficient-shared-services-centers/assets/shared_services_qualifications.pdf Downloaded: 10. 10. 2019.
- Santosh, KP. (2013) *Shared Service Centre Optimization: From cost reduction to Strategic Partnership. White Paper. Genpact.* <http://www.corporate-leaders.com/sitescene/custom/userfiles/file/Genpact/4-Shared%20Services%20Center%20Optimization.pdf> Downloaded: 10. 10. 2019.

HOMEPAGES:

- <https://geert-hofstede.com/national-culture.html>
- <https://www.mudamasters.com/en/lean-production-theory/toyota-3m-model-muda-mura-muri>
- <https://kanbanzone.com/kanban-resources/muda-mura-muri/>
- <http://www.winman.com/blog/achieve-economies-to-scale-with-lean-manufacturing>

CONFERENCE REPORTS

National Science Summit 2019, Lisbon, Portugal

Conference report



The Science and Technology Summit (Ciência) was organized for the seventh time on 8-10th July 2019 in Lisbon Congress Center in Portugal.

“Ciência 2019 was the latest edition of the annual meeting of Portuguese researchers. The aim was at promoting a broad debate on the main topics and challenges of the scientific agenda beyond the world of research. The meeting main goal, therefore was to stimulate not just the participation but also the interaction between researchers, the business sector and the general public. The meeting Ciência 2019 was promoted by the Foundation for Science and Technology in collaboration with the National Agency for Scientific and Technological Culture - Ciência Viva, and the Parliamentary Commission of Education and Science, and had the institutional support of the Government through the Minister of Science, Technology and Higher Education.

Everyday there were two Plenary Sessions and several parallel sessions with a duration of 90 minutes each. At the beginning of each parallel session there was a brief introduction by a high school student.”^[1]

The topics were different in each of the sessions, for example, Digital Transformation, Artificial Intelligence and Digital Skills, Quality in Health, Quality in Education, Gender equality, Renewable and Accessible Energy, Industry, Innovation and Infrastructure, Sustainable Cities and Communities, Protect Sea Life. Most of the presentations were in Portuguese and only a few were in English.

“The posters were displayed throughout the three days of the event on tactile screens. They were searchable by the name of the author, institution or by scientific area. Researchers could present their poster at any time by simply searching the screen and presenting it to visitors in an informal way.”^[2]

Over the course of the three days the exhibitors presented their university, products, services or inventions.

Participation was free, so it was a prime opportunity to attend this major event abroad to observe how researchers meet each other and share their ideas and results. It was fascinating to see different people with different ideas and also

[1] <http://www.encontrociencia.pt/home/en.asp>

[2] <http://www.encontrociencia.pt/home/en.asp>

to observe how this event works in another country. On account of my poor Portuguese knowledge, it was a little difficult to understand the presentations but I could understand the main points and topics. Every researcher was professional in their topic and could talk about and answer questions and comments from the audience. Because of these experiences I hope to have opportunity to go to the next Ciência in 2020.

It would be beneficial to have this kind of event in Hungary to share our knowledge of our research topic with other researchers, because to the best of my knowledge there are no such events in Hungary which would be useful for researchers.

Conference review of the Unpacking the Complexity of Regulatory Governance in a Globalising World Conference 2019



Unpacking the Complexity of Regulatory Governance in a Globalising World Conference was organised by the Chinese University of Hong Kong (CUHK) with support from the European Consortium for Political Research (ECPR) Standing Group on Regulatory Governance in Hong Kong, between July 4 and 6 2019. About 200 researchers and PhD students from around 40 countries attended the conference. Although the event had a strong emphasis on the Asia-Pacific Region and the so-called Global South, the attendance – following the regional distribution of workshops involved in research on the subject – was far from limited to this region. There were significant numbers of European and American researchers too. The event was considered an introduction to a conference series on regulatory regimes in Asia as an initial step to globalising research on regulatory governance.

The conference venue contained more than 40 panels organised in 8 panel sections, which offered a great opportunity to unpack the wide range of regulatory governance research topics. As a result, although the conference dealt with social and political scientist's topics, due to the diverse nature of the areas to be regulated and the complexity of regulatory tasks, the sections addressed a number of economic and legal issues as well. In regard to this, panels were held on such topics as resilience and environmental governance, nanotechnology, CSR regulation and varieties of regulatory capitalism.

