

1/2017

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<http://journals.vstecb.cz/publications/littera-scripta/>

ISSN 1805-9112 (Online)

Date of issue: June 2017

Periodicity: Twice a year

Since 2008

The Journal is indexed in:

- ERIH PLUS (European Reference Index for the Humanities and Social Sciences) – in 2015
- CEJSH (Central European Journal of Social Sciences and Humanities) – in 2015
- EZB (Elektronische Zeitschriftenbibliothek) - in 2017

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REVIEW PROCEEDINGS

In the issue 1/2017, 12 reviewed articles written by 20 authors from 13 institutions were included

Articles

Number of articles received: 23

Number of articles rejected in 1st round of review proceedings: 6

Number of articles rejected in 2nd round of review proceedings: 0

Number of articles agreed to be published: 17

Review conclusions

Number of reviews delivered: 46

- from which was reviewed by an associate professor or professor reviewer: 20

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Exploitation of External Financial Resources for Corporate Training Purposes in the Czech Republic

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Abstract

This paper focuses on an analysis of the financial resources that companies in the Czech Republic deploy for corporate training purposes. The sample set consisted of 607 companies. The companies were divided into four categories according to their size: micro companies (1-9 employees); small companies (10-49 employees); medium-sized companies (50-249 employees); and large companies (250 or more employees). The hypothesis was put forward that the rate of utilization of external financial resources is related to company size, whereby the larger the company, the greater the extent to which they utilize external financial resources for corporate training purposes. The hypothesis was tested for each category of company size separately.

Keywords: corporate training, resources, financing, Czech Republic.

Introduction

Corporate training is education organized by companies in order to improve the professional development of their employees in various fields, and which usually corresponds to the business activities of the company. However, it may also refer to training with regards to the development of interpersonal skills and relationships, or ethics. The objectives of corporate training are therefore based on the specific needs and requirements of a company. "Training organized by employers is a part of further specialized training." (Průcha 2003, p. 167).

"The basic objective of corporate training as such is not, or should not be, only the development or changes in qualification, but primarily about achieving changes in the thinking, sentiment and engagement of employees" (Tureckiová 2004, p. 92). Within this context, it is clear that the corporate training covers add-on courses as well as those concerned with employee orientation. The organization of the corporate training

therefore involves the identification of training needs, planning and proposition of training activities, specification of the corporate training methods, and finally the evaluation of the training activities. None of the aforementioned activities can be implemented without ensuring there are adequate financial resources in place to do them. From a company's point of view, the financial resources used for the funding of corporate training in the Czech Republic can be divided into internal (i.e. own resources) and external (e.g. grants).

Constraints of corporate training

The availability of financial resources for the funding of corporate training undoubtedly depends on company size and its business strategy. Small companies often do not have sufficient funds for the professional development of their staff. As a result, they search the labour market for employees who either do not require further training or who require only minimal training (e.g. legally required training). The costs for one days' technical training or certification can be very high. Due to the legal obligations placed on Czech companies to spend funds on such activities, irrespective of company size, training in "soft skills" is often considered costly and ineffective.

The picture for larger companies is slightly different. With a larger budget at their disposal they have the room to decide what amount they are willing to expend on corporate training and on what fields the corporate training will focus on. In comparison to small companies, these companies are more likely to organize training sessions in soft skills, in particular at the managerial level. Such training is not always considered essential for the given position. In some cases, the training is seen as one of an array of possible benefits for employees. At the same time, the companies themselves are well aware of the fact that such training deepens the professional qualifications of their staff and therefore improves their employees chances of being headhunted or employed by a competitor. In cases where training requirements are long-term and/or costly, a company (the employer) often requires the employee to sign a conditional contract. In other cases, a company may be willing to provide its financial support to education only if it does not lead to certification or a diploma. Unfortunately, these funds are also the first at risk if a company's business activities slow, as was the case during the global economic crisis in 2009. Czech companies, whose success is largely tied to the economic fortunes of other European states, were also affected by the recession. As a result, funds intended for professional development were slashed. This has been reflected in the labour market in different ways. Since 1993, the number of employees has continually decreased, whilst the number of self-employed has continued to grow. At the same time, there has been a permanent increase in the number of university-educated people i.e. those who are most interested in further education and who are either supported by their employers or are prepared to finance their education themselves or at least participate in the co-financing thereof (see Straková et al. 2013). The situation is different in the case of people with only basic schooling. Kolomazník (2015) states that "An important factor for the participation of employees in the DV is the achieved level of education; in adulthood, employees with

only basic schooling participate the least often in further education". The last factor, but by no means the least important, is the migration of people towards towns where, especially in larger towns, people have higher salaries (and may be able to afford co-financing their further education) and have a greater understanding of the importance of education as a pre-condition for social and working success (Donath-Burson-Marsteller 2009). They are also better informed about the range of training and further education opportunities there are available.

Much detailed information on the situation in the Czech Republic is given in a report published in 2012 by the Czech Statistical Office (CSO) on the results of a survey conducted in 2011 into adult learning (the survey is conducted every five years and is compulsory for all EU states; the latest survey was conducted from 11 July, 2016 – 16 January, 2017). The report states that the number of Czech companies which provide further professional training to their staff has been continuously growing. According to the latest survey conducted in 2010, about 72.2% of all Czech companies provided staff with professional training, whilst five years earlier this stood at 69.9%. Slightly more than half of employees' working hours (51.6%) were spent undertaking compulsory training according to the legal standards valid in the Czech Republic, which includes occupational safety and health (OSH), fire prevention and protection, training for drivers, electricians, welders, etc. Over the range and types of courses available, significantly more men (64.4%) participated than women (35.6%). Five years after the 2005 survey, there has been a significant shift away from internal training courses to external ones (a shift of more than 20%). The proportion of expenditure on training in terms of overall costs decreased from 0.9% to 0.6% (CSO, 2011). The report also identifies three factors which constrained the provision of further education: a) the existing qualifications, skills and abilities corresponds to the actual needs of companies; b) high training costs; and c) employees were not able to participate in courses due to work load and lack of free time. The latter issue is related to the accessibility of further education (the necessity to participate in training outside the usual workplace and/or outside the place of residence).

Proportion of private and public funding for corporate training in the Czech Republic

According to the CSO (2011), in the Czech Republic, 68% of corporate training is supported through EU subsidies, and a further 23% through government grants (CVTS 4). The remaining 9% falls under other sources of funding.

The OECD (2016) monitors the proportion of overall private and public expenditure, at individual levels of formal education, on institutions of formal education. It states that in 2012, the proportion of private expenditure on primary, secondary and post-secondary non-tertiary education in the Czech Republic stood at 9%, which is comparable to the average values in other OECD countries (between 9 – 12%).

The results from these two reports show that there has been no significant change in the private funding of corporate training in recent years. It is interesting to note that,

according to the CSO survey results (2011), after the economic crisis, companies radically abandoned external providers of training to concentrate on providing training for their staff from their own resources. The reason for this is the difference in costs, as well as the possible monitoring and control over the educational event and its quality. Kolomazník (2015) states that “Most employers (57%) provide in-house professional training to their staff. The services of external agencies are only used by 33% of employers.”

The CSO report (2016) notes that “with regards to changes over time, the international average of overall expenditure on primary to post-secondary non-tertiary educational institutions increased by about two thirds (OECD) or by half (EU21) between 2005 and 2012, whereas in the Czech Republic the expenditure in the same period remained flat”.

Corporate training support

In terms of corporate training, companies usually use internal financial resources. However, in some fields it is possible to access grants. Financial support can be used by both the employees themselves and employers, including companies which specialize in providing education for the business sector. This mostly concerns companies that provide educational services and which rely on “European” funds – Czech funds sent to Brussels, which are then “returned” to the Czech Republic. The Czech Republic is then expected to participate in the co-financing of corporate training (Mužík 2012).

The programmes from which companies can obtain funds are published on the websites of the appropriate Czech institutions or on EU portals. The European portal for small companies regularly publishes a database of all operational programmes administered by the member states and financed by the European Regional Development Fund (ERDF) or by the Cohesion Fund. An example of this is the financial support for professional training programmes in the agriculture, forestry and food sectors within the framework of the Rural Development Programme 2014 – 2020. This programme is targeted at agricultural entrepreneurs, food producers which process agricultural products, owners of agricultural and forestry land or their employees, and other persons working for economic operators in rural areas within small and medium-sized companies. In addition, projects under the European Social Fund (ESF), which has existed for 60 years, endeavour to ensure that employees and jobseekers can utilize the opportunities for lifelong learning and therefore maintain their vocational skills and qualifications in accordance with the needs of industry and economic development.

One of the EU programmes directly focused on education is called “Supporting the Training of Employees” (in Czech - Podpora odborného vzdělávání zaměstnanců II - POVEZ II), whereby the target groups are employers pursuant to § 7 of the Labour Code (a company or its branch established outside the City of Prague), their employees, or potential new employees. Another target group covers natural persons – self-employed persons and non-governmental non-profit organizations. The education can be facilitated by either external education service providers or internal trainers employed by the employer, whereby the value of the grant corresponds to the trainer’s wage costs

according to the records of the educational event (limited by a maximum hourly rate based on the average wage of an in-house trainer in the Czech Republic). In other words, the company must fund the additional costs e.g. teaching facilities and materials, from their own resources. Even though the financial contribution of the employer was set at 15% of the eligible training costs in order to maintain the efficiency of the required training, the demand was so high that on 8 August, 2016, the acceptance of applications was temporarily suspended. The anticipated date for the resumption of applications has been set for the first quarter of 2017. According to a statement published on the main webpage of the Ministry of Education, Youth and Sports (2015), the reason for this action was “efforts to ensure the quality processing of those applications already accepted in the shortest possible time and to ensure the flow of signed contracts and the disbursement of funds during the whole period of the planned implementation of the project.”.

