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## **METHODOLOGICAL FRAMEWORKS OF MARKETING RESEARCH IN THE BIOENERGY MARKET**

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### **INTRODUCTION**

Over the last few years, the importance of marketing activity to agrarian and recycling enterprises in Ukraine has increased. By implementing marketing methods and a wide range of marketing instruments, manufacturers can actively produce and sell their goods. The methods and instruments include calculating the volume of necessary production and material resources, selecting effective sales channels and locations, planning an effective product range, offering competitive prices, forecasting the demand for future production and controlling demand through effective marketing planning etc.

### **ANALYSIS OF RECENT RESEARCH AND PUBLICATIONS**

There are different ways of interpreting the term marketing research. These ways are conceptually alike but have their own specific features [Churchill 2000, Belyavtsev 2014]. Bioenergy market research is the systematic and formalised study of the objective market information required to make management decisions in marketing and bioenergetics. The research includes collecting information, processing, analyzing, and reporting on the results, drawing conclusions and recommendations. The final goal of the research is to provide a systematic and detailed study of all marketing aspects related to products and services offered by enterprises in the bioenergy sector. The role of complex marketing research of the bioenergy market is to examine and evaluate market information, conditions, structure, demand dynamics and customer preferences. It also includes an evaluation of the enterprise itself, aimed at developing an effective marketing programme. While performing such research, it is important to avoid false estimations, risks and unfeasible investments, which might lead to marketing decision-making, which is time-consuming.

TABLE 1. Main concepts and categories of bioenergetics marketing research

Concepts and categories	Description
Goal	Create company information-analytical database so it can take a competitive position in the bioenergy market at a certain time by adapting its products to the needs and requirements of customers, reducing uncertainty, risks and increasing the probability of successful market
Object	Any unit of the “enterprise-market-economy” system or any particular feature of a unit. Research activity of researchers (subject) directed at the object (a bioenergy product, raw material suppliers, consumers of bioresources etc.)
Subject	Existing marketing problem regarding the circumstances of the bioenergy market marketing environment, available resources, success or failure criteria, time limits, risk
Targets	<ul style="list-style-type: none"> <li>– Search – collect preliminary data that “shed light on the problem”, and possibly help develop an hypothesis. This decreases uncertainty in the marketing decisions made</li> <li>– Description – describe certain phenomena, such as finding out the number of people who use a company’s services</li> <li>– Experiment – test the hypothesis of a causal relationship</li> </ul>
Tasks	<ul style="list-style-type: none"> <li>– Analyze the situation on the bioenergy market</li> <li>– Identify positive and negative trends in the dynamics of biomass production, forecast, consider the feasibility of using products both in consumption and production of biofuels</li> <li>– Research the behaviour of bioenergy market players</li> <li>– Assess activity results and determine the competitive position of the bioenergy enterprise</li> <li>– Focus on producing goods in demand due to certain market conditions, improve product policy</li> <li>– Develop and update marketing mix according to research results</li> <li>– Research sales forecast</li> <li>– Develop a detailed marketing programme for the enterprise</li> </ul>
Functions	<ul style="list-style-type: none"> <li>– Educational – help in understanding the processes and phenomena that occur in bioenergy (data collection, processing, analysis, forecast)</li> <li>– Diagnostic – help in decision-making (identify tools that can influence demand and determine the optimal level of influence)</li> <li>– Predictive – help in predicting future formation processes and phenomena in the tourism market. This is particularly important when forecasting sales of a travel company and its closest competitors. New product sales forecast is especially important here</li> <li>– Controlling – help in verifying the results</li> </ul>
Principles	<ul style="list-style-type: none"> <li>– Consistency (rationale, periodicity), reflecting the specific feature of a systematic approach, which is a form of methodological knowledge related to the research and creation of objects as systems</li> <li>– Scientific approach – apply research methodology based on objective laws, scientific positions, methods and models, and software</li> <li>– Complex approach – consider and analyze all relevant elements and factors in their dynamics and interaction</li> <li>– Purposefulness – focus on current marketing problems</li> <li>– Objectivity – independence from subjective assessments and conclusions</li> <li>– Reliability – impartiality, accuracy in data acquisition</li> <li>– Consistency (consistent thinking), ensured by compliance with the laws of Aristotelian logic and, foremost, the law on preventing contradictions</li> <li>– Profitability – the benefits of improving the enterprise’s operation thanks to the implementation of decisions taken should exceed the costs of conducting market research</li> <li>– Compliance with the principles of fair competition</li> <li>– Verification – the greater the number of facts proving the truth of a hypothesis, the more plausible it will be considered</li> <li>– Consumer confidence</li> </ul>

Source: the author based on Chebotar et al. 2007.

The main precondition for bioenergy market research is the need to obtain such information which will minimise the risks of ineffective decision-making. The bioenergy market has no specific research tools of its own, but adapts general tools. Market study is the main component of the marketing research. Table 1 presents the main goals and principles of marketing research in the field of bioenergetics.

In regularly monitoring information on marketing opportunities and threats and market conditions, energy producers must respond to changes, coordinating all activities in line with a prearranged strategy and marketing tactics. However, the impact of market processes on production and economic activity is not unidirectional. By using marketing tools, producers can eventually modify the market situation [Semchuk 2015].

In studying the research methodology used in the bioenergy market, attention should be paid to the study of algorithms of the marketing research process. The stages are explained in Table 2. At the preparatory stage, a number of hypotheses are put forward to justify particular research options. On the basis of these hypotheses, marketing research algorithms are developed. The marketing problem is determined (e.g. a fall in market share, customer loyalty, or profitability, to name three) and specific tasks are established.

To generate working hypotheses, virtually all creative methods are applicable. They can be divided into two groups: logical (systematic and logical) and intuitive creative methods. In this case, the product (biofuels) is both a physical product as a result of production and a set of marketing elements. Thus, the product can be represented as a system consisting of a product, its technical specifications, quality, and the provision of complex and restrictive elements. A systematic approach to the concept of the product is predicated on the need to consider the unity and mutual influence of all of the elements of the marketing mix. The necessary quality of the product (biofuels) as its integral characteristics,

TABLE 2. Marketing research algorithm for companies operating in the bioenergy market

Phase of the research process	Process stages	Tasks
Concepts	Preparatory	1. Define the research problem 2. Determine the possibility for research into the existing problem; 3. Formulate hypotheses, goals and tasks 4. Elaborate the research plan (select type of research, variables, parameters, sources of information, development of activities and their characteristics, preparation of the budget for research, approval of research tools) 5. Select performers (at this stage it must be decided whether the research will be carried out by the company itself or with the assistance of specialised firms, including recruitment and HR instructions, gathering information using specific tools, documenting the information)
		6. Collect and process data (check information for accuracy, data entry into software) 7. Analyze the data
Implementation	Search (Data accumulation)	8. Interpret the results 9. Prepare the research report, formulate conclusions and results 10. Present and implement research results
	Analysis and summary (Processing of results)	

Source: developed by the author based on Kovalenko 2008, Semchuk 2015.

reflecting the needs of the market and, conversely, and the extent to which it meets the requirements and needs of the market, is expressed in the research of mutual needs, i.e. in the course of the market research [Semchuk 2015].

One of the key elements of market research on biofuels is the study of the environment in which the manufacturer operates. The SWOT analysis and PEST analysis form the methodological basis of that study. These analyses can also help one achieve the primary goals of marketing research, formulate hypotheses, goals and tasks. However, before conducting SWOT and PEST analyses, it is useful to examine the macro (external) and micro environment in which the entity operates. Factors of indirect action in the macro environment can impact the entity's activities on the market both positively and negatively.

The company's environment can be examined using the following approach [Sayenko 2006]:

1. Determine the factors affecting the enterprise;
2. Attain maximum information on these factors;
3. Estimate the information on every factor of the environment's influence and predict the magnitude of the influence;
4. Determine threats and opportunities present in the macro environment and the strengths and weaknesses of the micro environment (SWOT analysis and PEST analysis);
5. Create a database for strategic analysis and researching further strategies.

The degree of each factor's influence is estimated and ranked by importance, while threats critical for the entity and the most profitable and vital opportunities are determined.

The search for information on environmental factors is conducted mainly through the following forms and methods:

- scanning the environment (secondary data collection including statistics, reviews, scientific papers etc.); at this stage the following methods are distinguished: observation, survey, Delphi method, experiments;
- monitoring including surveillance, survey (questionnaire), Delphi method, and experiments;
- predicting the impact of environmental factors; methods: extrapolation (prediction from the baseline), brainstorming (joint forecasting by a group of experts), mathematical programming methods, building scenarios.

Analyses of SWOT and PEST should be conducted after the detailed study of the micro and macro environments has been completed. First used in the 1960s, SWOT analysis involves seeking connections between two groups of factors: opportunities and threats facing the organisation (representing the external environment) and its strengths and weaknesses (the product). Analysis of SWOT can assist in analysing both the internal and external environment of the bioenergy market.

For such an analysis, it is also necessary to consider the enterprise's strength and the market situation, and set enterprise objectives while taking into account the existing opportunities. The SWOT analysis matrix is then filled, enabling strategists to determine the main directions of the bioenergy enterprise's development and formulate the basic problem areas requiring immediate solutions for successful marketing activities to occur.

Quantitative assessment of strengths and weaknesses provides a ranking of problematic issues, and the resources are allocated between them (hence the problem field of the enterprise is set out). Quantitative assessment of the problem is the aggregate of expert evaluations of combinations of strengths and weaknesses, which are matched with opportunities and threats. Typically, for a more in-depth study of the internal environment, SNW analysis (strength, neutral, weakness) is used to highlight the strengths, weaknesses and neutral points.

Analysis of SWOT correlates with PEST analysis, another important step in marketing research [Galchynska 2015]. Analysis of PEST is somewhat of SWOT analysis component when the factors of external environment influence are determined, and serves as a tool to determine the impact of basic external factors including political (P), economic (E), social (S) and technological (T). All of these factors are commonly estimated in a four-field table.

Once all the information has been collected and structured, it is estimated. Not all of the manifold factors of the changing macro environment affect or may affect the company. It is therefore important to determine which factors in the initial array of information represent opportunities or threats for the company, and include them in the final PEST analysis matrix.

There are also other options for PEST analysis [Rothaermel 2012]:

- PEST: political + economic + social + technological factors;
- PESTEL: PEST + natural, environmental, legal factors;
- PESTELI: PESTEL + industry market analysis;
- STEEP: PEST + ethical factors;
- LONGPEST: PEST + the assessment of local, national and global factors.

Analysis of PEST nonetheless remains the most common of the bunch. All of its indicators are inseparable and must be considered with regard to the impact they have on the activities of the enterprise as a whole. In practice, the most frequently analyzed factors are economic and political, as they are crucial in an enterprise's planning process. However, without analyzing the social sphere, it will not be possible to plan enterprise activities for 3–5 years as accurately as possible, especially during an economic crisis.

While primary data constrain information collected for the first time for marketing research (fieldwork), SWOT-, SNW- and PEST-analysis data can serve as secondary information. Secondary data include those gained from desk research and publicly available information that has already been collected. Secondary information about a company is divided into internal and external. For marketing research in the bioenergy market, it is possible to gather the following sources of internal information: company statistics and reports (accounting reports, characteristics of the marketing mix system and expenses for all its elements, lists of customers, sales volumes, reports of vendors, import, export, price lists, consumer complaints, executive reports from shareholder meetings).

External information (information obtained from various sources, but not the company itself) includes [Pavlenko and Voychak 2003]:

- information from the state statistics authorities and other state and public organisations;
- information collected by various scientific and educational institutions;
- data and information from mass media;

- advertising and commercial data on other companies;
- reference information: newsletters, registers, reference books, statistical compilations, certificates from official organisations, exporters, balance sheets, catalogs, other enterprises' brochures;
- field studies done by other business entities (surveys, observations, experiments);
- data from economic census and social census;
- data on patent registration, licenses and other exclusive rights of competitors;
- exhibitions and fairs, presentations, conferences; information from customers, consumers, clients; suppliers; sphere of trade; finance; informal sources;
- effective marketing research informational support subsystem – a combination of economic, legal and organisational relationships of sales and purchasing of information services developed between borrowers and consumers;
- arbitration chronicle materials;
- telecommunications (among foreign telecommunication networks there are the well-known Arpanet, Internet, Bitnet, EARN, NetNorth, EVnet).

Both international and domestic sources contain a large amount of external information about the bioenergy market. They include the State Statistics Service of Ukraine, electronic resources of the State Agency of Forest Resources of Ukraine, technical reports assessing the potential of renewable energy in Ukraine, the annual report of the European Biomass Association – AEBIOM, reports of the analytical group Bloomberg New Energy Finance, financial statements of business entities within the network of the Institute of Bioenergy Cultures and Sugar Beets of the NAAS of Ukraine, experience of the State Agency for Energy Efficiency and Energy Saving of Ukraine and the Ukrainian Association of Renewable Energy, analytical materials published by the Bioenergy Association of Ukraine, Association of Bioenergy Structures, reports of bioenergy companies, advisory services at district, regional state administrations etc.

The most common means of collecting market information employed by companies operating on the bioenergy market include commercial espionage, marketing intelligence, competitive intelligence, economic intelligence, and benchmarking. To collect data, Ukrainian companies widely use devices for computerised telephone surveys and for computerised personal interviews. Primary information can be collected quickly and cost-efficiently through the Internet.

## **CONCLUSIONS**

A complex solution to the issues involved in building a marketing system for bioenergy structures in terms of balancing the interests of producers, consumers of biofuels and the state is the basis for implementing market mechanisms in the bioenergy sector in Ukraine. A marketing system in the industry is an effective means of integrated communication between the market for the product and its manufacturer and production. At the same time, production and consumption of energy sources are also synchronised.

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**Summary.** The paper summarises and analyzes the methodological bases of marketing research of the bioenergy market. One of the key elements of such research is the study of the environment in which the biofuel manufacturer operates. The article examines SWOT and PEST analyses as marketing research methods and tools of Ukraine's bioenergy market. The process of implementing marketing research in the biofuels market is investigated, and the impact of macro factors on the results of current and future activities of the industry is considered and evaluated.

**Key words:** marketing research, methods, SWOT analysis, PEST analysis, bioenergy

**JEL:** Q13, M31

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## **MOVIE CONSUMPTION AMONG HUNGARIAN UNIVERSITY STUDENTS**

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### **INTRODUCTION**

Colleges and universities play an essential role in every society. According to SMRB data, students are considered a target market that watches a vast number of movies each year (young people being more frequent moviegoers is a tendency that can be seen in MPAA statistics as well, where the 18–24 and 25–39 cohorts are the two largest frequent-moviegoing age groups, representing 31% of the US population). Movie theatres and home cinema play a large part in the life of modern societies, especially among the younger generations, as previous studies that aimed to break down the use of free time have shown [Ságvári 2009]. Thousands of new releases every year can be traced to various businesses built upon them. These include shops that primarily offer movies through the general electronic stores and gas stations that run them as side gigs to television stations showing numerous reruns and variety shows featuring movie stars. At the same time, we live in a new age of digital multimedia, one in which movie distribution is facing major changes as well, due particularly to the internet [Deák 2008].

### **AIM AND METHODS**

Because ever-changing media consumption trends hit all forms of cultural consumption and thus movie watching habits as well, the aims of the study are to provide a brief overview of factors that affect consumer behaviours concerning movies, specifically vis-à-vis changes in both in-home and out-of-home movie watching trends; and how attitudes have changed towards the general worth of movies, which is heavily influenced by both group dynamics and the accessibility of content (looking at piracy as a service problem). This is followed by the results of a pilot study conducted with Hungarian university

students, where the main influential information sources and indoor/outdoor movie-related choices are examined.

The quantitative research done for the pilot study was conducted with the aid of questionnaires. The survey took five to ten minutes to complete, contained only closed questions, which were grouped into five sections and covered the respondents' movie viewing frequency, information gathering methods, movie viewing habits, attitudes and demographics. These sections and the exact questions were established based on the results of two focus group sessions', which explored the main attitudes and thought process of university students concerning movies.

The target group was made up of Szent István University students (in Hungary) who watch films, and who seemed appropriate for further examination based on their age and cultural consumption experience. The questionnaires were filled out by 112 respondents, with the total sample pared down to 108 after the data was cleansed. The sample consisted of 67.5% males and 32.4% females; 9.26% of the respondents were younger than 20, while the majority (65.7%) was between the ages of 20 and 24, and the rest of the respondents (categories of people aged 25 and above) comprised 25%. The analysis was done using IBM's SPSS software. Given the method and size of sampling, the study should not be considered representative.

## CHANGING CONSUMER TRENDS

University students' movie watching preferences have changed considerably in the past 30 years. It was somewhat unimaginable in 1980 that a university student would watch mainstream movies, but times have changed: along with shopping malls, movie theatre complexes became more common, and movie viewing trends shifted as well [Varga 2005]. This tendency was empowered by the slow shift in location, as more and more people started to watch movies from the comfort of their homes. As a result, art cinemas faltered and even multiplexes endured a temporary crisis, though the yearly gross of Hungarian movie theatres eventually recovered [NMHH 2015]. This was thanks partly to the growing number of more spectacular movies that managed to draw in larger audiences as well as justify having higher prices as 3D films proliferated [Huber 2014].

For home cinema, the greatest change came in the form of the digital revolution, beginning with the lightning-fast spread of the DVD [Lobenwein and Pápai 2000], then later the spread of practically limitless broadband internet. Data from 2016 show that 79.7% of Hungary's population uses the Internet, while the whole of Europe has an internet penetration of 80.1% [WWW 1, WWW 2, WWW 3]. Fast Internet has enabled a slew of legal and illegal methods of obtaining movies (the latter being most often referred to as piracy).

## GROUP DYNAMICS AND ATTITUDE

Generally, the behaviour of consumers is greatly affected by their immediate environment, especially those groups one, or would like to be, a member of [Hofmeister-Tóth 2006]. With films too, the need to identify with a group may have an influence similar to the classical choices of products or brands. Sorting by the intensity of group influence

according to Bearden and Etzel [1982], movie watching can be placed in both the visible and the invisible (or hidden) consumption groups. Depending on whether they watch a movie alone or with others, entirely different factors may predominate in consumer choices: while a given group may prefer a certain genre and type of movie, they might prefer something completely different when watching alone at home.

Attitudes have a direct influence on our behaviour, the strength of which depends on the strength of said (positive or negative) attitude, the existence of other attitudes, or the situational aspects of the social environment. The ability to react to any attitude should also be highlighted. It may occur that even though one has a positive attitude towards a movie, one's financial status makes purchasing it impossible. It might likewise happen that a certain possibly long-awaited film somehow gets overlooked by local distributors (or is unavailable for another reason) and the only option left for the consumer is to download it, which might occur in a specifically high number of supplementary downloads [Bodó and Lakatos 2009].

## ONLINE BLACK MARKET AND PIRACY

In Hungary, traffic at download sites is growing alongside the spread of broadband. In the past couple of years, Hungarian torrent sites' user base has grown consistently (though thanks to their private nature, the pace is quite slow). University students are now accustomed to file sharing, ultimately becoming choosier consumers in the process, as they are more likely to base their value calculations and purchases around the availability of free content and previewing media via file sharing [Jones 2002]. It is clear that in recent years, not paying and illegally downloading or using other free sources (as may be observed in the proliferation of ad-supported websites offering movies among other completely free content) has become the standard means of obtaining movies. After all, the reasoning behind piracy is that "everyone is doing it", while the physical aspect of actually owning content is no longer considered a motivator [Bothun and Lieberman 2010].

As a previous study has pointed out, free access to content raises interest in cultural products, ultimately widening the industry [Oberholzer-Gee and Strumpf 2009]. Adapting to modern culture consumption trends proves to be quite a challenging task for media industries. The main approach is to minimise losses (see Disney's recent decision to halt Blu-ray editions in Hungary) and to fight an unwinnable battle against pirates (where even after a long and tiresome court case and eventual shuttering of the challenged pirate site, another three will instantly fill the void it leaves behind). The challenge, however, is not unreasonable as there are multiple positive examples (like the music or gaming industry) already up and running with methods that could help turn the phenomenon into an advantage by providing competitive alternates to illegal downloads. This is where the various forms of legal online movie distribution systems could enter the picture, though they would still have to overcome many obstacles. Among them is the fact the price of a legal download is identical to that of movies sold in brick-and-mortar stores, even though the physical data carrier (together with all of the costs associated with their production) is removed from the equation [Bodó and Lakatos 2009].

## RESEARCH RESULTS

The following results come from the quantitative research done in the pilot study. When it comes to watching movies in cinemas, most respondents indicated they go with their friends and significant others (73 and 56%, respectively) – Figure 1.

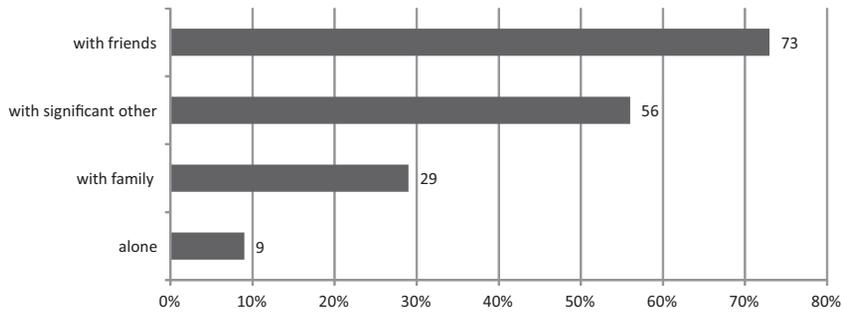


FIG. 1. Companionship in movie theatres

Source: the authors.

The results support the notion that movie-going is a communal experience – an “event” where having one’s friends along for the ride adds another element to the already unique feel of the movie theatre. Moreover, only a fraction of people (10%) goes to movie theatres alone.

To take a more interesting angle on the frequency of movie theatre visits, SPSS was employed to narrow the entire sample down to those stating they watch movies at home at least once a week. This resulted in a smaller sample of  $N = 78$ , which revealed that 87% of all respondents watch movies at home quite often. The distribution is shown in Figure 2.

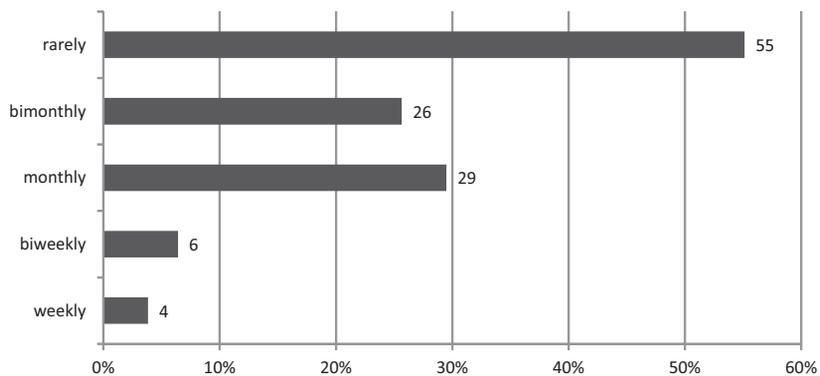


FIG. 2. Frequency of movie theatre visits

Source: the authors.

These results highlight that home cinema is the more frequently used option, while trips to the cinema are rarer and therefore constitute special occasions or “events”.

Another aspect was how satisfied the respondents were with the pricing of movie tickets, especially those who go to the cinema at least once a month. The sample was narrowed to these people (31% of all participants), who indicated whether they agreed with the statement: “I am fully satisfied with movie ticket pricing”. A 1-to-5 scale was used, 5 being complete agreement with the given statement. The mean value was 3.15 with a standard deviation of 1.15. This shows they merely accept or “settle for” the current pricing.

The 3D movies have become an important trend at theatres, as almost all high grossing movies of recent years have used the format and the higher prices it often commands. Related to this trend, respondents were asked if they had the chance to watch a certain movie in 3D for the same price, would they take it. The mean value of the response was 3.39 (with a standard deviation of 1.58). They were also asked if they were willing to pay more for 3D, a prospect which returned a score of 2.75 (with a std. deviation of 1.28). With a value of 0.661, the Pearson correlation showed a strong connection between the results for the two questions.

To further test the relations between how favourably people regarded 3D movies and the willingness to pay more to see them, we tested the distribution of residuals and heteroskedasticity. Initial results confirm the correlation analysis, with a moderate coefficient of determination ( $r^2 = 0.436$ ), a low SEE value of 0.97, and both t- and F-test having a significance below 0.05, further bearing out the connection. While the standardised residuals showed normal distribution (confirming with the least method as the mean is close to  $9.02E-17$  and a standard deviation is close to 1 with 0.995), the scatterplot yielded the following results (shown in Figure 3), which suggested slight heteroskedasticity.

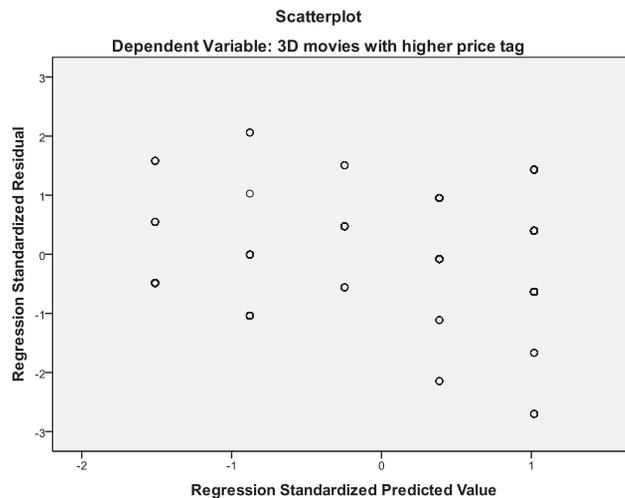


FIG. 3. Sources of information

Source: the authors.

Together with the aforementioned correlation analysis, these results mean that people who are more interested in the 3D technology itself (as they have already agreed with the first statement) are willing to pay an even higher price for it. Current pricing trends in movie theatres actually demand this of them, though some movie theatres are more cost-efficient by allowing attendees to keep the 3D glasses they have purchased in order to reuse them later, saving some money in the process.

The participants were next asked about the most common sources of information they use to familiarize themselves with movies (they were allowed to mark multiple answers). Figure 4 presents the results.

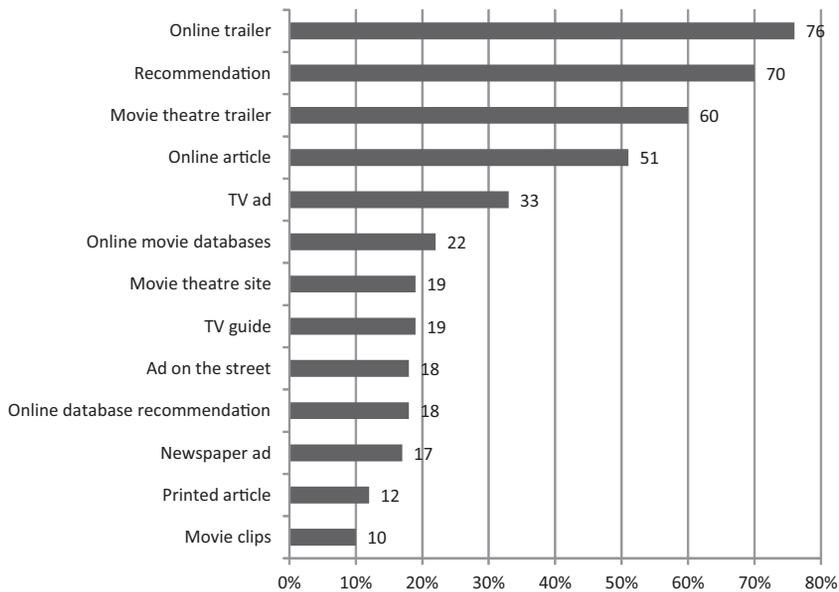


FIG. 4. Sources of information

Source: the authors.

Most people chose online movie trailers as their primary source of information. This was due mainly to the Internet being so widely accessible, putting everyone just a few clicks from the full description and trailer of any movie. Anytime someone sees news about an upcoming movie or when a friend recommends a title, one's first step is often to search for the trailer. The other high values are mostly related to friends' recommendations or online articles that may be accompanied by movie trailers, with trailers shown in movie theatres acting as a form of self-impulsive process as they show spectacular tidbits on the big screen.

To expand on the recommendation, respondents were asked how likely they were (on a scale of 1 to 5) to recommend a movie they liked to friends. The mean value of the responses was 4.56 with a standard deviation of 0.66. This result highlights the importance of word-of-mouth marketing, where the recommendations of satisfied spectators may have a huge impact (just reflect on the main sources of information gathering). When it

comes to sharing negative experiences (“If I didn’t like a certain movie, then I warn my friends about it”) the mean values are somewhat lower (3.82 with a 1.15 standard deviation), which shows that people are more reluctant (though not by much) to share bad experiences with their friends.

On a semi-related note, the respondents were also asked how they felt about movie awards, which are generally a highly regarded measure of quality that generates a great deal of media buzz. The results were somewhat shocking, as participants showed little interest, grading (on a scale of 1 to 5) the question about checking the list of awarded movies after a ceremony a mean value of 2.29 (with a standard deviation of 1.37). Worse still, the question about checking whether a given movie received any awards returned a mean value of 1.88 (with a standard deviation of 1.08), implying that movie awards are not a defining factor in viewership.

When it comes to watching movies at home, a main issue is to what extent piracy influences home cinema and how commonly legal channels are actually used. Figure 5 shows the results.

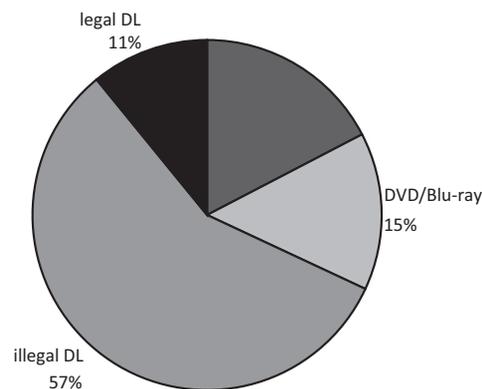


FIG. 5. Repartition of home cinema

Source: the authors.

In the accompanying question, the respondents were asked divide their total at-home viewing by the various means of viewing a movie. Figure 5 presents the mean values of their answers, which indicate that, unsurprisingly, home cinema mostly features pirated versions of movies (57%). Seemingly ever-accessible free content is far ahead of both the “free” television-aired movies (that are continuously interrupted with ad breaks and are not necessarily aired in the right time slot for everyone) and those which are purchased, either online or in brick-and-mortar stores.

An interesting related question was whether the participants preferred Hungarian or foreign download sites, if they had a preference. The Hungarians came out ahead with a mean value of 3.21 (with a standard deviation of 1.3), while foreign sites lagged behind with a mean value of 2.81 (with a standard deviation of 1.28). This is all the more noteworthy considering that Hungarian download sites are closed to the general public and only work by invitation (meaning that it is far more complicated to access them than most

foreign sites, which are all open to all visitors). This may be because on foreign sites the movies are usually only available in their native language (for which, if needed, a separate subtitle file should be searched for), while on Hungarian sites the dubbed versions are commonly available as well, which could be preferable to many.

As pirated movies appear to be so ubiquitous, what would be the ideal price tag for new movie releases university students would find acceptable? Figure 6 has the precise answers to this question (with the percentages showing the relative distribution of the respondents as they could only select one option).

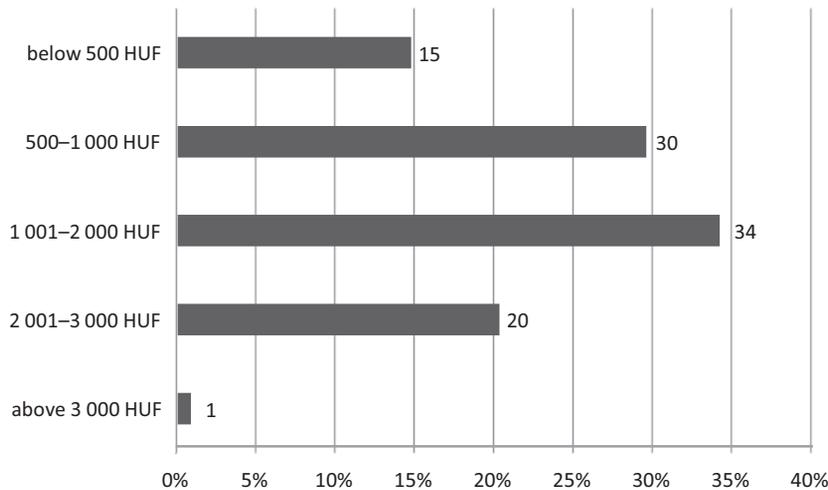


FIG. 6. New release price ranges for purchase

Source: the authors.

Figure 6 shows that most respondents are attached to the “magical” 1,000 HUF price tag. Close to the price of a ticket at the cinema (at least with a student discount card), that price point serves as a general reference, though numerous respondents were willing to pay twice that in the 1,001–2,000 HUF category. The clearest result, however, is that the current pricing of new DVD releases priced between 3,000 and 4,000 HUF are considerably higher than the accepted price ranges (to say nothing of Blu-ray releases and the 4,000–10,000 HUF they can fetch).