The conference's keynote speaker was Professor Colin Scott (University College Dublin, Ireland). He discussed the growing role and number of university rankings in higher education and, in this context, models of university governance aimed at improving competitiveness. Since there could be large differences among the results of the rankings, it is a difficult task to improve competitiveness of a specific university. The situation is very similar to the Hungarian high school rankings, where the order of the top 50 high schools varies highly due to different evaluation criteria and weights. According to the lecture, universities have traditionally followed a model based on collegial collaboration, which was replaced by a bureaucratic and formal model. Although it is a very formal and standardized approach suitable for mass higher education, the model is reactive and uncompetitive in the globalized world. Higher education rankings are based on various key performance indicators (such as Q1 publications, Nobel prizes, internationally known scholars, etc.), which require more efficient and competitive

governance models. That demand has led to the adaptation of corporate models, whose strategic and operational decision making is based on performance indicators. Although this enterprise model is proactive, globalization, Scott says, requires a further paradigm shift. In the future, this will mean implementing the entrepreneurial model, which will mean a creative, project-based, decentralized governance model.

Since Hong Kong is a Special Administrative Region (SAR) of the People's Republic of China, its governance structure (the so-called one state, two system principle) – apart from the recent unrest – may be of interest as well. The model was demonstrated at a roundtable discussion in which heads of three local think tanks and the head of the government's decision-making and coordinating departments talked about how to set up and follow up government measures. The local character is due to the fact that, under the influence of the People's Republic of China, think tanks carry out preparatory studies both for the government and independently. As a result, think tanks could be considered as a proxy of civil society but according to a critical commentator from the audience their work is highly influenced by the pro-Chinese government.

The final (official) agenda of the conference was also a round-table discussion, the Editors Forum. The editors of three leading journals (Regulation & Governance; Public Administration; Law & Policy; Public Policy and Administration) discussed the mission of their journals, the topics of the papers they received, and the principles and process of editorial work. Following the general introduction, the editors answered questions from the audience. At this time, it was pointed out that editors often decide on a desk reject based on the abstract, usually within 2-3 business days. In the revision process, the aim is to involve reviewers with relevant knowledge of the topic and region. The editors emphasized that, when accepting manuscripts, studies from different regions will be judged on the same principles but they expect research that reflects existing research findings, directions, original research and results that can be applied internationally.

Acknowledgement

Participation in the conference was supported by the Oriental Business and Innovation Centre (OBIC) of the Budapest Business School (BBS).

AUTHORS

ALMÁDI, BERNADETT: PhD candidate, assistant lecturer, Szent István University, Faculty of Economics and Social Sciences, E-mail: almadi.bernadett@gtk.szie.hu

Bernadett Almádi is an assistant lecturer at Szent István University. She has publishing activities related to consumer behaviour, marketing and marketing communications. She has five years of teaching experience in higher education and has spent five years in research. She has earned practical experiences at a research institute. Research interest: marketing, consumer behavior, mushroom verticality and employment - occupational satisfaction - equal opportunity. Currently she is PhD candidate of Szent István University, equal opportunity coordinator and assistant lecturer.

DR. HABIL BORBÉLY, KATALIN: associate professor, Széchenyi István University, Kautz Gyula Faculty of Business and Economics, Department of Economic Analyses, E-mail: borbely.katalin@sze.hu

Katalin Borbély has the following research topics: comparative international accounting and the Hungarian accounting history. Both topics connect to the paper published in this issue because of comparison of capital maintenance of the examined regulation systems. The effect of legislation and standardization is significant in the international and national financial reports.

FÜLE, LÍDIA: Bank Global Process Advisor, ExxonMobil Hungary BSC. Ltd., General Accounting, E-mail: lidia.fule@exxonmobil.com

Lídia Füle graduated as an economist at the Széchenyi István University in Győr in 2005, then joined to ExxonMobil in the same year. Lídia had various roles and position at the corporation during her career always with controllers in financial and accounting job role. Graduated MS in Finance and MBA in Central European University in 2018.

GALAN-LADERO, M. GUADALUPE: tenured teacher, State Language School, Department for Education of Extremadura, Spain, E-mail: ggalanladero@gmail.com

M. Guadalupe Galan-Ladero is a tenured teacher in Sapin at the State Language School.

DR. GALAN-LADERO, M. MERCEDES: associate professor, University of Extremadura, Department of Business Management & Sociology, Spain, E-mail: mgalan@unex.es

M. Mercedes Galan-Ladero is an associate professor in the Department of Business Management & Sociology, at the University of Extremadura (Spain), where she teaches marketing courses. She is currently engaged in innovative research in the areas of Social Marketing, Cause-Related Marketing and Corporate Social Responsibility, as well as Non-Profit Marketing; Ethnocentrism, Local Food Products and their Internationalization, and private vs manufacturer's brands are other topics in which she works.

DR. GARAI-FODOR, MÓNIKA, PHD: associate professor, vice-dean for education, Óbuda University, Keleti Károly Faculty of Economics, E-mail: fodor.monika@kgk.uni-obuda.hu

Mónika Garai-Fodor is an associate professor and vice dean at Óbuda University Keleti Karoly Faculty of Business and Management in Hungary. She has publishing activities concerning to the topic of consumer behavior, marketing and marketing communication. She has more than 10 years long teaching experience in the higher education. She earned practical experiences as well as a research leader and communication manager. Research interests: marketing, consumer behavior, marketing communication, generation marketing, and value-based consumer behavior models.