The EU programmes directly focused on education include Erasmus+, which is the successor of lifelong education programmes (Erasmus, Leonardo da Vinci, Comenius and Grundvig), Youth in Action, Jean Monnet and others, and various international cooperation programmes (Erasmus Mundus, Alfa, Tempus, etc.). The budget is EUR 14.7 billion. The financial support can be used for financing studies, internships, and work or volunteering abroad. The Erasmus+ programme provides funding for partnerships between schools, companies and non-profit organizations.

Materials and Methods

The aim of this paper is to determine the structure of financial resources for corporate training according to company size. The following hypothesis was set: “Exploiting external financial resources for corporate training depends on the size of a company; larger companies exploit more external financial resources for corporate training purposes than smaller ones”. Empirical research was conducted in the form of a questionnaire survey. The survey was conducted in the second half of 2016. A sample set of companies was selected in cooperation with the Czech Statistical Office. The sample set included companies in all size categories, as defined below. The companies were selected in compliance with the EU nomenclature with regards to the basic spheres of the national economy and legal subjectivity. In total, the sample set consisted of 1,420 companies. The questionnaire survey was conducted by students and members of the academic staff of the Institute of Technology and Business in České Budějovice, as well as electronically. In total, 607 questionnaires were completed in this way. The structure of the research sample was as follows:

Micro-company (< 10 employees)	141	23.2%
Small company (10 - 49 employees)	179	29.5%
Medium-sized company (50 - 249 employees)	164	27.5%
Large company ($\geq$ 250 employees)	123	20.3%
Total number of companies	607	100%

The questionnaires were processed and evaluated by means of mathematical-statistical methods. The sample set of 607 companies was divided into four groups according to their size: micro companies (< 10 employees); small companies (10 - 49 employees); medium-sized companies (50-249 employees); and large companies (≥ 250 employees). Tables and charts were generated for each group according to the frequency of responses to the question relating to the financing (funding) of corporate training. Those companies that did not provide a response were subsequently disqualified from further data processing. The focus in the subsequent analysis was on which sources of external finance companies access (grants, subsidies, etc.) for corporate training and how this is related to a company's size. The suggested responses to the question were (in simplified form): 'Exclusively own resources'; 'Mainly own resources and partly external resources'; 'Mainly external resources and partly own resources'; and 'Exclusively external resources'.

It was determined that responses such as 'Mainly own resources and partly external resources' and 'Mainly external resources and partly own resources' were initially not clearly defined and therefore posed a problem for the processing of the survey results. As a consequence, the responses did not provide relevant information about the exact amount of money coming from either of the resources. Those companies with no appropriate response were therefore excluded and a Pearson's χ^2 -test conducted for the contingency table with a level of significance of 0.05, on the grounds of which it was possible to explore any profound difference in the response rate according to company size. The test statistics and Pearson's χ^2 -test p-value were calculated on the basis of the survey results. Where the calculated p-value is smaller than the significance level 0.05, the differences are considered to be more radical. The statistical tests were conducted using R statistical software. The tables and charts were generated in MS Excel.

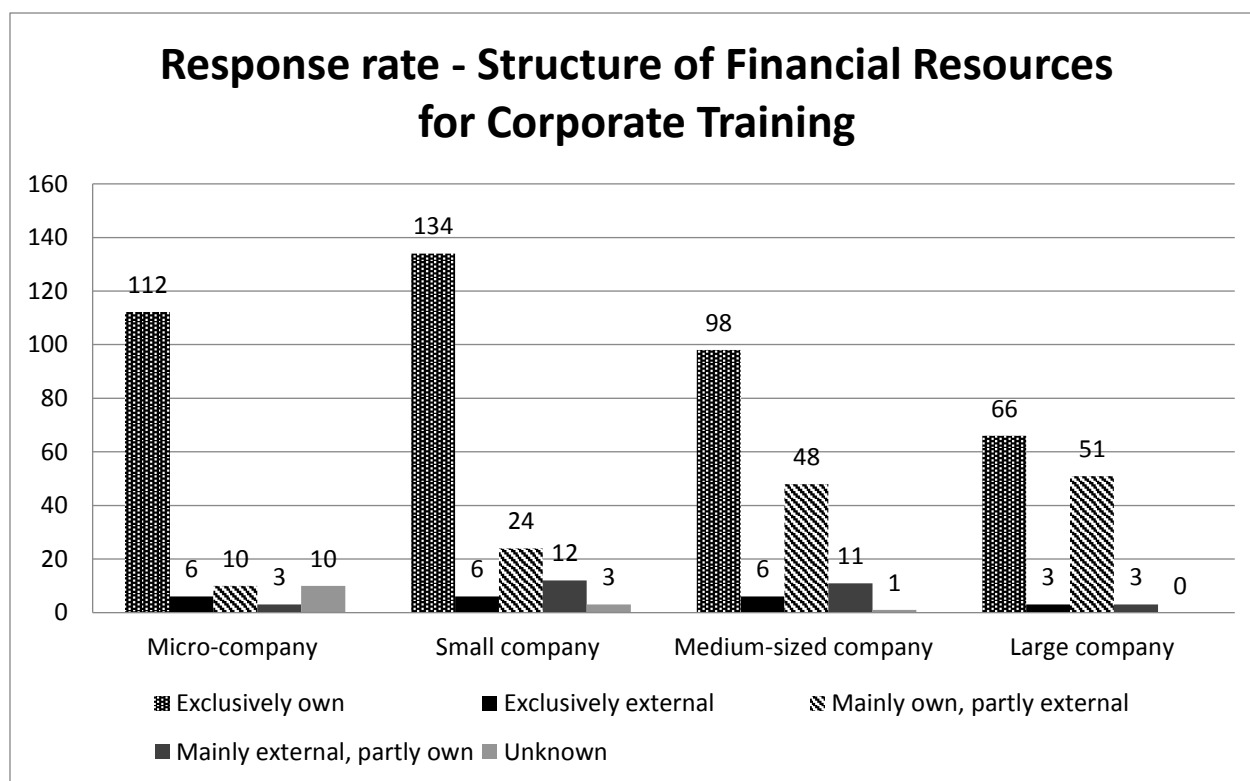
Results

Table 1: Response rate - structure of financial resources according to company size (all companies in the sample set)

Financial resources	Company size			
	Micro	Small	Medium-sized	Large
	number/frequency in %	number/frequency in %	number/frequency in %	number/frequency in %
Exclusively own	112 79.4 %	134 74.9%	98 59.8%	66 53.7%
Exclusively external	6 4.3%	6 3.4%	6 3.7%	3 2.4%
Mainly own, partly external	10 7.1%	24 13.4%	48 29.3%	51 41.5%
Mainly external, partly own	3 2.1%	12 6.7%	11 6.7%	3 2.4%
No response	10 7.1%	3 1.7%	1 0.6%	0 0.0%

Source: author

Figure 1: Response rate – Structure of financial resources for corporate training (all companies in the sample set)



Source: author

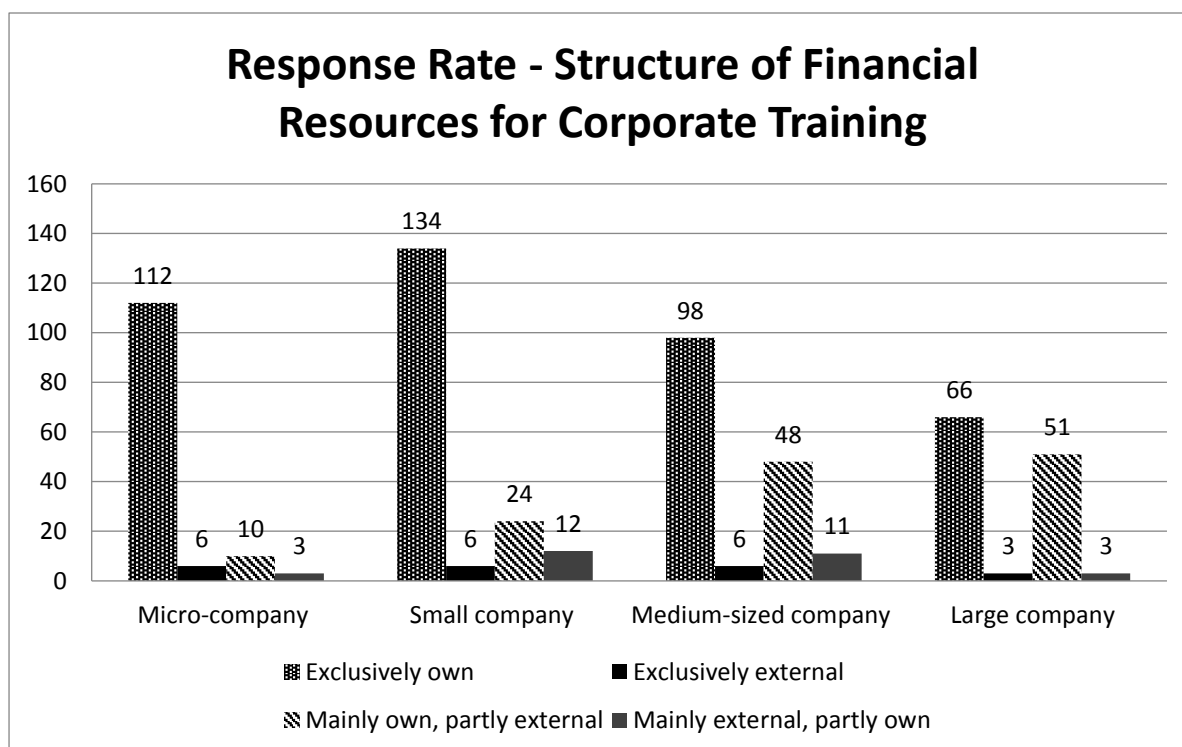
The figure above shows that ten micro-companies, three small companies and one medium-sized company did not provide information about their financial resources for corporate training. All the large companies provided the requested information. Those companies that failed to provide the relevant information were subsequently excluded from the analysis. As a result, a new response rate table was compiled. By excluding those companies that did not provide relevant information, the percentage response rates changed.