## CONCLUSIONS

Movie trailers are the primary source of information used in film selection. The search for these is often the first step that follows hearing about a new title, be it in a news article from some movie-related website or from a friend. The latter information source is also decisive in nature, as university students are still greatly influenced by groups and opinion leaders. This is reflected in both the continuous information exchange between friends (mostly in the form of suggesting positively viewed movies to each other) and the film critiques and other movie-related articles found in various media, though particularly online.

That most university students do not visit movie theatres alone (rather they go with friends and their significant others) is clear evidence of the influence of groups. Though going to the cinema is a relatively rarer occasion than watching a movie at home – which is something they tend to do alone – it can be described as a special event. Aside from the group aspect of visiting movie theatres, another appealing feature is the large screen and the use of various kinds of spectacle-enhancing technology. Technology of 3D has been a main trend of recent years, one people are willing to pay more for, thus proving the value of the theatres that offer it.

In the main, university students are clearly not satisfied with the current pricing of movies. At the same time, the high prices and subpar features available in home cinema led to illegal downloads (with a special mention to seemingly free television as another movie viewing platform, though viewers pay a price with the constant disruptions of ad breaks and the strict schedule of TV stations, which may differ from the viewers' personal preferences. In any case, time is a hugely important resource here as well).

In the case of legal downloads, it seems natural to lower the prices of individual movies, as they come free of a number of costly elements that attend traditionally distributed movies, including manufacturing, transporting, and storage costs (as after purchasing the rights to an online download, providers' only concern in providing access to the content is the cost of the bandwidth, which gradually rises as they reach for higher revenue). Companies should constantly strive to improve the experience and accompanying features of their systems, working towards enabling viewers to legally watch a film "with the click of a button". This would make it possible to battle piracy on the service level by ultimately offering customers, who expect high value for their money, a better deal.

As the popular slogan "Vote with your wallet!" proves more and more valid, we can see a slow shift in the film distribution industry as well (though sometimes in the form of a complete retreat), with premium content provider giants like HBO changing up their model (making their online on demand HBO GO a stand-alone system that does not require users to subscribe to the TV channel itself) and streaming companies like Netflix entering Europe.

Future studies with higher sample sizes should delve further into the reasoning behind why university students might still prefer illegal methods of obtaining movies when legal alternatives are presented as well (apart from pricing). What as yet unimplemented and tested features may be desirable could also be examined. This could help elevate home cinema services above piracy, as has been done in other industries. Additionally, the reasons for viewer behaviour and views on the general worth of movies, lifestyle and general attitude towards movies (and other forms of related media) could be taken into consideration.

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**Summary.** In recent years, movie theatres have again found their footing, managing to grow audiences with exciting releases and new technologies. However, uncertainty remains as to how consumers obtain information and make decisions (be it the choice of a particular title or by what means it's watched). While thwarting piracy still proves a great challenge, the issue could be approached from a different point of view: as a service problem to be solved by offering better alternatives. Following a brief look at some of the relevant literature, this paper analyzes a pilot study conducted with university students, who were asked about their movie consumption habits, focusing on the various influences and sources of information that have an effect on their decisions.

**Key words:** consumer behaviour, culture consumption, decision making, movie download

**JEL:** M300, M310

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## **CHANGES IN THE LEVEL OF RISK IN INVESTMENT FUNDS IN POLAND**

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### **INTRODUCTION**

The macroeconomic situation significantly impacts the demand for investment fund units and the risk of a fund's investment portfolio. In consequence, the performance of investment funds might affect, among other things, the level of prices on the capital markets and the size of household savings. Additionally, investment risk can also be tied to the quality of a fund's management. In making their pitch to individual customers, investment firms usually present the results of their operations using historical rates of return. In such a way they try to prove their ability to generate high returns and attract customers' attention. They tend to minimise their presentation of information on the risk level a particular investment faces. If the risk materialises, this information asymmetry could become a source of conflict between investment firms and investors, particularly individual customers. However, it should be emphasised that measuring risk is not an explicit and well-defined process. There is no strict definition of risk and no clearly defined way of measuring it.

This attests to the importance of analyzing risk measurement and how risk is evaluated during the different phases of the macroeconomic cycle. The analysis of risk accumulated in investment fund portfolios is important not only for investment firms, but also for households investing their savings. The former, once they become aware of the risk, might hedge their positions to minimise its negative effects. For their part, households which know their level of risk aversion would be better able to choose an appropriate investment.

The aim of this paper is to present changes in the risk level of investment fund portfolios in Poland in the years 2005–2015. The volatility of the macroeconomic situation during this period suggests the level of risk should be determined during different stages of the macroeconomic cycle:

- accelerated economic growth: 2005–2007;

- downturn and fallout from the global financial crisis: 2008–2011;
- recovery and moderate economic growth in the post crisis period: 2012–2015.

The study covers 29 funds with equity portfolios operating in Poland in the years 2005–2015. The data were taken from the following sources: values of the fund units from the Chamber of Fund and Asset Management (IZFiA), the WIG and WIG20 indexes<sup>1</sup> from the Warsaw Stock Exchange (WSE), rates of WIBOR ON and IRS 1Y<sup>2</sup> from the Bloomberg agency and macroeconomic data from the Central Statistical Office of Poland (GUS).

The remainder of the paper is structured as follows. The next section presents Poland's macroeconomic situation and the structure of the investment fund sector in 2005–2015. That is followed by a discussion of methods of measuring the risk of the investment fund portfolios, and changes that occurred to the risk level during the three periods. A comprehensive summary concludes the paper.

## THE MACROECONOMIC SITUATION AND THE STRUCTURE OF THE INVESTMENT FUND SECTOR

That the value of assets of the investment fund sector increased significantly despite the sell-off that occurred during the financial crisis shows that investment funds play an important role in Poland's financial system and economy, the latter of which improved significantly during 2005–2015. Several factors – and first and foremost Poland's accession to the EU in 2004 – impacted the pace of growth. In subsequent years the country's economy grew at a much higher rate than those of Western European countries.

The largest decline in share prices of companies listed on the Warsaw Stock Exchange was recorded in 2007–2008. The process was more a result of uncertainty on the global markets than of the state of Poland's economy, which was growing at the time. The fall in share prices significantly impacted the value of equity investment fund portfolios. This period was characterised by significant volatility in the capital markets, which became an additional source of investment risk. Another period of significant deterioration in the economic climate and the increased volatility in the capital markets began in the second half of 2012. Due to the economic downturn in most Western European countries and the buildup of their public debt, the pace of the Poland's GDP growth fell significantly.

Construction company bankruptcies and a decrease in the value of exports to EU countries put negative pressure on the valuation of shares on the Warsaw Stock Exchange. Falling share prices decreased the value of these assets in investment fund portfolios and became a significant source of investment risk. Interest rate cuts made during this period by the National Bank of Poland were intended to accelerate growth of the non-financial sector and GDP boost. However, they did not stop the growing uncertainty and risk in the

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<sup>1</sup> The WIG is the main index covering all companies quoted on the Warsaw Stock Exchange (WSE) while the WIG20 covers the 20 largest companies quoted on the WSE.

<sup>2</sup> WIBOR ON (Warsaw Interbank Offered Rate – overnight contracts) is the reference interest rate on loans for the Polish interbank market for one-day contracts; IRS 1Y is the Interest Rate Swap for one-year contracts.

capital markets. Additionally, deterioration of the regulatory environment in the banking sector, the crisis with Polish mortgages taken in Swiss francs and the crisis in the oil market drove down prices of all shares on the WSE, especially in 2015.

The investment fund sector experienced pronounced growth in the early 2000s. Approval of the Act of 27 May 2004 on investment funds created a favourable environment for the development of these institutions. The improving financial situation was bolstered by the increasing capacity of Poland's economy. All these factors drove demand for investment fund units, causing the funds' assets to grow nearly throughout the 2005–2015 period (Table 1).

TABLE 1. Assets of the investment fund sector in Poland in 2005–2015

Specification	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Assets (bn PLN)	61	100	134	74	93	122	118	151	195	220	273
Share of assets in GDP (%)	6.2	9.3	11.3	5.7	6.8	8.4	7.5	9.3	11.8	12.8	15.3

Source: the author based on CSO and IZFiA data.

In the first part of the period, the funds' assets had their highest values in 2007 (Table 1). This was followed in 2008 by a dramatic drop, which was partially the result of the fall in prices on the Warsaw Stock Exchange and the lower valuation of investment portfolios (a drop of 31.3 billion PLN, i.e. 52% of the total impact) and the shifting of funds to other financial sectors (a decline of 28.6 billion PLN, i.e. 48% of the impact) [NBP 2008]. In subsequent years, investment funds gradually recovered and regained their position in the economy to become an important household savings vehicle. According to NBP data, in 2013–2015, household financial assets accumulated in investment funds increased annually by, respectively: 18, 13 and 10 billion PLN [NBP 2016]. This inflow of capital had a positive impact both on the profitability of the funds and the investment portfolio risk level.

## MEASURES OF RISK IN THE FUND PORTFOLIOS

The full evaluation of the funds' activities entails assessing their profitability adjusted for the size of a risk taken. Typically, fund management firms compare their performance with the benchmark, which can be constituted by a group of similar investments, or markets of their operations or supposedly risk-free instruments [Perez 2012]. In some cases, the level of profitability expected by investors can be treated as a reference point. In analyzing such issues, the rate of return and the magnitude of the risk must be defined.

The profitability (or rate of return) of investment funds at time  $t$  is measured by the logarithmic rate of return  $r_t$  defined by the formula [Witkowska 2009]:

$$r_t = \ln\left(\frac{p_t}{p_{t-1}}\right) \quad (1)$$

where:

$p_t$  – value of the units on day (month, quarter etc.)  $t$ .

In classical methods of evaluating the operations of investment funds, the risk level is determined using the standard deviation of the rates of return  $\sigma(r)$ :

$$\sigma(r) = \sqrt{\frac{1}{T-1} \sum_{t=1}^T (r_t - \bar{r})^2} \quad (2)$$

where:

$T$  – total investment period;

$r_t$  – rate of return at time  $t$ ;

$\bar{r}$  – expected (average) value of the rate of return in period  $T$ .

Another frequently used measure of risk is the  $\beta$  coefficient, which can be understood as the average increase in the rate of return on assets that has been caused by an increase in the growth rate of the benchmark by 1 percentage point [Borowski 2011]. From another perspective, the  $\beta$  coefficient indicates how the rate of return on a fund differs from the profitability of the overall market [Tarczyński 1997, Czekaj et al. 2001]. For fund  $i$ , the  $\beta_i$  coefficient is calculated using the following formula:

$$\beta_i = \frac{\sum_{t=1}^T (r_{it} - \bar{r}_i)(r_{mt} - \bar{r}_m)}{\sum_{t=1}^T (r_{mt} - \bar{r}_m)^2} \quad (3)$$

where:

$r_{it}$ ,  $r_{mt}$  – rate of return for, respectively, fund  $i$  and the overall market (usually represented by the main stock index) at time  $t$ ;

$\bar{r}_i$ ,  $\bar{r}_m$  – mean value, respectively, of the average rate of return on fund  $i$  and the entire market in period  $T$ .

Researchers also use coefficient  $\beta$  to study the strength and direction of volatility. Values of  $\beta$  greater than one were achieved by funds with higher volatility than the market (the WIG index is often recognized as an indicator of the market) while  $\beta$  values below one but greater than zero characterised funds with standard reduced volatility [Wieloch 2015].

## ASSESSING THE LEVEL OF RISK IN INVESTMENT FUND ACTIVITIES

The sample includes 29 open equity investment funds that operated in Poland throughout the 2005–2015 period (Table 2). The analysis was carried out using monthly data for the four periods: 2005–2007, 2008–2011, 2012–2015 and 2005–2015. The rate of return for the entire market was calculated using WIG, the main index of the WSE representing the share prices of all listed companies. Rates of return on funds were also related to the profitability of investments regarded as risk-free. In the research, the rate of IRS 1Y was applied as a risk-free investment. The study covered 3,828 observations, of which there were 1,044 in 2005–2007 and 1,392 for both 2008–2011 and 2012–2015.

In the first stage of the study, the values of logarithmic monthly rates of return for each fund (eq. 1) and the market were calculated. The level of risk was assessed using the standard deviations of the funds' rates of return (eq. 2) and the  $\beta$  coefficient (eq. 3) for the four periods (Table 3).

TABLE 2. List of funds covered by the study

Fund number	Fund name	Year of establishment
1	Allianz Akcji	2004
2	Arka BZ WBK Akcji Polskich	1998
3	Aviva Investors Aktywnej Alokacji	2004
4	Aviva Investors Polskich Akcji	2002
5	Aviva Investors Stabilnego Inwestowania	2002
6	BPH Akcji	1999
7	BPH Akcji Dynamicznych Spółek	2000
8	BPH Akcji Europy Wschodzącej	2001
9	BPH Zrównoważony	1999
10	ING Akcji	1998
11	ING Akcji 2	2001
12	ING Średnich i Małych Spółek	2001
13	Investor Akcji Dużych Spółek Dywidendowych	1998
14	Investor Akcji	1998
15	Investor Top 25 Małych Spółek	2002
16	Investor Zrównoważony	1998
17	KBC Aktywny	2002
18	KBC Beta Dywidendowy	2000
19	Legg Mason Akcji	1999
20	MetLife Akcji	2004
21	Novo Akcji	1998
22	Novo Zrównoważonego Wzrostu	1998
23	Pioneer Akcji Amerykańskich	2000
24	Pioneer Akcji Europejskich	2004
25	Pioneer Akcji Polskich	1995
26	Pioneer Zrównoważony	1992
27	PZU Akcji Krakowiak	1999
28	Skarbiec – Akcja	1997
29	UniKorona Akcje	1996

Source: IZFiA.

The standard deviation values of the funds' rates of return indicate that the impact of the crisis was the strongest source of uncertainty on the capital markets. The values of standard deviation were highest in 2008–2011, and represented a significantly high risk accumulated in the funds' portfolios (Table 4). The much higher values of the  $\beta$  coefficient during this period compared to other periods further confirms that 2008–2011 was the period with the highest risk.

Dynamic growth of the price of shares on the stock market is another significant source of risk. Standard deviation and the  $\beta$  coefficient values are high, though much lower than in the crisis period. Characteristically for this period, the spread between the

TABLE 3. Standard deviation values of the funds' rate of return (SD) and the  $\beta$  coefficients

Fund number	2005–2007		2008–2011		2012–2015		2005–2015	
	SD	$\beta$	SD	$\beta$	SD	$\beta$	SD	$\beta$
1	0.037	0.475	0.069	0.805	0.035	0.718	0.051	0.716
2	0.121	0.495	0.080	0.985	0.035	0.714	0.083	0.854
3	0.023	0.251	0.034	0.345	0.023	0.232	0.027	0.181
4	0.055	0.715	0.078	0.928	0.032	0.661	0.059	0.846
5	0.057	0.948	0.031	0.354	0.014	0.226	0.028	0.793
6	0.050	0.573	0.068	0.793	0.038	0.750	0.055	0.750
7	0.062	0.195	0.077	0.929	0.036	0.697	0.061	0.741
8	0.029	0.109	0.061	0.716	0.038	0.372	0.046	0.531
9	0.029	0.371	0.039	0.454	0.021	0.413	0.031	0.433
10	0.053	0.629	0.070	0.833	0.036	0.765	0.056	0.784
11	0.049	0.616	0.061	0.709	0.035	0.758	0.050	0.701
12	0.058	0.697	0.070	0.824	0.040	0.850	0.060	0.835
13	0.097	0.263	0.090	0.874	0.033	0.578	0.077	0.697
14	0.052	0.648	0.071	0.837	0.060	0.743	0.063	0.796
15	0.062	0.729	0.077	0.919	0.040	0.743	0.064	0.880
16	0.031	0.411	0.047	0.539	0.025	0.367	0.036	0.488
17	0.033	0.432	0.045	0.500	0.024	0.437	0.035	0.472
18	0.045	0.601	0.062	0.727	0.037	0.713	0.050	0.696
19	0.055	0.698	0.067	0.799	0.035	0.799	0.055	0.788
20	0.054	0.667	0.075	0.901	0.041	0.834	0.060	0.850
21	0.050	0.625	0.132	0.945	0.048	0.719	0.089	0.835
22	0.031	0.405	0.045	0.562	0.034	0.535	0.038	0.528
23	0.145	0.540	0.044	0.228	0.109	0.268	0.103	0.207
24	0.027	0.038	0.046	0.454	0.027	0.265	0.035	0.325
25	0.055	0.705	0.090	1.054	0.037	0.780	0.067	0.948
26	0.032	0.398	0.064	0.711	0.034	0.541	0.047	0.620
27	0.049	0.676	0.070	0.835	0.042	0.865	0.056	0.810
28	0.048	0.663	0.082	0.575	0.048	1.611	0.029	0.756
29	0.061	0.617	0.069	0.813	0.037	0.688	0.057	0.753
Min	0.023	0.038	0.031	0.228	0.014	0.226	0.027	0.181
Max	0.145	0.948	0.132	1.054	0.109	1.611	0.103	0.948
Median	0.050	0.601	0.069	0.799	0.036	0.713	0.055	0.750
Average	0.053	0.524	0.066	0.722	0.038	0.643	0.054	0.676
Market	0.049	–	0.070	–	0.034	–	0.054	–

Source: the author, based on the data from IZFiA and Bloomberg.

TABLE 4. Distribution of standard deviation of rates of returns (SD) and the  $\beta$  coefficients

Statistics	2005–2007		2008–2011		2012–2015		2005–2015	
	SD	$\beta$	SD	$\beta$	SD	$\beta$	SD	$\beta$
Minimum	0.023	0.038	0.031	0.228	0.014	0.226	0.027	0.181
Maximum	0.145	0.948	0.132	1.054	0.109	1.011	0.103	0.948
Median	0.050	0.601	0.069	0.799	0.036	0.713	0.055	0.750
Average	0.053	0.524	0.066	0.722	0.038	0.643	0.054	0.676

Source: the author, based on IZFiA, WSE and Bloomberg data.

lower and the higher risk of the funds' portfolios is the largest. This may be attributable to the varied investment skills of fund managers and their ability to take advantage of the favourable situation on the capital market.

The lowest level of risk was found in the post crisis period. Moderate economic growth and quite stable conditions on the capital markets did not generate excessive investment risk. Both the standard deviation and the  $\beta$  coefficient are significantly lower here than in other periods. The downturn on the market in 2015 was a likely source of additional risk in this period.

Closer values of the standard deviation for funds and the market for the period 2012–2015 indicate that the average and the median funds took on a similar amount of risk in their portfolios. This indicates that, on average, funds and investors across the entire market followed a similar investment policy in terms of exposing their portfolios to investment risk.

## CONCLUSIONS

The study covers 29 equity investment funds operating in Poland during the years 2005–2015. The results indicate that the state of the country's economy as determined by GDP, the labour market and other macroeconomic conditions, and the situation on the capital market affected the amount of risk accumulated in the funds' portfolios.

During the financial crisis (2008–2011), lower profits in the enterprise sector, growing household risk aversion, high volatility on the capital markets, and the dramatic outflow of capital from the investment fund sector caused a significant increase in the level of risk accumulated in the funds' portfolios.

A slightly lower level of risk was recorded in the funds' portfolios in the period of dynamic economic growth preceding the crisis (2005–2007). Here too the volatility on the stock market could be considered a significant source of investment risk. Additionally, the largest spread in rates of return on funds was observed at that time, which may confirm the presence of aggressive investment policies (so-called flight for yield) and attest to the differentiated skills of fund managers in taking advantage in the favourable market situation.

The lowest level of investment risk accumulated in the funds' portfolios during the period of moderate economic growth (2012–2015). Moderate non-financial sector profitability and the balanced development of emerging markets provided stability in the performance of the capital markets in Poland. Stabilisation of the investment conditions could be considered a main factor in reducing the risk of the funds' portfolios.

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**Summary.** The paper analyzes changes in risk of investment fund portfolios in different phases of the macroeconomic cycle. Twenty nine equity investment funds operating during the period of 2005–2015 were examined. The risk was assessed by the standard deviation of rates of return on funds and the  $\beta$  coefficient. The research indicates that the exposure of fund portfolios to risk changed in response to macroeconomic conditions and the situation on the capital market. Risk hit its highest level during the financial crisis years (2008–2011),

followed by the dynamic macroeconomic growth years (2005–2007). The moderate growth years (2012–2015) exposed funds to the lowest risk. For the entire period the average and the median funds and the market were exposed to a similar amount of investment risk.

**Key words:** capital market, investment funds, investment risk

**JEL:** O16, G23, G32

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**INNOVATION AND MARKETING STRATEGIES  
OF ENTERPRISES ON THE INNOVATIVE FOOD  
PRODUCTS MARKET**

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**INTRODUCTION**

The present paper examines marketing research and the formation of marketing strategies for introducing new products to the market, in order to reduce enterprise expenses and potential losses. The process of creating a new product always involves risks for the manufacturer. Once the product enters the market, it may be revealed to be of low quality or fail to attract the interest of consumers, to name just two problems that can shrink profits. Today, given consumers' constantly changing demands for new technologies and new competitors, enterprise survival depends on the new products being developed and introduced onto the market. However, even after a product has been introduced, it and the prevailing market situation must be constantly monitored so that changes in marketing and innovative strategies may be introduced. Effective marketing strategies should be applied for new products according to the stages of their life cycle: birth, growth, maturity and gradual replacement of products from the market, and customer satisfaction.

The practical significance of this study is that companies can use its results to improve the process of introducing new products to market and optimise their position in the future. In other words, preliminary marketing research and formation of marketing strategies for new products are necessary to make a new product successful in the long run. A significant contribution to the theoretical understanding of marketing strategies has been made by the following scientists: I. Ansoff, M. Porter, J.J. Lamben, among others. The concept of innovation and product innovation has been discussed in papers by B.F. Zabolots'kyj, S.M. Illiashenko, S.V. Mocherny, O.V. Prokopenko,

C.B. Twiss, R.A. Fathutdinov, B. Sandberg and others. The work of Kh. Gladiy, O. Kalamani, N. Krykovtseva, N. Stelmashchuk are noteworthy in the field of marketing strategies in the food industry.

## **PURPOSE AND OBJECTIVES OF THE RESEARCH**

The purpose of the research is to identify the essence of innovative products and to define the features of marketing strategies for innovative products on the food market. The research objectives are the following:

- to clarify the meaning of the term innovative product;
- to consider the factors that affect the popularity and success of innovative products;
- to define hierarchical levels of marketing and innovative strategies;
- to define a current strategy to promote innovative food products.

## **METHODOLOGY**

In researching marketing strategies for innovative products, companies use scientific methods, laws and principles, as well as specific statistical and marketing methods. A systematic approach is essential for researching marketing strategies, since it considers the business strategy as a tiered system based on hierarchical principles. The principles that guide enterprise marketing strategies today primarily include the following:

- prioritising customer requirements for products;
- integrating with competitors or partners as a basis for creating scale effect or unique value;
- prioritising long-term relationships with customers (marketing relations) over one-time benefits;
- enabling consumer participation in forming the concept of goods with special value;
- prioritising production processes and enterprise specialisation;
- treating the enterprise, which is only a superstructure, as secondary;
- taking a realistic approach and giving the perspective employed vision;
- using an iterative approach (phased process);
- dealing with complexity by covering all of the functional directions of activities;
- seizing the opportunity to enter target markets through appropriate distribution and communication channels;
- activity, differentiation and adaptation.

From a methodological position, companies that produce innovative food products should form and implement marketing strategies in accordance with general strategy and the specific stage of the product life cycle. This is because trends in consumer demand development and its preference for innovative products has become a prerequisite for commercial success.

Statistical methods were also applied to research the dynamics of innovation activity of enterprises in the food industry of Ukraine. This tool made it possible to compare the

number of companies in the food industry to have implemented innovative activity or produced innovative products. It indirectly indicates the application of strategies on the innovative food products market.

## **INNOVATIVE PRODUCTS DEFINITION AND SUCCESS OF INNOVATIVE FOOD PRODUCTS KEY FACTORS**

As it is commonly understood, the term innovation was first used by Schumpeter, who discussed the concept in the “Theory of Economic Development” [1912]. In modern scientific literature on innovation management and innovation development, there is currently no single approach to understanding the categories of innovation and innovative product. Some researchers consider innovation a process [Twiss 1986, Zabolots’kyj 2007]. Twiss defines innovation as a process in which an invention or idea attains economic status [Twiss 1986]. According to Zabolots’kyj, innovation is the process of forming new thinking, creation, development, introduction to industrial use and propagation of new technical, trade, systemic, social, environmental or other solutions (innovations) which satisfy certain industrial, social needs or national interests [Zabolots’kyj 2007]. However, there is also another point of view in the scientific community, according to which innovation is considered a result [Fathutdinov 1998, Illiashenko and Prokopenko 2003]. In particular, Illiashenko and Prokopenko consider innovation to be the final result of the creation and use of novelties embodied in the form of improved or new products (goods or services), technologies of their production, management practices at all stages of production and the marketing of products that contribute to the development and increasing efficiency of operation of the enterprises which use them [Illiashenko and Prokopenko 2003]. This view is shared by Fathutdinov: innovation is the end result of implementing novelty for the purpose of changing the control object and obtaining economic, social, technological, environmental or other effect [Fathutdinov 1998]. A more comprehensive market-oriented interpretation of innovation is presented in the economic encyclopaedia edited by Mocherny: implementation of new techniques, technology, production engineering and marketing of products that enables an advantage to be gained over competitors [Mocherny et al. 2005].

I define innovation as the process of bringing ideas of scientific or technical invention into practical use and converting them to income (transforming production and implementing the idea). However, if innovation means introducing novelties into production, then the innovative product constitutes the entrance of innovation to the market. Innovation must respond to the demand on the market, possess novelty and be profitable. Product innovations include the use of new materials, semi-products and components. The acceptance of innovative products is also presupposed. The end result of the innovation process in food production enterprises is technologically new or technologically improved products, characterised by a set of essential basic qualities and safety, energy and food value, adequate amounts of functional ingredients and food safety.

In accordance with Schumpeter's classical theory, innovative food products can be defined as those made of unconventional materials, by means of the latest technologies, using new methods of processing and storage, and/or innovative tools of marketing promotion. Table 1 presents a detailed understanding of the term food product innovation.

TABLE 1. Essential characteristics of the concept of food product innovation

Schumpeter's fundamental features of innovation	Detailed characteristics of innovative products in the food industry
Making a new product or a known product with new properties	Creating a radically new food or functional ingredients using advanced technologies that allow for technologically new products; or providing a new quality of traditional foods, mainly enrichment composition and obtaining a new or improved food product through advanced technology
Introduction of new, previously unknown technologies	Low temperature, disintegration, electro, cryogenic and freezing technologies
Development of a new market	Propagation of food culture among the population; new discoveries in biochemistry, physiology, nutrition indicate the priority impact of food ingredients on physical and mental health. Today, in advanced countries, the 80–90% of population is provided wellness products. In Ukraine, the share of these products is less than 2% of the total. That is why the market for new food is constantly growing
Attaining new sources of raw materials or semi-finished products	Healthcare products should be available to all parts of the population, regardless of their materials. Compared to traditional products, healthcare products have optimal vitamins, mineral elements, antioxidants etc. From this perspective, it is necessary to use wild-grown raw materials (berries, mushrooms), secondary raw materials in the process of production of wine, juices, and various semi-medicinal plants
Reorganisation (organisational restructuring)	New organisational reforms require new approaches including technological and economic ones. This reorganisation primarily involves strengthening integration processes in order to increase market opportunities of enterprises and their impact on consumers, as well as diversifying processes with a focus on improving nutrition

Source: the author based on Schumpeter 2011.

Producing and selling innovative products can be done successfully if the manufacturer adheres to the following requirements [Sandberg 2008]:

1. Determining the scope of the product. It is important to identify for which market (regional or national) a new product is being created.
2. Identifying potential customers. A successful product cannot be useful for all customers; the manufacturer has to decide to whom he or she will market.
3. Determining the importance of the product, its value for the consumer, society and the company.
4. Defining the marketing strategy, including the strategy of positioning the new product and its price.
5. Determining the main characteristics of the new product, its benefits, requirements and characteristics.

There are two main criteria that lead to a successful product at this stage [Sandberg 2008]:

1. Scope creep means that the definition of the functions and characteristics of the product may fluctuate in the process of creating it. Initially, the product can be created for a certain consumer, then it can be designated for several groups of potential customers, and ultimately for the entire market. Therefore, it is important to adhere to a single goal in creating the product.
2. Unstable product specs mean that at the production stage, the product must be improved as part of the goal.

Robert Cooper, the author of the book “Winning at New Products: Creating Value Through Innovation”, identifies major success factors, which are analysed below [Cooper 2011].

1. Well-planned production process. The production process of a new product should be transparent at each stage. The new technologies must be used in production, since this will help reduce expenses. Careful development of technology strategies is also important as they ensure effective allocation of resources in production, and enable the choice of the best niche product, which will allow one to reach potential customers.
2. Alignment of priorities. Typically, companies work simultaneously on several projects. They can launch several new products, along with the work on existing projects, and develop ideas for other new products. The experience of organisations releasing new products and achieving success shows that it is necessary to decide which project has the highest priority, and which requires more commitment. It is better to reduce the number of new projects, selecting the best of them. It is also important to combine several projects, which may perhaps complement each other’s development.
3. Focus on the company’s key activity. The use of a product in a completely new area usually leads to failure. However, careful collaboration and innovation will help to avert risks.
4. Assessment of market attractiveness. It is necessary to determine the composition of attractive markets – the market size, the possibility of expanding and the position of competitors. It is important to fine-tune a new product when placing it in an existing market.

Two main components of market attractiveness should be taken into account when forming strategy [Rafinejad 2007]:

- market potential: a favourable market environment and a large and growing market, which is where the needs of consumers in new products appear and grow;
- competitive state: intensely competitive markets are not favourable for introducing new products, which will struggle to compete with existing analogs because of pricing competition. Furthermore, unlike newcomers, long-term market players can afford to reduce the price of goods.

It is necessary to research the market and customers before marketing strategies can be formed. This is particularly important for innovative products. We know that marketing research is quite costly, but it leads to good results. However, there are some paradoxes of marketing research. For starters, it is difficult for consumers to articulate their own needs. Secondly, innovative companies should consider market data in developing and evaluat-

ing their innovative ideas. Finally, successful innovative companies analyze considerable amounts of information before taking a final decision. Here information received from potential customers is of crucial importance. It is also necessary to use feedback in developing new products and to effectively allocate resources for data collection.

The need for marketing research has been demonstrated on the examples of successful businesses. Expenses incurred in conducting marketing research include the costs of research and salaries of personnel employed in such studies. The evaluation of costs for research for various industries makes it possible to identify that such costs in the food market amount to, on average, 0.5% of sales, and the number of personnel engaged in marketing research, is about 18 people.

For traditional products we used virtually the same marketing research tools as those used for consistently innovative products.

## **ENTERPRISE INNOVATION ACTIVITY DYNAMICS IN UKRAINE'S FOOD INDUSTRY**

A study of innovation in the industry has shown that the most successful and largely completed innovations are in the food industry. Rapid turnover and constant demand for essential goods have allowed many businesses to use this fact to accumulate funds, store and forward them to update fixed assets, expand their product range, and institute new market policies. The results of changes in food enterprises directly affect the quality of the products they offer, and innovations become apparent to consumers. For this reason, innovation studies should focus on companies producing dairy, bakery, meat and confectionery products.

In general, innovation in the food industry in Ukraine is characterised by instability, unbalanced financial resources, and a lack of clearly defined priorities. From 2010 to 2012 in Ukraine the number of enterprises implementing innovations rose, with the highest number (348) being rolled out in 2012. Unfortunately, the numbers subsequently declined, due particularly to the general economic downturn in the country, increasing inflation, and rising raw materials costs. In 2015, compared to 2014, the number of food industry enterprises implementing innovations decreased from 265 to 165 (nearly 38%).

Figure 1 shows that in Ukraine until 2012 the number of enterprises implementing innovative processes and resource-saving technologies was growing.

However, in 2013 and the years that followed, the number of enterprises implementing innovative processes fell – 2015 levels were 12% less than in 2014, and a full half of the 2012 figures. The number of enterprises implementing energy saving and low-waste technologies decreased by 18% in 2015 compared to 2014, and more than sixfold compared to 2012. The number of companies that produced innovative products also fell dramatically (by almost 31% in 2015 compared to 2014 levels and twofold over 2012 levels). This indicates not only that there are adverse external conditions for innovation to occur, but also the weak link in innovation activities in this industry is the market itself – that is, putting a product on the market.