GONDOS, BORBÁLA: deputy head of Tourism Department, Edutus University, PhD candidate, Széchenyi István University, Doctoral School of Regional- and Economic Sciences, E-mail: gondos.borbala@edutus.hu

Borbála Gondos is a PhD candidate at the Doctoral School of Regional- and Economic Sciences at the Széchenyi István University. Her main field of research is the role and opportunity of people with reduced mobility in tourism. She is the deputy head of Tourism Department at Edutus University. Currently she is engaged in teaching Basic of tourism, Event organization, Research in tourism, Protocol in tourism, Animation, Sociology.

PROF. DR. HABIL HETESI, ERZSÉBET: university professor, University of Szeged, Faculty of Economics and Business Administration, E-mail: hetesi.uj@gmail.com

Erzsébet Hetesi is a professor at the Faculty of Economics and Business Administration at the University of Szeged. Her research fields involve satisfaction and loyalty on B2C and B2B markets. She is also a member and editor of national and international journals and she has numerous journal articles and books in the topic of marketing.

DR. JÄCKEL, KATALIN, PHD: associate professor, Budapest Business School, Faculty of Foreign Trade, E-mail: Jaeckel.Katalin@uni-bge.hu

Katalin Jäckel is an associate professor at Budapest Business School, University of Applied Sciences, at Faculty of International Management and Business, Institute of Commerce and Marketing, Department of Marketing. She has more than 20 years long teaching experience in the Hungarian higher education. She is teaching basic marketing, services marketing, marketing strategy, international marketing. She earned more than 10 year international experiences at global companies, Global Philatelie GmbH and Numiversal Macco GmbH. Research interests: higher education, jay-customers, services marketing (non-business and B2B) and global marketing.

KÉRI, ANITA: PhD candidate, assistant research fellow, University of Szeged, Faculty of Economic and Business Administration, Institute of Business Studies, E-mail: kerianita@eco.u-szeged.hu

Anita Kéri is an assistant lecturer and PhD candidate at the University of Szeged, Faculty of Economics and Business Administration. Her research interest includes higher education, international students and innovative teaching methodologies.

DR. KISS, MARIETTA, PHD: assistant professor, University of Debrecen, Faculty of Economics and Business, Institute of Marketing and Commerce, E-mail: kiss.marietta@econ.unideb.hu

Marietta Kiss received her master's and PhD degree in economics at the University of Debrecen. She has been working at the University of Debrecen, Faculty of Economics and Business since 2010, currently as an assistant professor at the Institute of Marketing and Commerce. Her research interests include various aspects of marketing, including higher education marketing and nutrition and food marketing. She has been a Board member of the Association for Marketing Education and Research (EMOK) since 2018.

DR. KUN, ANDRÁS ISTVÁN, PHD: associate professor, University of Debrecen, Faculty of Economics and Business, Institute of Management and Organisation Sciences, E-mail: kun.andras.istvan@econ.unideb.hu

András Kun received both his master's and PhD degrees in economics at the University of Debrecen. He is an associate professor at the University of Debrecen, Institute of Management and Organisation Sciences, Department of Human Resource Management. His research interests include economics of education, labour economics, human resource management, marketing for higher education.

NAVE, ANA: PhD candidate, University of Beira Interior, NECE, Research Centre in Business Sciences, Department of Management and Economics, Portugal, E-mail: ana.nave@ubi.pt

Ana Nave is a PhD candidate in management at University of Beira Interior, Portugal. She has a Master degree in Marketing at University of Beira Interior and a Postgraduate degree in Business Finance at IPAM – Instituto Português de Administração de Marketing. Her research interests are Corporate Social Responsibility, Corporate Volunteering, Sustainability and Entrepreneurship.

ORISKÓOVÁ, DENISA ING.: PhD student, University of Economics in Bratislava, Faculty of Economic Informatics, Department of Accounting & Auditing, E-mail: denisaorisko@gmail.com

Denisa Oriskóová is a PhD student at University of Economics in Bratislava, participated in student mobility at Széchenyi István University in winter semester of 2018 within Erasmus+ program. Denisa Oriskóová's PhD thesis title is "Accounting as the relevant source for the measurement and the reporting of the capital maintenance of the business", based on which the aim of the student mobility was theoretical examination of the aspects of capital maintenance in Hungary and Slovakia.