Table 2: Structure of financial resources for corporate training (only companies that provided complete information)

Financial resources	Company size			
	Micro	Small	Medium-sized	Large
	number/frequency in %	number/frequency in %	number/frequency in %	number/frequency in %
Exclusively own	112 85.5%	134 76.1%	98 60.1%	66 53.7%
Exclusively external	6 4.6%	6 3.4%	6 3.7%	3 2.4%
Mainly own, partly external	10 7.6%	24 13.6%	48 29.4%	51 41.5%
Mainly external, partly own	3 2.3%	12 6.8%	11 6.7%	3 2.4%

Source: author

Figure 2: Structure of financial resources for corporate training (only companies that provided complete information)



Source: author

The χ^2 -test of independence for the contingency table was used on the response rate table. The results were as follows:

χ^2 – test in contingency table	
Test statistics χ^2	65.4251
P - value	$1.193 \cdot 10^{-10}$

As the p-value is significantly smaller than the significance level 0.05, both dependence variables are statistically significant. This means that the extent to which companies exploit external financial resources differs according to the size of the company.

The response rates were as follows: irrespective of company size, the percentage for the response 'Exclusively from external resources' was less than 5% (see Table 1). This means that a negligible share of companies finance corporate training mainly through external resources, and partly from their own. The response rate among small and medium-sized companies was less than 7% and in micro-companies and large companies less than 5%. Subsequently, tables of absolute numbers and relative response rates were compiled, whereby the responses 'Exclusively own resources' and 'Mainly own, partly external resources' were merged into one group (see Table 3), and the responses 'Exclusively external resources' and 'Mainly external, partly own resources' into another (see Table 4).

Table 3: Financial resources - own or external

Financial resources	Company size			
	Micro	Small	Medium-sized	Large
	number/frequency in %	number/frequency in %	number/frequency in %	number/frequency in %
Exclusively or mainly own	122 93.1%	158 89.8%	146 89.6%	117 95.1%
Exclusively or mainly external	9 6.9%	18 10.2%	17 10.4%	6 4.9%

Source: author

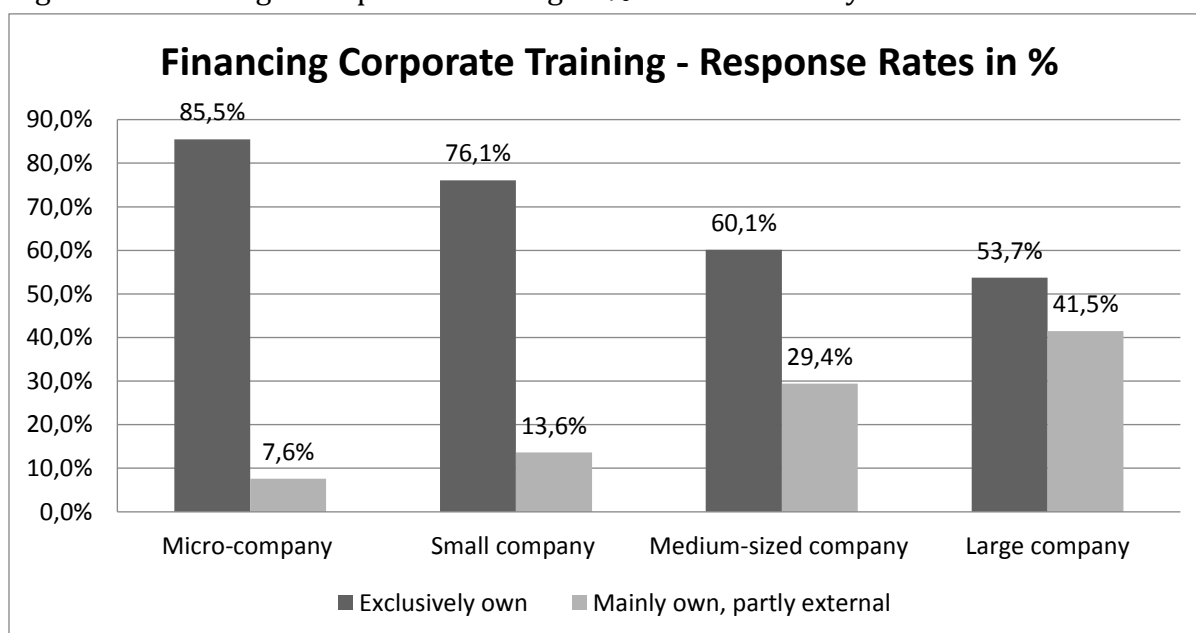
The tables show that the share of companies in which external sources of finance prevail for corporate training, or is the only financial resource, is no bigger than 10%. The share of those companies that finance corporate training exclusively or mainly from their own resources is approximately 90-95%. However, there is a considerable difference in terms of company size with regards to the share of companies which either partly finances corporate training from external resources, or only from their own resources. To process these findings it was necessary to compile a new table and generate a new chart.

Table 4: Financial resources - own

Financial resources	Company size			
	Micro	Small	Medium-sized	Large
Exclusively own	85.5%	76.1%	60.1%	53.7%
Mainly own, partly external	7.6%	13.6%	29.4%	41.5%

Source: author

Figure 3: Financing of corporate training in % - own or mainly own resources



Source: author

Table 4 and Figure 3 demonstrate that there is a close link between the increasing size of a company and the share of companies which partly exploit external financial resources for corporate training. At the same time, the data shows a decrease in companies which finance company training exclusively from their own resources. As a result, exclusive use of own financial resources occurs most often in micro-companies, and the least in large companies. In addition, the extent to which external financial resources are exploited for corporate training grows in relation to company size.

Discussion

The results of the research show that the use of external financial resources (grants, subsidies, etc.) for corporate training purposes is linked to company size. The reason for this may be the fact that it is demanding from an administrative point of view to prepare applications for grants, subsidies, etc. and that smaller companies do not have the capacity in terms of human resources to prepare and manage such project applications.

Conclusion

This article focused on how the exploitation of external financial resources (grants, subsidies, etc.) for corporate training purposes is linked to company size. The statistical tests revealed a strong dependence on company size. The results also demonstrated that the extent to which external financial resources are exploited for corporate training purposes grows to a considerable degree with company size. The companies that mostly finance corporate training exclusively through their own financial resources are micro-companies. In contrast, large companies finance corporate training from these resources the least.

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The Impact of the Soviet Repatriation Campaign on the Eastern European Émigré Community in Argentina (1955-1963)

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Abstract

In response to a strong anticommunist campaign in the Western World in the 1950s, the USSR started a counter-propaganda campaign directly aimed at Eastern European émigrés living abroad to persuade them to return to Soviet territories. This policy was implemented through the founding of the International Committee for the Return to the Motherland, established in 1955 in East Berlin. This paper intends to explore the Argentinean case in the context of the post-Stalinist Soviet Repatriation campaign, aided by the historical analysis of local official period documents (mainly diplomatic and intelligence reports) and oral history, to argue that the characteristics of Argentine society in the 1950s and 60s were largely responsible for the success of local agents of propaganda and recruiters. Nonetheless, the process of repatriation also affected the subjectivity of the repatriates and called into question their sense national identity.

Keywords: Argentina, Soviet propaganda, repatriation campaign, émigré organizations, national identity.

Introduction

This paper was generally inspired by the recent growing interest in the influence of the Cold War on Argentine culture and society (Franco 2012; Petra 2013; Jannello 2013/2014; Galván and Zourek 2016). These original broad inquiries led me to an important corpus of documents in the Argentine Foreign Office Archives (AMREC) that denounced the infiltration of communist propaganda into the country. The files present a register of a great number of individuals living as Soviet citizens in the former USSR and other Eastern European countries under the Soviet sphere of influence who claimed in the late 1950s and early 1960s to want to “return to their true homeland”, Argentina, from whence they had emigrated under false pretenses.

These findings were situated within the context of the post-Stalinist Soviet Repatriation Campaign, the USSR's new approach to resolving the problem of having a population displaced by war and the anticommunist pockets that these émigrés represented in Western countries. Although this Soviet policy was recently analyzed by other scholars, with the exception of the Canadian case study (Roberts and Cipko 2008), it was limited to certain émigré communities, particularly Latvians and Estonians (Mikkonen 2011, 2012, 2013; Zalkalns 2014). However, all of these studies thoroughly describe the specifics of the propaganda campaign and cover a wide range of techniques and strategies that were generally implemented in order to persuade the target population to return. Following these studies, this paper intends to contribute to the existing knowledge pertaining to this communist foreign propaganda campaign through an analysis of the paradigmatic Argentine case.

Due to its status as a recipient of multiple waves of European migration, by mid-century Argentina was an actual global portal and its society was composed of a variety of European ethnicities. Partly due to this, as I intend to prove, the Soviet campaign was a success in the South American country because its population was still somewhat attached to the soil of its ancestors. Nonetheless, the rapid effectiveness of this repatriation propaganda was soon counterbalanced by the numerous requests of individuals living in the USSR to be allowed to return to Argentina. These requests were based on the claim that they had always legally been Argentine citizens (although they had had to give up this status when they entered the USSR, as a mandatory prerequisite). Accordingly, not only did this process intensify the anticommunism of the Argentine authorities, but all the emotional appeals on the Soviet side that made these individuals feel part of the new nation that was being built also resulted in their reconsideration of their own national identities.