The data in Figure 2 confirm the preliminary conclusion that the amount of innovative products produced for the market rapidly declined. This downward trend started in 2014,

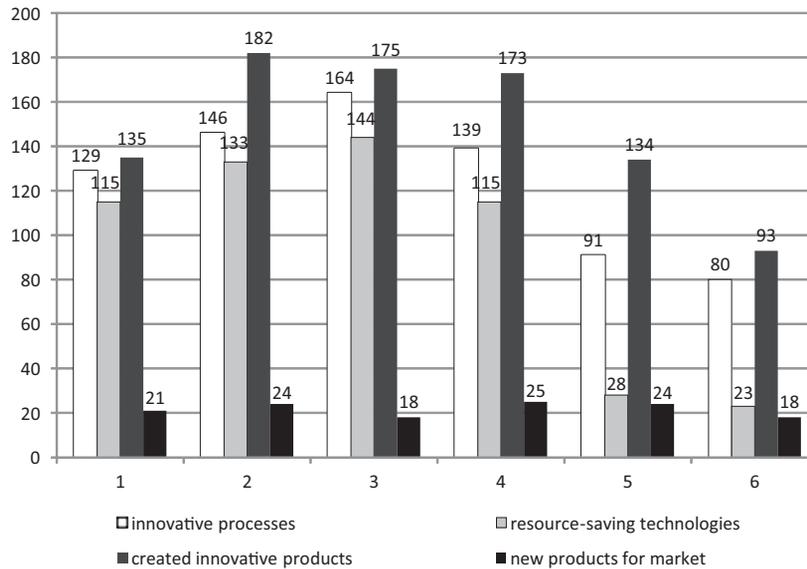


FIG. 1. The number of food industry enterprises implementing innovations in Ukraine

Source: the author based on WWW 1.

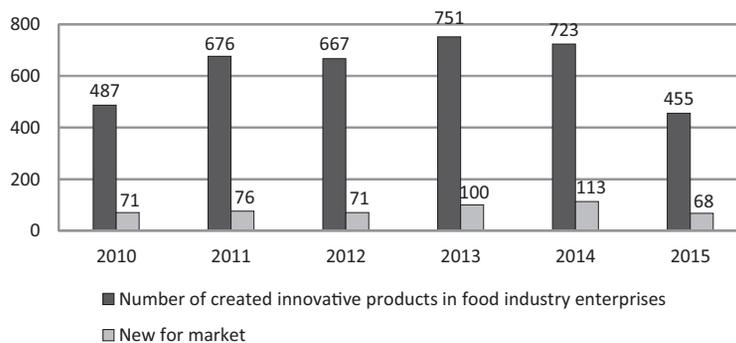


FIG. 2. The number of innovative products created by food industry enterprises in Ukraine in 2010–2015

Source: the author based on WWW 1.

and in 2015 became threatening. While the general decrease in the number of innovative products in the food industry in 2014–2015 was 37%, the production of fundamentally new products for the market decreased by 40%. This means products were rolled out with insufficient marketing research having been done, followed by ineffective marketing strategies.

Figure 3 demonstrates that the number of food industry enterprises which implemented innovative products decreased by 35% in 2015 compared to 2014, and twofold from

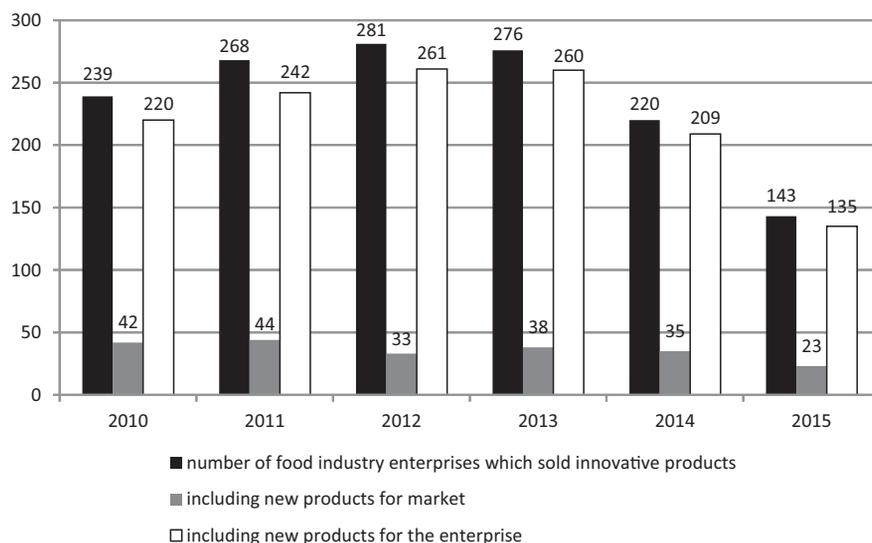


FIG. 3. The number of food industry enterprises which sold innovative products in Ukraine in 2010–2015

Source: the author based on WWW 1.

2012 levels. The reduction amounted to 35% in the last five years (2010–2015), and the number of manufactured products, which are new for the enterprises, declined nearly twofold. This indicates companies lacked resources for their own scientific and technical developments.

New foods include those in the following product categories: health, functional, fortified, probiotic, and organic products. Of these, only physiologically functional products require guaranteed content of a particular ingredient amounting to 10–50% of the daily requirement. The most popular product categories on the global market include:

- organic products, which are characterised by improved quality and safety, no risk of contamination by xenobiotics, and the preservation of useful properties from raw materials during production;
- physiologically functional products, characterised by positive changes in indicators due to the modification of nutrients.

These two new categories of food products are mainly targeted by food innovations.

## INNOVATIVE STRATEGIES AND STRATEGIES FOR INNOVATIVE FOOD PRODUCTS

Research on innovation strategy is associated with the development of any modern enterprise which is focused on innovation and aspires to develop a comprehensive ability to use different types of innovations in order to reach the market. Pavlenko states that “innovation strategy, as a part of the overall business strategy, constitutes a purposeful activity to identify critical areas, the choice of priorities of perspective enterprise develop-

ment, and the invention of complex measures needed to achieve them" [Pavlenko 2006]. Akmayeva has a similar opinion, defining innovation strategy as "purposeful activity for the prioritisation of perspective enterprise development and its achievement, resulting in new quality production and management" [Akmayeva 2009].

According to Kovtun, innovative strategy in general is "a superstrategy [...] a logical system of the enterprise's orientation for offering innovations (and at a deeper level – for investment in innovation) by various factors (both typical and uncharacteristic), which are objects of competition in a particular area of business, and which determines the direction of favourable conditions and opportunities for the innovation process and innovation in the enterprise to promote and obtain effective results" [Kovtun 2013]. This definition accurately characterises the present category. However, depending on the market position of the enterprise, its financial capabilities and priorities of innovative strategies may or may not play a key role in setting strategy. The systematic approach to the study of phenomena and processes involves consideration of strategies at several levels (depending on the scope of activities, complexity of organisational structure and richness of the economic portfolio). Innovative strategy is a leading functional strategy at high-tech enterprises. It involves the formation of a comprehensive set of measures for technological improvement of the production process, changes in the company's organisational structure, and implementation of modern management technologies. In other words, the strategy is a detailed multilateral plan for the comprehensive achievement of the company's objectives. The strategy involves a sequence of market behaviours that allow the company to position itself in the environment, and the change in strategy is a response to changing external conditions.

Figure 4 shows that the innovative strategy is closely linked to marketing strategies, because innovation becomes an innovative product only when it finds its own customers and gains the market. Marketing strategies in turn are divided into sub-strategies within the marketing mix: product, price, marketing and promotion strategies. They are intended to actively promote innovative products on the market.

However, is it possible to identify innovative strategies and marketing strategies regarding innovation products? After all, they are different, if closely related concepts. To understand the difference, the company's activities on the market should be considered from the standpoint of product life cycles. The product is considered innovative at the first stage of its life cycle, and may partially preserve the characteristics of innovation at the second stage, which is why marketing strategies and activities at these stages will be effective for innovative products. It is advisable to form an integrated system of measures within the marketing mix for each stage (Table 2).

In understanding the innovative strategy in a particular pattern of the enterprise's behaviour within the new market conditions, there are two groups of strategies: active and passive. The first type is also known as a technological strategy, and constitutes a response to changes in the environment because of the constant introduction of technological innovations [Kovtun 2013]. The enterprise selects an active strategy focusing on the use of new technological ideas. Among active innovation strategies there are two types of strategies: market leader and market follower. The fundamental difference between them is this: If a technology embodied in a new product or service is completely new to the market, the firm's strategy is built around technological leadership. In imitation strategy, the leader company uses an already known technological idea.

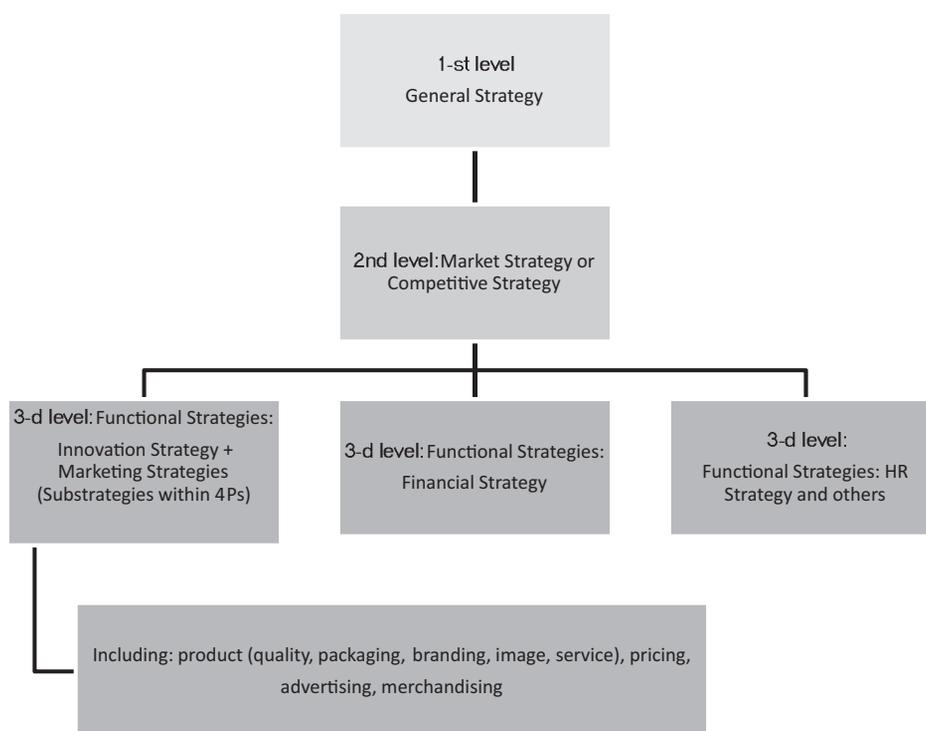


FIG. 4. Levels of enterprise strategies

Source: the author based on Larina 2008.

TABLE 2. Comparison of strategies for innovative food products at different stages of the life cycle

Substrategies within 4P	Stages of the life cycle			
	implementation	growth	maturity	degression
Product	offering products created by means of new technologies	offering organic products	offering innovative products like traditional products	gradual elimination of non-profit assortment positions
Price	setting prices for the purpose of market penetration	setting prices based on tangible value to consumer	pricing products according to competitors' prices	lowering prices to dump product
Sales	creating selective sales system, targeting	creating aggressive sales system	providing more intensive sales	sellout, finishing sales of unprofitable products
Advertising	informing	convincing	reminding	limited
Sales promotion	promoting customers to trial purchase	reducing incentives for the use of large customer demand	strengthening sales promotion to encourage the transition of conservative consumers to new products	minimising sales promotion

Source: the author based on Krikovtseva 2011.

Passive innovative strategies are constant innovations in “out-of-technology” areas, such as management and marketing. In this case, the company chooses the most innovative strategies in product differentiation, service, and image while it identifies new competitive advantages. Based on market segmentation, the company can reposition its products, branding. Passive innovative strategies may include the use of new forms and methods of marketing and unconventional means of promotion.

Innovative food products (food and drinks) are a part of the FMCG market, which particularly affects the formation of business strategy. This market is characterised by tough competition and oversupply. Formation of effective strategies, the creation of successful brands and profitable business activity in this market are more complicated and require a tailored approach and knowledge. The main features of the FMCG market include the following (Table 3).

In the market there are always difficulties in implementing marketing strategies, branding and promoting products. The FMCG sector has a number of “limiting” factors that create additional difficulties for doing business and implementing strategies. These include:

- the mass market focuses on a set of very different customers, and manages a wide range of products;
- the marketing chain has a complex structure, including a large number of intermediaries; in addition, existing sales channels are intense and a high “entrance fee” accompanies one’s entrance to the market with a new product name;
- high sensitivity to price, and easy to compare products, blurring the boundaries between comparable products;
- the need for branding and development of “saleable” packaging design, in order to distinguish one product from others;
- a large number of consumer purchases are emotion- and impulse-driven.

TABLE 3. The main features of the FMCG market and their influence on strategy formation

Features of the FMCG market	Influence on formation of strategy
High turnover of goods	Consumers buy FMCG goods daily or several times a week. As a result, the consumer has already established the consumption model. In the process of strategy formation, a consumer behaviour model should be considered
Low level net profit	Due to low marginal revenue of goods, producers receive lower net profit. In this market, there are two scenarios: low sales and high income or low income with high-volume sales. The solution is a clear definition of the target segment before the sales launch
High demand	The high demand from target consumers in the FMCG market makes economies of scale easy to achieve
Low involvement of consumers	Routine and everyday purchases gradually reduce the attention and involvement of consumer interest in the purchase process. Buyers seek to reduce the time of purchase to a minimum, making purchases by habit, buying a trademark chosen years ago. Producers should contribute financially for branding and positioning strategy
Easy substitutability of goods	A large number of products offered in the market, leading to oversupply, making product substitution fairly easy. To solve the problem, justify competitive strategy and actively respond to the moves of competitors

Source: the author.

All the brands in the FMCG sector can be divided into one of three groups:

- monoproduct brands – the brand name under which the market is represented by one type of product or category, for example, Coca-Cola;
- brands focused on two or three types of products – such as Wimm-Bill-Dann, which produces dairy products and juices, or Cadbury Schweppes, which sells both soft drinks and confectionery products;
- multiproducts – brands that produce more than three products, for example, Nestlé and Unilever.

In this case, the product is a strategic business unit as a separate part of the company, within the same category of goods and a uniform system of marketing communications.

Strategies of leading brands in the FMCG sector include [Prosvirina 2015]:

- Seeking prospects in emerging markets. Over the last five years, FMCG brand producers have been looking to expand into new markets, primarily developing countries with their massive market growth being twice that of developed countries. If the welfare of the population of these countries increases, so too will consumption, followed by a shift in demand towards higher-end products.
- Acquisition of leaders in profitable and attractive segments. Acquiring market leaders and restructuring branded products are the most common methods of increasing multibrand sales.
- Alliance with competitive brands. Well-known global brand company Coca-Cola is one of the most famous creator of alliances with competitors. Several years ago it created a joint product with the Nestlé company – a chocolate drink called Choglit, and entered into an alliance with Nestlé’s direct competitor, Danone. Transforming direct and indirect competitors into business partners is one of the most common and effective strategies in the FMCG market.

An enterprise’s image affects the capacity for competitiveness, pricing, product image, attractiveness [Simahina and Naumenko 2015]. International studies in creating a positive company image are rapidly developing, and this experience can be successfully used in domestic enterprises.

Today, the main competitive advantage of any enterprise is high-quality service. It can form the basis for development strategies as an important influence on a particular food product market, including recreational purposes. At this stage, innovation means comprehensive management of customer service at a high level of awareness regarding health-improving food products, their rational use, and the conditions under which they most effectively affect the human body.

One of the aspects of such awareness is the formation of consumer attitudes towards correct eating behaviours, based on twenty-first century nutrition theories and basic principles. The main factors behind consumer behaviour stereotypes are national and cultural traditions, product range, material and educational level, professional activity, the degree of awareness of nutrition and its impact on health, the quality and safety of food products, their usefulness or presence of harmful components, the threat of nutritional diseases and ways of preventing them.

While forming pricing policy, consumers’ ability to afford healthy food and lifestyle, and find the ultimate “quality to price” ratio must be taken into account. For example, Hoffman La Roche’s long-term experience shows that the price of enriched bakery and

dairy products is only 1–4 and 5–10%, respectively, of the prevailing traditional cost [Prosvirina 2015].

In realising marketing strategy, merchandising, a set of measures aimed at increased sales of products directly on the trading floor, is of crucial importance. These include:

- thoroughly planned product placement (separate shelves for baby food, gerontology nutrition, sport supplement, etc.);
- promotional materials for innovative products with detailed information about the product's general properties, its new ingredients and their impact on human health etc.;
- providing the maximum possible range of new products;
- attractive packaging with all necessary information;
- making available instructions for use and explanatory information regarding the usefulness of the product.

## CONCLUSIONS

The end result of innovation in food enterprises is technologically new or technologically improved product, characterised by a set of necessary basic qualities and safety, energy and food values, adequate amounts of functional ingredients and food safety. Based on Schumpeter's theory, I define the innovative food product as one made of unconventional materials, by means of the latest technologies, using new methods of processing and storage, and/or innovative marketing and promotional tools. The following are innovative food product categories: healthcare, functional, fortified, probiotic, organic products. The two most popular product categories on global markets are organic and physiologically functional products.

Innovative and marketing strategies are third level, or functional, strategies. Innovative enterprise strategy is closely linked to marketing strategies, because innovation becomes an innovative product only when it finds its own customers and carves out a market. Innovative strategy is the leading functional strategy within high-tech enterprises. It comprises a set of measures aimed at improving the production process, changes in organisational structure, and the introduction of modern management technologies. In other words, the strategy is a detailed comprehensive plan the company uses to achieve its objectives. Marketing strategy is developed using the 4Ps: product (quality, packaging, branding, image, service), pricing, place (forming distribution channels, merchandising), promotion (advertising, direct sales).

The marketing strategy involves consistency of market behaviour that allows a company to position itself in the market, and the change in strategy is a response to changing external conditions. Innovative food products are a part of the FMCG market, which is characterised by tough competition and oversupply. Forming effective strategies, creating successful brands and profitable business activity in this market are all more complicated endeavours, and require a specific approach and knowledge. Strategies of the leading brands in the FMCG sector include searching for prospects in emerging markets, acquiring leaders in profitable and attractive segments and forging alliances with competitive brands. Other important aspects of

marketing strategies for innovative food products are high-quality services, pricing policy and merchandising.

**Summary.** The purpose of the present paper is to identify the particular use of marketing strategies for innovative products and to define the features thereof. Innovative food products can be defined as those made of unconventional materials, with the use of the latest technologies and new methods of processing and storage, and/or innovative tools of marketing promotion. In the paper I show that innovative strategy is a leading functional strategy of high-tech enterprises. It involves producing a comprehensive set of measures for improving technological aspects of the production process, changes in the company's organisational structure, and the implementation of modern management technologies. The strategy requires companies to act consistently, which allows them to position themselves in the market. A change in strategy is a response to changing external conditions. Innovative food products belong to the FMCG market, which is characterised by tough competition and oversupply. Forming effective strategies, creating successful brands and profitable business activity in this market requires an approach tailored to this market. Strategies of leading brands in the FMCG sector include seeking out prospects in emerging markets, acquiring leaders in profitable and attractive segments and forming alliances with competitors.

**Key words:** innovation, innovative product, innovative food product, innovative strategy, FMCG sector

**JEL:** M31, O32, O33

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## **ENTERPRISE BRANDING STRATEGIES**

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### **INTRODUCTION**

The main aims of this paper are to present the role, the importance and a procedure for creating branding strategies at an enterprise. In particular, the analysis is intended to provide a background for conceiving a brand strategy, brand extension and brand equity. Two hypotheses are formulated: a brand has value for an enterprise and customers; and building a strong brand is both an art and a science. These hypotheses will be tested as the topic and issues of branding strategies are introduced and discussed.

The American Marketing Association defines a brand as a name, term, design, symbol (or combination thereof), intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors [WWW 1]. A brand is a product or service whose dimensions differentiate it from other products or services and designed to satisfy the same customer need. These differences may be functional, rational or tangible, and are related to product performance. They may also be symbolic, emotional, intangible and related to what the brand represents or means in an abstract sense. Before delimiting a brand, an enterprise has to learn the needs, habits and desires of current and prospective customers. It requires attention to the enterprise's mission, benefits and features of goods or services. It is important to know what customers think of the enterprise and what qualities may be associated with it.

The brand should be developed by writing a memorable, meaningful and concise statement that captures its significance. Brand recognition and reactions are created when customer experiences are accumulated with the specific good or service, both relating to its use, and through the influence of its promotion, design, and review by the media. A brand often includes an explicit logo, fonts, colour schemes, symbols or sound, which may be developed to represent implied values, ideas and even personality.

Branding enhances every aspect of employee activities – how to answer phones, what salespeople wear, how sales calls should be handled and emails dealt with. It should be applied to written communication and incorporated in the visual imagery of materials online. Marketers may also design templates and create brand standards for marketing mix. It is worth creating a great brand to engage customers, gain their loyalty and cause competitors to try to imitate the company rather than mock it. Still, a company can be damaged by rumors or outright disgraced by bad employee behaviour or poor press. Poor press is an especially thorny problem today, as once something makes it way online, it is never truly removed.

Brand loyalty provides predictability and security of demand and creates barriers to entry for other enterprises seeking to carve out a place on the market. Loyalty can also be translated into customer willingness to pay a higher price than for competing brands [Jones and George 2008]. The most distinctive skill of marketers is their ability to create, maintain, enhance and protect brands.

A brand's promise is the vision of what the brand must be and do for customers. Customers will decide, based on what they think and feel about this promise. Brand identity allows customers, and enterprises, to assign responsibility for performance to a particular manufacturer or distributor. Customers learn about brands through past experiences with their products, finding out which satisfy their needs. People are ever more challenged by their complicated, hectic lives, so a brand's ability to simplify decision-making and reduce risk is invaluable.

Brands simplify product handling and tracing while helping to coordinate inventory and accounting records. They offer legal protection for unique product features. A brand name can be protected through registered trademarks and manufacturing processes can be protected through patents [Griffin et al. 2011]. Packaging can be protected through copyrights and proprietary designs. These intellectual property rights ensure that enterprises collect the benefits of a valuable asset. A credible brand signals a level of quality that encourages satisfied buyers to choose the product again.

## **CONCEIVING A BRAND STRATEGY**

A brand strategy details how, what, where, when and to whom a plan communicates and delivers its messages [WWW 2]. Promotion and distribution channels are parts of the brand strategy, as are marketers' visual and verbal communication. Branding builds strong brand equity, which is the added value brought to an enterprise's goods or services that allows it to charge more for the brand than is charged for unbranded products. The added value intrinsic to brand equity frequently comes in the form of perceived quality and emotional attachment (e.g. Nike associates its products with star athletes, hoping that customers will transfer their emotional attachment from the athlete to the product).

The main steps of strategic brand management are illustrated in Figure 1. For branding strategies to be successful and brand value to be created, customers must be convinced there are meaningful differences among brands in the goods or service category. Brand differences often relate to attributes or benefits of the product itself. Some enterprises (e.g. Gillette) have led their product categories for decades, due in part to continual innovation [WWW 3].

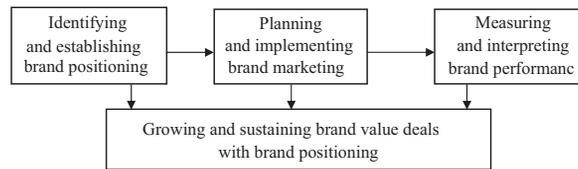


FIG. 1. The strategic brand management process

Source: the author.

A strategy for branding new products is especially critical. An enterprise has three main choices:

- develop new brand elements;
- apply some of its existing brand elements;
- use a combination of new and existing brand elements.

When an enterprise uses an established brand to introduce a new product, it is called a brand extension. When marketers combine a new brand with an existing brand, the brand extension can be called a sub-brand. The existing brand that imparts a brand extension or sub-brand is called the master brand or family brand [Michalski 2012].

A brand line consists of all products, be they original or line and category extensions, sold under a particular brand. They result from the pressure retailers put on manufacturers to provide distinctive offerings (e.g. an enterprise may supply its low-end cameras to mass merchandisers while limiting its higher-priced items to camera shops). A licensed product is one whose brand name has been licensed out to other manufacturers that actually make the product.

Marketers often need multiple brands in order to pursue several segments. Other reasons to introduce multiple brands in a category include a desire to increase shelf presence and retailer dependence in the store; to attract customers seeking variety; to increase internal competition; and to yield economies of scale in promoting, selling, merchandising and distributing the products.

Three general strategies are prevalent in choosing brand names [Griffin et al. 2011]:

1. Individual or separate family brand names. A major advantage of these is that if a product ends up being of low quality, the enterprise has not tied its reputation to it.
2. Enterprises can use an umbrella brand across their entire range of products. Development costs are lower because there is no need to do name research or spend excessively on promotion.
3. Sub-brands combine two or more of an enterprise's brands, family brands or individual product brand names. Various durable goods producers, such as: Honda, Sony and Hewlett-Packard, use sub-brands for their products.

The brand portfolio is the set of all brands and brand lines an enterprise offers for sale in a distinct category or market segment. An optimal brand portfolio is one in which each of its constituent brands works together to maximise profit. The basic principle in designing a brand portfolio is to maximise market coverage so no potential customers are being ignored. It minimises brand overlap so that brands are not competing for customer approval. Each brand should be clearly differentiated and appeal to a sizable enough market segment to justify its marketing and production costs. Marketers monitor brand portfolios over time to identify weak brands and destroy unprofitable ones.

Retailers like the relatively low-priced brands in a portfolio because they are able to trade up customers to a higher-priced brand. For example, BMW introduced certain models in series automobiles as a means of bringing new customers into the brand franchise, with the hope of later moving them to higher-priced models, when they decided to trade in their cars [WWW 4]. The role of a relatively high-priced brand often is to add prestige and credibility to the entire portfolio. The real value of Chevrolet's high-performance Corvette sports car was its ability to entice curious customers into showrooms, which helped improve the image of its other cars [WWW 5].

## STRATEGY FOR BRAND EXTENSION

Two main advantages of brand extensions are that they can facilitate a new product's acceptance and create positive feedback for the parent brand and enterprise [Cateora et al. 2011]. Expectations about a new product are based on what customers know about the parent brand and the extent to which they feel this information is relevant. It may be easier to convince retailers to stock and promote a brand extension because it is expected to increase customer demand. Brand extensions fall into two general categories:

- line extension – the parent brand covers a new product within a category it currently serves, such as with new flavours, forms, colours, ingredients and packaging;
- category extension – marketers use the parent brand to enter a different product category. For example, Honda has used its enterprise name to cover such different products, as: automobiles, motorcycles, snow blowers, lawn mowers, marine engines, and snowmobiles [WWW 6]. This allows the enterprise to advertise six Honda automobiles in a two-car garage.

Extensions can reduce launch costs, which may be important when establishing a new brand name for a packaged good in the domestic marketplace [Michalski 2016]. This may help avoid difficulty with future naming and allow for packaging and labeling efficiencies. Identical packaging and labeling can lower production costs for extensions and provide more visibility in retail settings. Variations within a product category allow customers, who want a change, to switch to a different product type without having to leave the brand family. Brand extensions can provide feedback that helps to clarify core values or improve customer loyalty to the enterprise behind the extension.

Line extensions may cause the brand name to be less strongly identified with any one product. Brand dilution occurs when customers no longer associate a brand with a specific or highly similar set of products and start thinking less of the brand. Retailers reject many new products and brands because they do not have the shelf or display space for them. Marketing failures, in which too few customers were attracted to a brand, are typically much less damaging than product failures, in which the brand fundamentally fails to live up to its promise.

Even if sales of a brand extension are high and meet targets, the revenue may be coming from customers switching to the extension from existing parent-brand offerings, in effect cannibalising the parent brand. Shifts in sales may not necessarily be undesirable if they are a form of preemptive substitution. One easily overlooked disadvantage of brand extensions is that the enterprise forgoes creating a new brand with its own unique image and equity.

Successful brand extensions occur when the parent brand and the extension product are perceived to fit. High-quality brands stretch farther than average-quality brands, though both have boundaries.

Customers may transfer associations that are positive in the original product class but become negative in the extension context. However, a successful extension may contribute to the parent's brand image while enabling the brand to be even further extended.

When an enterprise has an attractive brand, customers will begin to associate positive feelings with it. Bad reviews can actually be a great opportunity to make the brand look even better. Responding simply to show that the company is listening shows how it will respond when the customer complains. An enterprise should have a home page, contact information, a listing of services or products and at least a simple "about" page. The stronger its website, the more customers it will attract and keep.

## APPROACHES TO BRAND EQUITY

Brand equity is added value endowed on goods and services. It may be reflected in the way the customer thinks, feels and acts with respect to the brand, as well as in the prices, market share, and profitability the brand commands [Kotler and Keller 2011]. Brand equity arises from differences in customer response. If no differences occur, the brand-name product is essentially a commodity and competition will probably be based on price. Differences in response are a result of consumers' brand knowledge, the thoughts, feelings, images, experiences, and beliefs associated with the brand. Brands must create strong, favourable, and unique associations with customers, as do Toyota for reliability, Hallmark for caring, and Amazon.com for convenience.

Marketers use various overviews to study brand equity. Customer-based approaches view brand equity in terms of whether customers recognise what they have seen, read, heard, learned, thought, and felt about the brand over time [WWW 7]. Customers reach different dimensions to brand equity, as Figure 2 shows.

In the base level, presence, and active familiarity are based on past trials, saliency or knowledge of brand promise. The relevance of equity pertains to whether consumers' needs run in the right price range. Performance is the belief that the product performs acceptably and is on the consumer's short-list. Advantage refers to belief that the brand has an emotional or rational advantage over competitive brands. There are more customers at lower levels, so the challenge for marketers is to help them move up to the level of "bonding" (Fig. 2).

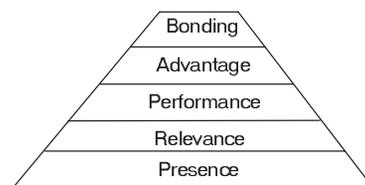


FIG. 2. The dimensions of brand equity

Source: the author based on Kotler and Keller 2011.

The relationships among these dimensions reveal a great deal about a brand's current and future status. Strong new brands show higher levels of differentiation and power than relevance, whereas both esteem and knowledge are still lower. Stronger brands bring in greater revenue. Declining brands show high knowledge, as evidence of past performance, a lower level of esteem, and even lower relevance and differentiation.

Thanks to strong brand equity, marketing communications increase effectiveness and reduce the vulnerability to competitive marketing actions. There is more inelastic customer response to price increases and more elastic response to price decreases. There are three important sets of brand equity drivers:

- the initial choices for the brand elements or identities making up the brand names, logos, symbols, characters, spokespeople, slogans, jingles and packages. They should be short, appealing, memorable, and active;
- marketing and supporting programmes;
- associations indirectly transferred to the brand by linking it to a person, place or thing.

Brand elements are those which can be trademarked and also help identify and differentiate the brand [Cateora et al. 2011]. As Figure 3 shows there are six criteria for choosing brand elements. Memorable elements (a short name, for example) allow customers to easily recall and recognise the brand. Meaningful elements give the brand credibility, while aesthetically appealing elements likewise boost its likeability. Transferability facilitates the introduction of new products in the same or different categories. For example, Amazon is the world's biggest river, and the name suggests the wide variety of goods that could be shipped, an important descriptor of the diverse range of products the company now sells. Adaptability shows how adjustable a brand is. A company's ability to protect its name legally safeguards the brand (e.g. Kleenex and Xerox retain their trademark rights, which help them stand apart).

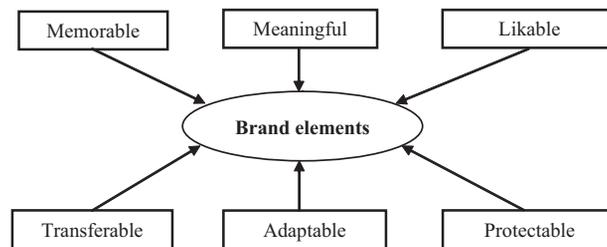


FIG. 3. Criteria for choosing brand elements

Source: the author.

The likability of brand elements may increase awareness and associations (friendly tire-shaped body of Michelin's Man's, for example). Many insurance firms use symbols of strength for their brands (Insurance Panda, for example). Conducting audits allows marketers to remain well-informed about their brands so they can manage them more proactively and responsively. Brand-tracking studies collect quantitative data from customers over time to provide consistent, baseline information about how brands and marketing programmes are performing [Malhorta 2009].

Marketers should distinguish brand equity from brand valuation, which places a financial value on the brand. Tracking studies help to understand where, how much and in what ways brand value is being created. Table 1 displays the world's most valuable brands in 2016.

TABLE 1. The World's most valuable brands in 2016

Ranking	Brand	Value (billion USD)
1	Apple	154.1
2	Google	82.5
3	Microsoft	75.2
4	Coca-Cola	58.5
5	Facebook	52.6
6	Toyota	42.1
7	IBM	41.4
8	Disney	39.5
9	McDonald's	39.1
10	GE	36.7

Sources: WWW 8.