DR. PAÇO, ARMINDA, PHD: professor of management, University of Beira Interior, NECE, Research Centre in Business Sciences, Department of Management and Economics, University of Beira Interior, Portugal, E-mail: apaco@ubi.pt

Arminda do Paço is Professor at University of Beira Interior, Portugal. She is currently the Dean of Business and Economics Department and researcher of NECE – Research Unit of Business Sciences. Her areas of interest are entrepreneurship education and environmental marketing. She has published several articles in international journals and has edited books in the field of sustainability. Additionally, she has participating in national research projects, as well as in international projects (e.g. ICT Entrepreneur, SCIENT, ARTISAN, SPRING).

DR. PINTÉR, TIBOR, PHD: senior lecturer, Budapest Business School, E-mail: Pinter.Tibor@uni-bge.hu

Tibor Pintér received his degree in economics at the Széchenyi István University in 2010. In 2016, he got the PhD degree in the field of regional sciences, at the Doctoral School of Regional- and Economic Sciences at Széchenyi István University. Among the main issues of his research interests are the followings: regional economic integrations, institutional economics, international trade relations, the contradictions of the global economy.

PROF. DR. HABIL SOMLYÓDYNÉ, PFEIL EDIT: university professor, Széchenyi István University, Department of Regional Studies and Public Policy, E-mail: somlyody@sze.hu

Edit Somlyódyné Pfeil has graduated in State and Law Sciences at University of Janus Pannonius Faculty of Law, received her PhD degree from University of Pécs Faculty of Law (PTE). Between 2002 and 2012 she was holding a senior researcher position at the Research Centre for Economic and Regional Studies of HAS. Currently she possesses a full-time professor position at Faculty of Economics of the Széchenyi István University. She worked as the head of the Department of Regional Science and Public Policy in 2017 and 2018, and was the Leader of the Bachelor Programme “Civil Service” at the Kautz Gyula Faculty of Business and Economics. Courses taught by her: Territorial Cooperation and Governance, Urban Development and Spatial Policy, Regional Economic Development, Territorial and Project Management. Her research fields are the following: territorial issues of public administration, urban policy and governance; public service management.

SZEMERE, TIBOR PÁL: PhD candidate, assistant lecturer, Óbuda University, Keleti Károly Faculty of Economics, Institute of Economic and Social Sciences, E-mail: sztp@stanford.edu

Tibor Pál Szemere is an assistant lecturer at Óbuda University Keleti Károly Faculty of Business and Management in Hungary. He is a PhD candidate at Szent István University. He has more than 5 years long teaching experience in the Hungarian higher education. He is teaching economics, project management and business communication. He earned international experiences at Stanford University in the frame of a scholarship program. Research interests: project management, economics, financial and business planning, investment management.

SZENNAY, ÁRON, PhD Student, Doctoral School of Regional- and Economic Sciences, Széchenyi István University, assistant lecturer, Faculty of Finance and Accountancy, MTA-BGE Macroeconomic Sustainability Research Group, E-mail: szennay.aron@uni-bge.hu

Áron Szennay is a PhD student at the Doctoral School of Regional- and Economic Sciences at Széchenyi István University. His research interests are sustainability issues and corporate social responsibility with a special emphasis on its regional aspects.

DR. VARGÁNÉ, KISS KATALIN, PHD: associate professor, Széchenyi István University, Centre of Foreign Languages, E-mail: kathykis@sze.hu

Katalin Vargáné Kiss has been involved in higher education for 20 years. Her research into applied linguistics focuses on the terminological and text linguistic characteristics of ESP for Economics and Finance. Based on this she elaborated a course English for Finance for Master students. In recent years she has been carrying out research on the various aspects of financing SMEs.

REVIEWERS

Bándy, Katalin (Széchenyi István University)
Bencsik, Andrea (University of Pannonia)
Darabos, Ferenc (Széchenyi István University)
Grünhut, Zoltán (Centre for Economic and Regional Studies, Institute for Regional Studies)
Kaiser, Tamás (National University of Public Service)
Katits, Etelka (KENF Financial Consulting Group)
Kazinczy, Eszter (Széchenyi István University)
Kecskés, Petra (Széchenyi István University)
Keller, Veronika (Széchenyi István University)
Kengyel, Ákos (Corvinus University of Budapest)
Kovács, Gábor (Széchenyi István University)
Kuráth, Gabriella (University of Pécs)
Murphy, Maurice (School of Business, Cork Institute of Technology, Ireland)
Musinszki, Zoltán (University of Miskolc)
Rámháp, Szabolcs (Széchenyi István University)
Sigala, Marianna (University of South Australia, Adelaide)
Sólyom, Andrea (Corvinus University of Budapest)
Tatay, Tibor (Széchenyi István University)
Tóth, Árpád (Széchenyi István University)
Tóth, Péter (Széchenyi István University)

Minerva baglya csak a beálló alkonnyal kezdi meg röptét.
(G. W. F. Hegel)