In all, this paper intends to investigate the singularities of this case and its global pertinence through an examination of Argentine Foreign Office documents (AMREC), Argentine provincial police reports from the intelligence division (DIPBA), and the intelligence reports of the Frondizi administration, in particular, that are found in the Center of National Studies (CEN) at the National Library of the Argentine Republic. These documents not only list all the Argentinean émigré organizations involved in disseminating Soviet propaganda and the local intelligence agents' investigations, but they also state the personal claims of the émigrés. In addition, this analysis is complemented by two oral interviews carried out with descendants of the mid-century repatriates.

The Post-Stalinist Soviet Repatriation Campaign

In 1955, the USSR initiated a repatriation campaign that was not only aimed primarily at the return of Soviet citizens who had immigrated to other countries, especially during the second wave of immigration, but was also meant to counteract the increasingly threatening anticommunism felt by Eastern European émigré communities abroad,

fuelled by the influence of American CIA (Mikkonen 2011, pp. 54-55).¹ This ideological side of the émigré issue put the Soviet repatriation campaign at the center of the cultural battlefield of the Cold War. For this reason, the strategies articulated by this policy towards the émigrés differed from those used during the Stalinist repatriation campaign. Actually, the post-Stalinist repatriation campaign was mainly based on major propagandistic efforts to improve the USSR's international image in general, but particularly among émigrés.

Generally, international Soviet propaganda took a turn after Stalin's death in 1953 and became more oriented towards the West (Rupprecht 2015; Gould-Davies 2003). In this context, a more sophisticated and restructured propaganda apparatus was implemented to resolve the émigré problem. In September 1955, a general amnesty to all Eastern European émigrés suspected of war crimes or collaboration with the Nazis was declared. Through this, the Soviet government intended to put on a forgiving and more humane face to those living abroad. This was emphasized by several propagandist techniques that appealed to the individual emotions of the émigrés. This new policy was soon materialized via the creation of the Soviet Committee on the Return to the Homeland (Komitet za vozvraschenie na rodinu).²

After the United Nations opposed the forced return of individuals to the USSR (Mikkonen, 2011, pp. 48-49), the Soviet administration started investing in cultural and emotional approaches instead. Thus, according to the scarce literature on the subject, the Committee was in charge of publicizing the new amnesty laws, distributing printed propaganda, editing an international newspaper *called For the Return to the Motherland* that was printed for several regional markets published in Czech, Polish, Bulgarian, Rumanian, Latvian, etc., and radio broadcasting through a station of its own.³

In Argentina, the Soviet Committee regularly mailed its Russian-edited newspaper from East Berlin to Buenos Aires and this example was followed by the isomorphic repatriation

¹ By the end of the Second World War, the Soviet Union had initiated a global campaign to repatriate Soviet citizens that had been disseminated abroad during the first and second waves of migration (that were direct consequences of the Russian Revolution and the Second World War). As a result of this first Soviet Repatriation Campaign—and with the collaboration of the Western Allies and the United Nations—the majority of the displaced Soviet citizens were successfully forced to return home (Mikkonen 2013, p. 184; Judt 2005, pp. 30-35). Despite this apparent success, the USSR's obsession with controlling their émigrés in the West, while battling the CIA's ongoing ideological manipulation, prevailed after the change of policies that came with the end of the Stalin era. Thus, in 1955 the Soviet Union initiated a second repatriation campaign.

² The Committee was strategically located in East Berlin under the direction of Major General Nikolai F. Mikhailov, a former prisoner of war whose life story personified the Committee's aim as a multi-ethnic association of former prisoners of war and displaced persons—both of whom were victims of the war. The membership of the Repatriation Committee was made up of Russians, Ukrainians, Byelorussians, Georgians, Tartars, Uzbeks, Estonians, Lithuanians and Latvians; this meant that all the main nationalities targeted by the propaganda of this Second Campaign had their own representation in the Berlin main office (Mikkonen 2013, p. 186; Zalkalns 2014, pp. 84-96).

³ Through this modern medium, the Committee broadcast valuable pieces of information in various languages for émigrés living in the West, such as success stories of repatriation or clips of interviews with relatives of the émigrés living in the USSR (Mikkonen 2011, pp. 47-51).

committees founded in the “brotherly” republics of the “Iron Curtain.”⁴ Thus, the journal *Hlas Domova* (The Voice of the Fatherland) regularly arrived in Buenos Aires from Prague and the Polish repatriation newspaper *Ogniwo* was edited locally in Buenos Aires (AMREC, *Europa Oriental*, F48/72/1956).

In fact, despite the thorough information provided by the Argentine intelligence services acting on behalf of the Argentinean Foreign Office, according to narratives of Argentinean repatriates themselves, many of them were actually affected and ideologically turned by this sort of literature to which they had access via their ethnic clubs⁵ (AMREC, *Europa Oriental*, F48/72/1956). However, they were also the recipients of a more direct and personal approach: family letters. Around the world, the Soviet relatives of certain targeted individuals living abroad were coerced into writing letters to their spouses, children, and siblings in western countries in order to awaken their patriotic sentiments and positive familial emotions (Zalkalns 2014, p. 12).

Despite the Committee’s sophisticated and innovative approach to influencing the émigrés, it did not achieve the desired effect. In reality, by September 1955 only 250 individuals could be counted as returnees.⁶ By contrast, in 1957 the number of repatriates coming from Western Europe, the United States, and Canada had risen to 2200. The reason for this change may have had to do with an important shot of confidence from the 3500 repatriations achieved in 1956 in South America alone, particularly the Ukrainian community in Argentina (Zalkalns 2014, p. 103; Mikkonen 2011, p. 55).

By then, Latin America had already become one of the main cultural battlefields of the Cold War (Franco 2002; Jannello 2013/2014; Calandra and Franco 2012; Rupprecht 2015; Petra 2013; Alburquerque 2011; Pedemonte 2010). In Argentina in particular, cultural relations with the USSR flourished during the Khrushchev years (Rupprecht 2015). The Soviet Union had always granted it a privileged position. Not only was the Argentinean Communist Party the most loyal, but the country’s economic structure also allowed for an unprecedented commercial exchange to take place between both countries. With regard to culture, the USSR acknowledged Argentina’s capital city as an influential center of culture in the Latin American region. Because of this, the Soviets intended to establish a headquarters for propaganda in Buenos Aires, and the first step taken in this direction was to settle new Eastern European legations in the city from Czechoslovakia, Poland, Hungary, Bulgaria, and Romania (Zourek 2014, p. 21).

⁴ We believe that the repatriation committees established in other socialist Eastern European countries can be framed in terms of what Di Maggio and Powell called “mimetic institutional isomorphism,” defined as the process through which “organizations tend to model themselves after similar organizations in their field that they perceive to be more legitimate or successful”; plus, peripheral nations (as is the case of all Eastern European socialist countries) are usually more isomorphic (1983, p. 152).

⁵ We shall return to the topic of the émigrés’ associative life in the following section.

⁶ This failure influenced the evolution undergone by the original Committee in 1959, as it changed its main objective (repatriation itself) and its name to the less confrontational “Committee for the Return to the Homeland and Development of Cultural Relations with Compatriots.” This conciliatory trend was intensified in 1963 with the Committee’s next renaming to the “Soviet Committee on Cultural Relations with Compatriots Abroad” (Mikkonen 2013, p. 186).

In this context, the “local branch” of the Soviet apparatus employed several propagandist techniques in order to communicate an idealized and positive image of the USSR.⁷ This propaganda was spread with the aid of Argentinean agents responsible for the cultural transfers of various Soviet topics translated for Argentinean audiences.

Propaganda for Argentinean Émigrés

In relation to the question of repatriates in Argentina, in particular, besides the internationally distributed Committee newspaper, the dynamics of the émigrés’ social life played a key role in fortifying the cultural and emotional connections with the original Motherland. It was precisely in the daily local social life-club of the émigrés where their loyalty to their country of residence was questioned in the face of a renewed emotional connection to their country of origin.

Indeed, according to the documents consulted, the narratives of the Argentinean repatriates show tension between two different “nationalities”: that of their origins (Russian, Ukrainian, Czech, etc.) and that of their residence (Argentinean). All the recounted individual testimonies seem to subscribe to an undefined national identity, blurred between emotionally charged words like family, blood, tradition, legal citizenship, territory, ideology, property, history, daily routines and children.

The confusion that the experience of repatriation created in the subjectivities of émigrés was perhaps influenced by the fact that the campaign in Argentina actually affected the first wave of migrants and the Argentinean-born, first-wave descendants who, in many cases, were the products of interethnic marriages and therefore had undisputed Argentine identities. These issues that distinguish the Argentinean case had an impact on the role that the Committee assigned to the émigrés’ local associations that were in charge of the subtle construction of a banal form of nationalism.

Émigré clubs in Argentina always took care to integrate their members into the local society through mutual aid benefits, but they also maintained ties to the languages, histories, and traditions of the émigrés’ countries of origin. This also applied to traditional religious values, in some cases.⁸ Thus, a banal nationalism - defined as the subtle insinuation of nationhood into daily life (Billig 1995) - was introduced in reference to the “new” Soviet nation being inserted into the émigré communities in Argentina through several rituals and group celebrations, such as Christmas, and major Soviet historic events (like the “Great Patriotic War”), and the teaching of folk dances, the Russian language, and cuisine. In some clubs, they also used to gather to listen to the latest USSR news. For

⁷ The local Soviet agencies that intervened were defined by the Argentine intelligence reports: the Belinsky Club, the Cultural Center Maiakovsky, Cultural Center Ostrovsky, Cultural Center Pushkin, the Soviet consul in Buenos Aires Valerian Goncharov, some travel agencies, such as Eurotour, Americantour, Argenmundo, and Italmar, embassy publications, etc. On the other hand, the techniques involved were, among others, artistic exhibitions, conferences, scholarships offering funding for students to study at universities in the USSR, visits of artists, the publication of general magazines in Spanish, the broadcasting of radio programs in Spanish, and the exportation of literature and films (AMREC, Europa Oriental, F48/22, 72, AH 45; Archivo DIPBA, Mesa 7880, L135 Capital Federal; Biblioteca Nacional, CEN, Sección política internacional, Caja 5).