Brand value creation begins when the enterprise targets actual or potential customers by investing in a marketing programme to develop the brand, including product research, development, design, trade, intermediary support and communications. Marketing and financial analyses are equally important in determining a brand's value. Customer lifetime value is affected by revenue and by the costs of customer acquisition, retention and cross-selling [Stiglitz 2002]. Acquisition depends on the number of prospects, the probability of a prospect, and spending per prospect. Add-on spending is a function of the efficiency of selling, the number of selling offers given to existing customers and the response rate to new offers. Assessment of brand value follows five steps (Fig. 4). Market segmentation describes how to divide the market(s) in which the brand is sold into mutually exclusive segments that help determine variations in the brand's different customer groups. Financial analysis assesses price, volume, and frequency to help calculate accurate forecasts of

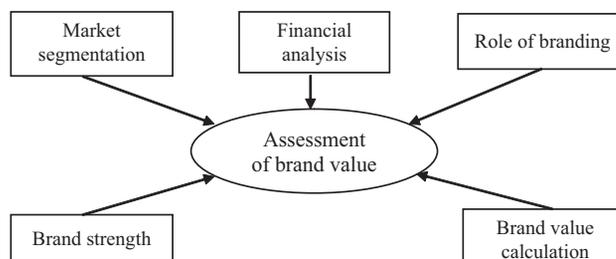


FIG. 4. Assessment of brand value

Source: the author.

future brand sales and revenues. Branding is attributed to identifying the various drivers of demand, then determining the degree to which the brand directly influences each.

The role of branding assessment is based on market research, client workshops, and interviews and represents the percentage of earnings the brand generates. Brand strength is assessed with competitive benchmarking and a structured evaluation of the brand's clarity, commitment, protection, responsiveness, authenticity, relevance, differentiation, consistency, presence, and understanding. An enterprise can use brand value assessments as a dynamic, strategic tool to identify and maximise return on brand investment across a host of areas. Short-term marketing actions, by changing brand knowledge, increase or decrease the long-term success of future marketing actions. As an enterprise's major enduring asset, a brand needs to be carefully managed so its value does not depreciate. For example, NIVEA [WWW 9], one of Europe's strongest brands, has expanded from a skin cream brand to a skin care and personal care brand through carefully designed and implemented brand extensions that reinforce the brand promise of mild, gentle, and caring.

In practically every product category, once-prominent and admired brands – Oldsmobile and Polaroid, to name two – have fallen on hard times. After nearly likewise succumbing, Fiat and Volkswagen have turned their brand fortunes around to varying degrees. An important part of reinforcing brands is providing consistent marketing support. Failure to reinforce the brand will diminish brand awareness and weaken brand image. Often, the first step in revitalising a brand is to understand what the sources of brand equity were to begin with, then decide whether to retain the same positioning or create a new one.

The brand equity and customer equity perspectives emphasise the importance of customer loyalty and the notion of creating value by having as many customers as possible pay as high a price as possible. Both brand equity and customer equity matter because there are no brands without customers and no customers without brands.

## CONCLUSION

An enterprise's most valuable intangible assets are its brands. It requires careful planning, a deep long-term commitment, and creatively designed and executed marketing. A strong brand commands intense consumer loyalty.

The analysis carried out in this paper has looked at knowledge, understanding and the usefulness of strategy branding. Both hypotheses of the article have been confirmed.

Branding can be a powerful means to securing competitive advantage, helps customers establish their knowledge about goods and services in a way that clarifies their decision-making and also benefits the enterprise. Many enterprises introduce branded variants, which are brand lines supplied to particular retailers or distribution channels.

Marketers must judge each potential brand extension by how effectively it leverages existing brand equity from the parent brand, as well as how effectively it contributes to the parent brand's equity. Brand equity tends to emphasise strategic issues in managing brands and creating and leveraging brand awareness and image with customers. A brand audit is a consumer-focused series of procedures to assess the healthiness of the brand, uncover its sources of brand equity, and suggest ways to improve and leverage its equity. It establishes a strong relationship between the enterprise and existing, and new poten-

tial customers. Strong brand equity provides trade cooperation and support, and greater customer loyalty. Branding will be a factor in the success of an enterprise and gives it the confidence and power to do business.

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**Summary.** Preparation for marketing and implementation of exchange goods and services require branding strategies to be built. Effective branding can lend a major edge in increasingly competitive markets. An enterprise needs to determine how to conceive of brand strategy, set up brand extensions and determine the dimensions of brand equity. To understand the factors shaping branding strategies, marketers must understand where, how much and in what way brand value is created. Success or failure depend on continuously monitoring the effectiveness of branding strategies and the appropriate use of brand extension, brand equity and opportunities that appear on markets.

**Key words:** strategy, market, brand extension, brand portfolio, brand equity

**JEL:** M31

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## **CHANGES IN THE PROFITABILITY OF INVESTMENT FUNDS IN POLAND IN THE PERIOD 2005–2016**

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### **INTRODUCTION**

Investment funds act as financial intermediaries and constitute an important part of the financial system. Their products provide households with a savings vehicle and companies with financing and liquidity. The funds' high efficiency and profitability of investment activities motivates both households and institutional customers to invest their financial surpluses in the funds. This leads to a significant amount of money being transferred to the economy as new shares, bonds or other investment assets are purchased. By financing only profitable projects, investment funds support the development of effective business and public sector entities and create favourable conditions for the country's economic development.

As Rouwenhorst has indicated, investment funds initiated capital allocation and joint investment operations in the second half of the eighteenth century. One of the first joint investment institutions was the Dutch investment trust called Eendragt maakt magt, founded in 1774 [Rouwenhorst 2004].

In Poland, investment funds started operations in 1992, regulated by the Act of Public Trading in Securities and Trust Funds. Their formation was associated with the establishment at the same time of the Warsaw Stock Exchange (WSE). Investment fund activities further promoted the development of the capital market in the country. Prior to the financial crisis of 2007–2009, these funds served a crucial role in Poland's financial sector. Their expansion was supported by a new regulation – the Act of Investment Funds from 2004, which provided for a more favourable environment for the creation of new entities. In 2007, the funds took more than 11% of the financial sector's total assets. After the economic downturn, financial crisis and public finance crisis in the EU, investment funds regained their position in the financial sector in Poland. Their rates of return became competitive with interest rates on bank term-deposits. After partially ceasing

pension fund operations, investment funds again became important players on the stock and bond markets.

The profitability and efficiency of the funds to a significant extent depend on the macroeconomic situation in Poland and the European Union (EU), developments in the domestic and global financial sector, the state of public finances and the attitude of households to investment. The aim of this article is to examine the rates of return of three main types of investment funds – bonds, equity and mixed funds – in the period of from 2005 to June 2016. The research is based on data published on the websites of Brokerage House BOŚ ([www.bossa.pl](http://www.bossa.pl)), Analizy Online ([www.analizy.pl](http://www.analizy.pl)) and the Chamber of Fund and Asset Management ([www.izfa.pl](http://www.izfa.pl)). Data on interest rates and macroeconomic conditions were taken from the National Bank of Poland (NBP) and the Central Statistical Office of Poland (GUS).

The remaining part of the paper is structured as follows. The next chapter presents conclusions from the review of the literature. This is followed by a presentation of the external conditions of the funds' operations, developments in the investment fund sector, and the results of research on the changes in profitability of investment funds.

## **INVESTMENT FUND PROFITABILITY – A REVIEW OF THE LITERATURE**

Assessment of the long-term efficiency of investment funds with a diversified asset portfolio is a complex process because the funds' offers are constantly expanding [Jurek-Wasilewska 2014]. Evaluating them is significantly affected by a large group of factors that determine the results obtained by individual entities. The main factors include the situation in the financial market, as well as factors directly related to the fund, including its investment policy, past earnings, and the value of assets under management. The lessons learned from the global financial crisis suggest the need to periodically review the effectiveness of investment funds, the quality of asset management and the soundness of the funds.

Based on the analysis of the development of investment funds in Poland in the period 1997–2014, Dawidowicz [2014] indicates the need for constant analysis of their effectiveness. He also discusses the factors that significantly affect the economic and financial situation of funds, i.e. the sector's dynamic asset growth, the changing legal and tax conditions and the improving macroeconomic conditions. For his part, Gabryelczyk [2006] states that macroeconomic factors significantly contribute to the development of the investment fund sector and recognises that new fund types have developed the fastest in this area. He also notes that Poland's accession to the EU and the subsequent introduction of the Law on investment funds in 2004 helped improve the performance of the investment fund sector considerably.

Sekuła [2010] emphasises that the scope of research done on Polish funds is much more limited than that done on their counterparts in the US and other highly developed countries. This is because Poland's financial sector is much less developed. Based on the evaluation of rates of return of equity funds in the period 1999–2009, he further states that actively managed equity funds do not outperform the benchmark index (WIG), and

that the variability in earnings and the sequence of returns achieved by the funds in past periods cannot be the only basis for forecasting future income.

Studying specialised funds in Poland such as Exchange-Traded Funds (ETF), Miziołek [2014] found that all of them achieved profitability similar to their investment portfolios. The best results were obtained by iShares MSCI Poland ETF UCITS, which may have resulted from using the lowest values of indicators of error mapping and semi-error mapping, and the highest values of the correlation coefficient and the coefficient of determination.

Satoła [2010] states that the development of the investment fund sector could be considered one of the key determinants of the development of Poland's entire financial system. The fund sector's performance is affected by such key factors as the macroeconomic situation in the country and condition of the capital market. He concludes that the expanding stock market is a key factor of the inflow of capital to investment funds and consequent improvement of their profitability. Analyzing the funds' performance in Poland in 2006–2014, he notes that equity funds and mixed funds were the highest achievers. However, in periods of uncertainty on the capital markets, the role of funds considered sound – i.e. bond and money markets – increased significantly. The most dynamic development in the fund sector was found in the group of new fund types, which includes securitisation and real estate funds. Although the value of their assets is rather small compared to other investment vehicles, they may well play a far greater role in the future.

## POLAND'S MACROECONOMIC SITUATION

During the years 2005–2016, Poland's macroeconomic situation improved significantly. Several factors have played a role. The country's accession to the EU in 2004 was one of the most important. The first signs of economic recovery appeared in mid-2003, after the referendum on EU entry proved positive. In subsequent years Poland's economy grew at a rate much higher than that of its Western European counterparts (Tables 1 and 2).

TABLE 1. Gross domestic product growth of Poland's main trade partners in 2005–2015 (%)

Specification	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
France	1.6	2.4	2.4	0.2	-2.9	2.0	2.1	0.2	0.7	0.2	1.9
Germany	0.7	3.7	3.3	1.1	-5.6	4.1	3.6	0.4	0.1	1.6	3.7
UK	2.8	3.0	2.6	-0.3	-4.3	1.9	1.6	0.7	1.7	2.8	1.4
Italy	0.9	2.0	1.5	-1.0	-5.5	1.7	0.6	-2.8	-1.7	-0.4	1.5
China	11.3	12.7	14.2	9.6	9.2	10.4	9.3	7.7	7.7	6.7	6.2
Russia	6.4	8.2	8.5	5.2	-7.8	4.5	4.3	3.4	1.3	0.8	0.5
USA	3.3	2.7	1.8	-0.3	-2.8	2.5	1.6	2.3	2.2	2.4	2.2
Euro zone	1.7	3.3	3.1	0.5	-4.5	2.0	1.6	-0.8	-0.4	0.9	2.9
UE	2.0	3.4	3.1	0.5	-4.4	2.1	1.7	-0.5	0.0	1.3	4.8

Source: the author based on Eurostat and OECD data [WWW 5, WWW 7].

Exports boosted the economy, their overall value increasing steadily throughout the period, and likewise improved trade relations with EU countries. From 2005 onwards, net exports boosted Poland's economic growth. Between 2005 and 2016, exports increased by 169%, imports by 132% (Table 2).

TABLE 2. Gross domestic product and its components in Poland in 2005–2015

Specification	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
GDP (bn PLN)	985	1 065	1 187	1 277	1 362	1 446	1 566	1 628	1 656	1 719	1 789
Exports (bn PLN)	289	344	387	405	423	578	666	723	767	815	778
Imports (bn PLN)	328	394	457	497	463	608	697	731	735	793	762
Investments (bn PLN)	131	157	192	213	221	293	324	322	312	337	322
Consumption (bn PLN)	801	856	923	1 021	1 069	1 166	1 246	1 294	1 310	1 348	1 372
GDP growth (%)	3.5	6.2	7.2	3.9	2.6	3.7	5.0	1.6	1.3	3.3	3.6
GDP pc (thous. PLN)	25.6	27.7	30.8	33.2	35.4	37.3	40.4	42.0	43.2	44.9	45.2

Source: the author based on Eurostat and OECD data [WWW 5, WWW 7].

The improving situation on the labour market and wage growth made consumption a major factor in GDP growth. Corporate investments also increased after Poland's EU accession, the result of investment activities implemented after receiving EU funds. An additional inflow of financial resources from the EU tremendously boosted the financial situation of enterprises [MG 2006]. The accelerated economic growth increased households' net financial assets, including savings in investment funds.

Participation in the integrated European economic area affected the growth of Polish exports. In 2006, exports grew at 19%, the highest rate for the period. However, the global financial crisis reduced the annual growth of exports, which in 2009 fell to 4.4%. Economic crisis in the euro zone precipitated by the crisis in Greece contributed to the weakening of positive trends in Polish foreign trade. However, despite the public finance crisis in the euro zone, the average annual GDP growth in Poland amounted to 4.9% in 2011. Such positive performance was enabled by large structural investments, including construction of infrastructure and the implementation of projects related to the organisation of the UEFA European Championship (EURO 2012). High individual consumption and growing exports were other supporting factors [IZFiA 2012].

In 2012, the Polish economy fell into a down phase, resulting mainly from the deterioration of the economic situation of the country's main trade partners, primarily Germany, Italy and France, which were suffering due to the failure of government programmes to capably combat financial crisis. In addition, the decline in GDP growth in 2012 may be traced to weakened domestic demand, mainly private consumption. In 2012, the current indicator of consumer confidence, BWUK, fell from -25 to -29.5 points, while the leading indicator of consumer confidence, WWUK, fell from -29.8 to -36.7 points. These factors contributed to the decrease in demand for units of investment funds and the decrease in their assets ([www.stat.gov.pl](http://www.stat.gov.pl)).

Another important factor influencing the situation of investment funds is unemployment. Poland's accession to the EU was a boon to its employment rate, while further development of the Polish economy likewise contributed. Between 2005 and 2015, the

number of employed increased from 12.9 million to 14.8 million. At the same time, the unemployment rate fell from 17.7 to 9.8%. The improved labour market conditions also boosted wages, with the minimum wage increasing from 849 in 2005 to 1,750 PLN in 2014, and the average gross monthly salary from 2,361 in 2005 to 3,900 PLN in 2015. As a result, GDP per person shot up – from 25,600 in 2005 up to 45,000 PLN in 2015 (Table 2).

## THE STATE OF POLAND'S INVESTMENT FUND SECTOR

In the years 2005–2015, the investment fund sector in Poland became an important part of the financial sector: fund assets grew roughly fourfold to reach nearly a quarter of a trillion PLN (Table 3).

In the development of the sector, 2008 was critical as it brought a significant drop in the value of fund assets. The drop was due to, among other factors, the fall in prices on the Warsaw Stock Exchange and the lower valuation of fund investment portfolios (a decrease of 31.3 billion PLN, i.e. 52% impact) and the outflow of funds (a decline of 28.6 billion PLN, i.e. 48% impact) [NBP 2008].

TABLE 3. Investment fund sector assets in Poland in 2005–2015

Specification	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Fund assets (bn PLN)	61.3	99.2	133.8	73.9	93.4	116.5	114.9	151.3	195.0	219.5	273.0
Poland's share in the EU (%)	0.24	0.30	0.47	0.28	0.32	0.36	0.32	0.60	0.60	0.49	0.50
Balance of payments/ /redemptions (bn PLN)	15.8	24.0	30.8	-29.0	2.9	9.4	0.4	19.0	29.6	17.2	13.5

Source: the author, based on NBP and EAFMA data.

Another breakdown in the development of investment funds occurred in 2011, this time the result of falling stock prices in the second half of 2011, amid increasing uncertainty among investors and the decline in share prices on global stock exchanges. Such negative developments caused fund investors to withdraw, mainly from equity, balanced and stable growth funds. At the same time, significant sums moved into safer funds investing in treasuries (2.6 billion PLN inflow in 2011) and money market funds (2 billion PLN) [NBP 2011].

In 2005, individual investors were locating their savings particularly in debt market funds, though at that time funds that invested in equity, particularly in stable growth funds, were successful. Over the period, the number of investment funds and sub-funds rose fourfold (from around 200 in 2005 to more than 1,100 in 2015) – Table 4. This helped reduce the market concentration in the investment fund sector. In 2005, the share of the three largest TFIs was 54.8%, while by 2015 it had fallen to 25.8% [IZFiA 2015].

Table 5 presents the structure of investment fund portfolios in the years 2005–2015. The changes resulted from developments in financial markets. In 2005, funds increased the amount they held in domestic government bonds, while reducing the share of stocks

TABLE 4. Number of investment funds and investment companies in Poland in 2005–2015

Specification	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Funds and sub-funds	203	263	376	503	578	673	787	907	981	1 079	1 124
TFI	23	27	33	39	43	50	50	54	55	59	60
Foreign investment funds	22	34	81	67	64	70	51	82	47	49	48

TFI – investment fund management company

Source: the author, based on IZFiA data [WWW 4].

TABLE 5. Structure of financial instruments in the portfolio of investment funds in 2005–2014 (%)

Specification	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Shares	31.5	47.5	51.1	40.3	47.1	45.4	39.8	37.3	37	30.6
Debt papers	68.6	52.5	44.4	53.5	47.3	48.3	51.4	46.8	45.7	44.8
Other investments	–	–	4.5	4.9	4.0	4.8	6.6	15.4	7.5	15.4
Bank deposits	–	–	–	1.3	1.5	1.6	2.2	8.1	9.7	9.2

Source: the author, based on IZFiA data [WWW 4].

and Treasury bills. This prompted a large inflow of funds into domestic bonds. In the years that followed, the funds significantly increased their involvement in equity thanks to the substantial inflow of new household savings [NBP 2008].

The turmoil in global markets in 2008 caused a change in the structure of investment funds. From 2008, the share of equity instruments steadily declined as investors withdrew their money. The share of these instruments continued to decline and at the end of period amounted to around 28% of total investment fund sector assets.

## RATES OF RETURN OF EQUITY, BOND AND MIXED FUNDS

The results achieved by investment funds over the 10-year period largely reflected the state of the economy and financial markets in Poland and in the major global economies. A rise in asset prices in 2005–2007, increased prosperity and optimism in the business community and among consumers alike accelerated growth in the value of the funds' individual components, especially equity funds (Table 6).

For investment funds, 2008 was an off year as their rate of return was negative, with funds that invest in domestic shares suffering the largest losses. Share prices listed on the WSE began to decline in the second half of 2007. Another factor reducing the profitability of the instruments purchased on the domestic market was the strong depreciation of the Polish złoty from mid-2008, which rendered domestic equity funds much weaker than those investing in foreign markets. To take one example, funds investing in the Japanese stock market index lost 42% of their value, but the Japanese yen gained around 51% against the Polish złoty. The collapse of the real estate market further reduced the profitability of funds investing in real estate. The average value of an investment certificate dropped 62.7% in 2008 [IZFiA 2009]. The continuing uncertainty among investors favoured shifting to safer domestic debt funds. In 2008, their rate of return, at 9%, was relatively high. Another alternative for the households with a high risk aversion were

TABLE 6. Rates of return of investment funds in Poland in 2005–2014

Type of funds	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Equity	22.9	47.7	12.4	-52.7	40.6	18.9	-15.4	15.5	15.7	-2.9
Domestic debt papers	6.5	3.9	2.1	9.3	6.2	6.4	4.8	7.5	1.6	5.0
Money market	4.7	3.6	3.6	4.2	4.6	4.9	4.3	4.8	3.2	2.7
Stable growth	11.6	12.8	6.3	-17.2	15.5	9.3	-9.6	15.4	8.3	3.5
Mixed	18.1	21.5	8.3	-31.5	23.3	7.3	-13.5	13.8	6.3	1.3
Foreign shares	12.2	6.0	-2.2	-44.5	43.7	13.8	-16.1	16.2	1.1	3.1
Foreign debt papers	7.6	-4.6	-8.0	7.8	16.1	7.6	7.5	6.9	1.0	5.3
Average for the fund sector	12.0	20.4	6.1	-19.7	20.4	20.6	-5.5	11.0	5.7	3.0

Source: the author, based on IZFiA data [WWW 4].

investments in vehicles considered to be safer, i.e. bank deposits and unit-linked life insurance [NBP 2009].

Moving forward, in 2011, the Polish investment fund sector suffered due to the financial disturbances in the euro zone. The rising sovereign debt crisis in the countries comprising the zone became one of the reasons for the weak performance of investment funds in Poland, as little as 30% of which registered positive annual returns. Most of those were domestic debt and money market funds characterised by a lower investment risk. Foreign equity funds investing primarily in European markets experienced larger losses. Funds with portfolios denominated in foreign currencies gained from the depreciation of the Polish zloty against the major global currencies. Among others, bond funds from the United States returned around 15%.

In 2011, funds investing in Polish treasury bonds increased on average around 5%, while money market funds grew by approximately 4%. Equity funds suffered the greatest losses. Only 10 of more than 180 equity funds achieved positive returns, and in more than 150 the rates of return were double-digit negative. Rates of return on all types of investment funds were lower than in 2010. Only the funds with assets denominated in foreign currencies received positive returns [IZFiA 2012]. The results achieved by money funds were lower than CPI inflation and the rate of return on their units were also lower than bank deposit rates. In 2011, the average interest rate on new bank deposits with a maturity of six months was 4.5% for households and 5.4% for companies (NBP interest rate statistics).

In 2014, the profitability of investment funds improved significantly. Foreign equity funds and investments in the debt market came in with the highest rates of return. A strong upward trend in global stock markets and the continued increase in the prices of debt instruments were important factors contributing to the funds' strong results. Investments in emerging markets (including Turkey, India, China and other rapidly developing Asian countries) and the USA had high returns. Funds specialising in investments in the US returned around 19% [IZFiA 2015], while those investing in the US debt market also performed well. This was attributable in part to the significant depreciation of the Polish zloty against the US dollar. Funds investing on the Polish debt market returned roughly 7%, and were mainly engaged in Treasury securities and other domestic debt securities.

Funds investing in shares of domestic companies did not obtain good results. Warsaw Stock Exchange indices were volatile and fell somewhat. Funds holding shares of Polish

small and medium-sized companies (–7%) and mixed Polish active allocation (–5%) had the largest losses. From mid-2014, the armed conflict in Ukraine and other economic sanctions imposed on Polish and European and other Russian companies had a material adverse impact on the economic results of companies and their share prices [IZFiA 2015].

### AN ASSESSMENT OF THE RATES OF RETURN ON EQUITY, BOND AND MIXED FUNDS

To assess the performance of investment funds, the rates of return on investments in units of investment funds were calculated. The annual rate of return of the fund in month  $t$  is measured by the formula [Witkowska 2009]:

$$r_t = \left[ \ln \left( \frac{p_t}{p_{t-1}} \right) \right]^{12}$$

where:

$r_t$  – annual rate of return achieved in month  $t$ ;

$p_t, p_{t-1}$  – values of the fund units, respectively, at month  $t$  and  $t - 1$ .

Covering the period of from 2005 to June 2016, the research sample of examined funds is made up of 120 equity funds, 55 bond funds and 60 mixed funds. The data on the value of fund units were taken from the Brokerage House BOŚ [WWW 2] and the data on the funds' profiles from Analizy Online [WWW 1]. Other macroeconomic and financial data came from Central Statistical Office of Poland (GUS) [WWW 3] and National Bank of Poland (NBP) [WWW 6]. The statistics of mean, median, Quartiles 1 and 3 were applied to analyze the developments of the funds' rates of return.

The values in Table 7 lead to the conclusion that, on average, the mean rates of return of all types of funds are higher for the entire period than the interest rate on long-term bank deposits. This means that all types of funds provided more competitive investment opportunities than safe bank deposits. Equity funds had the highest returns and bond funds the lowest. More than 50% of all types of funds gained higher returns than interest rates on long-term deposits.

TABLE 7. Deposit interest rates and rates of return of funds in Poland in the period of from 2005 to June 2016 (%)

Specification	Equity funds	Bond funds	Mixed funds
Deposits 1 + year	3.6	3.6	3.6
Average	17.5	5.6	7.0
Median	14.8	5.0	5.5
Quartile 1	–3.2	1.4	–1.8
Quartile 3	32.9	8.9	14.0

Source: the author, IZFiA and NBP data [WWW 4, WWW 6].

The higher rates of return achieved by equity funds are also probably accompanied by higher risk. The interquartile spread amounted to 36 p.p., while for bond funds it was 10 and for mixed funds 16 p.p. It can be assumed that the higher return on the equity funds is the premium for the taken risk.

## CONCLUSIONS

For investment funds in Poland, the period of from 2005 to June 2016 was marked by high volatility. The macroeconomic conditions influenced by Poland's EU accession and the outbreak of the financial crisis had a significant impact on the performance of investment funds, i.e. mostly positive during the economic growth and negative during the crisis and slowdown. However, each fund type was affected differently by external conditions.

The periods of growth on the WSE contributed to high rates of return of domestic equity funds. The periods of financial crises in the global and EU markets frequently caused depreciation of the zloty against global currencies, making the conditions favourable for those funds with assets denominated in foreign currencies to produce better returns. At the same time, uncertainty on the financial markets and growing risk aversion on the part of investors helped raise the returns of funds investing in safer assets (bond and money market funds).

The research conducted for three main types of funds for the period of from 2005 to June 2016 confirms conclusions reached in the literature on the development of the funds' rates of return. Equity funds provided the highest returns, though their performance was volatile and marked by high risk. Bond funds were the most stable investment of the three, but had the lowest returns. Mixed portfolios combining equities had return and risk rates that fell between those of the portfolios containing only bonds and those containing only equities.

For the entire period, the average rates of return of the three types of funds were higher than long-term interest rates. The level of median for all three types of funds indicate that more than 50% of funds provided higher returns than interest rates on deposits, making funds a more competitive investment vehicle than bank deposits.

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**Summary.** The paper examines the rates of return of three main types of investment funds in the period of from 2005 to June 2016. The analysis covers 120 equity, 55 bond and 60 mixed funds and is based on data taken from [www.bossa.pl](http://www.bossa.pl), [www.analizy.pl](http://www.analizy.pl) and [www.izfa.pl](http://www.izfa.pl). The results of analysis indicate that macroeconomic conditions significantly shape fund returns, though the impact is diversified by fund type. Better stock market conditions benefit equity and mixed funds, and the periods of economic slowdown are favorable for safer funds, including bond and money market funds. For the entire period, equity funds achieved the highest returns, but with the highest risk. The opposite situation concerned bond funds. The average returns of every type of fund were higher than deposit rates – more than 50% of the funds outgained them.

**Key words:** financial sector, investment funds, profitability

**JEL:** O16, G23, G32

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## **MANAGING THE SAFETY OF CLINICAL NUTRITION AS AN IMPORTANT ELEMENT OF COMPREHENSIVE HEALTH SATISFACTION**

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### **INTRODUCTION**

Adherence to rules of good nutrition is essential for hospitalised patients. Clinical nutrition serves a medicinal and educational function, being an integral part of the diagnostic and therapeutic process, and is a deciding factor in patients' health satisfaction. Rational, adjusted, varied and moderate nutrition satisfying the individual's demand for energy and nutrients is a determinant of good health [Goldfinch 2010, Szymanski 2014] and improves the quality of life. Irregularities in the nutritional process, shaped by qualitative or quantitative elements, are important factors in both causing and preventing disease. As a product of public hospitals, health services are provided by a diagnostic and therapeutic team cooperating at different stages. Clinical nutrition is an integral part of comprehensive health services.

The purpose of this article is to demonstrate the importance and the impact of following the rules of proper clinical nutrition (institutional feeding) on the effectiveness of services, with a view to increasing patient satisfaction. In the subject literature, the most frequently presented factors that influence the quality of food served (including in public hospitals) are nutritional value, taste, smell, appearance, price, food safety and served [Cieślak et al. 2010, Grębowiec 2010, Markovic et al. 2010]. The patient can make an individual, subjective evaluation. Objective evaluations are carried out through public institutions, and are intended to evaluate both the quality of food and nutrition in all of the links "from farm to fork". The research done for this paper was based on an analysis of the opinions of 104 public hospital patients in the Warmia and Mazury, Pomorskie and Wielkopolskie Provinces, from December 2007 to January 2011. The consumer evalua-

tion process included a number of characteristics affecting different quality areas, particularly on safety and health aspects. Evaluation by independent state institutions is the subject of further research proceedings.

## NUTRITIONAL TREATMENT – CLINICAL NUTRITION

A holistic approach in the process of clinical nutrition [Commission Regulation 1441/2007]<sup>1</sup> has been the subject of interdisciplinary research. A characteristic feature of cachexia is weight loss associated with a number of adverse changes in the patient's metabolism. The individual's state of nutrition is contingent upon a number of factors, including diet, age, sex, physical activity, stress, genetic pathologies, medical conditions, economic and socio-cultural conditions. The risk assessment process associated with improper nutrition can determine appropriate dietary behaviour not only during hospitalisation, but also for the future [Cardona 2006]. It is included in the routine behaviour in the process of the environmental interview<sup>2</sup>. Information gathered from patients during community interviews concerning non-prescription OTC drugs, which can cause side effects as they interact with other drugs, is also important. On the other hand, packaging leaflets fail to provide patients with comprehensive information [Czarniecka-Skubina and Janicki 2009].

A determinant influencing the adverse drug reaction (ADR) is also a lack of regular check-ups [Bober 2013]. The relatively low level of patient awareness results in susceptibility to diseases and increases the costs of hospital service. The nutrients provided by clinical nutrition can be obtained from nutritional products, and an industrial, liquid or artificial diet. Nutrient mixtures are prepared in laboratories meeting the conditions of the production process in accordance with Good Manufacturing Practice (GMP) as well as Good Hygienic Practice (GHP).

The present study focuses on enteral nutrition (oral), parenteral nutrition and is the subject of further studies (Table 1). In clinical nutrition, food is administered in one of the following ways:

- Enteral nutrition, through the gastrointestinal tract, orally or by tube inserted into the stomach or directly into the intestine and by surgical procedure – nutritional fistula. The term includes all forms of nutritional therapy led with preparations (industrial diet) administered by the digestive tract.
- External nutrition, parenteral nutrition – administering nutrients through an external tract (intravenous or in special cases – intra-arterial).

In the present considerations, it was also assumed that health behaviours are attitudes towards one's own health formed from an early age, which determine significant decision-making risks.

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<sup>1</sup> It is estimated that 30 and 70% of hospitalised patients require specialised clinical nutrition.

<sup>2</sup> Since 1 January 2012 hospitals have been required to perform a pre-screening assessment of the nutritional status of each patient admitted to the hospital – § 1 point 4 of the Ordinance of the Minister of Health of 15 September 2011 amending the regulation on guaranteed benefits in the field of hospital treatment (Journal of Laws 2011 No 202, item 1191).

TABLE 1. The number of the feeding rooms of internal and external nutrition at hospitals by provinces

Specification	Laboratories of internal and external nutrition	Number of nutritionists
Warmia and Mazury	2	85
Pomorskie	6	78
Wielkopolskie	3	164
Total	11	327

Source: developed on the basis of the NRA and the Centre for Health Information Systems (per diem 30.11.2012).

## QUALITY IN THE CONSUMER EVALUATION

According to the methodological assumptions, the respondents assessed the characteristics of the reproducible quality of clinical nutrition during the study. Food quality is inextricably linked to safety and health quality, compliance with laws, standards, specifications and the quality consumers will accept [Jasiulewicz-Kaczmarek and Wieczorek 2008]. The following aspects of quality can be and were taken into consideration:

- expected quality – of specific products;
- induced quality – a reference to a certain brand of product, based on previous experience;
- effective quality – an actual state;
- overall quality – the sum of the effective and induced qualities, which can be higher or lower than expected;
- potential quality – the level of improvement that may occur in the future.

Today's patients are becoming more aware and educated, and make ever-increasing demands of clinical nutrition, its distribution and promotion. Basic requirements include quality, safety and food hygiene, which "will not harm their health" [Kowalczyk 2009].

Community food law strives for a relatively repeatable level of quality. Food chain quality assurance systems are based on good practices in:

- production – Good Manufacturing Practice (GMP);
- agriculture – Good Agriculture Practice (GAP);
- hygiene – Good Hygienic Practice (GHP).

The assessment of individual clients is based on available information on packaging, opinions, media information and sensory evaluation including appearance, taste and smell. In addition, the relationship between ingredients and the amount used to make a product determine quality. The choice of food of appropriate quality and its composition can be generated by evaluating characteristics including sensory properties, durability, reliability, functionality, and the health aspects and characteristics of production, innovation and availability [Kowalska 2010]. The quality of clinical nutrition at public hospital networks is an important determinant of patient health satisfaction.

Food market quality policy in EU countries includes permanent monitoring of products "from farm to fork". Hazard Analysis and Critical Control Point (HACCP) is

a system that guarantees food health safety<sup>3</sup>, and all food chain operators in Poland must implement and follow it. The development and implementation of systems [Olkiewicz 2012b] in public hospital networks determines the ISO 9001-compliant Quality Management System (QMS) implementation process. Quality activities are put in place to enable the pursuit of comprehensive organisational management [Olkiewicz 2012a], Total Quality Management –TQM [Szymanski 2014]<sup>4</sup> through the integration of pro-quality systems which guarantee, among other things, stable, high-quality clinical nutrition and increasing patient satisfaction.

The manner and form of communicating information in the process of community interviews improves patients' awareness of clinical nutrition (essentially, this is the medical community encouraging healthy behaviour). As many as 84% of respondents confirmed that the physician attending community interviews transmitted reliable information about clinical nutrition and alternative treatment processes. Share of 71% indicated that the language used in the interview can be understood without knowledge of specialist terms [Bober 2013].

## CLINICAL NUTRITION IN THE PUBLIC HOSPITAL NETWORK

Clinical nutrition in public hospitals is exposed to adverse health determinants for which, according to current EU and Polish legislation, the manufacturer or the entity placing the product on the market is responsible [Turlejska 2007].

It was assumed that the safety of clinical nutrition in the network organisation is: "The general health-related value chain elements determining the so-called quality health food products, translating into an increase in patient health satisfaction and the awareness that the services in the field of the clinical nutrition process is not harmful to one's health" [Leba 2008].

The primary objective of ISO 22000:2006<sup>5</sup> is to harmonise requirements for food safety management of all entities directly or indirectly involved in the food chain [Kowalczyk 2009]. Quality is inextricably linked to security, quality of care and compliance with laws, and the specifications and standards accepted by patients. A determinant of the safety and quality of clinical nutrition is constant oversight for the presence of harmful substances and pathogenic parasites, bacteria, viruses and prions [Directive 2003/99/EC, Food Safety and Nutrition Act 2006, Piškula and Strączkowski 2011]. Changes in diet and lifestyle, including limiting physical activity and a sedentary lifestyle are determinants of quality of life, and cause three-quarters of all deaths [WHO 2008]. Like the diseases these factors give rise to, malnutrition generates significant socio-economic costs [Jarosz and

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<sup>3</sup> The obligation to apply HACCP covers all parties involved in the food industry, not only production, but also those engaging in distribution, trade, catering etc. (Food Safety and Nutrition Act of 25 August 2006, Journal of Laws 2006 No 171, item 1225).

<sup>4</sup> In 2013, there were 475 entities certified in Poland to provide healthcare, including public and private hospitals. The increase in certified medical entities to ISO standard 9001 rose from 10,295 in 2004 to 26,992 in 2013.

<sup>5</sup> Europe 2007–2479; Poland 2007-137. ISO 22000-certified entities is rising; in Europe in 2013 there were 9,733 while in Poland there were 640.

Respondek 2006]. A rise in the incidence of diet-related disease (the increasing number of children and young people with high cholesterol) may result from the low level of awareness among parents about the existence of a direct relationship between health and lifestyle. Yet another worrying phenomenon is the increasing incidence of food allergies, which 5% of children and 3–4% of adults suffer from [Sicherer and Sampson 2010].

In the light of these problems, a factor influencing the level of awareness of food safety is consumer knowledge, including knowledge about risks and confidence in the institutions responsible for food safety and information media [Sobotka 2007]. In this article it is assumed that safety in clinical nutrition and repeatable quality can be achieved by establishing a network of public hospitals, implementing ISO series 22000:2006, the requirements of the HACCP system and uniform distribution of medical personnel, equipment and hospital equipment in the demographic-social context.

## METHODOLOGY OF RESEARCH AND DISCUSSION

Both quantitative and qualitative methods were used to gather information. The aim was to discover patient opinions of public hospitals on issues related to clinical nutrition [Ordinance of Minister of Health 2012] in an effort to determine overall satisfaction with the care. In line with the principle of triangulation research methodology, secondary data, obtained from an analysis of the literature and research of documents, were used. The raw data were obtained with a questionnaire completed by a selected group of respondents<sup>6</sup>. The empirical studies were conducted from January 2007 to December 2011, in annual cycles.

The expected accuracy and representativeness of assessments was obtained through a survey based on a random sample comprising 104 public hospitals (20.43% of total) selected from the REGON<sup>7</sup> database, operating in three randomly selected provinces: Warmia and Mazury, Pomorskie and Wielkopolskie (18.8% of the total), marked as A, B and C in Table 2. The sample was chosen on a random layer, with the layers being the public entities (small, medium and large)<sup>8</sup> presented in Table 2. Share of 64.8% of the hospitals that ended up participating were small, 26.5% were medium and 8.7% were large. That breakdown is consistent with the requirements of the network organisation proposed. Following the pilot research on a sample N5 – 100 respondents, a number of issues were elaborated (ensuring transparency and comprehensibility).

Anonymous questionnaires were sent to 104 public hospitals functioning in the analysed provinces. Each was issued 900 questionnaires, which were filled out on computers during discharge supervised by a trained nurse (questions and doubts could be clarified on a regular basis). This approach resulted in 100% of the questionnaires being returned.

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<sup>6</sup> The study assumed that discharged patients are more objective in their statements involving the research issues analysed.

<sup>7</sup> As of 31 December 2007, 509 public hospitals excluding those of the Ministry of Defense and Ministry of Interior and Administration.

<sup>8</sup> Commission Recommendation of 6 May 2003 concerning the definition of micro-, small- and medium-sized enterprises (EU L 124 of 05.20.2003).

In both studies, Computer Assisted Personal Interviewing (CAPI) was used with direct computer-assisted questionnaire interviews. Answers were sought concerning knowledge of two types of characteristics: those determining the quality of clinical nutrition and those influencing the clinical nutrition security process. Share of 19.88% of the population analysed was hospitalised<sup>9</sup> patients. The material gathered was analysed statistically, with the level of significance set to  $\alpha = 0.05$ .

Table 2. Characteristics of the hospitals by provinces

Specification	Province	Quantity	Percentage (%)	Overall percentage (%)
Small hospitals (from 51 to 250 employees)	A	25	23.7	64.8
	B	23	22.2	
	C	20	18.9	
Medium hospitals (from 250 to 500 employees)	A	4	4.5	26.5
	B	19	17.9	
	C	4	4.1	
Large hospitals (over 501 employees)	A	1	0.8	8.7
	B	5	4.9	
	C	3	3.0	
Total	104	100	100	100

A – Warmia and Mazury Province, B – Pomorskie Province, C – Wielkopolskie Province

Source: the author, developed from January 2007 to December 2011 and CSO data.

The usefulness of the research methodology and the scale of benefits achieved by it showed the problem of clinical nutrition and the impact on the comprehensive satisfaction of care in managing the provision of services in public hospitals. That satisfaction has been disclosed through a consistent and systematic repetition of studies in annual research cycles and the same content of frequently asked questions. It has also allowed us to formulate the research problem in the form of a general question: To what extent does patient knowledge of qualitative factors determining clinical nutrition influence the effectiveness of the management of hospital services rendered and health satisfaction?

The study also allowed us to classify the factors affecting a certain level of quality and food safety in determining repeatable quality. The resulting statements, grouped into collections of major importance, as Table 3 shows, include the presence of: genetic modifications, additives, plant protection product residues, pathogenic microorganisms and foreign odours and flavours.

<sup>9</sup> Hospitalisation – round-the-clock provision of benefits guaranteed in elective and emergency situations, including diagnostic-therapeutic process ongoing since the patient came on to the ward until discharge or death. Provider assuring benefits under the hospital provides round-the-clock medical and nursing care seven days a week (Ordinance of the Minister of Health of 29 August 2009 on guaranteed benefits in the field of hospital treatment (Journal of Laws 2009 No 140, item 1143) – regulation for the implementation of the “bill basket”).

The legal requirements of clinical nutrition were also examined. Share of 51.5% of respondents were aware of the existence of legal provisions determining the processes involved in producing food of adequate quality, while 3.5% said there was a lack of solutions in this field and another 24% did not trust certificates and declarations on the packaging describing the safety of raw materials used to manufacture the product. In contrast, 62% of respondents believe that Poland's accession to the EU has improved the quality and safety of clinical nutrition.

Table 2. Factors determining the safety of clinical nutrition by provinces

Number of indications	Safety factors		
	Warmia and Mazury	Pomorskie	Wielkopolskie
2007-1	5 123	6 331	7 266
2007-2	5 217	6 200	7 303
2007-3	5 302	6 239	7 179
2007-4	5 499	6 389	6 832
2007-5	5 593	5 606	7 521
2008-1	5 923	6 331	6 466
2008-2	5 877	6 340	6 503
2008-3	5 802	6 239	6 679
2008-4	5 709	6 079	6 932
2008-5	5 893	5 906	6 921
2009-1	6 923	6 131	5 666
2009-2	6 877	5 340	6 503
2009-3	6 802	5 839	6 079
2009-4	6 709	5 879	6 132
2009-5	6 893	5 806	6 021
2010-1	6 023	6 531	6 166
2010-2	6 157	6 040	6 523
2010-3	6 202	6 139	6 379
2010-4	6 109	6 279	6 332
2010-5	6 493	6 106	6 121
2011-1	6 303	6 231	6 186
2011-2	6 157	6 240	6 323
2011-3	6 132	6 109	6 479
2011-4	6 019	6 309	6 392
2011-5	6 293	6 256	6 171

1 – genetic modifications; 2 – the presence of additives; 3 – the presence of residues of plant protection products; 4 – the presence of pathogenic microorganisms; 5 – the presence of extraneous odours

Source: the authors, compiled between January 2007 and December 2011.

Studies have also shown that quality consists of many attributes with varying degrees of significance depending on the patient's expectations. Share of 47.5% of respondents perceived clinical nutrition quality in various ways, making it difficult to arrive at a clear definition. The sensory properties of appearance and smell were rated most important. The research also showed that quality assurance systems have little effect on the quality of clinical nutrition. It was assumed for this paper that this is due to the level of knowledge (education) bearing on system implementation. According to 63.5% of respondents, process quality and the safety of clinical nutrition was determined by the presence of foreign odours and flavours, as well as the lack of harmful residues (61.4%). A study conducted by Piškula and Strączkowski [2011] demonstrated the importance of controlling chemical residues and microbiological contaminants in ensuring food safety.

Up to 79.5% of the respondents believed genetic modifications are a threat, while 36.4% of respondents considered the inability to define quality (the lowest level of education) to be an unimportant feature in the clinical nutrition process. Share of 54.4% of respondents (56.5% of respondents with secondary or higher education) indicated that this was a very important feature.

Analysis of the survey responses allows the following thesis to be put forward: "The state of knowledge among patients on the effects of qualitative factors and on the effectiveness and safety in clinical nutrition management services in public hospitals is satisfactory". Especially noteworthy are the subjects aged 20–40, who paid particular attention to the quality parameters on labels and packaging, including the nutritional value of products, number of ingredients, expiration date, brand, and certificates. The results obtained on quality management in public hospitals show a rising trend. While only 25% of food businesses within SMEs use self-assessment [Tile and Sikora 2013] techniques, there is no indication that the Polish Quality Award was used.

Health-related aspects of satisfaction with the quality of clinical nutrition are interdisciplinary. For the purpose of the discussion, it was assumed that the process of social inquiry should also take into account the procedures and standards in diagnoses of clinical nutrition (dietary consultation). In addition, malnutrition contributes to negative biochemical reactions in patients while at the same time driving up the cost of services rendered. Prioritising measurable quality objectives, the implementation and monitoring of the planned process (analysis and measurement of the effectiveness of clinical nutrition), and the implementation of corrective-preventive actions are crucial determinants of the value chain of a healthy subject network organisation. In addition, implementing procedures for monitoring adverse events (pharmacovigilance) is an important link in the growth of satisfaction and lower risk decision-making in clinical nutrition.

## CONCLUSIONS

The preceding analysis and empirical material describing the important areas of decision-making in clinical nutrition allows the following conclusions to be drawn:

- One of the important objectives of this study was to raise awareness among stakeholders in clinical nutrition about the implementation of standards, methods of assessment, monitoring processes, nutrition and food safety management.

- We are convinced that it will also help support efforts to improve the quality and safety of clinical nutrition in organising the healthcare network, preventing malnutrition in hospitals while at the same time determining the efficacy of diagnostic and therapeutic processes and reducing costs.
- The factors that determine the quality of clinical nutrition according to respondents are flavour, appearance, odour, safety and nutritional value.
- In the opinion of most respondents, clinical nutrition is safe for human health, as determined by a lack of presence of foreign odours and tastes, as well as harmful factors.

In summary, the qualitative aspects of assessing the effectiveness of clinical nutrition in management to provide services in a network of public hospitals are important, as is detecting gaps in previously existing standards, procedures and instructions in conducting community interviews.

In addition, there is also room for remedial and preventive actions, but most respondents assessed as positive the impact of clinical nutrition and believed the medical and mental health community possessed professional competence in conforming to ethical standards. Clinical nutrition as a component of comprehensive hospital services is an important indicator of quality. In addition, the time necessary for hospitalisation and overall treatment costs are also reduced.

When considering the problem of clinical nutrition from the point of view of economics, the realisation and implementation of the research proposals will be beneficial, especially in increasing quality of life. It should be expected that as a result of these actions, a change in public hospitals will also take place. Consideration of the views presented, supported by the present research, leads to the following conclusion: health is the greatest treasure.

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**Summary.** The health of society treated as a set of potential consumers requires effective action and a multidisciplinary approach. For the paper, a survey (a proprietary questionnaire) was used to determine the impact of quality and the factors determining it. Excessive consumption of high-energy food is the cause of diet-related diseases, aggravating both household budgets and the healthcare system. Healthy eating habits and the elements of food production safety should be monitored by a food security system. Such a system should be based on permanent control of nutritional, health-related characteristics and the presence of harmful substances to minimise the risk of disease. The process of improving threat detection systems is based on scientific risk analysis, the results of which form the basis for comprehensive risk management in clinical nutrition. Understanding patients' opinions about the importance of quality nutrition in public hospitals may be among the

determinants for improved multidirectional activities and increase the effectiveness of safe clinical nutrition. This aspect plays an important role in health education.

**Key words:** quality, management, clinical nutrition, food safety

**JEL:** M10, P46, L12

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## **ADVANTAGES AND THREATS OF THE TRANSATLANTIC TRADE AND INVESTMENT PARTNERSHIP (TTIP)**

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### **INTRODUCTION**

Started in November 2011, the original Transatlantic Trade and Investment Partnership (TTIP) timeframe envisaged a conclusion to the talks by the end of 2014. In April, negotiators from the EU and the US finished the ninth round of discussions. The April talks provided a further stepping point to concluding an agreement. The negotiators are now getting ready for the tenth round, while the final TTIP agreement is unlikely to emerge before the end of 2016.

The main goal of the article is to analyze previous publications addressing TTIP. On the basis of these works, I provide a comprehensive summary of the main advantages and threats of this Transatlantic agreement.

The Transatlantic Trade and Investment Partnership is a major trade pact created for the further integration of the economies of the United States and the countries of the European Union. In today's low-tariff reality, the agreement concentrates on eliminating non-tariff trade barriers between the states, such as the differing set of standards in the European Union and in the United States for given consumer goods and services. The logic behind this is the same as in traditional liberal systems: cutting trade costs, including by removing tariffs, is intended to facilitate higher trade volume and overall economic gains. Unfortunately, a number of barriers threaten ratification.

As officials from both sides acknowledge, the primary aim of TTIP is not to stimulate trade by removing tariffs between the two sides, as these are already at minimal levels. It is rather to remove regulatory "barriers" restricting the potential profits to be made by transnational corporations on both sides of the Atlantic. Yet these "barriers" are in reality some of our most prized social standards and environmental regulations, such as labour

rights, food safety rules (including restrictions on GMOs), regulations on the use of toxic chemicals, digital privacy laws and even new banking safeguards introduced to prevent a repeat of the 2008 financial crisis. The stakes, in other words, could not be higher. In addition to this deregulation agenda, TTIP also seeks to create new markets by opening up public services and government procurement contracts to competition from transnational corporations, threatening to introduce a further wave of privatisations in key sectors, such as health and education.

## EXISTING ASSESSMENT OF TTIP

As is characteristic for trade agreements, TTIP talks have been followed by a number of economic and mathematical studies, providing medium-term simulations of the agreement's economic influence. Within the EU, advocates have pointed to a number of major studies projecting relatively small net benefits for the countries involved and a systematic substitution of intra-EU trade with transatlantic trade.

Estimates from the Centre for Economic Policy Research (CEPR) show that a comprehensive trade agreement would provide an additional 545 EUR in disposable income every year for a family of four. That income would come into play a fair amount of time after the agreement comes into force. The figures from CEPR are based on a scheme that removes 100% of all tariffs, 25% of all non-tariff instruments on goods and services, and 50% of all non-tariff barriers to public procurement. While it is hard to predict welfare benefits for consumers with any precision, the CEPR study shows that families' disposable income would increase under TTIP.

A study done in 2014 by Jeronim Capaldo of the Global Development and Environment Institute at Tufts University points out the losses that would occur in a host of areas: net exports, net GDP, incomes, jobs, labour share, government income. These would be accompanied by significant financial insecurity among European states [Capaldo 2014].

A study provided by the Munich-based Ifo Institute for Economic Research (on behalf of the German Federal Ministry of Economics) claims that up to 400,000 jobs could be created in the EU thanks to the comprehensive agreement. However, Stefan Körzell, national board representative of the Confederation of German Trade Unions (DGB), has suggested that "whether TTIP can bring in new jobs, and 'how many' and 'where' is not clear". Prior studies, starting from those conducted by the European Commission members and finishing with the expertise of the Ifo Institute, have weighed in with assessments ranging between high optimism and very low expectations. The negative effects trade pacts can have if environmental or labour norms are ignored is rarely considered.

Most assessments and studies of TTIP forecast benefits to trade and GDP for both the EU and US. Some also foresee a boon for non-TTIP countries, stating that the agreement would make no losers in the world economy. If this was put into practice, TTIP would be the main force to a more effective allocation of world resources, with some states seeing welfare improved and the rest enjoying welfare at least not worse than before. Unfortunately, as Raza and colleagues have indicated in 2014, these desirable effects depend on multiple unrealistic simulations and on a methodical basis that has proven to be inadequate to assessing the effects of trade reform. Moreover, once the estimations are

reviewed, some of these studies have the same questionable economic model and data. The convergence of their effects is therefore not surprising and should not be supposed to independently confirm of their forecast [Ecorys 2013].

The EU has never adopted a free trade agreement that decreased EU living and safety standards. Under the recently negotiated FTA with Canada (Comprehensive Economic and Trade Agreement – CETA), Canadian farmers will be permitted to export beef to the EU if it has not been produced with growth hormones. The European Commission has made it clear that these issues will not be handled differently in TTIP. Each side will retain the right to maintain or introduce those health and hygiene standards it considers appropriate for the protection of consumers and the environment. This is also in keeping with the Commission's negotiating mandate, as the German Federal Ministry for Economic Affairs and Energy (BMWi) has stated. The majority of both European Parliament members and the general population have made it clear that they are strongly opposed to easing EU standards for health and food safety. Given that TTIP must be approved by the European Parliament and probably (at least in part) ratified by EU Member States as well, it is highly improbable that the EU will ease import restrictions or simplify approval procedures in areas such as genetically modified organisms or hormone-treated meat.

**Genetically modified organisms (GMOs).** The authorisation of GMOs in the EU is strictly regulated and is only possible after the European Food Safety Authority (EFSA) has conducted an assessment, the European Commission has tabled a proposal, and the Member States have given their approval by a double majority vote. According to the European Commission, this procedure will not be affected by TTIP: EFSA is responsible for assessing food safety in the EU. Genetically modified organisms can only be authorised in the EU if they have passed a rigorous risk assessment.

## ADVANTAGES OF TTIP

Transatlantic Trade and Investment Partnership could become the most important trade pact in history, and may also be an unprecedented opportunity for the West to outperform the rest of the world. Its supporters see it as the catalyst that could drive transatlantic trade and investment activity to a whole new level, leaving global competitors with no choice but to look to the EU and the US as the standard setters. The comprehensive deal could put these two transatlantic markets back into the ascendancy, invigorating world trade along with it. The research institute the Global Progressive Forum claims that, at just under 2%, the average customs duties between the EU and US are low. However, the average tariff rate conceals "peaks" for individual products – for example, 30% for clothes and shoes and a 10% EU import duty on cars from the US. Critics say there is no proof TTIP will cut the cost of these products, and no way to estimate the financial benefits of the agreement.

The aim of removing barriers to transatlantic services trade and investment is to support professionals to practise on either side of the Atlantic through the mutual recognition of qualifications, or make it easier for companies to become licensed auditors, management consultants or legal advisors. Critics have concentrated on the potential for TTIP to create alternatives to the job losses in particular segments.

**Facilitating competition in terms of public contracts.** Agreeing rules could ensure EU and US companies are not discriminated against when tendering for public contracts in each other's markets. Moreover, tendering of public contracts would become more transparent. The threat here is that publicly owned services like medical services could be transferred to US companies, making privatisation processes inevitable and irreversible.

**Cutting red tape for companies through greater regulatory harmonisation.** This is a key challenge that aims to make sure EU and US regulators work even more closely with each other – for example, via information exchange processes and consultation when they develop new regulations or review existing regulations. Critics argue there is already sufficient regulatory cooperation and, with talks being carried out away from domestic authorities and public scrutiny, TTIP is not the forum for pacts to be made.

A key element of these discussions will concern the greater use of internal standards and the elimination or reduction of unnecessarily redundant procedures for checking products. However, critics claim that the difference in regulation is so important that harmonisation is impossible. For example, the US tends to concentrate on achieving its food safety norms by regulating end production, while Europe aims to regulate all production processes [Felbermayr et al. 2013].

**Streamlining customs rules and controls to make exporting easier.** When EU or US companies export products across the Atlantic, customs workers perform border checks to ensure the products comply with necessary norms and regulations. Transatlantic Trade and Investment Partnership is designed to simplify these procedures, making the process more efficient and saving time, money and unnecessary red tape for exporters. Some experts have pointed out that to facilitate such efficiency and cost reductions, EU countries would be forced to implement additional stringent rules from the US.

With the potentially huge impact of TTIP on the US-EU trade and investment and its bearing on wider global trade and investment flows, the negotiations are expected to continue to be complex and protracted until the final agreement.

It is not only big companies that stand to benefit from TTIP, but also small and medium-sized enterprises (SMEs) and consumers – in fact, a comprehensive agreement will prove much more beneficial for SMEs than one that would only remove or reduce tariffs. Knowing that non-tariff barriers have become the biggest obstacle to transatlantic trade, cutting these NTBs could lead to high cost reductions, which would translate into gains for firms of all sizes and consumers alike.

According to the EU's negotiating mandate, TTIP could increase transparency in competition law and public procurement. This too would be profitable for SMEs, especially as they usually do not have large legal departments at their disposal. Moreover, in European countries like Germany or Finland, SMEs are also highly innovative and invest heavily in research and development. This makes SMEs vulnerable to the breach of intellectual property rights, leaving them in need of the stronger IP protection the agreement is expected to provide.

Consumers also benefit from the agreement, both from low prices and a greater variety of products. This is not only because tariffs will be lower, but also because norms and regulations will be streamlined wherever possible. According to studies by the Dutch institute Ecorys, the extra costs arising from having to duplicate product approval, testing, and validation procedures when importing goods into the EU lead to an average mark-up

of 21.5%. Non-tariff trade barriers will not make costs for producers on average by about 35% higher in the cosmetics sector, 26% in the automotive sector, 19% in the textiles and clothing sector, and 57% in the food and beverages sector. The German manufacturing industry estimates that costs for a German machine are increased by 15 to 20% due to redundant testing, certifications, and the production of components just for the US market. All of these costs could be significantly reduced for consumers through TTIP [Morrall 2012].

## THREATS AND CONCERNS

**Transparency.** There is also a great deal of concern about the nature of the TTIP deliberations. Many take issue with negotiations being conducted privately in Brussels by the EU Commission, the executive body of the EU, which is not subject to any public scrutiny. John Hilary from the War on Want organisation contends that “everything is going through Brussels”, so there are “no democratic levers over TTIP”. As a consequence, as these secret meetings are held between business groups and the EU Commission, TTIP is being “driven by a corporate agenda”, producing a “pro-corporate mandate” at the expense of consumers and public life.

It has been suggested that TTIP will tighten up existing so-called Investor State Dispute Settlement (ISDS) provisions. These allow foreign investors to bring proceedings directly against a state via a separate arbitral process, rather than using the domestic legal system. The rationale is that such a mechanism provides investors with greater certainty that claims will be heard in an impartial manner with increased prospects for enforcement. This issue has courted controversy because some EU Member States do not currently have in place bilateral investment treaties with the US. Therefore, including ISDS provisions risks subjecting those states (as well as the US) to claims they would not have otherwise been exposed to [Fontagné et al. 2013].

Other issues that have been raised in relation to the ISDS provisions include:

- the need to make arbitral proceedings transparent and to ensure the independence of arbitral tribunals;
- investment protection provisions must be adopted and the agreed interpretations of the TTIP investment provisions which would be binding on arbitral tribunals must be adopted;
- procedural mechanisms for disposing quickly of frivolous claims must be put in place together with a provision that the losing party bear all of the costs of the proceedings;
- precluding the bringing of claims under the TTIP ISDS provisions and in domestic courts at the same time; and
- Investor State Dispute Settlement decisions should be reviewed by an appellate mechanism.

**Financial regulation.** Closely tied to these concerns is the issue of financial regulation. Critics have called out TTIP for dragging the financial sector away from much needed regulation following the 2008 economic crash. Some have argued that the US Dodd-Frank Act, passed to ensure greater regulation in the financial sector, could be weakened if financial services are included in a trade agreement like TTIP.

In its report, the Allianz Centre for European Reform explains that critics fear that “a package deal could force concessions in regulatory standards at the expense of financial stability. Many in the US [...] fear that TTIP could lead to a rolling back of financial regulation agreed under the Dodd-Frank Act”.

Moreover, the current difference between financial regulation systems between the USA and European Union is likely to bring antagonism if the agreement goes ahead. Institute for Agriculture and Trade Policy, based in Washington DC, has warned that American “rules to enable trade data surveillance on the foreign affiliate trades of US (over-the-counter) dealer brokers have prompted harsh criticism from foreign, particularly European bankers and regulators”.

**Poor economic results.** Finally, in contrast to EU Commission assurances that TTIP will create thousands of jobs, many point to a high degree of uncertainty over job stability and economic growth in both the EU and the US. Economics Professor Clive George of the College of Europe in Bruges, who has studied impact assessments of trade negotiations, warns that the “economic models on which such estimates are based [...] have been described by some leading modelers as ‘highly speculative’”.

Arguably the most concerning aspect of TTIP for many critics is the Investor State Dispute Settlement (ISDS) mechanism, which is likely to be built into the agreement. This mechanism gives companies the capacity to take legal action against states they perceive to be hindering potential profits. The Corporate Europe Observatory states that this mechanism will “enable US companies investing in Europe to challenge EU governments directly at private international tribunals, whenever they find that changes in law governing public health, consumer, environmental or social protection interfere with their profits. EU companies investing abroad would have the same privilege in the US”.

As a result of this measure, according to a report by the Seattle to Brussels Network (S2B), “it is possible that the simple threat of a costly legal dispute would be sufficient to prevent governments from enacting progressive legislation in the future: a serious drawback for any political system that wishes to appear democratic”.

## CONCLUSIONS

The costs and benefits of the Transatlantic Trade and Investment Partnership (TTIP) are hard to assess with the picture still coming into focus. Many existing studies concentrate on specifying impacts in later years, and few include useful information on the levels of employment and job quality. Even if these were available, we would not be getting a full picture of how the agreement impacts our economy, society and environment.

The current plans to conclude TTIP raise a number of both economic and political questions. This article has examined the potential economic effects for the transatlantic partners as well as for third parties. The empirical literature reveals clearly that TTIP will benefit both the EU and the US. This holds particularly with respect to non-tariff barriers – as reducing them would usher in the largest welfare effect. However, serious measures will be required to overcome the numerous obstacles, mainly vis-à-vis regulations and standards. One way to deal with such standards is to conclude mutual recognition agreements with strict labelling requirements, leading to more choices for consumers without abandoning domestic consumer protection preferences.

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**Summary.** The Transatlantic Trade and Investment Partnership (TTIP) is a major trade pact created to further integration of the EU and US economies. In today's low-tariff reality, the agreement concentrates on eliminating nontariff trade barriers between the states, such as the differing standards in the European union and in the United States for given consumer goods and services. Unfortunately, a number of barriers threaten ratification. The agreement remains far from implementation and it is hard to measure how the two sides would benefit from it equally.

**Key words:** Transatlantic Trade and Investment Partnership (TTIP), non-tariff trade barriers, export, import

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## **THE FEATURES OF MARKETING MIX FOR NON-PROFIT ORGANISATIONS**

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### **INTRODUCTION**

As elsewhere across the world, the non-profit sector in Ukraine is developing dynamically. A wide range of foreign and Ukrainian scholars has written about the role of these organisations in modern civil society. Many are also engaged in estimating the general organisational capacity of such organisations. There is a dearth of literature, however, on the use of marketing strategies and tools by non-profit organisations in countries with transitioning economies. While much has been written on marketing for business firms, it is difficult to use these approaches for the non-profit sector because the nature of the activity differs significantly. Non-governmental organisation marketing is also addressed in the literature, but in most cases it deals with the development of such organisations in the US, a country with a developed market economy and civil society. One cannot always use these approaches in countries with transitive economies, such as Ukraine. For the successful implementation and analysis of the effectiveness of marketing strategies and tools by non-profits in Ukraine, one must first understand how marketing mix for NGOs differs from that employed by businesses. This article examines the essence and special features of marketing mix for non-profit organisations.

### **MARKETING MIX FOR NON-PROFIT ORGANISATIONS**

Marketing mix is “a mix of controlled changeable factors, marketing tools, the totality of which firms use to achieve the desired reaction from their target market” [Kovalchuk 2011]. Researchers have traditionally analyzed the marketing mix of all organisations using the “4Ps” concept: product, price, place and promotion. The “product” element includes

product design, packaging, quality, diversification, differentiation, available variations of these products as well as assortment policy, guarantees, consumer service and naming. “Price” includes prices, the system of discounts and markups, payment conditions, premium prices, price differentiation, and price-setting strategy. “Place” covers the analysis and selection of distribution channels, places where goods are sold, logistics, supply chains, warehousing and stocking and selecting intermediaries to sell one’s goods. “Promotion” typically includes advertisement, media strategy, PR activities, and sponsorship.

The concept of the “4Ps” was formulated in 1953. Marketing theory and practice have since evolved considerably. Many scholars have suggested either concepts with additional “Ps” or other “letter concepts” (4Cs, 4As, and 4Ds) in order to improve on the traditional “4Ps”. Examples of additional “Ps” added include: political power, public opinion, people, process, physical evidence, perceptual psychology, and presentation. The most widely used of the additional “Ps” concepts is the “5Ps”, the fifth element being “people” (sometimes referred to as “personnel”). This element includes the knowledge, skills and qualifications a professional must have, appropriate work experience and the organisation’s attitude to consumers and the job [Kovalchuk 2011].

In this article we use the concept “4Cs+people”, which we adapted for the non-profit sector. It displays the traditional “4Ps” concept from the customer’s point of view. The “4Cs” stand for customer solution, customer cost, convenience and communication. “Consumer solution” covers the needs and wants the customer satisfies when buying a particular product or service. Customer costs are all costs clients need to cover in order to buy particular goods. “Convenience” refers to how convenient it is for customers to buy these goods. “Communication” includes not only company marketing communications, but also consumer awareness about the product and an appropriate feedback system [Kovalchuk 2011]. There are several reasons we believe the “4Cs” concept is more oriented on consumers and their needs than the traditional “4Ps” concept, and that it is more appropriate for the non-profit sphere as it displays the sphere’s unique features.

First of all, non-profits operate not to make and distribute profits, but to achieve other socially important goals. That is, they often work to solve social problems and typically represent the common interests of large groups of people. In the case of professional organisations, these are business interests the entire industry has in common. Universal organisations have broad missions and unite people who have common views on widespread issues, such as protecting the environment, fighting corruption or protecting human rights. Volunteer and charity organisations collect money to solve problems or help particular groups of people (for example, they may be active in supporting local orphanages or dog shelters). In all these cases NGOs direct their activities at various groups in need of support at the same time. These groups of people (target audiences) may include: members (for membership-based organisations), volunteers, clients (or service recipients), people and companies making individual financial and in-kind donations, an organisation’s own employees, employees of large international foundations, mass media and legislators and society in general [Lylyk 2014]. A good reputation is essential for non-profit organisations today as the success of their activities largely depends on the opinions their target audiences maintain about their values, missions, and activities. The attitude of personnel is also crucial in this respect – that’s why we incorporate “people” into our analysis.