⁸ See, for example, Taló’s (2012) thesis on Lithuanian immigration to Argentina.

instance, according to the narrative of one interviewee, in the early fifties, her whole family used to gather in the Byelorussian, Russian and Ukrainian Club Belinsky in the city of San Martín, in the province of Buenos Aires, to follow the news of the preparations for the launch of Sputnik. Anna, the daughter of a Byelorussian father and an Argentinean mother, was then a child, and her impressions and recollections of Club Belinsky bring up very positive emotions (even today), linked to the memory of her deceased parents and long-lost friends (Interview with Anna: June 9, 2016).

Other cultural associations and clubs of the émigré communities, such as Club Máximo Gorki, the Byelorussian House, and the Cultural Ukrainian Society Ostrovsky, among others, also followed the same patterns (AMREC, Europa Oriental, F48/72/1956; AH/0022/13/1959; Archivo DIPBA, Mesa DE L50, San Martín and Mesa L136, Lanús). Hence, the rhetoric of nationhood, family, and Soviet culture were mixed together and regularly highlighted in the clubs' daily routines. According to many of the repatriates' narratives, together with this, two additional discursive elements came into play: communion through a distant territory of origin—even when many of the intended participants in these clubs (as the children of first-wave émigrés or the Argentinean spouses of the émigrés themselves) had never been to Europe—and politics (Interview with Anna: June 9, 2016; interview with Susana, quoted by Taló 2012; Archivo DIPBA, Mesa DE L50, San Martín and Mesa L136, Lanús; AMREC, Europa Oriental, F48/72/1956).

Through the officially sanctioned impulse to create a banal nationalism via these clubs that made the targeted individuals keen to actively participate in the defense of their "original Homeland," not only was the émigrés' emotional connection to their country of residence (Argentina) being challenged, but also their fidelity to the various nationalities that were being delegitimized under the Communist regime: Slovak, Ukrainian, Byelorussian, etc.⁹ Argentinean émigré clubs did not exclude this ideological agenda when it came to the indoctrination of their members. For example, as Anna recalls, her father—as a working-class Argentinean citizen who came to the country from the former Byelorussia at a very young age—took advantage of every opportunity he had in social meetings in Club Belinsky to discuss politics. Thus, he developed a strong sense of commitment to the Soviet regime and to the USSR as a unified nation. When he finally decided to emigrate with his family to the USSR, he expected to be allowed to join the Communist Party of the Soviet Union (CPSU). To his chagrin, this never happened.

The Argentinean state was also aware of this political indoctrination:

These clubs (Belinsky, Ostrovsky, Máximo Gorki, Taras Schvenvko, Maiakovsky) undertook an intense ideological activity. This was intended to exacerbate nationalist feelings and sow discord among the workers, opposing a supposedly ideal state and a high quality of life in the USSR to the sad Argentinean proletarian life of their members. As a result, thousands of Argentinean citizens were recruited [...] (AMREC,

⁹ Interestingly, the issue of the profound connection that the émigrés in Western countries felt in relation to their ethnic origins was also used by the CIA as a vital weapon to fuel anticommunism within the communities (Zalkalns 2014, p. 83; Mikkonen 2013, p. 187).

Europa Oriental, F48/72/1956)

The sudden attention of the Argentinean state to the local recruitment of the émigrés was drawn by the numerous claims of Argentinean citizens that came across the Argentinean Ambassador's desk in Moscow in the late 1950s and early 1960s. The claims made serious accusations with regard to the propagandist actions that were being undertaken in the émigré clubs and associations in order to persuade their members to come back to their Motherland, the USSR. Hence, holding on to the promise of a better life in the land of their ancestors, they boarded the ships destined for Odessa.

Naturally, the Argentinean state acknowledged the fact that this propaganda was a general response to the presence of anticommunist pockets within the émigré communities abroad (AMREC, Europa Oriental, AH/0021/Czechoslovakia/1954; AMREC, Europa Oriental, F48/72/1955; AMREC, Europa Oriental, F48/22/1955; AMREC). The anticommunism of émigrés was a major issue in most Western countries and Argentina was no exception. Thus, several Argentinean émigré anticommunist periodicals were published in the 1950s, 60s and 70s (such as: *Suvorovets*, a newspaper issued by General Boris Kholmston-Smyslovskii's Military-National Movement; *Viestnik: organ Russkoi natsional'noi mysli v Iuzhnoi Amerikie*, *La Voz de Rusia Libre*, and *Noticiero Anticomunista*, published by Carlos Palmeyro; *Frente Comun Contra El Comunismo*, *Russkoe slovo*, *Russkaia gazeta* and *Za pravdu*, *Slovenska Republika*), including brochures and books (for example, *Martirio de la Nación Eslovaca* and *Libro Blanco de los Eslovacos*, published in 1958 and in 1954 in Buenos Aires by the Slovak Committee for the Liberation in Argentina), and there was fervent activism within some of the émigré communities.¹⁰

Soviet Repatriates: A Problem for the Argentinean State

The success of the repatriation campaign in Argentina was globally notorious and put the country in the eye of the international press:

The first boatload of 780 men, women and children left Buenos Aires in March 1956 with brand new Soviet passports. They consisted mostly of Ukrainians, Byelorussians and Lithuanians. Western journalists closely followed their arrival to Odessa and onward journeys to destinations throughout the Soviet Union (Mikkonen 2013, pp. 193-194)

According to the Argentinean Foreign Office reports, not only did more than a hundred Argentinean citizens ask to return to the USSR in 1955 (AMREC, Europa Oriental, F48/72/1955), but by 1959, 1160 local citizens had requested repatriation (AMREC, Europa Oriental, F48/22/1959). The gravity of the situation even motivated the formal

¹⁰ One of the most fervently activist communities was the Slovaks. Their anticommunism caused the Czechoslovak government to formally request that the Slovak "refugees" be controlled and to ban the activities of the local branch of the Slovak Committee for Liberation. Ultimately, this last request was rejected by Argentine authorities during Perón's presidency (AMREC, Europa Oriental, AH/0021/Czechoslovakia/1955; Zourek 2014, pp. 51-53). Perón's connection to communist countries was somewhat ambiguous. Although his government was ideologically opposed to communism, he had signed a series of trade agreements with the USSR and other communist countries—Czechoslovakia among them—in order to counteract the US influence on Argentina's balance of trade (Miller 2009, pp. 151-152; Zourek 2014, pp. 45, 54).

request for information from other countries on how to deal with massive repatriations to the East because of the risk they represented to homeland security (AMREC, Europa Oriental, AH/45/1955).

The great expectations held by the returnees as their boat set sail notwithstanding; they were ultimately deeply disappointed immediately upon arrival in Soviet territory, where they were met by hard working conditions in far-flung places instead of the educational and political opportunities they were promised by the propaganda fed to them by their émigré clubs. Moreover, the economic and social realities of proletarian life were also much more challenging than those they had encountered in Argentina. In many cases, returnees even had to face language barriers and difficulties adapting socially. As one repatriate described in her denouncement to the Argentinean embassy:

Mrs. Teclé Zvarich came from Poland to Buenos Aires, Argentina, in 1928. With her husband, they both worked in a factory and they did well enough to build their own house. They were regular members of the Maximo Gorki Club and used to share there all cultural and artistic activities with other émigrés. Once they arrived in Soviet territory—thanks to the management of the Soviet consulate in Argentina—they were given a certain amount of money for their immediate expenses. Now they share two rooms with seven other people. The husband works as a night-watcher and earns 300 rubles per month, just enough to buy food. (AMREC, Europa Oriental, AH/0060/25/Poland/1964).

Although Teclé Zvarich was Polish, she was affected by the Soviet propaganda through her involvement in the social life of the Soviet Club Máximo Gorki. This was the case for many Polish families in Argentina that migrated to USSR territories despite their Polish ancestry (other Polish families that were repatriated to the Soviet Union were the Zacharczyszyns, the Stacewiczs, the Ogordniks, the Nikitiuks, etc.). Why so many Polish descendants participated in the activities of Russian or Ukrainian clubs may be explained through their political affiliations that were presumably communist or left-wing. So, in a community environment that was deeply anticommunist,¹¹ they did not have many other options, especially when they already shared the same social spaces and settlement patterns with other Eastern Europeans in Argentina (Devoto 2003, p. 419).¹²

Narratives similar to this filled the archives of the Argentinean embassy in Moscow between 1957 and 1963.¹³ Despite their minor differences, all the stories of the returnees aligned with regard to the poor quality of life in the USSR and lack of social and economic opportunities, which together led to their requests to return to Argentina—their “true Motherland.” Accordingly, the Argentinean diplomats emphasized the national linkage of the repatriates to the South American country:

Today Mr. Carlos Norberto Stacewicz, born the 13th September, 1940 in Buenos Aires, Argentina came to the Argentinean embassy in the USSR. Both of his parents, Francisco

¹¹ Most of the pre-war Polish associations were anticommunist and opposed to the USSR (Devoto 2003, p. 413).

¹² There are even some regional studies that suggest the presence of elements of pan-Slavic identity in some groups of Eastern European émigrés in Argentina (Devoto 2003, p. 374).

¹³ Until 1963, the only active Argentinean Embassy in all of Eastern Europe was in Moscow.

Stacewicz and Gertrudis Gwichkowska, were Polish citizens. His sister, Nelly Núñez, née Gwichkowska, was born in Argentina where she married the Argentine Raúl Núñez. Together they have a little Argentinean 5 year old girl, Elisa Núñez. All the family live now in Minsk. (AMREC, Europa Oriental, AH/0060/25/Poland/1964)

This kind of account was very common in the repatriation files. Thus, the Argentinean authorities tried to compete with the national symbolism that had impregnated the émigrés' associative lives.