Secondly, non-profit organisations often do not sell any physical goods, but rather offer services developed for particular groups of people (for example, professional training for members of professional organisations, providing educational campaigns on issues for large groups, cleaning, cooking for many people, organising events, to name just a few).

Managers should take into consideration the special features of these services: foremost that they are intangible, so their quality may vary substantially depending on which particular employee provides them. Moreover, customers cannot separate services from providers, nor the time and place of their purchase, and nor can services be kept in stock like physical products can, as services are provided and consumed at the same time. Clients cooperate with service personnel while the service is being provided [Kotler et al. 2008].

For all of these reasons, the marketing efficiency of non-profit organisation marketing activities can be analysed most effectively using the more customer needs-oriented “4Cs+people”. In addition, it displays the special features of the services sphere. It is important because NGOs often provide only services instead of goods.

## **AIMS AND METHOD**

The nature of non-profit activities differs significantly from that of businesses as non-profits do not work to receive and distribute profits. The mission of non-profit organisations is most frequently focused on solving social problems and representing the common interests of large groups of people. That is why marketing mix elements used by non-profit organisations also differ from those of commercial companies. Moreover, as most available literature in the NGO sphere deals with such organisations in the USA, there is a need to study non-profits in countries with transition economies to make appropriate practical recommendations. In addition, non-profit organisations also differ considerably within the sector.

We classify non-profits into three groups depending on their sphere of influence:

- professional organisations (unite professionals and companies in particular industries, active in self-regulation, and work to solve problems common to these industries);
- universal organisations (have very broad missions, such as protecting the environment, women or children rights, and direct their activities at many different social groups at the same time);
- charity and volunteer organisations, which collect money to solve particular problems or to help particular groups of people.

This article seeks to show the unique features of marketing mix for non-profit organisations, by analysing which particular marketing mix elements are the most widely and the most effectively used by Ukrainian NGOs. This will allow us to give appropriate recommendations for different groups of non-profit organisations.

In order to achieve these goals, we conducted desk research of 30 Ukrainian non-profit organisation websites, broken down into 10 different groups [UNDP 2013, Lylyk 2014, Lylyk 2016, WWW 1, WWW 2, WWW 3, WWW 4, WWW 5, WWW 6, WWW 7, WWW 8, WWW 9, WWW 10, WWW 11, WWW 12, WWW 13, WWW 14, WWW 15, WWW 16, WWW 17, WWW 18, WWW 19, WWW 20, WWW 21, WWW 22, WWW 23, WWW 24, WWW 25, WWW 26, WWW 27, WWW 28, WWW 29, WWW 30, WWW 31].

In general, the non-profit sphere has undergone rapid growth in Ukraine because of Russian military aggression, the development of civil society and the need to solve social and economic problems. The sector nonetheless remains less developed than its counterparts in the developed countries of the EU or the US. Studying Ukrainian non-profits in order to provide recommendations for more effective use of marketing mix elements, strategies and tools may help to bridge the gap.

## ELEMENTS OF MARKETING MIX FOR NON-PROFIT ORGANISATIONS

For purposes of the study marketing mix model for NGOs consists of five variables: customer solution and costs, convenience for customer, communication and people.

A **customer solution** for NGOs includes the following elements:

- *Mission* (these organisations exist to achieve socially important goals and offer solutions to common problems).
- *Sphere of influence* or the part of society at which organisations target their activities, including all contact audiences. The organisation's sphere of influence can generally be understood by analysing its mission.
- *Role within the sphere of influence, representing common interests and advocacy.* This is how effectively managers work to achieve their missions and help the groups of people whose interests they should represent. The role also covers the efficiency of working with different target audiences and fundraising from different sources. The most effective NGOs are leaders in their spheres of influence. They are able to forge networks and unions with other organisations, provide services and technical support for interested parties, engage society and others in their own field in discussions and propose initiatives that influence their entire sector, and can mobilise other partner organisations active in relevant field(s) to achieve common tasks.

Having membership in regional, national and international unions is also essential if it wishes to strengthen its own sphere of influence, as membership enables organisations to exchange necessary knowledge and experience. Those that are leaders in their spheres of influence can build stable partner relations with central and local state representatives. For professional organisations, self-regulation and adopting appropriate standards within their sphere of influence is also crucial. Their role within the sphere of influence also includes the scope of the organisation's activities. It includes the geographical market being addressed and the level at which the NGO operates (local, regional, multiregional, national, international and global), and the amount of financing it receives. (However, the last indicator can be analyzed only if there are financial reports on the organisation websites in open access).

Support of existing members is another important indicator of the organisations' role within the sphere of influence. Support includes: the number of members and regular volunteers; how well members, volunteers and other contact audiences are grouped and how the organisation provides opportunities for regular cooperation; how often the members of an organisation make public speeches or presentations and talk about their organisation's mission and influence others to become members, to name two possibilities. For professional organisations, representing common interests means representing the common business interests of members by adopting universal indus-

try standards. For universal, volunteer and charity organisations, representing common interests means achieving the organisation's mission. That is, achieving common socially important goals. Marketing tools used to represent common interests and advocacy may include lobbying for adopting necessary laws or amending existing laws, asking members and other interested people to sign online petitions, and conducting surveys to know what society thinks about important problems.

- *Values for target audiences within the sphere of influence, goods and services offered for members, recipients and other groups in the wider society.* This may include, for example, unique services for members within membership packages. For local community members, values may include benefits from NGO activities in their area (such as protecting human rights or reducing the social problems in a neighbourhood). Organisations can work on similar markets and within similar spheres of influence. However, the value and services they provide may differ significantly. For example, while working to solve similar problems, organisations may opt for different approaches: cooperation with members, building partner relations with mass media and efficient media strategy, and/or building strategic and efficient relations with state and local self-regulation bodies. Services, provided by non-profit organisations should accord with the organisation's sphere of influence, mission and strategic goals. They should also be developed to meet the needs of target audiences.

A feedback system is crucial in this respect. Non-governmental organisations should collect information about the needs of each target group. If the needs differ considerably, they should develop and suggest different sets of services for each target audience. Non-profits may provide paid services (for example, services for members, conferences etc.), as well as free-of-charge services (for recipients of charity help). People should see organisations' services as being created specifically for them. Organisations should decide which services to provide based on careful analysis of both the needs of target audiences and the organisation's mission. Analyzing general trends within the sphere of influence at the local and multinational level is also very helpful. It is especially important for volunteers to understand how their participation helps to achieve the organisation's mission. In some cases, especially within the group of professional organisations, volunteers are interested in having explained to them what kind of skills and knowledge they can acquire while volunteering and how they can later use them in their careers.

Non-profits may provide additional services for groups in society (not only for members). They should comply with the mission. Non-governmental organisations should develop pricing which their target markets understand and consider affordable. However, prices should at least cover costs. In addition to services, NGOs can also sell goods. For example, some professional organisations publish journals and other literature in appropriate fields. Charity and volunteer organisations sell goods at special fairs or auctions to raise money.

Costs which people are ready to pay in order to achieve the organisation's mission are classified as **customer costs**. Non-profits can work with many target audiences at the same time. Such target audiences may include members, volunteers, service recipients, people and companies making individual donations, foundations, those who influence decisions of other people and society in general.

Before the potential costs for different target audiences of non-profit organisations can be analysed, possible sources of financing for such organisations should be explained.

Possible sources of NGO financing:

- Donations from private and legal persons used to conduct regular activities described in organisation statutes (for example, donations for environmental protection in general).
- Single donations from private and legal persons for defined activities (for instance, donating specific single events).
- Grants of large international foundations, which NGOs receive for their activities, according to the priorities of such foundations.
- In-kind donations by individuals and legal persons. For professional organisations, the most common donations are office equipment, training materials, or rooms for offices or for meetings. For universal, charity and volunteer organisations, clothes, medicines and food are the items most frequently donated.
- Involving free volunteer labour for conducting social projects. The most typical services for professional and universal organisations are volunteer services by professional and technical staff, consultants, and other qualified and unqualified people. Charity and volunteer organisations, on the other hand, must involve individual volunteers or individuals from other groups and organisations. These volunteer positions may not require any special education or training, but take a lot of time (for example, cooking for the army). We believe that volunteer labour should be viewed as a source of NGO financing, because it helps organisations save considerable amounts of money, which otherwise would be spent on salaries and single honorariums for paid staff.
- Conducting commercial activities that accord with the organisation's statute goals (for instance, charity fairs or professional conferences).
- Selling some goods, for example, souvenirs at charity fairs or auctions (for volunteer and charity organisations), or conducting commercial projects, such as publishing professional journals (for professional organisations).
- The founders' own money, particularly when charity organisations have been established by famous entertainers, politicians or business people.
- State financing by state bodies and local self-regulation bodies, or governmental grants for conducting some types of activities, is widespread in some developed countries, but is very rare in Ukraine.
- In some countries – Poland, for example – non-profit organisations may ask people to donate a percentage of their income that would otherwise be paid as state taxes. This is called the philanthropy %. However, Ukrainian NGOs do not have such rights.
- Member fees, regularly paid by members of professional and, in some cases, universal organisations, as payment for receiving a package of regular and often unique services.

While many NGOs secure financing from different sources, in most cases the main source of financing can be defined to relate them in appropriate groups. To do that, we need to define the term the main source of financing, for which appropriate criteria need to be developed. We believe that such criteria include the regularity of procuring financing and the amount of financing. In our opinion, regularity is the main indicator for defining a source of financing as the main source, as it helps to understand to what degree the organisation depends on receiving money.

Based on sources of financing, we can analyse possible costs which representatives of different target audiences are ready to take on for continuing a non-profit organisation's

activities. Such costs include not only financial expenses (money and in-kind donations, member fees, grants), but time spent volunteering and the desire to change one's behaviour (for example, to stop smoking or to start caring about the environment).

- *For members*, customer costs are member fees they regularly pay. In addition, members may provide additional financial support for individual organisation projects (for instance, for organising large professional conferences or other events).
- *For volunteers*, costs come down to time and effort spent working for the organisation. It is important for them to know not only how much time the organisation asks them to spend volunteering, but also what their duties and responsibilities are. In Poland, volunteers sign contracts.
- *For clients (service recipients)* of universal, charity and volunteer organisations, costs may include psychological efforts to change one's own behaviour. For example, they may be asked to speak in public about their personal problems or to change their lifestyle to a healthier one. In addition, they must sometimes openly acknowledge that they receive help from a charity. On the other hand, service recipients of professional organisations are people who are not members of such organisations, but purchase their goods and services on a non-regular basis, attend events or support these organisations' individual projects. While doing this, they spend money.
- *For people and companies making individual donations* to charities and universal organisations, the customer costs are the costs of these donations. Professional organisations rarely ask for such donations and, thus, rarely direct their activities at this target audience.
- *The costs for those who influence the decisions of other people (mass media and legislators)* are also time and effort spent on cooperation and consultations with NGOs. In particular, time and effort selecting a non-profit organisation from among willing NGOs that can provide an expert opinion to help these target audiences conduct their professional duties. These include preparing materials on professional themes by journalists of professional and other mass media, and professional consultations when new laws are to be adopted or existing ones amended.
- *For the employees of organisations* the costs are likewise time and effort put into working for the organisation, as well as the professional skills and competences used for it.
- *For employees of large international foundations* the customer costs of supporting non-profits are grants.
- *For society in general* customer costs may include financial and other resources given to non-profits from state bodies and local budgets. Such resources may be regularly provided for organisational activities in general. Likewise, financing may be given as grants for supporting an organisation's individual projects. In some countries – Poland, for example – non-profit organisations have the right to ask people to donate a percentage of their incomes, which would otherwise be paid as state taxes – this is called philanthropy %. While the practice of the state providing support to non-profits is widespread in developed countries, it is rare in Ukraine.

**Convenience (place)** in the case of non-profit organisations, convenience means offering the opportunity to unite efforts and spend time with other people. This includes such elements as:

- *Place* – the organisation's office functions as a place people can come to express their opinions.

- *Conducting events*, during which target audiences can communicate. Such events include conferences, forums, charity fairs and the like, as well as events organised for the implementation of common projects or activities (for example, cleaning or cooking). Target audiences should know what events and activities are planned in advance. The organisation may inform people in different ways, including by email, their website or social networks. These events should be conducted regularly.

**Communication (promotion)** involves not only how often different communication tools are used (for instance, videos on websites, youtube, social networks, leaders, employees or volunteers participating in TV programmes, articles in journals, publication of one's own journals, making presentations at conferences, providing information to people on the streets etc.). It also involves media strategy and efficient promotion of the NGO's mission and activities among different target audiences.

While non-profits should use different communication strategies and tools for different target audiences, many use social advertisements to communicate their ideas to society in general. Communications should promote the organisation's mission and ideas, activities and values, but not the personality of the organisation's head. Communications should be regular, understandable for target audiences and should not contradict each other. The organisation should have feedback from target audiences and take it into consideration. It is useful to create a specialised media strategy and plan, as well as a strategy for cooperating with mass media. Communications of NGO should be directed at positioning the organisation and involving target audiences in its activities. The mass media should see the non-profit as an influential organisation within its sphere of influence as this makes them more likely to turn to them, for example, to get expert opinions.

The elements of non-profits' communications include:

- Advertisement.
- Public relations (PR) – informing members and other target audiences about the organisation's activities and goals in order to boost the organisation's reputation in general and to keep stakeholders apprised of specific projects and goods in particular. Having a media strategy for cooperating with media representatives, and also a media strategy are extremely important PR elements, as not all non-profits can afford to spend a lot on traditional advertisement campaigns. Non-profits should have stable partner relations with the media within the organisation's sphere of influence. Public relations also includes media consultations with non-profit organisations.
- *Communication strategy*, which should be directed at target audiences within the organisation's sphere of influence. Messages should be developed for each of them. Communications should be coherent, based on the key messages that display the organisation's mission. Communications should not be one way, but should involve receiving and taking into consideration in future work feedback from all key target audiences.
- *Communication style* should be directed at communicating information about the organisation's activities, goals and approach to solving problems that exist within its sphere of influence. Communications should not promote single individuals.
- *Convenience of searching for information* about the organisation online, as well as making it easy for visitors to the organisation's own website to find the information they seek.

The **people** element includes:

- *Professional level*: the professional skills, knowledge and competences staff, leaders and volunteers need to conduct their duties professionally and appropriately so that the organisation's mission can be achieved.
- *Attitude to people and job*, meaning attitude to contact target audiences, dedication to the organisation's mission, understanding of one's own job responsibilities and sources of salaries.

## RESEARCH RESULTS

We analysed 30 Ukrainian non-profit organisations' websites, a total of 10 different Ukrainian NGOs in each group (professional, universal, and volunteer and charity organisations) [UNDP 2013, Lylyk 2014, Lylyk 2016, WWW 1, WWW 2, WWW 3, WWW 4, WWW 5, WWW 6, WWW 7, WWW 8, WWW 10, WWW 11, WWW 12, WWW 13, WWW 14, WWW 15, WWW 16, WWW 17, WWW 18, WWW 19, WWW 20, WWW 21, WWW 22, WWW 23, WWW 24, WWW 25, WWW 26, WWW 27, WWW 28, WWW 29]. The research results differed for the organisations in each of the groups.

### Professional organisations

The diagnostic tool we used is based on several research principles and meets the requirements we established to enable the comparison of marketing model efficiency of different non-profit organisations. Taking these requirements into consideration, we suggest developing an evaluation tool for each marketing mix element based on points (with 5 the highest and 1 the lowest). To appropriately assign points, we suggested "a perfect situation" that served as the starting point for conducting the evaluation. We modelled the perfect situation based on in-depth interviews [Lylyk 2016], conducted with the managers of non-profit organisations, and also adapted methods of evaluating the institutional capacity of non-profit organisations, which have been suggested by such economists as Charles Baxton [Baxton 2013] and the Lochan and Partners company (Lochan&Co) [UNDP 2013].

In our approach, the marketing mix for non-profit organisations includes:

1. Customer solution
  - 1.1. Mission
  - 1.2. Sphere of influence
  - 1.3. Role within the sphere of influence, representing common interests and advocacy
  - 1.4. Values for target audiences within the sphere of influence, goods and services offered for members, recipients and groups in the wider society.
2. Customer costs
  - 2.1. Costs for members
  - 2.2. Costs for volunteers
  - 2.3. Costs for clients (service recipients)
  - 2.4. Costs for people and companies making individual financial and in-kind donations
  - 2.5. Costs for mass media and legislators
  - 2.6. Costs for employees of the organisation

- 2.7. Costs for employees of large international foundations
- 2.8. Costs for society in general
- 3. Convenience for customer
  - 3.1. Place as possibility of staying in NGO
  - 3.2. Conducting events during which target audiences may communicate
  - 3.3. Communication during implementation of common projects
- 4. Communication
  - 4.1. Advertisement
  - 4.2. Public relations (PR)
  - 4.3. Taking part in events organised by others
  - 4.4. Communication strategy
  - 4.5. Communication styles
  - 4.6. Ease of finding information
- 5. People
  - 5.1. Professional level
  - 5.2. Managers' attitude to target audiences

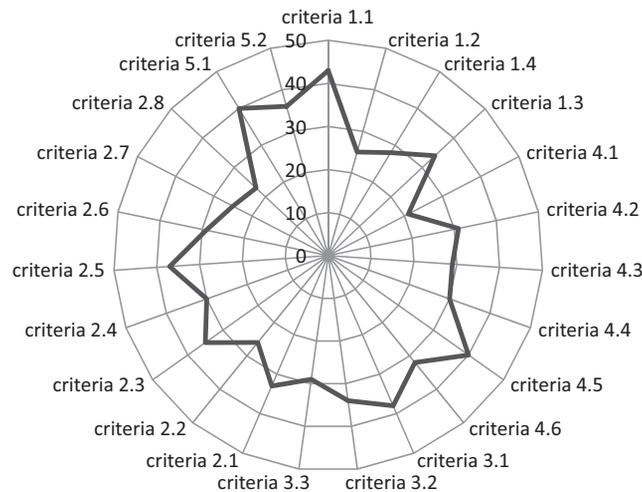


FIG. 1. Generalised data about the analyses of efficiency concerning the implementation of marketing models in professional organisation activities (explanations in the text)

Source: the authors based on UNDP 2013, Lylyk 2014, Lylyk 2016, WWW 1, WWW 2, WWW 3, WWW 4, WWW 5, WWW 6, WWW 7, WWW 8.

This analysis aims to define which particular marketing mix elements are the most frequently and efficiently used by Ukrainian professional organisations, and also to develop appropriate recommendations for increasing the efficiency of their activities.

How often and from which points of view the activities of each of the analysed organisations appears in the mass media would require an excessive amount of data and could be the object of separate marketing research. Moreover, we would have to study not only non-profits by themselves, but also each type of mass media and their editorial policies

separately. This research covers the analysis of websites and the activities of non-profit organisations.

The strengths of using marketing mix by professional organisations include: clearly defining their missions on their websites, which requires managers and employees to be professional and makes searching for information convenient. The least used communication element is advertising. Organisations tend mostly instead to promote their activities through established partner relations with mass media outlets (media strategy), PR activities and taking part in events (own events and events organised by partner organisations). In general, we can say that the level of marketing mix elements used practically by professional organisations is average.

The mission as the general purpose for which the organisation exists is a crucial element of its marketing strategy. In the non-profit sector, missions are directed not at turning and distributing profits, but at solving social problems. In particular, professional organisations often state as their missions protecting the common interests of participants of a certain market, adopting and compliance with self-regulation industry standards. Marketing tools which may be used to promote the organisation's mission among target audiences include video and/or infographics on the organisation's own web-site.

However, there is a much smaller number of websites that have had their strategic goals and tasks up for at least a year. This can be attributed to insufficient marketing and strategic planning skills. In our opinion, the presence of online information about an organisation's goals and tasks for a year may be considered one of the criteria of an organisation's ability to market itself. This information also helps one to understand what projects will be implemented in the future and how interesting they may be for visitors to the website (potential donors, partners or volunteers). Such information may also be made public at the yearly reporting-election conference organised by NGO management exclusively for organisation members, who pay member fees and have voting rights. In addition, it is much easier to evaluate a non-profit organisation's activities at the end of the year, if one understands the goals established at the beginning, and to what extent they have been met. Of course, life makes its own changes. But democratic organisations usually inform their target audiences of changes in strategies and goals.

We did not intend to study the periodicity of meetings of the statute and managing bodies of non-profit organisations. It is nonetheless very important for us to understand how open to the general public information about statute documents and organisation management is. The main goals and rules of an organisation's operations are clearly stated in its statutes. This enables interested parties to relatively quickly get an idea what a given NGO does. Information about an organisation's leaders and their contacts should also be on its website. A brief CV of the organisation's leader gives some idea of his or her competences, sphere of interests and experience. In addition, people should know whom to contact if they have complaints, questions or suggestions.

One of the criteria for defining the effectiveness of the marketing model is how convenient it is to search for information. That convenience pertains to searching for information about the organisation on the internet, as well as on its website. From this point of view, a unique name that significantly differentiates the organisation from others with similar spheres of influence is extremely important. It helps to easily find an organisation website and pages in social networks. One can find necessary information without much effort.

Website design can be pleasant for users to engage with and read. The website presents the organisation's mission. There are different sections and information for different target audiences on the website. One can find information about the different activities done throughout each year. In case of professional organisations, their names are a good indicator of their consumer interests (because they are representatives of a certain market).

In our opinion, activities in social networks considerably strengthen non-profit organisations operational efficiency. That conviction led us to check whether organisations use social media, and if they do, which networks they use. Our hypothesis was that the most widespread social media site would be Facebook.

Facebook pages may be used to help people (by using this page as an alternative to website technical support), entertain visitors by creating viral posts or teach visitors through posts. News may be a part of, but not the basis for, a content plan [Zuzikov 2015]. In our opinion, professional organisations are best served using their own websites to teach visitors something useful for the industry in general.

Membership-based organisations exist to protect the interests of their members. For them, member fees are always significant, if not the only source of income. In particular, it is particularly advisable for professional organisations to place on their websites to describe members and provide their contact details. It is important for the organisation itself (as it shows to what extent the professional organisation really represents industry, and how many individuals and legal persons are really members). It is also useful for members of the professional organisation, who can use the website to promote their companies and services. The companies themselves can likewise show potential clients that they comply with professional industry standards. These standards are, in general, developed by professional organisations.

Very few Ukrainian NGOs use their website to place information about their own competitive advantages over other non-profits, which have similar missions, scope of activities and target audiences. Professional organisations work only for professionals in their fields and think they do not have competitors. Really, in Ukraine there are industries in which several self-regulatory organisations are active and compete with each other. They should stress their strengths to make target audiences understand where to invest their time and money. Target audiences should also understand the main differences between the missions and opportunities of non-profit organisations, and what is more important for particular people at particular times.

### **Universal organisations**

We consider organisations universal if

1. Their missions are very broad and they target their activities at representatives of many various target audiences at the same time. These people may differ in many respects (such as social class, age, sex, level of income, hobbies, etc.) but they are united because they have common views about the social issue listed in their mission (for example, protecting women, children, animal or human rights, or representing interests of small and medium businesses in general – in all industries). Members of universal organisations dedicated to protecting women's rights can be both female leaders of enterprises, house wives, and women working in medium management in different companies. If universal organisations represent businessmen in the region in general,

their members can work in different industries and spheres of activity. (In contrast, members of professional organisations should belong to the same profession). As a result, target audiences of universal organisations are described on their websites very broadly, in order to include as many people as possible.

2. Grants seem to be the major source of income for universal organisations, as these organisations direct their activities at implementing and promoting universal human values. Universal organisations' websites include the logos of international foundations, a description of grant projects, and gratitude expressed to donor foundations. However, there is much less information about activities financed in other ways.
3. There are very strict deadlines and criteria for participating in events and other activities.

We analysed the websites of 10 universal organisations. We used the above model (Fig. 2). These organisations' strengths in using marketing mix include: the availability of a mission statement on their websites, communication styles, place as possibility of staying in the NGOs and the professional level of employees.

While the missions are stated on the websites of most of the universal organisations, they can be very broad, which may leave target audiences unable to easily understand their goals.

The weaknesses of the universal organisations included their use of advertising, a failure to clearly define their spheres of influence, values for target audiences within the sphere of influence, goods and services offered for members are not always mentioned on the websites, and organisations conduct too few events during which target audiences

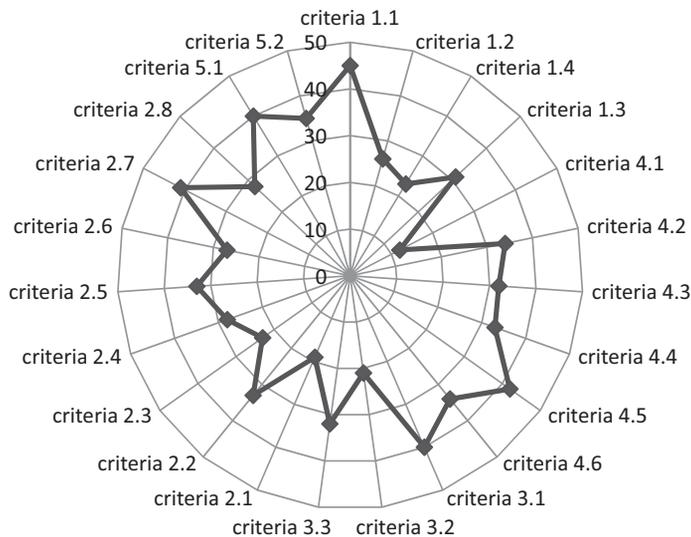


FIG. 2. Generalised data from analyses of the efficiency of marketing model implementation in the activities of universal organisations (explanations in the text)

Source: the authors based on WWW 10, WWW 11, WWW 12, WWW 13, WWW 14, WWW 15, WWW 16, WWW 17, WWW 18.

may communicate with each other. Finally, the websites fail to clearly explain the costs. It is recommended that universal organisations diversify their sources of income by working with target audiences other than employees of large international foundations.

### **Volunteer and charity organisations**

Organisations may be considered volunteer and charity groups if they meet the following criteria:

1. Their missions are most often directed at a specific target audience. They have very specific and narrow target audiences, mentioned on the websites under sections labelled “our projects”, “whom we help”, “what we do” and similar tags. These organisations are involved mainly in collecting money for specific projects and the current needs of appropriate groups of people. For example, they may ask for support to buy medical or military equipment.
2. The financial and activity reports provided on the websites illustrate that individual donations from private persons are an important source of income.
3. There is a lot of information about volunteer projects on the websites. It may be assumed that there are many more volunteers than employees.
4. The organisation is not membership-based or the number of members is relatively small. The number of volunteers and people who make individual donations appears to be much larger than the number of members.

We analysed the websites of 10 volunteer and charity organisations, and used the model shown in Figure 3. In general, they use marketing tools with average efficiency. Their most obvious strengths were their clearly defined mission statements and spheres of influence. The most important weaknesses include their poor use of advertising and describing the costs clients (the users of a service), their own employees and society in general must cover.

The mission statements of volunteer organisations are typically very short and understandable. These organisations have very clear goals, such as helping the military. However, there are very few cases when such organisations describe strategic goals for the forthcoming year on their websites. In the case of organisations assisting the military, this can be explained by real uncertainty and the possibility of radical changes occurring in the near future. A lack of effective marketing and strategic planning skills explain the lack of strategic goals for the organisations in the other groups.

Ukrainian non-profits, especially volunteer organisations assisting the military, typically use marketing tools for several reasons, including to persuade people that their missions are important, explain the benefits their services provide, convince people that they can personally help and explain how they can do so, and determine whether the money they have donated was used appropriately.

Volunteer organisations’ communication strategies are based on describing the needs of the army and voluntary battalions, as well as describing volunteer activities and explaining how they plan to use the money they have collected. We can assume that, in general, this is PR strategy and communication style for volunteer organisations. Their communications are stories about officers, volunteers, and others directed at personalities in society. Volunteer organisations try to make informal communications about people. Volunteer organisations often have hotlines, which we consider an effective means of communication.

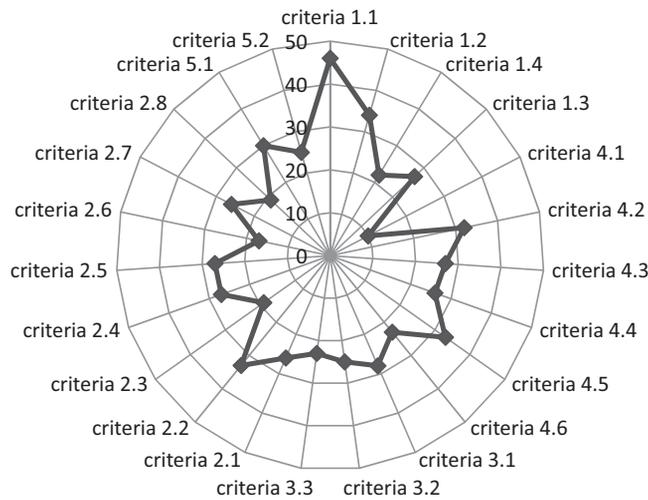


FIG. 3. Generalised data from the analyses of the efficiency of marketing model implementation in volunteer and charity organisation activities (explanations in the text)

Source: the authors based on WWW 18, WWW 19, WWW 20, WWW 21, WWW 22, WWW 23, WWW 24, WWW 25, WWW 26, WWW 27, WWW 28.

Analysis of customer costs showed that charity organisations direct their activities at multiple target audiences, in particular at potential volunteers and people who may make individual donations. That is why it is especially important for them to be available for everybody who wants to contact them at any time and by any means. They widely use Facebook and the Russian equivalent, vk.com, the most popular social networks in Ukraine. Volunteer and charity organisations often have accounts at several different social networks at the same time. In addition, they also try to get help not only from Ukrainians in Ukraine, but also from the Ukrainian diaspora and others abroad. That is why they create accounts on social networks that are popular abroad, particularly Twitter.

Volunteer organisations often post online their financial reports and reports on their collection and use of money within specific projects. This is a commendable practice, especially since many have only recently been established and must further strive to earn the trust of their target audiences.

While volunteer organisations are active in social networks and maintain their own websites, they do not typically have their own media departments or publishing divisions. They depend on other media organisations to get their message out. A good deal has been published about mass media materials dealing with the activities of volunteer organisations. However, that appears to be the accomplishment more of the media than of the volunteer organisations. It is likely that volunteer organisations in most cases do not have media strategies.

We have encountered a number of volunteer organisation websites in Ukraine with updated news from events that took place in bygone years, leading us to conclude that the number of charity foundations may be decreasing.

## CONCLUSION

The marketing mix non-profit organisations use differs significantly from that used by firms, because their activities are different. This should be taken into consideration when selecting marketing strategy and the practical implementation of appropriate marketing tools. At the same time, all marketing mix elements should be coordinated and communicate information about the organisation's mission and activities. In addition, marketing tools should be adapted to the needs of each of the non-profit's target audience.

While NGOs are developing very rapidly in Ukraine, the non-profit sector remains weak and underdeveloped. Non-profits need institutional support and to study marketing tools. Universal, charity and volunteer organisations in particular have failed to develop relationships with one another. None of the organisations analysed for this study had placed information about any common events with other volunteer organisations, and rarely do they work together to achieve shared goals. At the same time, their spheres of influence are very clearly defined and distinct. We believe that the main reason for this is the absence of leadership that would elaborate common goals and show non-profits ways of cooperating on a participative basis.

Encouragingly, the use of social networks is a relatively widespread means of promoting non-profit activities in Ukraine. Social networks help organisation managers to be closer to people, write more and present more visual information. Even more importantly, they help the managers to more quickly gauge people's reactions to the information they put out, which facilitates decision-making.

Very few Ukrainian non-profits use their websites to present the competitive advantages they offer over other non-profits, which have similar missions, scope of activity and target audiences. Professional organisations work only for professionals in their fields and believe they do not have competitors. However, there are industries in Ukraine where several self-regulatory professional unions do function and compete with each other. Charity foundations often believe that other charities are not competitors, but rather friends with similar goals. In our opinion, this approach is oversimplifies the picture, because different non-profits compete for resources. In addition, these organisations may have completely different capacity and operating efficiency levels. Non-governmental organisations should emphasise their strengths. It would help potential target audiences to comprehend the significant differences that exist between the missions and abilities of different non-profits in order to understand what is more important personally for them and where they should invest their time and money.

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**Summary.** This article examines the concept of marketing mix for non-profit organisations. The authors suggest the use of “4Cs+people”, the elements of which include: consumer solution (mission, sphere of influence, role within the sphere of influence, representing common interests and advocacy, values for target audiences within the sphere of influence, goods and services offered for members, recipients and groups in the wider society), consumer cost (for members, volunteers, clients – service recipients, people and companies making individual financial and in-kind donations, organisations’ own employees, the mass media and legislators, employees of large international foundations and society in general), convenience (the place and means by which events are conducted), communication (advertisement, PR, communication strategy, communication style, how easily information

can be found) and people (professionalism, attitude to people and job). We believe that this concept represents special features of the service sphere in general and of non-profit organisation operations in particular.

**Key words:** marketing, marketing mix, non-profit organisations, NGOs

**JEL:** L31, M31

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## **CORPORATE SOCIAL RESPONSIBILITY (CSR) ACTIVITIES UNDERTAKEN BY ENTERPRISES<sup>1</sup>**

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### **INTRODUCTION**

The development of corporate social responsibility (CSR) shows that it is a new approach to the management of various organisations. It is both a philosophy and an action strategy. Managing a business with CSR involves combining economic objectives with the ethics of activities for the benefit of stakeholders and the natural environment [Rak 2012a], which generates additional value for customers. In business, this becomes a source of economic success. Customer loyalty and the interests of investors are enhanced, employee morale increases and relations with stakeholders improve, all of which contributes to the achievement of business objectives and the actions a company takes on the market [Witek-Crabb 2006].

As a result, companies seek to conduct themselves in a socially responsible way – to be ecological, ethical and economical for the organisation. Companies pursue social programmes because they are in the public interest as well as their own. Such programmes can display their distinguishing features and bolster their market position. Corporate social responsibility comprises company policy in its entirety (internal and external) and addresses all stakeholders (employees, customers, shareholders, suppliers and business, social and public partners as well as various pressure groups).

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## AIMS AND METHODS

This paper aims to show the areas of CSR covered by corporate strategies accounting for philanthropy to be pursued by an external organisation.

A three-stage procedure was used to achieve the paper's goals: a review of the literature, empirical research and conclusions.

A review of research that has been done in the field is the first stage. It examines the development of CSR and corporate philanthropy in the pursuit of CSR goals, and draws on the subject literature and reports on other research while also providing the basis for a CSR strategy in an enterprise. The empirical research was initiated by asking: How are corporate foundations organised in terms of corporate philanthropy?

This research question defined the chronology of the research proceedings, the subject and the object scope of empirical research, the methods and techniques for gathering and analysing the data. The subject of the research focused on relations between a parent enterprise and a corporate foundation and on factors determining their actions aiming to complete philanthropic goals originating from the strategy of the founder's enterprise. Corporate foundations operating in Poland were examined. This paper investigated only foundations constituting a separate entity set up by an enterprise or natural persons authorised by the enterprise and financed by the parent enterprise aiming to carry out socially beneficial measures. Moreover, apart from their strict connections to the parent enterprise, these organisations are characterised by features defined by the Act on Foundations from 1984. Foundations set up by public entities like self-governments, schools, universities, hospitals and other institutions were not considered corporate foundations or foundations established by various organisations for the purposes of promoting a group of products. In 2015, the author identified 125 such organisations operating in Poland. For the sake of comparison, there were over 100 corporate foundations in Poland presented in the standards by the Donors Forum [Standards of operation... 2015]. According to research, 90 foundations were operational in the Forum conducted in 2012 [Raszeja-Osowska 2015].

The research covered Poland and the empirical research was carried out in 2015. Data was collected by means of a survey (46 corporate foundations gave answers) and the analysis of 125 founder websites and 125 corporate foundations. The survey was designed to gain the opinions of managers managing corporate foundations in Poland on the implementation of corporate social responsibility by the founder. The research on documents involving websites of founders and corporate foundations was conducted in order to gather data for a comparative analysis of features of the foundation – founder relation in view of online communications activity. The data collection method made it possible to obtain information about the activities of foundations and the relations between foundations and their founders.

## THE AREAS OF CSR

The measures presented in Table 1 may be treated as a code of good business practices which secure flexibility of CSR activities. The options presented are complementary and may generate additional value found favourable not only for the enterprise, but the environment and customers as well. According to the research conducted by the Founda-

TABLE 1. Types of corporate social responsibility

Responsibility	Social expectations	Examples
Economic	required by society	<ul style="list-style-type: none"> <li>– making a profit</li> <li>– maximising sales income and minimising costs</li> <li>– making good strategic decisions</li> <li>– following a thorough policy of allocating profits</li> </ul>
Legal	required by society	<ul style="list-style-type: none"> <li>– complying with laws and regulations</li> <li>– complying with environmental protection and consumer rights regulations</li> <li>– abiding by labour law</li> <li>– counteracting corruption</li> <li>– fulfilling all contractual obligations</li> <li>– accepting warranties</li> </ul>
Ethical	expected by society	<ul style="list-style-type: none"> <li>– avoiding doubtful behaviour</li> <li>– acting not only in accordance with the law but also in the spirit of the law</li> <li>– considering the law as the unconditional minimum and taking actions going above this minimum</li> <li>– securing ethical leadership; setting an example for the entire organisation</li> </ul>
Philanthropic	appreciated by society	<ul style="list-style-type: none"> <li>– being a good corporate citizen</li> <li>– running programmes that support society (education, health services, culture, urban services)</li> <li>– striving to improve the quality of social life</li> <li>– volunteering</li> </ul>

Source: Carroll and Bucholtz 2003, Baran 2006.

tion for Social Communication, the public considers the following to be most important [IPSOS 2009]:

- obeying the law and running a business that treats customers, employees and contractors fairly and reliably;
- creating an appropriate organisational culture inside a company, giving employees the right and opportunities to develop;
- activities that benefit the community in which a company operates. These may involve participation in charity events including product give-aways, financial support, leveraging the company's organisational and logistic abilities, organisation events and picnics.

According to Lyon's approach, there are five objectives of social activities of CSR strategy (Fig. 1) [Lyon 2009]:

- compliance with human rights;
- positive impact on the environment;
- compliance with labour law;
- social involvement;
- compliance with ethical norms.

These features of CSR are the reasons to adapt it to enterprise management and comprise four types of motivations, which translate into benefits for [Mohr et al. 2001]:

- the company (through increasing sales, profits, an improved image and social value);
- both the company and the environment (nature and society);



FIG. 1. Goals of a corporate social responsibility strategy

Source: based on Lyon 2009.

- more for the environment of the company, but take into account the company's interests;
- the corporate environment exclusively.

The motivations of enterprises make clear the logic of improving CSR and its transition from reaction CSR to strategic CSR. The long-term benefits of adopting CSR as a source of motivation to engage in social measures are as follows [Wardyn n.d.]:

- winning the interest of investors and enhancing company credibility and transparency, which increases confidence in an enterprise (also among lenders);
- growth in customer and other stakeholder loyalty – consumers prefer companies to embrace social actions in line with the PYMWYMI (put your money where your mouth is) principle [Rok 2004, Wardyn n.d.]. That means consumers choose brands with values similar to those they themselves have;
- building and maintaining favourable relations with the community and local administration as a result of involvement in social activity in the local environment;
- growth in the enterprise's competitive edge by strengthening the value of a corporate brand image and the products it offers;
- shaping the enterprise's organisational culture by enhancing the value of cooperation between stakeholders and building a partnership;
- building a good company image and attractiveness as an employer among existing and potential employees by using CSR actions as instruments of non-financial employee motivation.

## THE PERCEPTION OF CSR BY COMPANIES – AN OVERVIEW OF THE RESULTS OF EXTERNAL STUDIES

There can be no doubt that enterprises benefit from including socially responsible goals into management and strategy. This is confirmed by numerous research results published both in Poland and abroad [Tabor 2004, Eichholtz et al. 2010, Geryk 2012, Sznajder 2013].

Concepts of CSR including factors encouraging companies to apply them are quite clear. Nevertheless, the management boards of many companies understand the concepts

differently. This is confirmed by results of the research carried out by KPMG in 2013 among the 100 largest companies from 41 countries showing that enterprises use various terms to express social responsibility. The most frequent term is sustainability (Table 2), while the term CSR is used by only every fourth company in reporting.

TABLE 2. Indication frequency of terms used to define corporate social responsibility

Term	Frequency of indication (%)
Sustainability	43
Corporate social responsibility (CSR)	25
Corporate responsibility (CR)	14
Sustainable development	6
Corporate citizenship	2
Environmental and social report	2
People, planet, profit	1
Corporate responsibility and sustainability	1

Source: based on the KPMG Survey 2013.

The results of research carried out among Polish enterprises in 2013 showed that 2/3 of company representatives in the SME sector did not come across the term CSR [The KPMG Survey of Corporate Responsibility Reporting, 2013]. Despite that, the companies indicated they took socially responsible measures mainly to benefit employees and the natural environment as well as cooperation with social organisations and local communities (Table 3).

TABLE 3. Social actions of SMEs in Poland

Social actions	Indication (%)
For the sake of employees (training)	80
Considered in decisions related to the natural environment	82
Waste segregation	83
Cooperation with social organisations and local communities	61
Pursuing sustainable waste management	40
Arranging employee volunteering	15
Running social campaigns	11

Source: PARP 2013.

The data above reveals that Polish SMEs implement only single social measures and most often ones targeted at employees and the natural environment. Table 4 presents a broader scope of key CSR areas pursued by companies in Poland.

The data presented in Table 1 show that key CSR areas are not fully completed. The biggest discrepancies are observed in “fair market practices in relations to contractors, business partners” where 53% of those surveyed considered them of key importance but only 32% actually turned them into action. This shows it is easier for enterprises to take socially responsible measures for the benefit of consumers and employees than to obey principles of business ethics [Rybak 2004].

TABLE 4. Key CSR actions taken in Poland

CSR actions	Key action (%)	Taken action (%)
Consumer relations	74	43
Employee relations	72	45
Work organisation in company (corporate governance)	65	34
Fair market practices in relation to contractors, business partners	53	32
Human rights	20	12
Natural environment	20	14
Social involvement – measures that benefit the local community	11	6

Source: PARP 2011.

Analysis of the social reports published by large Polish companies shows that the most commonly used areas of social involvement include [Brzozowski 2009]:

- charitable activities;
- shaping customer relations;
- employee development;
- establishing relations with contractors;
- taking responsibility for their products;
- environmental protection.

Corporate social responsibility activities taken by enterprises may be grouped into two groups: internal, or those targeted at employees, and external, including those addressed to various groups of stakeholders [Sznajder 2013] (Table 5).

TABLE 5. Forms of enterprise social responsibility

Internal forms	External forms
<ul style="list-style-type: none"> <li>– employee welfare (medical care, helping to pay liabilities, health leave and kindergarten etc.)</li> <li>– work conditions (raising quality standards of work stations, social benefits above the existing norms)</li> <li>– setting employee tasks (enhancing employee satisfaction and to a lesser extent economic effectiveness)</li> </ul>	<ul style="list-style-type: none"> <li>– natural environment (reduction of pollution even if the competition does not do it, saving energy and others)</li> <li>– products (getting rid of hazards which may appear in the process of using products)</li> <li>– market and marketing (looking after ethical channels and distribution forms, complying with standards of ethical communication and promotion)</li> <li>– employment (maintaining employment, favouring people in a difficult situation)</li> <li>– acting for the benefit of a local community</li> <li>– sponsorship of local ventures and organisations</li> </ul>

Source: own elaboration based on Żemigala 2007 (after Lewicka 1999).

Bartkowiak [2011] presents the social responsibility of businesses in an approach emphasising target groups of stakeholders:

- the market environment (suppliers, recipients, co-operators, competitors); for example application of principles of ethics in contacts with the environment, using fair information and advertising;

- the public environment (public administration, public benefit institutions, social organisations, citizens); CSR measures concern scientific ventures, schooling, culture, health protection, sport in terms of patronage, sponsorship, public and private partnership, employee volunteering;
- employment (existing and potential employees) comprising incentive systems, respecting employees' dignity, social justice, opportunities for personal development, providing stability and a safe work environment;
- environmental protection (technology and organisation of all corporate actions related to the use of environmental resources); CSR activities focus on the appropriate management of natural resources in an enterprise, evaluating the ethical implications of the use of resources, compliance with regulations concerning environmental protection;
- relations with investors (with existing and potential shareholders); these activities concern business ethics and reliable information conveyed to investors while also respecting pre-emption rights and keeping promises made.

The areas of enterprise CSR presented indicate the main groups of stakeholders as well as actions assigned to them according to the following principles [Schwab 2002, Dolhasz 2005]:

- corporate attractiveness – an enterprise should prove its usefulness to society with its action not only as an employer but also as a social player;
- corporate integrity – economic and social goals should be combined in action; coherence of social and economic goals is important in compliance with ethical and moral behaviour;
- corporate citizenship – an enterprise should solve social problems and look for unsolved issues and initiate cooperation with other entities (business, public and social) for the sake of society;
- supporting social entrepreneurship – enterprises and public organisations should support social entrepreneurship while aiming to build a civic society.

A contemporary CSR concept emphasises consideration of social tasks as a part of elaborating the corporate strategy [Kaleta 2014], which company is going to follow. It consists of the following phases of effective completion of CSR activities [Łaszyn 2002]:

- obtaining internal support for the company's social involvement;
- identifying social problems somehow appropriate to the company's activities;
- analyzing current social actions;
- defining goals, identifying a strategy, identifying resources, drawing up an action plan;
- project completion;
- measuring effectiveness and efficiency;
- reporting and communications in the company's environment;
- maintaining dialogue with the external environment and adjusting the programme.

## **BUILDING A CSR STRATEGY**

The stages of CSR activities show the logic of elaborating a CSR strategy, which requires integration with an overall corporate strategy [Galbreath 2010]. The model of corporate social responsibility presented in Figure 2 displays relations between a general

company strategy and CSR strategic tasks. Accomplishing strategic business goals paves the way to completing social tasks, and consists of a process for managing CSR in four phases [Rudnicka 2012]:

- planning – setting organisational values, analyzing the corporate environment and its internal situation, analyzing stakeholders and their expectations, analyzing the enterprise's ethical risk, defining strategic goals and directions of corporate actions, securing appropriate resources conditioning their accomplishment, elaborating a social policy concerning the enterprise's responsibility, defining future actions, elaborating social programmes together with the tools needed to implement them;
- performance – implementation of social programmes by means of various ethical instruments, i.e.: employee volunteering, cause marketing, sponsorship, social partnership, channels of internal and external communication;

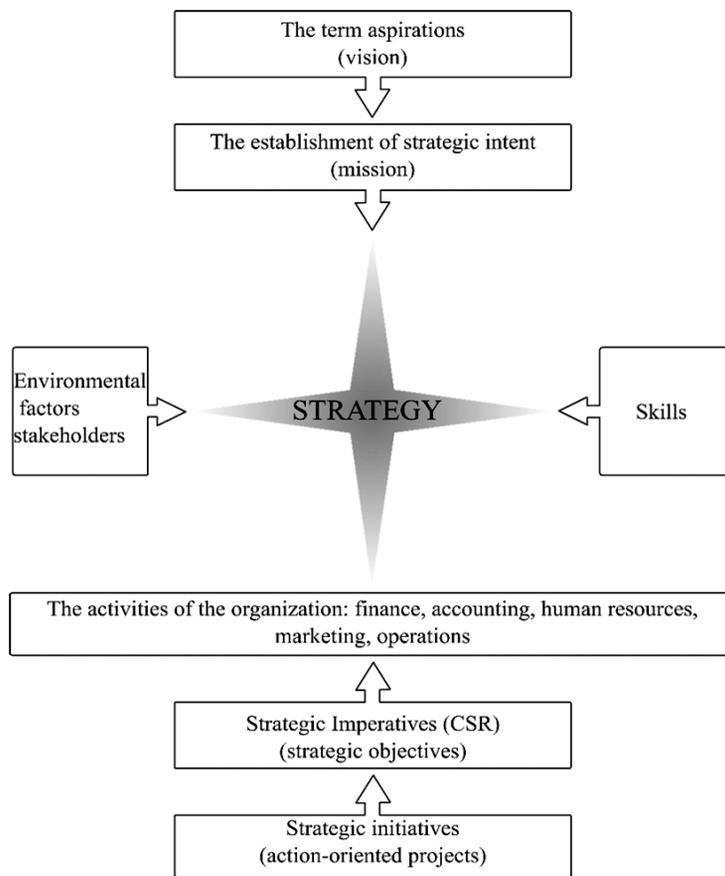


FIG. 2. Strategic model of corporate social responsibility

Source: Geryk 2012 (after Werther jr. and Chandler 2006).

- evaluation – measuring and monitoring action parameters, various systems for evaluating social programmes, surveying stakeholder satisfaction, assessing the activities of social partners, controlling social, economic and environmental indicators;
- improvement planning and taking preventive, reparative, corrective and improving actions.

A strategic and process approach to completing CSR tasks enables the enterprise to function ethically and has a positive influence on the environment where a company is conducting activities. At the same time, economic effects generated by such activities (enhancing customer loyalty, stabilising the market or possibilities of lowering labour costs through the growth of employee motivation) [Tabor 2004] provide the motivation for implementing a CSR strategy.

### **IMPLEMENTING CSR STRATEGY THROUGH OUTSOURCING AN OBJECTIVE OF PHILANTHROPY**

The model for creating a strategy presented here does not exclude the possibility of pursuing CSR areas within the enterprise. The aspects society requires or expects (economic and legal ones) must be covered by the company itself, as it is in charge of the production and sales of its products or services.

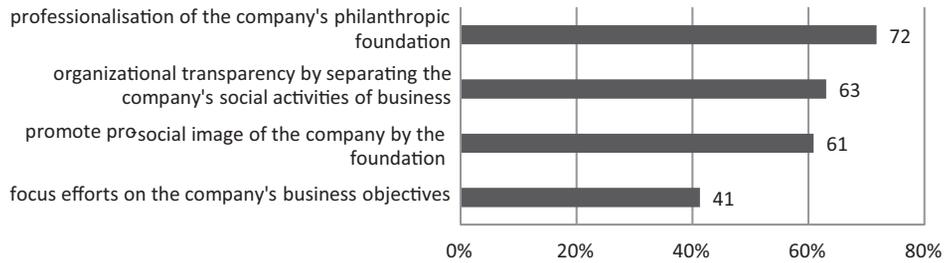
However, philanthropy-related areas may be mostly covered by an external entity. Unfortunately, no research has been done on the extent to which that happens. Some enterprise CSR strategy goals – cause marketing, for example – are delegated in various agreements with external entities. Such agreements have both advantages and disadvantages [Rak 2014a], the latter being that enterprises must look for ways to minimise their weaknesses. Reducing risk related to transferring activities to external organisations results in setting up corporate foundations to carry out corporate philanthropic actions [Rak 2014b].

There were 125 external companies in Poland in 2015 that performed philanthropic tasks for enterprises. These were corporate foundations set up by enterprises for the purposes of carrying out measures assigned by the enterprise [Rak 2012b]. Accomplishing them benefits the foundation's founder (Fig. 3).

The benefits a founder company gains from setting up its own foundation involve organisational and marketing challenges such as making the foundation's philanthropic activities professional (71.7% indications), achieving organisational transparency by separating social and business activities (63%) and promoting the foundation's pro-social corporate behaviour (60.9%). Tasks of CSR are also carried out by assigning the personnel of the enterprise to work in a corporate foundation and arranging corporate volunteering to help the foundation do its social assignments (such cooperation between parent companies and their foundations is generally accepted).

In the survey reported in Figure 4, foundation managers indicate the number of employees employed in managerial positions by foundations.

The data show that 22% does not employ the founder company's employees in managerial positions and just over a fifth (22% indications) engages two workers. The above



respondents could indicate up to three opinions (n = 109 opinions)

FIG. 3. The most important benefits a founder company gains from setting up its own foundation

Source: the author.

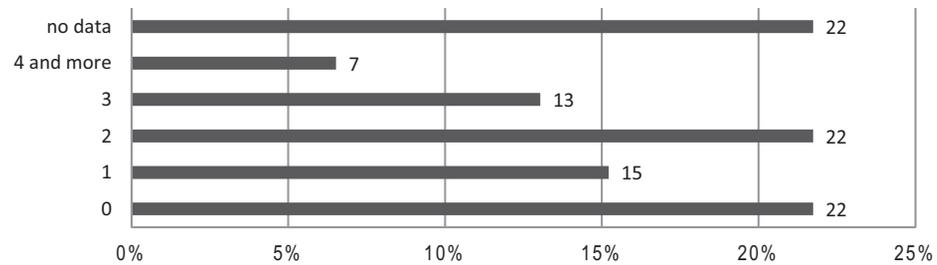


FIG. 4. Employees of a founder's enterprise in managerial positions in corporate foundations (n = 46)

Source: the author

figures are estimated as 10 of the surveyed companies did not disclose any information about employing the founder's employees in managerial positions.

An enterprise accomplishing its CSR goals with relation to corporate philanthropy results in addressing measures to specific groups of beneficiaries and informing them about it. Table 6 shows groups of beneficiaries displayed on foundation and enterprise websites.

The data from Table 6 reveal a difference between the groups of stakeholders (beneficiaries) of corporate foundations and founding enterprises. That difference can be traced to the main objectives of foundations and enterprises displayed in their missions and promoted values. It is clear that foundations aim to accomplish goals for the benefit of society whereas enterprise mainly focuses on satisfying the needs of customers and em-

TABLE 6. Main groups of stakeholders displayed on corporate foundation and parent enterprise websites

Corporate foundations	l.b.	%	Founding companies	l.b.	%
Local society	63	50.4	Customers	56	44.8
Children	59	47.2	Employees	41	32.8
People with disabilities	45	36.0	Local society	37	29.6

n = 125 (it was possible to give a few marks so the total does not add up to 100%)

Source: own elaboration based on data provided by foundations and founding companies websites.

ployees and to a lesser extent the needs of local communities. Displaying stakeholders on foundation and enterprise websites has promotional, image and practical importance. Such information tells internet users to whom the enterprise's actions are addressed.

Relations between corporate foundations and their founders may also be observed on the basis of informative communications posted on both entities' websites. Table 7 includes communication features of the foundation provided by a parent company and vice versa.

TABLE 7. Information about foundations and their founders presented on websites by both sides (according to the number and frequency of indications)

Corporate foundations			Founders		
Communications	l.b.	frequency (%)	Communications	l.b.	frequency (%)
A corporate foundation posts information about actions taken together with a founder	85	68.0	A founder posts information about his or her own foundation and actions	76	60.80
A corporate foundation's website has a link to a founding enterprise	68	54.4	A founder puts a link to information about current actions of corporate foundations	71	56.80
A corporate foundation posts information about participation of a founder's employees in the activities of a corporate foundation	60	48.0	A founder posts a link to a foundation on its main website	52	41.60
Information about a founder is on the website of a corporate foundation	59	47.2	A founder posts information about a foundation in promotional material available on the internet	23	18.40
A foundation uses identical communication channels and social networking sites as the founder	33	26.4	There is information about a corporate foundation in the CSR report of a founder	19	15.2
×			A founder posts only one notice about a foundation's actions	12	9.60
			Social networking sites of a founder provide information about a corporate foundation	9	7.2

n = 125 websites of a foundation; n = 125 websites of an enterprises (the total number of indications may exceed 100%)

Source: own elaboration based on the results of analyses of websites of foundations and founding companies.

The data from Table 7 show that foundations post information on their websites more often than founders do. In particular, 68% of foundations inform of actions taken jointly with a founder, 54% place a link to a website of a founding enterprise while 48% show the founder's employees' involvement in a foundation's activities.

A review of the literature and empirical research indicates the following measures external companies can take to accomplish their philanthropic goals:

- address philanthropic assistance to stakeholders not related to the profile of an enterprise or its customers;
- separate a business area from a philanthropic one to enhance the transparency of corporate decisions;
- make CSR measures professional.

## CONCLUSIONS

Adapting CSR involves integrating social norms (including human rights), principles of ecology, economy and corporate organisational culture into the company's current activities, not only presenting its mission. Therefore, signs of CSR adoption may be sought in overall corporate activities comprising policies and the strategies of operational activities pursued. The complete adoption of CSR in companies boosts competitiveness in the long term, develops a social image and helps secure permission for the operation and development of the enterprise from the local community. Corporate philanthropy, which may be separated from the enterprise, may play a special role in this regard. It facilitates (enhances) communication about other CSR actions taken by a company. According to the research results cited in this paper, it may be concluded that CSR is mainly associated with philanthropy by external stakeholders.

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**Summary.** The paper shows areas of CSR included in corporate strategy, including particularly philanthropy, which may be pursued by an external organisation. It also presents areas of corporate social responsibility, providing a background for the results of the analysis of secondary data concerning the importance of CSR for enterprise. The procedure for creating a CSR strategy is explained and the possibilities of pursuing philanthropic tasks by an external organisation are shown. Using own research (the analysis of websites of 125 corporate foundations in Poland in 2015 and the results of the survey of 46 managers from corporate foundations), author present ways of delegating philanthropic tasks to corporate foundations and how the tasks are accomplished. This article is intended for researchers studying CSR and also for company managers who think about philanthropy.

**Key words:** corporate philanthropy, CSR, strategy, corporate foundation

**JEL:** M14

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## **DIVERSIFICATION AS A MODERN GROWTH STRATEGY IN AGRICULTURE**

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### **INTRODUCTION**

The global economic crisis has had a major impact on enterprises operating in the agricultural sector in numerous countries, Ukraine among them. A significant increase in inflation and production costs, as well as a decline in production profitability and changes in tax laws, have hindered the development of enterprises and forced producers to extend the scope of their activities and seek more optimal growth strategies. Dynamic changes in the market environment prompt the need to develop marketing strategy that would most comprehensively take into account transformations of the market environment. Diversification, the subject of this paper, can be the optimal strategy in uncertain conditions. In this context, the large-scale problem of using marketing strategies for diversification in the agricultural sector, where climatic conditions pose such a risk, is particularly important. Diversification strategy creates a synergy, by which farms increase their economic efficiency and strengthen their competitive position in the market. Scientists, including Chandler [1962], Kotler [1990], Ansoff [1999], Porter [2005], Kudenko [2006] and others, have contributed significantly to the theoretical understanding of diversification strategy. Author has used their work as a fundamental basis for further research in this area. For diversification strategy in the agricultural sector, the work of Lemishko [2001], Kaninsky [2003], Kareba [2012], Malik [2012], and Pelykh [2014] stand out. These scholars' theoretical work forms the basis for practical application of diversification strategy in the farming sector. The prospects for and problems in agricultural diversification strategy is important and requires further research.

## RESEARCH OBJECTIVE AND METHODOLOGY

The study examines the theoretical foundations of diversification strategy and identifying characteristics of its application in agriculture. The following research methods were used: analysis, synthesis, induction, deduction, comparison, generalisation and graphic method.

## STRATEGY AND MARKETING STRATEGY

In the presence of rapid market transformation, it becomes increasingly urgent for enterprise to develop strategy. Larina has noted that “the process of developing strategy is considered to be the core of strategic management” [Larina 2008]. Given that strategy forms the direction a company will take moving forward, the claim seems justified. Chandler defines strategy as “the establishment of long-term goals and objectives of the company, elaboration of the actions plan and allocation of resources needed for these purposes” [Chandler 1962]. According to this definition, enterprise strategy is developed and implemented in order to beat competitors, capture greater market share, increase profits, receive and/or reinforce a synergetic effect and achieve other goals [Mocherny et al. 2005].

According to Kudenko, marketing strategy accounts for 80% of overall business strategy [Kudenko 2006]. After all, no enterprise can fully develop without forming and implementing marketing strategy, which is one basis for the enterprise to develop and grow.

Unfortunately, the expediency of developing and using marketing strategies in the Ukrainian farming sector, compared with the developed countries of Europe and other leading countries of the world, is not taken seriously by the heads of enterprise. The development of an effective marketing strategy that takes into account all the factors of the micro and macro environment requires appropriate knowledge, time and money. A systematic approach to its development fully justifies meeting these expenses, because scientifically grounded decisions about choosing marketing strategy will help the enterprise to survive when the external environment turns hostile. Since most agricultural groups aim not only to survive in today’s unstable market, but to ensure growth, this paper focuses in more detail on one marketing strategy for growth.

## DIVERSIFICATION STRATEGY: FEATURES AND TYPES

Growing competition requires companies to constantly change the direction they’re moving in. The search for alternative areas of business to complement their main ones can be described as both a diversification and a growth strategy – ones that are often implemented when all paths to intensive growth have been exhausted. According to the definition of diversification given in the economic encyclopedic dictionary edited by Mocherny, “diversification (lat. *diversus* – different, remote, and *facere* – to do) is an expansion of the range and change of the appearance of products produced by individual enterprises, firms and companies” [Mocherny et al. 2005]. Kaminsky noted that diversification is the opposite process of production specialisation: one company combines many commodity

sectors, and sometimes even unrelated ones [Kaninsky 2003]. At the same time, however, specialisation and diversification are often parallel forces that complement each other, but nonetheless differ significantly. Excessive concentration on specialisation can greatly increase the risk of an enterprise failing. However, rash decisions or inconsistent actions in the diversification process can likewise lead to significant risks. Waterman [1988] emphasised, on the other hand, that the greatest risk to the entrepreneur is the risk of doing nothing. This would suggest that doubts and fears about a company's entrance to new areas of activity must be allayed. The Ansoff matrix gives more illustrative understanding of diversification strategy (Table 1).

TABLE 1. The Ansoff matrix

Market	Commodity	
	existing	new
Existing	strategy of deep market penetration	commodity development strategy
New	market development strategy	diversification strategy

Source: Ansoff 1999.

As Table 1 shows, a feature of diversification strategy is that it simultaneously involves both new product development and access to new markets. This in its turn is due to higher financial costs and risks compared to the other strategies presented in the matrix. Thus, diversification exists in two main forms:

- expansion of the range of products, the production of new products and the modification of that production within a given area;
- penetration into new industries and areas of the economy, through the creation of new businesses and acquisitions of others, which is the basis of the emergence of multi-business concerns [Mocherny et al. 2005]. These forms of diversification grew out of the search for additional sources of income to reduce the risk of bankruptcy in conditions of lower demand for basic products.

Diversification is accomplished mainly by one of these means: acquiring or merging with a company already working in a new field, creating a new enterprise "from scratch", or entering into a joint venture [Dican 2013]. To penetrate a new market of field, the fastest of the three is to merge with or absorb an enterprise already working in the field the company wishes to push into. The downside to this approach is that overcoming barriers to entry can be very expensive. To choose the company with which future integration ties will be built, the enterprise will need not only significant financial resources, but also to spend time. In fact, implementation of the integration process with a little known or uncompetitive enterprise does not justify the effort given and will not lead to the desired results. One outcome of diversification is the emergence of diversified conglomerates that combine enterprises from many industries and which are unrelated by a technology chain [Mocherny et al. 2005].

The most common types of diversification are concentric (vertical), horizontal and conglomerate diversification. Table 2 describes the features, advantages and disadvantages of each.

TABLE 2. The features of diversification types

Diversification types	Definition	Advantages	Disadvantages
Concentric (vertical)	Adding to the existing range of products, which from a technical and marketing point of view are similar to existing goods	<ul style="list-style-type: none"> <li>– reduces dependence on one product or market</li> <li>– uninterrupted supply of material and technical resources</li> <li>– possibility to share risks</li> <li>– control over the work of all parts of the production chain</li> </ul>	<ul style="list-style-type: none"> <li>– collaboration between departments, which reduces internal competition between units in the enterprise (commodity prices are not decreased)</li> <li>– due to interconnection between units, in the event of a one unit malfunctioning affects the whole enterprise</li> </ul>
Horizontal	Adding to the assortment of products in no way related to those already produced but can arouse interest among existing clients	<ul style="list-style-type: none"> <li>– growth in competitiveness in domestic and foreign markets</li> <li>– synergy effect</li> <li>– scale effect</li> <li>– better meet the needs of customers</li> </ul>	<ul style="list-style-type: none"> <li>– sudden reduction of distribution area (prompting the need to radically change scope)</li> </ul>
Conglomerate	Adding to the range of products which have nothing to do with the technology used by the firm or its products and markets	<ul style="list-style-type: none"> <li>– provide full utilization of productive potential of the field in new markets and products previously gained</li> </ul>	<ul style="list-style-type: none"> <li>– significant increase in costs of new technology, product development</li> <li>– need for skilled workers and new markets</li> <li>– available only to large enterprises</li> </ul>

Source: supplemented and summarised by the author on the basis of Kotler 1990, Porter 2005.

As Table 2 shows, conglomerate diversification is both the riskiest and most expensive type because it involves the production of a new product not connected with existing ones and is offered to new customers in new markets. Such diversification is limited to large-scale enterprises with sufficient financial resources.

## DIVERSIFICATION STRATEGY IN UKRAINE'S AGRICULTURAL SECTOR

Agriculture is a strategically important sector for Ukraine. It not only guarantees the country food security, but also figures prominently in its GDP (in 2015, agriculture accounted for 11.9% of GDP). Here we will consider in greater detail the place of strategy diversification in the sector. The seasonality of production and considerable dependence on climatic conditions (which are the main factors in choosing the direction of specialisation), the need to take into account environmental factors and limited areas of agricultural land all account for the peculiarity of the country's production diversification.

A leading expert on Ukraine's agricultural sector, Malik identifies the leading aspects of agricultural diversification as including "expanding the range and assortment, chang-

ing the types of products manufactured by enterprise, development of new industries to improve production efficiency, obtaining economic benefits, and prevention of bankruptcy taking into account the ecological and social needs of the population” [Malik 2012]. The formation of agricultural diversification strategy is thus used to prevent bankruptcy through moving into other areas of production and capturing new markets. Malik also describes the main factors that led to the further implementation of diversification strategies: Ukraine’s economy has transitioned from a command-administrative management system to a market economy, and technological progress changes in human psychology have both occurred. According to Lemishko, diversification of agricultural enterprises provides “integration of primary production of agricultural products with other activities, including manufacturing, trade, services, the creation of new products, services and markets” [Lemishko 2001].