In fact, on a formal level and in the context of the numerous claims of repatriates asking for help to return to the country (many of them were even Argentinean-born), the Argentinean state had no other choice in these cases than to acknowledge the role of the actual infiltration of Soviet propagandists within the communities of Eastern European émigrés living in Argentina. For this reason, they reported several examples of the influence of Soviet propaganda in the individual decisions to migrate.

The family (Stacewicz) was influenced by the propaganda developed by the Cultural and Sports Center Pushkin in the Maturín Street in Buenos Aires, the Bielinski, in San Martín and the Mutual Aid Association of Loria Street in Buenos Aires. He (Carlos Stacewicz) also remembers the active intervention of the Soviet Consul, Mr. Goncharov in the decision of his father to move all the family to the USSR. (AMREC, Europa Oriental, AH/0060/25/Poland).

Because of this, in the context of President Arturo Frondizi's wider anticommunist policies (Zourek 2014, pp. 58-59), the Argentinean Foreign Office requested a reduction of diplomatic and administrative staff in the USSR's embassy and in the delegations of Czechoslovakia, Bulgaria, Romania, Poland, and Hungary, in order to limit the entrance of foreign intelligence agents into the country (Biblioteca Nacional, CEN, Sección política internacional, Caja 5). Furthermore, the issuance of cultural visas was closely monitored and sometimes the Argentines strategized with granting permits for cultural visitors from the East. This was, for example, the case of the planned performance of the Prague Orchestra in the Colon Theatre in Buenos Aires in July 1959, which was cancelled before opening night in reprisal for the refusal of the Czechoslovak government to repatriate the Stoklasek family back to Argentina (AMREC, Europa Oriental, AH/0022/13/Czechoslovak/1959).

As stated above, besides these repercussions for the international relations of the states, the Argentine diplomatic files pay special attention to the suffering of their "fellow countrymen" in a "foreign land." Correspondingly, the repatriates' narratives insisted on their Argentine national identity, guaranteed by family ties and also by Argentinean law: "in 1928 our parents came to Argentina looking for a job... they settled in Mar de Ajó... according to the Argentinean laws our nationality is Argentinean" (AMREC, Europa Oriental, AH/0022/13/Czechoslovak/1959).

In relation to this emerges the question of which specific aspect of the communist propaganda was decisive in terms of breaking the émigrés' strong ties to Argentine society. According to the specialized literature, symbolic loyalties of émigrés towards one

specific nation are highly dynamic (Devoto 2003). Bearing this in mind, during the postwar period, while most of the older generations of Eastern Europeans in Argentina were predominantly anticommunist, many of the younger generations were successfully mobilized by nationalistic-like appeals embodied in the voices of familiar institutions - like their community clubs - that called for their help in building the "new Motherland" on the remnants of the former Austro-Hungarian, Prussian, and Russian empires.

Thus, this new national identity was caught up with values such as blood ties or family bonds.¹⁴ Accordingly, government reports on the XXI Congress of the CPSU in 1959 acknowledged that in the gathering "it was considered that South America was a continent populated by Europeans that still have a latent affection for their country of origin. For this reason the party was recommended to channel its actions through the émigré associations" (AMREC, Europa Oriental, AH/0022/Czechoslovak/1959).

In correlation to this mobilization based on the emotionally strong pairing of nationality and family, during President Arturo Frondizi's administration, the Argentine government decided to take a similar path, resorting to an equally emotionally charged patriotic rhetoric through which it intended to depoliticize the repatriates' situation: "above any juridical or political considerations must prevail the humanitarian resolution of this conflict" (AMREC, Europa Oriental, AH/0022/13/Czechoslovak/1959). For this reason, Argentine authorities made several efforts to subsidize and assist in the return of the repatriates to the South American country; however, most of these efforts turned out to be fruitless in the end. Only after the dissolution of the USSR could some of the repatriates' children return to Argentina in the 1990s. Despite their emotional ties to the country, they again experienced a sense of uprootedness. These were the cases, for example, of Anna and Susana (Interview with Anna: June 9, 2016; Interview with Susanna, quoted in Taló 2012). Both of them were Argentinean-born descendants of Eastern Europeans (Anna belonged to the Byelorussian community and Susana to the Lithuanian one) that came to the country during the first wave of migration.

Their families were dissuaded from migrating in the mid-1950s and none of them requested to return to Argentina, in spite of the difficulties that they faced in Europe. The girls grew up as Soviet citizens and received a solid education in the USSR, but after the dissolution of the Soviet Union, due to pressing economic circumstances, they eventually made their way back to their country of birth - Argentina - with their respective children. Yet again, they were repatriated and had to start over from scratch. Now they have both settled in Argentina and recovered their Argentine citizenship, but they do not feel particularly attached to any nation.

Notwithstanding the attention paid by local authorities to repatriates, their perspective seems to ignore the fact that many of the migrants based their decision to leave exclusively on their ideology. This was the case, for example, of Anna's father, whose main purpose behind migrating to the USSR was to enter and be promoted in the CPSU. There

¹⁴ In this regard, Mrs. Stoklasek, for example, argued in her claim that "after WWII our parents came back to Czechoslovakia to fulfill my father's father's last will. Besides, they wanted to show us, their children, their Motherland" (AMREC, Europa Oriental, AH/0022/13/ Czechoslovak/ 1959).

was also the highly publicized case of Anita Lewczuk, a young Argentinean girl (with a Polish father) who was recruited by senior Argentinean members of the Belinsky Club to join the ranks of the “Peace activists” (Archivo DIPBA, Mesa DE, Legajo 50, San Martín). Moreover, the mobilizing effects of ideology and political indoctrination were highly effective weapons used to convince individuals to resettle on Soviet soil.

Conclusion

Evidently, the repatriations to the USSR from Argentina—based on calls to aid the ancestral homeland—were a success in the short term. Although the émigrés had been very well integrated into Argentine society, their main and regular spaces of sociability were still linked to their countries of origin. For this reason, émigré clubs, mutual aid societies, and associations played a crucial role in mobilizing Argentine citizens on behalf of a nation located in their parents’ places of birth. Besides banal associations with family values, the appeal to defend and work for a nation that was still being built on the rubble of the old countries (countries with traditionally volatile frontiers) sought not only to undermine the Argentine identity of these émigrés, but also—as a response to strong anticommunist sentiment within the Eastern European émigrés living in the West—to politically indoctrinate and recruit them.

Shortly after the South American repatriates’ arrival in the USSR, many of them found their expectations were crushed by the hardships of Soviet life and began a very long and often fruitless process of sending claims to the Argentine embassy in Moscow for permission to return to their “true Motherland.” This issue had a negative impact on the diplomatic relations between Argentina and the Eastern Bloc and was also responsible for the rise in anticommunism among the Argentine authorities in the context of an already escalating anticommunist campaign launched during Frondizi’s administration.

In addition, this campaign also undermined the sense of belonging of the repatriates, whose personal and social dimensions of national identity were deeply and permanently altered. This erosion of their national identities scarred these families for generations.

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Research into the Impact of Analysts' Forecasts on Management Earnings Forecasts - Evidence from China

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Abstract

This paper investigates the effect of analysts' forecasts on management earnings forecasts in the unique Chinese forecasting environment. The empirical results show that: a pessimistic bias in analysts' forecasts encourages listed companies to disclose their earnings forecasts more accurately and on time in order to correct market expectations of earnings; managers make more precise forecasts when the dispersion of analysts' forecasts is wider. The results imply that analysts' forecasts have a great impact on management earnings forecasts, which are not only influenced by government, but also affected by other market participants. This paper sheds new light on the research into the relationship between analysts' forecasts and management earnings forecasts in China, as well as helps the government to acquire a better understanding of the effects of analysts on management forecasting behaviour so as to be able draw up more efficient information disclosure policies.

Keywords: Management earnings forecasts, analysts' forecasts, mandatory disclosure, voluntary forecasts.

Introduction

Analysts' forecasts and management earnings forecasts are the two main sources of earnings forecast information for listed companies in developed markets. The effective interaction between these two can improve the quality of earnings forecasting information, which in turn provides more reliable information to investors (Baginski and Hassell 1990; Kasznik and McNichols 2002). Analysts' forecasts that are driven by the capital market can also be viewed as a cost effective substitute for regulation, thereby restricting management behaviour (Knyazeva 2007; Yu 2008; McInnis and Collins 2011).

In China, companies are required under law to issue management earnings forecasts for anticipated losses, profits and changes in earnings of up to 50% compared to the previous year. In all other cases, managers are free to decide whether they feel it is necessary to issue forecasts. Compared to the situation on developed markets, the timeliness of management earnings forecasts in China is relatively poor. The information provided by company managements can be considered to be more a "pre-announcement" than "forecast". This often results in circumstances where analysts' forecasts are issued before management earnings forecasts, which generates market expectations. Within the Chinese forecasting information environment, it is of interest to examine whether management earnings forecasts in effect "correct" the market expectations generated through analysts' forecasts.

The rest of this paper is organized as follows. Section 2 discusses the institutional background in China and develops the hypotheses. Section 3 discusses the data and research methods. Section 4 explains the empirical results, and Section 5 sets out the conclusions of the research.

Institutional Background and Hypothesis Development

Regulation of Management Earnings Forecasts in China

In December 2000, the Chinese stock exchanges started to require firms to issue warnings if they anticipated losses for the year. The exchanges reaffirmed or updated their disclosure requirements every year after this. In 2002, the exchanges expanded the scope of mandatory forecasts to include forecasts of any significant changes in earnings (specifically, an earnings increase or decrease of at least 50% in comparison to the previous year). Firms are exempt from issuing such forecasts, subject to the approval of the stock exchange, if their earnings per share (EPS) in the previous year are 0.05 RMB or less. In 2004, the stock exchanges added another element to the mandatory forecasts by requiring firms that anticipate profits for the year after experiencing losses in the preceding year to report this. Over the years, the stock exchanges gradually added bi-annual and third-quarter earnings forecasts, too. The stock exchanges have also imposed forecast deadlines and provide forecast forms to standardize the practice.