Diversification trends in agriculture include [Kovalenko et al. 2008]:

- making agricultural organisations more versatile;
- increasing the share of ancillary industries and industries;
- mergers and acquisitions in the integrated structures;
- expansion of non-farm activities in rural areas to increase incomes.

The main features of diversification are the entry into new areas of production and expansion of activities. As an example, agrarian enterprises can provide services in construction and transportation, as well as in everyday life (various studios, hairdressing salons, zootechnical and other services, agrarian shops, milk collection stations, bakeries) and in the development of green tourism. Given Ukraine’s limited land resources, important types of agricultural enterprise diversification include selling and processing locally grown products, expanding sales channels for these products, and developing various subsidiary enterprises and industries [Kareba 2012]. Depending on the goal and market situation, the enterprise determines the direction of diversification on its own. The biological nature of agricultural production requires the combination of those crops which properly meet crop rotation requirements. After all, soil exhaustion in the longer term will destroy yields. Furthermore, the diversification of crops for which different weather conditions are favourable is also an effective way to reduce the risk of low-yield harvests, though this approach carries with it certain expenses.

As a result of vertical diversification in Ukraine, holding structures are formed, and the current process of transformation continues. Integrated units should also include associations, unions, cooperatives, corporations, financial-industrial groups and agricultural holdings. Agricultural structure is the highest form of vertical integration, the existence of which significantly increases the competitiveness of the agricultural sector of Ukraine, particularly with respect to export figures. The single largest agricultural holding in all of Eurasia – UkrLandFarming – operates on 654,000 ha located in 22 regions of Ukraine. This agroholding is an example of multi-production, including crop production (including seed production), dairy cows and beef cattle, eggs and egg products, sugar production, meat processing, storage and sale of grain and industrial crops, distribution of agricultural technology, parts, plant protection products, mineral and special fertilizers, seeds and technical service. Main crops include sunflowers, corn, sugar beets and wheat [WWW 1]. All of these activities and crops speak to UkrLandFarming’s versatility, a significant advantage of which is the lack of dependence on a single activity.

Diversification leads to effective interaction between agricultural enterprises and processors. It optimises existing production and introduces new lines and technologies, based on the needs of consumers. The development of an agricultural complex based on diversification of agricultural enterprises ensures the rational use of natural, industrial, financial and labour capacity and can extend production volumes [Pelykh 2014]. The figure presents the value of agricultural enterprise diversification for different categories of economic relations.

This section has shown that there are a number of benefits of implementing diversification strategy in the agricultural sector. They include: increasing the competitiveness of enterprises and their products, especially in foreign markets; strengthening enterprise market position; obtaining synergy; integration with processors, leading to the efficient use of resources; expansion of product range; and reducing risk by eliminating dependence on a single product. However, like any economic phenomenon, there are also drawbacks, which here include the fact that manufacturing processes and control are complicated; time and money must be spent to uncover and study the products and services in demand; and reduced scale effect, which is typical for highly specialised businesses.

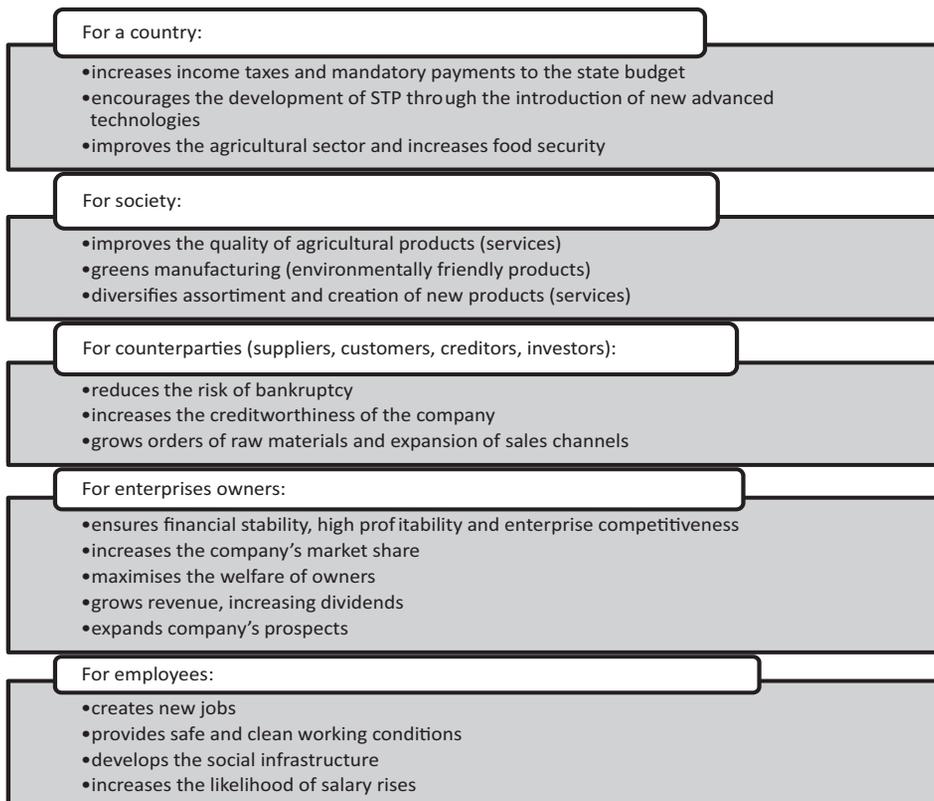


FIG. Value of agricultural enterprise diversification for different categories of economic relations  
Source: the author, based on Tsalko 2008.

## CONCLUSIONS

In summary, it is clear that marketing strategy forms the basis for the choice of activities for an enterprise to achieve desirable growth. In the prevailing market conditions, when demand for main products decreases, it is reasonable to use a diversification strategy, which enables the development of new goods to be sold and new spheres of activity to be entered. In turn, this allows the enterprise to establish stronger positions on the market than when it opts for highly specialised economic activity. However, diversification is expensive, and is the riskiest growth strategy. In the scientific literature, the most often discussed forms of diversification include concentric (vertical), horizontal and conglomerate diversification. The most effective and least risky is the first – vertical strategy – which involves obtaining a synergistic effect and reducing transaction costs (a single production chain from field to consumer). Agricultural holding companies are an excellent example of the effective use of vertically integrated production diversification. The agricultural industry is characterised by seasonality and operates very much at the mercy of nature and climatic conditions. Effective diversification calls for all factors to be considered – including nature and the climate, both of which are, unfortunately, difficult to estimate or predict.

The practical value of this paper is its relevance to the use of diversification strategy in today's agricultural market to move into other areas of activity. Diversification makes it possible to minimise risks and provide stable financial results even when demand for basic products fluctuates.

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**Summary.** The aim of the article is to examine the theoretical foundations of diversification strategy and identify the characteristics of its application in agriculture. The relevance of diversification strategy research is that its implementation allows additional income to be made, ensures financial stability for enterprise when demand for basic products fluctuates, and strengthens the competitive position in chosen markets. The importance for enterprise of implementing growth strategy is discussed, as is the economic essence of “marketing strategy”. Dynamic changes in the market force producers to review their activity and seek a more optimum development strategy. Diversification can be the optimal strategy when market conditions are uncertain. The article analyzes the essence and types of diversification along with the benefits and disadvantages of diversification strategy. As a result of the research, features of diversification strategy for the agricultural sector were analysed, the essence of which may be found in the unification of agricultural products with other kinds of activity. This is done to decrease the risk arising from receding demand for main agricultural products. The study found that the most effective and least risky strategy is vertical diversification, which involves obtaining a synergistic effect and reducing transaction costs (through the use of a single production chain from field to consumer).

**Key words:** strategy, marketing strategy, diversification, agrarian groups, agricultural enterprises

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## **THE DETERMINANTS OF CONSUMER BEHAVIOURS IN THE FURNITURE MARKET**

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### **INTRODUCTION**

The purchase of every good involves the decision to acquire it. In each case, the process depends on the type of goods to be bought. There are numerous criteria in the literature. The most general classification of the economy divides it into products and services. Furniture, the subject of interest of this article, covers a large range of products.

There are also different goods classified in the literature based on the following criteria: product lifespan, type of consumption, the lifespan and length of use of the product, user type, consumers' purchasing habits and the degree of accessibility to a given product [Przybyłowski et al. 1998, Kotler et al. 2002, Klimczak 2006, Zalega 2007].

### **AIM AND METHOD**

The main reason the present research on the determinants of consumer behaviours in the furniture market was undertaken is that there is a paucity of studies conducted on the furniture sector in Poland, despite the growing importance of the sector in Polish industry. The need to systematise the knowledge base, as well as author's interest in the furniture sector in Poland led to this publication.

The main purpose of the article is to answer the question: what features do purchasers take into consideration when choosing products? To this end, the literature on consumer behaviours was reviewed, studies of the furniture market from previous years were analysed and the determinants of consumer behaviours were evaluated. Chosen factors influencing behaviours of furniture acquirers are presented.

## CHARACTERISTICS OF FURNITURE

Table 1 presents a classification of furniture on the basis of a number of criteria. It breaks down the classification of purchase determinants in the furniture market.

TABLE 1. Furniture location in the classification of goods

Criteria	Type of goods	Furniture
Product lifespan	durable	X
	unsustainable	–
	services	–
Type of consumption	individual consumption	X
	group consumption	X
Duration of use	duration of use	–
	multiple use	X
	short-term use	X (seldom)
	mid-term use	X
	long-term use	X
Type of user	consumer	X
	industrial	–
Consumers' purchasing habits	frequent purchase	–
	selectable	X
	special	X
	imperceptible	–
Availability level	unique	X
	mass	X

Source: the author, based on Przybyłowski et al. 1998, Kotler et al. 2002, Klimczak 2006, Zalega 2007.

Furniture may be classified as a durable good because it is characterised by a relatively long life cycle. Though furniture is the subject of individual and collective consumption, it is mainly classified as a consumer goods purchased by the final customer, a household. There is no doubt that furniture is a selectable good, because it is purchased relatively infrequently and consumers spend more time acquiring it than they do frequently purchased goods. However, luxury furniture can be classified as a special good possessing unique features such as a high price or its not being widely available.

## FURNITURE MARKET IN POLAND

An important part of the economy, the furniture sector in Poland is considered one of the most competitive industrial manufacturing sectors. In 2014, furniture production accounted for 2.10% of GDP [GUS 2015], which was higher than in the previous year. The furniture industry has been developing rapidly for several years, and according to Central Statistical Office of Poland data (GUS in Polish, hereinafter CSO), the growth is to be sustained. The majority of indicators support the CSO data, and all reports likewise predict it.

Poland is a leading furniture-manufacturing country, and is still asserting its position in the sector. In 2014, it was the sixth largest furniture producer in the world, following only China, the US, Germany, Italy and India. Table 2 presents the volume of furniture production among Polish enterprises, employment conditions and the value of Polish furniture exports and imports in 2010–2014.

TABLE 2. Production level, value of export and import, level of employment in the furniture industry in 2010–2014

Specification	2010	2011	2012	2013	2014
Quantity of furniture produced (thous. units)	23 522	23 688	24 794	24 267	28 172
Value of furniture exported (bn PLN.)	22.8	26.4	27.3	29.4	33.2
Value of furniture imported (bn PLN.)	3.5	3.9	4.0	4.3	5.3
Number of people employed (thous.)	161.8	159.4	154.0	157.3	169.8

Source: the author, based on CSO data [GUS 2013, 2014, 2015, 2016].

The leading factor stimulating sales growth of furniture products is exports, which grew across the periods analysed in Table 1. In 2014, exports totaled 33.2 billion, again good enough to make Poland one of the top 10 furniture exporters in the world. The main consumer of Polish furniture is Germany, which bought 13.3 billion PLN worth in 2014. Of course, Poland also imports furniture, though at 5.3 billion PLN, the 2014 total was much less. While the number of people employed in the furniture sector was relatively stable for several years, in 2014 there was a significant rise (to 169,800). This was accompanied by substantial growth in furniture production in 2014 over the previous year.

## DETERMINANTS OF CONSUMER BEHAVIOURS

In the economics literature numerous ways of examining consumer behaviours are employed, but there is no one dominant approach. There is, however, a clear division of the determinants of consumer behaviour into two main groups: direct and indirect ones [Kłeczek et al. 1992, Gajewski 1994, Kieźel 2000, Rudnicki 2004, Świątowy 2006].

TABLE 3. The determinants of consumers' behaviours in the furniture market

Indirect determinants		Direct determinants	
economic	demographic	marketing	psychological
<ul style="list-style-type: none"> <li>– supply</li> <li>– incomes</li> <li>– expenses and savings</li> <li>– possibility of taking credit</li> <li>– possessed durable goods resources</li> </ul>	<ul style="list-style-type: none"> <li>– consumer's age</li> <li>– consumer's sex</li> <li>– household size</li> <li>– household location</li> </ul>	<ul style="list-style-type: none"> <li>– product features</li> <li>– product price</li> <li>– kind of product distribution</li> <li>– advertising related to a given product</li> </ul>	<ul style="list-style-type: none"> <li>– needs</li> <li>– viewpoint</li> <li>– motifs</li> <li>– attitudes</li> <li>– preferences</li> <li>– personality</li> <li>– learning</li> <li>– risk related to an acquisition</li> </ul>

Source: the author, based on Gajewski 1994, Rudnicki 2009, Rudnicki 2012, Włodarczyk 2013, Rembisz and Sielska 2015.

Economic, social, psychological and marketing are among the most important factors. Their importance is linked to the character of the products satisfying consumer needs [Szwacka-Mokrzycka 2012].

The main determinants of consumer behaviours in the furniture market to be considered include three indirect factors (economy, demography, and marketing) and one direct factor (psychology) [Gajewski 1994, Rudnicki 2009, Rudnicki 2012, Włodarczyk 2013, Rembisz and Sielska 2015]. Table 3 shows those factors which bear the most strongly on consumers to purchase furniture.

## ECONOMIC FACTORS

The economic factors behind consumer behaviours are relevant especially in the durable goods market, where products tend to command high prices. They can be divided into two main areas: the macroeconomic and microeconomic. The economic environment beyond those two areas does not have a significant impact on consumer choices because it is formed by legislative and executive power, which is not directly influenced by consumers. The microeconomic environment directly influences purchasers' behaviours. It is just this environment that covers incomes, expenses, savings, the ability to use loans and own durable resources (apartments and houses, for example) that defines consumers' material status.

The main macroeconomic factor that determines purchasers' behaviours in the market is the supply of products and services [Żelazna et al. 2002, Smyczek and Sowa 2003]. Access to a product or range of products and the possibility of choosing from among them is one of the most important tools used in creating consumption. A shortage of goods or services in the market prevents consumers from having freedom of choice, which directly reduces the size and structure of purchases. When there is a surplus of goods, the possibilities in the furniture market which satisfy the same or similar needs allow the consumer to make a more rational choice [Bywalec 2010].

A basic microeconomic factor is consumer incomes [Bywalec and Rudnicki 1999, Rudnicki 2000, Żelazna et al. 2002, Smyczek and Sowa 2003, Rudnicki 2004, Jaroś-Kresło and Mróz 2006, Bywalec 2007, Woś et al. 2011], which enable consumers to meet their needs. Income discourages consumers from or encourages them to satisfy their needs. Based on the literature, it may be concluded that income is the foremost microeconomic determinant of consumer behaviour.

Consumer incomes significantly influence the expenses they take on, their savings, their ability to take credit or use loans to purchase durable goods [Smyczek and Sowa 2003, Kusińska 2005, Kieźel 2010]. The ability to take credit or a cash loan has a significant impact on consumption today. Credit enables consumers to quickly meet their needs. It is especially crucial in the durable goods market, where the goods are correlated with each other: Those who buy flats must, after all, also furnish them. Additionally, the possession of other durable goods – television set, radios and domestic electrical appliances, to name three – is what determines whether one's furniture needs are satisfied.

Economic factors determine consumer behaviours to such a great extent because each household has a strictly defined amount of financial resources and items. Economic factors are also the basic determinants of consumers' behaviors in the furniture market. It is

determinants such as furniture supply, purchasers' income and savings and the ability to take credit and housing conditions that influence how consumers behave on the furniture market.

## **DEMOGRAPHIC FACTORS**

Demographic factors differentiate consumer needs, stimulate or stop certain market driven behaviours, and determine the conditions in which these behaviors take place [Kieźel 2010]. The main demographic determinants influencing consumer behaviours in the furniture market are age, gender, location and composition of the household. These determinants may be divided into two groups: those describing the consumer and those describing the household.

As needs change with age, consumers' age plays a larger role than their sex in the furniture market. The process of making shopping choices also changes. The supply of different goods, especially durable ones, varies across the particular stages of life. As consumers age, they earn higher incomes and build savings, so older consumers have more money than younger ones do [Nowak 1995].

The number of individuals living in a household is an important demographic determinant. The number of people influences the consumption growth in the range of goods such as clothes or cleaning supplies, but the consumption of durable goods does not change dramatically [Bywalec and Rudnicki 1999, Żelazna et al. 2002]. Factors including the stage of one's family life cycle education, labour market activity, lifestyle and membership in a social group also determine consumer behaviour. The stage of one's family life cycle is of particular importance [Rudnicki 2000, Żelazna et al. 2002, Woś et al. 2011]. Families go through different stages of development. Along with this process, it is not only their composition that changes, but also economic opportunities available to them, their needs and financial resources. These too determine the household's behaviours.

The location of the household is relevant mainly because it is one of the factors that determine whether household members will be able to satisfy their needs. Accessibility, closeness of certain retail outlets and producers of specific products condition their supply [Rudnicki 2000]. A comparison of incomes spent on particular goods and services by families who live in cities and those that live in the country shows that city families pay more for housing. According to the CSO, the cost of furnishing apartment and running a household in 2011 was 55 PLN monthly per person per city household and 40 PLN per person per country household.

## **MARKETING FACTORS**

All indirect factors influencing the consumer's decision process are closely linked to each other and describe not only the consumer, but also the environment in which he or she lives. The marketing determinants describe the businesses that offer the products. The main elements of the marketing determinants of consumer behaviours are product features, product price, product distribution type and product advertising.

The most relevant element for consumers making a choice between products is the features of those products: these determine consumer needs satisfaction and expectations of the given product. Almost every product in the market has basic functions and additional functions. Basic functions are expressed by technical and physical parameters. The basic function of furniture is to store clothes, dishes, books etc. Additional functions, on the other hand, mainly concern the user's comfort and the product's aesthetic appeal. In case of the furniture, the additional functions significantly influence whether the consumer decides to purchase it [Woś et al. 2011, Rudnicki 2012].

## **DIRECT FACTORS**

In addition to external determinants of consumer behaviours, there is also a second group of determinants: internal factors. These are characterised in the literature as being individual for every consumer. They concern the purchaser's personality as well as his or her views on life. However, internal factors are derived from external ones, since it is real life that influences consumer tastes, preferences, mindset and other elements that make up the individual's personality. Several determinants of consumer behaviour can be distinguished: their needs, viewpoints, motives, attitudes, preferences, personality, learning and the risk an acquisition presents.

Every household has its own hierarchy of consumption needs, on the basis of which it makes decisions and makes purchases. Even in households with a few people, each creates his or her own hierarchy of needs separately. The need to own furniture may be qualified as a secondary need, though it is certainly a housing need. Furniture not only improves the comfort of life, but also enables one to sleep better and spend time at home more comfortably, and, in providing the ability to store clothes, kitchen appliances, and other valuable items, helps one to feel a sense of calm and security. That is why, based on Maslow's pyramid of needs, furniture may be qualified as a secondary need, or, in other words, as a security need. As a need related to purchasing durable goods, the purchase of furniture can also be qualified as an individual need (furniture for one person) and collective needs (furniture used by all members of the household).

One's viewpoint – perception, in other words – makes consumers realise that there are certain products and there is a difference between brands and the places where they may be purchased [Kieźel 2010]. Consumer perception is conditioned by various consumer behaviours. There are many factors that influence the way one perceives a given product. The determinants to be considered are [Jachnis and Trelak 1998, Kieźel 2010]:

- those that stimulate (product size, the shape of the packaging, colours, advertisements);
- circumstances of a signal appearance;
- psycho-physical abilities (memory, vision, hearing);
- personality and the consumer's motives.

Consumers' needs and perceptions are related to factors that invigorate and direct the purchaser's behaviour in order to fulfill these needs. The motives which guide consumers in their actions may be classified according to criteria including: the source of the mo-

tives, their character, the degree of distinctive motives, consumer-caused effects and the urgency of the motives, the level of the consumer's realisation of their existence [Gajewski 1994, Rudnicki 2004, Janoś-Kresło and Mróz 2006]. The relationships between motive and consumer behaviour are not always simple and the same. Sometimes a specific behaviour of the purchaser results from different motives (e.g. for one consumer a given piece and brand of furniture may be desirable because of its functionality whereas for another it is the need to make a good impression on different people). The same motives could invoke the distinct behaviours of various consumers (e.g. a lack of furniture may cause an urge to buy a piece for one consumer while another would rather postpone the purchase).

The next inner factor conditioning consumer behaviours is the personality of the furniture buyer. The personality is a set of individual features and the manner of behaviour characteristic for each consumer that enables one to predict his or her further behaviours and decisions [Rudnicki 2012]. The features diversifying a consumer's personality to be considered here include temperament, risk recognition, risk tendency and degree of self-confidence. On the one hand, the fact that consumers have unique personalities causes them to react differently to the same marketing stimulants. On the other hand, the fact that personality is a set of certain features enables one to identify similarities between the purchasers of furniture [Kieźel 2010].

Learning plays an important role in consumer decision-making. The purchasers' education may be considered a process thanks to which experience related to the product is acquired, and which consequently results in permanent changes of behaviour or paves the way for these changes to occur in the future [Falkowski and Tyszka 2009, Kieźel 2010]. Learning also concerns the consumer's experience related to the purchase as well as furniture usage. The acquirer satisfied with a given brand is likely to purchase it in the future. Unsatisfied consumers, however, do not buy the same brand again.

Among the psychological determinants of consumers' behaviours, a specific feature is purchase-related risk. This risk occurs when the acquirer recognises the danger of making a bad decision, and fears its consequences may be significant. The range of perceived risk is a derivative of factors related to the consumer such as his or her personality, financial resources and knowledge of the product. This makes the consumer's perception of the product's risk subjective. This is especially important in the case of durable goods, including furniture, particularly its value, which is generally a significant amount of the household budget. Purchasers of durable goods, including furniture, may take a variety of risks [Kieźel 2004, Rudnicki 2004]:

- functional risk – a piece of furniture may turn out to be uncomfortable;
- physical risk – a piece of furniture may be dangerous when used;
- economic risk – the price of the furniture and expenses related to transporting it may be too high;
- social risk – a chosen brand of furniture may be evaluated as inadequate because the brand is not prestigious;
- psychological risk – using a particular piece of furniture worsens one's personal image;
- risk of wasting time – a tremendous amount of time can be sacrificed comparing and choosing different offers.

## CONSUMER BEHAVIOURS IN THE FURNITURE MARKET

Despite continuous progress as well as the growing importance of the furniture sector in Poland, the range of publications that have addressed qualitative aspects of supply formation in this market, especially consumer behaviours, is disappointing.

The time it takes one to decide to make a purchase and the duration of the stages of the decision-making process differ significantly from one good to the next. As regards infrequently purchased goods, of which furniture is one, consumers have a rather specific image of precisely what they want. They are prepared to dedicate time to making the decision about what to purchase, make an effort to acquire more specific information about the product, and, finally, visit more places where these goods are sold. The decision-making process is notably longer and more complicated than it is with frequently purchased goods [Mazurek-Łopacińska 2003].

According to research conducted on the furniture market in Poland [Wiśniewska and Paginowska 2006], the decision to purchase consists of four stages. As Figure 1 shows, the first two stages last the longest, which is a sign that furniture is not acquired spontaneously, and its purchase is well-thought out because of the significant financial burden on the household budget. The four stages are the following [Wiśniewska and Paginowska 2006]:

- stage I – the moment when it is clear that there is a motive; begin thinking about the purchase; it is clear that a purchase will be made, but not much besides it;
- stage II – time is dedicated to looking at what's on offer, looking for information about visits to shops, reading catalogues and trade press;
- stage III – the search is narrowed, interest in specific furniture, ascertaining the offer;
- stage IV – the decision is taken to reserve or purchase the furniture.

According to Wiśniewska and Paginowska, the main factors in the decision to purchase furniture were a change in one's family situation (24%) or financial situation (23%). Others, however, have indicated the most common reasons furniture is purchased include the desire to decorate or to renovate the interior of a current flat/house (33%), or the ageing and disrepair of one's old furniture (31%), and a desire to decorate or change the interior design in one of the rooms in a current flat/house (27%) [Wiśniewska and Paginowska 2006] – Figure 2.

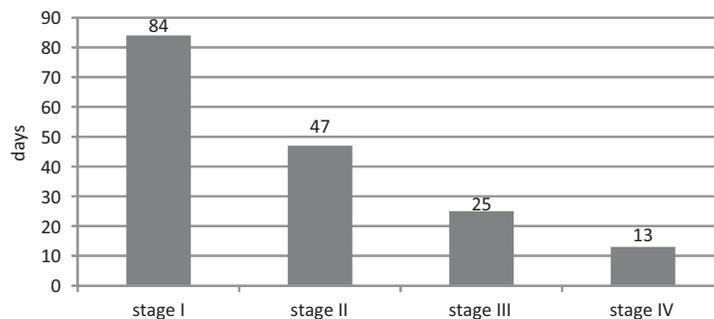
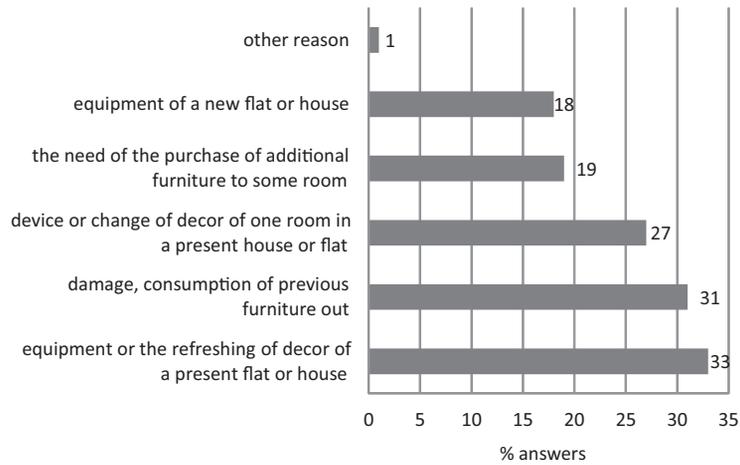


FIG. 1. The duration of the decision-making process stages

Source: Wiśniewska and Paginowska 2006.



answers do not add up to 100 because respondents could give more than one answer

FIG. 2. Reason for purchasing new furniture

Source: Wiśniewska and Paginowska 2006.

According to recent market research: 17% of respondents purchased furniture in 2014, while another 3% were planning to [Wiktorski 2015]. The percentage of respondents, who stated they purchased furniture in 2012–2014, remained constant (Fig. 3).

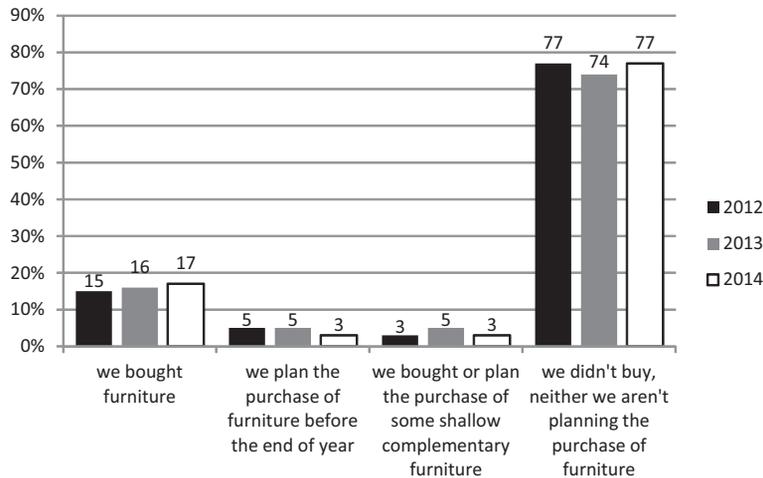


FIG. 3. The percentage of respondents who stated they purchased furniture in 2012–2014

Source: Wiktorski 2015.

Analysis of research conducted in 2012–2014 [Wiktorski 2015] shows that residents of cities with above 200,000 and 50,000–200,000 inhabitants made purchases more often than their counterparts in medium-size towns and villages (Fig. 4).

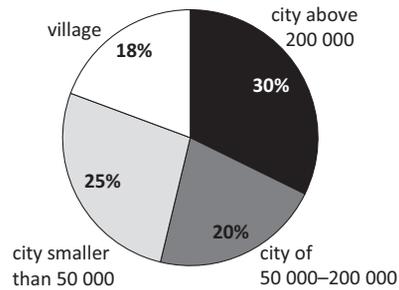


FIG. 4. The percentage of furniture purchasers by city type

Source: Wiktorski 2015.

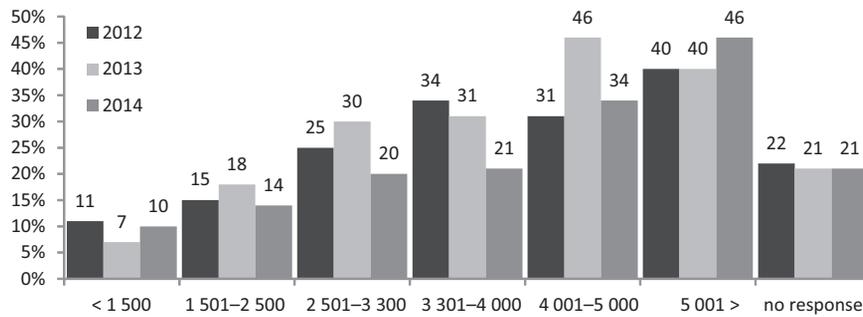


FIG. 5. Furniture purchases and combined household income in 2012–2014

Source: Wiktorski 2015.

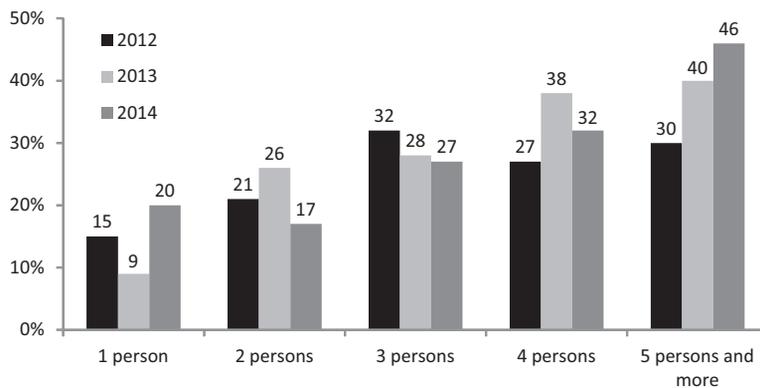


FIG. 6. Household size and furniture purchase in 2012–2014

Source: Wiktorski 2015.

Household income has a significant influence on the decision to purchase furniture. According to the literature and empirical research, disposable income is in fact the main determinant of furniture purchases. This thesis is confirmed by research conducted in 2012–2014 [Wiktorski 2015]. As combined household income grew, so too did the percentage of respondents who purchased furniture (Fig. 5).

According to Wiktorski [2015], the greatest number of declarations of an intention to purchase furniture came from households with five or more people (in 2014 – 46%) and four people (in 2014 – 32%). By contrast, one- or two-person households made up the lowest percentage [Wiktorski 2015] – Figure 6.

## CONCLUSIONS

Consumers are influenced by a variety of factors exerting varying degrees of power over the decision to purchase furniture. Many of these factors are dependent on and influence each other. The differences in consumer behaviours in the durable goods market are the result of both external and internal determinants. This complexity further diversifies consumer behaviours. It is clear that the factors differ in terms of the strength of their influence on consumer behaviours in the durable and unsustainable goods market as well as in the trade market. While one may consider the most important factors in the decision to purchase those related to economic aspects, another may think that the most important factor may be the purchaser's age, which also influences the decision to make a purchase.

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**Summary.** The article presents analysis of the determinants of consumer behaviours in the furniture market. Given the numerous factors that influence consumer behaviours, the author has decided to focus on the most important determinants affecting furniture purchasers' attitudes in the Polish furniture market. The determinants are divided into indirect factors (economic, demographic and marketing) and direct ones. The he characteristics of furniture are also described. The publication is based on the literature and research conducted in the furniture market in previous years.

**Key words:** furniture sector, determinants of consumers' behaviours

**JEL:** D11, Q14

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