The implementation of these regulations makes the information environment on the Chinese capital market unique in the world. Firstly, the market knows both mandatory and voluntary forecasts. Secondly, with regards to the timeliness of issuing forecasts, the

regulator not only requires listed companies to issue forecasts along with their 3rd quarter financial reports, but also imposes a deadline for their publication, which is within 30 days after the fiscal year end. This means that listed Chinese companies can issue forecasts after the fiscal year end, which is a remarkable difference when compared to developed markets elsewhere. For example, in the United States, listed companies must release forecasts within 300 days prior to the fiscal year end, whereas this is just 37 days in China (Huang et al. 2013).

Timely management earnings forecasts can provide information at company level which can help analysts make more accurate forecasts (Hassel, Jennings and Lasser 1988). However, due to the poor timeliness of management earnings forecasts, the interaction between analysts' forecasts and management earnings forecasts in China differs to that in more developed markets. Table 1 shows the distribution of the initial forecasts issued by managers and analysts from 2004 to 2011.

Table 1: The distribution of the timeliness of initial management earnings forecasts and analysts' forecasts

Year	Timeliness of Initial Management Earnings Forecasts					Timeliness of Initial Analysts' Forecasts				
	N	Min.	Median	Max.	Mean	N	Min.	Median	Max.	Mean
2004	414	-118	4	283	15.22	1158	-104	218	479	196.06
2005	490	-118	61	346	27.96	2400	-184	225	478	203.73
2006	533	-114	61	309	28.88	2090	-88	205	480	224.39
2007	660	-119	61	328	32.53	3403	-112	83	483	137.41
2008	782	-115	5	341	31.67	8332	-197	250	479	229.82
2009	856	-118	61	350	39.80	8757	-112	203	485	202.28
2010	809	-113	2	309	23.57	13136	-109	248	485	221.37
2011	1153	-115	63	309	27.22	14937	-19	262	485	246.91

Source: Authors

Note: The 31st December (fiscal year end for listed Chinese companies) is taken as the benchmark for the calculation of forecast timeliness. For example, if a company issued a forecast on 12th January, 2005, for the fiscal year 2005, the timeliness of this forecast is -12; if an analyst issued a forecast for 2005 on 31st August, the timeliness of this forecast is 122. All the data in Table 1 were collated and calculates by the authors.

As can be seen from Table 1, the average time for issuing initial management earnings forecasts stands at approximately 30 days before the fiscal year end, which is close to the results of Huang, et al. (2013). The earliest forecast was issued at the very beginning of the year, while the latest forecast was issued approximately 3 months after the fiscal year end,

which is later than the deadline for mandatory forecasts. However, when we look at the analysts' forecasts, the timeliness is close to that of the American capital market, which are more timely than management earnings forecasts. The difference in timeliness between management earnings forecasts and analysts' forecasts creates a disclosure environment: information from the analysts' forecasts comes to the attention of the market participants earlier than the management earnings forecasts, which subsequently affects market expectations.

Literature Review and Hypothesis Development

In developed markets, litigation and reputational costs can constrain management behaviours. Managers are more likely to release good news more carefully, whilst releasing bad news voluntarily (Skinner 1994). Meanwhile, managers exercise "expectation management" by "talking down" optimistic analysts' forecasts, so as to "meet" or "beat" those forecasts in order to reap benefits on the capital markets (Bartov, et al. 2002). Cotter (2006) also finds that, managers are more likely to issue earnings forecasts when analysts' forecasts are more optimistic. In China, where investor protection is relatively weak, the lower litigation and reputational costs do not motivate managers to make voluntary disclosures (Wong and Piotroski 2012). In addition, the effectiveness of the mandatory forecasting regulations in China is low due to the lack of monitoring of non-compliance, which therefore gives companies little incentive to release bad news (Song 2012). In contrast, intense competition and the market rewards for the disclosure of good news is more likely to stimulate listed Chinese companies to release such news (Zhang, et al. 2011).

Under the Chinese system for information disclosure, optimistic analysts' forecasts inadvertently help to create a boom on the capital markets, which combined with the lower costs of market punishment, encourages companies to "stay silent" so that they can reap the benefits accordingly. In contrast, pessimistic analysts' forecasts not only bring negative market effects, but also enhance investors' expectations of a bad performance. In cases where analysts' forecasts are more pessimistic (lower) than realized earnings, managers therefore have a greater incentive to "correct" the negative market expectations. Companies may therefore choose to issue more timely and accurate forecasts in order to convey good news to market participants, thereby reaping abnormal returns and correcting pessimistic market expectations. On the basis of the above analysis, we formulated our first hypothesis:

H1: Pessimistic analysts' forecasts issued before management earnings forecasts can improve the timeliness and accuracy of management earnings forecasts.

The quality of analysts' forecasts has a great impact on investment decisions. Where the dispersion of analysts' forecasts is wider, this indicates that the information analysts have at company level is insufficient. Increasing information asymmetry between the market and companies leads to stock price fluctuations (Marquardt and Wiedman 1998). In situations where analysts' forecasts are widely dispersed, it can be expected that companies will have a greater incentive to improve the accuracy of their forecasts to lower market uncertainty and to help analysts make more consistent forecasts (Williams 1996).

On this basis, we formulated the second hypothesis:

H2: The wider the dispersion of analysts' forecasts issued before management earnings forecasts, the more accurate management earnings forecasts will be.

Methodology

Data and Sample

Our research sample was selected from A-share companies listed on the Chinese stock market from 2004 to 2011. Due to the earnings instability of IPO firms and the special earnings structure of financial firms, these were deleted from the raw sample. All the management earnings forecast data were sourced from the RESSET database, and the analysts' forecast data and company characteristics data from the CSMAR database. Both databases are commercial databases widely used in Chinese accounting research.

The aforementioned process resulted in an initial sample set consisting of 4,549 mandatory forecasts and 5,679 voluntary forecasts. We cross-referenced the sample set with analysts' forecasts and deleted those observations with missing values. This resulted in a total of 3,276 observations, of which 2,352 were mandatory earnings forecasts and 924 voluntary earnings forecasts.

Definitions of Variables and Research Methodology

The dependent variables are timeliness and accuracy. TIMELINESS measures the timeliness of forecasts, and is defined as the number of days between the initial management earnings forecast and the fiscal year end (31st December of each year). ACCURACY measures the accuracy of the management earnings forecast.

The independent variables are AF_BIAS and AF_DISPER which proxy for analysts' forecast bias and dispersion, respectively. We used analysts' forecasts issued 30 days earlier than the initial management earnings forecasts to calculate AF_BIAS and AF_DISPER.

The following were used as control variables: information disclosed in extant literature; company size; SOE; Tobin Q; standard deviation of the firm's ROA for the past five years; industrial competition; shares owned by institutional investors; concentration of equity holders; financing needs; and the development of the market in each province. All the aforementioned variables are defined in Table 2. In the regression models, all the continuous variables were winsorized at 1% and 99%.

Table 2: Definitions of Variables

Variable	Definition
TIMELINESS	The number of days between the fiscal year end date and management forecast date. The higher the number, the more timely forecast.
ACCURACY	0 for qualitative, 1 for open-interval, 2 for range, and 3 for point forecast.
ERROR	The absolute difference between the estimated and realized management earnings, scaled according to the absolute value of the realization.
AF_BIAS	1 if the median of the analysts' forecasts is lower than the realized earnings; otherwise 0.
AF_DISPER	The standard deviation of analysts' forecasts, scaled according to absolute value of the mean of the analysts' forecasts.
SOE	1 if the company is directly owned or ultimately controlled by government at the beginning of year t; otherwise 0.
SIZE	The natural logarithm of the company's total assets (in millions of RMB) at the beginning of year t.
TQ	The market-to-book ratio of the company at the beginning of year t.
STD_ROA	The standard deviation of the company's accounting return on assets during years t-5 to t-1.
IO	The number of shares owned by institutional investors as a percentage of the total shares outstanding at the beginning of year t.
HHI	The Herfindahl-Hirschman Index calculated according to the revenues of each industry, which proxy for industrial competition.
FINANCE	1 if the company issues equity in year t+1+; otherwise 0.
OWNCON	The share percentage of the largest shareholders
FANGANG	The index of law and market development for each province in China
FOLLOW	The number of financial analysts following the firm in year t-1.

Source: Authors

For H1, we formulated Equation (1) and Equation (2) to examine the relationships between analysts' forecast bias and timeliness, as well as the accuracy of management earnings forecasts.

$$\begin{aligned}
 \text{TIMELINESS} = & \alpha + \beta_1 \times \text{AF_BIAS} + \beta_2 \times \text{SOE} + \beta_3 \times \text{SIZE} + \beta_4 \times \text{TQ} + \beta_5 \times \text{STD_ROA} \\
 & + \beta_6 \times \text{HHI} + \beta_7 \times \text{OWNCON} + \beta_8 \times \text{IO} + \beta_9 \times \text{FINANCE} + \beta_{10} \times \text{FANGANG} \\
 & + \beta_{11} \times \text{FOLLOW} + \varepsilon
 \end{aligned}$$

Equation (1)

$$\begin{aligned} ERROR = & \alpha + \beta_1 \times AF_BIAS + \beta_2 \times SOE + \beta_3 \times SIZE + \beta_4 \times TQ + \beta_5 \times STD_ROA \\ & + \beta_6 \times HHI + \beta_7 \times OWNCON + \beta_8 \times IO + \beta_9 \times FINANCE + \beta_{10} \times TIMELINESS \\ & + \beta_{11} \times FANGANG + \beta_{12} \times FOLLOW + \varepsilon \end{aligned}$$

Equation (2)

For H2, we formulated Equation (3) to exam the relationship between the dispersion of analysts' forecasts and the accuracy of management earnings forecasts.

$$\begin{aligned} PRECISION = & \alpha + \beta_1 \times AF_DISPER + \beta_2 \times SOE + \beta_3 \times SIZE + \beta_4 \times TQ + \beta_5 \times STD_ROA \\ & + \beta_6 \times HHI + \beta_7 \times OWNCON + \beta_8 \times IO + \beta_9 \times FINANCE + \beta_{10} \times TIMELINESS \\ & + \beta_{11} \times FANGANG + \beta_{12} \times FOLLOW + \varepsilon \end{aligned}$$

Equation (3)

Results and Discussion

Descriptive Statistics

Table 3 shows the descriptive statistics from the empirical tests conducted on the sample data. It is evident that the average timeliness of management earnings forecasts is one month before the fiscal year end. Half of the management earnings forecasts are range forecasts. The mean of *ERROR* is 0.33, which means that on average the forecast value is 33% higher or lower than the realized earnings. The mean of *AF_BIAS* is 0.32 when the median is 0, which implies that over 70% of analysts' forecasts were more optimistic than the realized earnings.

(Table 3 about here)

Empirical Results

Model (1) to Model (4) exam the effects of analysts' forecast bias on the timeliness and accuracy of management earnings forecasts, respectively. Model (1) and Model (2) relate to mandatory forecasts, whereas Model (3) and Model (4) relate to voluntary forecasts. The coefficients for *AF_BIAS* in Model (1) and Model (3) are significantly positive, which indicates that the timeliness of management earnings forecasts is greater in those companies with pessimistic market expectations than in those with optimistic market expectations according to analysts' forecasts. This result implies that listed Chinese companies are eager to "correct" negative market expectations, which runs contrary to practice in developed markets, where listed companies are more likely to "talk down" market expectations in a timely manner.

Model (2) and Model (4) tests the impact of analysts' forecast bias on the accuracy of management earnings forecasts. The coefficients for *AF_BIAS* in Model (2) and Model (4) are significantly negative, which indicates that the accuracy of management earnings forecasts is higher when market expectations are pessimistic.

The results above are all consistent with hypothesis 1, which implies that listed Chinese companies correct negative market expectations based on analysts' forecasts by issuing timely and accurate management earnings forecasts.

Model (5) and Model (6) exam the effects of the dispersion of analysts' forecasts on the accuracy of management earnings forecasts for mandatory forecasts and voluntary forecasts, respectively. The coefficients for *AF_DISPER* are both significantly positive in the two models, which demonstrates that companies are keen to improve the accuracy of their forecasts in order to reduce the dispersion of analysts' forecasts and reduce market uncertainty. These results are consistent with hypothesis 2.

(Table 4 about here)

Note: the linear regression was estimated using the robust-regression estimation method with heteroskedasticity-robust standard errors. For Model (5) and Model (6), ordered probit regression was used. Z-statistics are reported in parentheses. See Table 2 for definitions of the variables. ***, **, and * indicate statistical significance at 1%, 5%, and 10% levels, respectively.

From the control variables, it is evident that small firms are more likely to provide timely and more accurate mandatory forecasts than larger firms, which is contrary to what is the case in more developed markets. This result shows that larger companies in China have lower litigation and reputational costs to constrain their forecasting behaviour, which is consistent with Song (2009). There are no significant differences between SOEs and NSOEs with regards to the timeliness and accuracy of mandatory forecasts, however, the timeliness and accuracy of voluntary forecasts is better for SOEs than NSOEs (Zhang, et al., 2011). Higher analysts coverage has higher requirement for management earnings forecasts, leading to more accurate and timely management earnings forecasts, which supports the monitoring role of analysts. To summarise, the unique forecasting environment in China as a result of regulation means that there are significant differences between mandatory and voluntary forecasts.

Robust Tests

Extant literature indicates that managers may lead analysts issued biased earnings forecasts to avoid **unexpected earnings** (Matsumoto, 2002; Bartov et al., 2002). Even though we accept analysts' forecasts issued before management earnings forecasts as a means of avoiding possible expectation management, it may not prevent managers from "meeting" or "beating" lower analysts' forecasts as part of their expectation management. As part of robust testing, the analysts' forecasts with lower expectations, which were issued before management earnings forecasts, were excluded, and the tests conducted anew. The regression results are shown in Table 5. The results are similar to those in Table 4. It is

evident that the initial results still held true even when possible manager expectation management was excluded.

(Table 5 about here)

Note: the linear regression was estimated using the robust-regression estimation method with heteroskedasticity-robust standard errors. For Model (3) and Model (6), ordered probit regression was used. Z-statistics are reported in parentheses. See Table 2 for definitions of the variables. ***, **, and * indicate statistical significance at 1%, 5%, and 10% levels, respectively.

Conclusion

This paper investigates the impact of analysts' forecasts on management earnings forecasts for listed Chinese companies. It includes a discussion on the unique forecasting environment created through the regulation of the mandatory publication of management earnings forecasts in China. We point out that, compared to developed capital markets, market expectations are mainly driven by analysts' forecasts because they are more timely than management earnings forecasts. Within this context, we exam the impact of the characteristics of analysts' forecasts on different types of management earnings forecasts.

The empirical results show that pessimistic analysts' forecasts issued before management earnings forecasts improve the timeliness and accuracy of management earnings forecasts. This implies that listed Chinese companies have the incentive to "correct" negative market expectations through timely and accurate forecasts. At the same time, it was determined that, the greater the dispersion of analysts' forecasts is, the more accurate the management earnings forecasts are.

Our research demonstrates that analysts' forecasts have a great impact on the management earnings forecasts of listed Chinese companies. The forecasting behaviour of listed Chinese companies is not only influenced by government regulation, but also by other market participants. When companies react in a timely and positive manner to analysts' forecasts by providing corresponding forecasts, management earnings forecasts become an effective supplement to analysts' forecasts. The impact of analysts' forecasts can be viewed as a self-monitoring mechanism, which can supplement or replace government regulation. The interaction between analysts' forecasts and management earnings forecasts can improve the forecasting environment. As a result, the regulator can implement more flexible instruments and encourage mutual governance for all capital market participants in China, thereby letting an "invisible hand" play an increasingly important role in improving the information environment.

Acknowledgement

Xiaobei Huang would hereby like to acknowledge the support extended by the Natural Science Foundation of China (No. 71602004). All errors are our own.

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Table 3: Descriptive Statistics

Variable	N	Min.	Mean	Median	Max.	Std.
TIMELINESS	3267	-89	31.5	62	251	63.22
ACCURACY	2658	0	1.78	2	3	0.67
ERROR	3255	0	0.33	0.14	2.01	0.44
AF_BIAS	3267	0	0.32	0	1	0.47
AF_DISPER	2658	0	0.67	0.28	4.83	0.93
SOE	3267	0	0.51	1	1	0.49
SIZE	3267	10.84	21.22	21.10	27.35	1.23
TQ	3267	0.89	2.60	1.91	11.75	2.06
STD_ROA	3267	0	0.07	0.03	0.42	2.09
HHI	3267	0.01	0.06	0.04	0.85	0.08
OWNCON	3267	0	0.36	0.33	0.86	0.15
IO	3267	0	0.18	0.11	1.03	0.19
FINANCE	3267	0	0.08	0	1	0.27
FANGANG	3267	0.18	9.71	7.60	20.21	5.25
FOLLOW	3267	0	5.53	1	94	10.12

Source: Authors

Table 4. Effects of analysts' forecast bias on the timeliness and accuracy of management earnings forecasts

	Mandatory Forecasts		Voluntary Forecasts		Mandatory Forecasts	Voluntary Fore
	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)	Model (6)
Variables	TIMELINESS	ERROR	TIMELINESS	ERROR	ACCURACY	ACCURACY
Constant	134.804***	-0.352	-99.260	-0.206		
	(3.15)	(-0.77)	(-0.72)	(-0.50)		
AF_BIAS	6.896*	-0.301***	12.260*	-0.086***		
	(1.88)	(-6.34)	(1.85)	(-3.70)		
AF_DISPER					0.050***	0.094***
					(2.62)	(3.08)
SOE	-5.512*	0.042	20.660*	-0.028***	-0.102	0.134
	(-1.79)	(1.64)	(1.72)	(-3.80)	(-1.38)	(0.99)
SIZE	-6.424***	0.044**	7.659	0.019	-0.112***	0.175**
	(-3.03)	(2.08)	(1.05)	(0.88)	(-2.96)	(2.34)
TQ	-0.147*	0.002	6.171***	-0.018**	-0.028**	0.015
	(-1.82)	(0.95)	(2.72)	(-2.30)	(-2.14)	(0.44)
STD_ROA	-34.940	0.622*	-433.164***	0.173	0.51	2.011
	(-1.30)	(1.90)	(-4.67)	(0.65)	(0.74)	(1.22)
HHI	14.705	-0.236**	17.095	0.059	-0.548	-0.099
	(1.05)	(-2.15)	(0.28)	(0.50)	(-1.26)	(-0.13)
OWNCON	20.751***	-0.214***	13.434	0.028	-0.243	0.033
	(3.55)	(-3.40)	(0.67)	(0.60)	(-1.03)	(0.09)
IO	7.618	-0.108*	0.181	0.019	-0.263	0.211
	(1.02)	(-1.73)	(0.02)	(0.55)	(-1.49)	(0.78)
FINANCE	5.831	-0.089***	-0.980	0.007	-0.005	-0.112
	(1.44)	(-3.79)	(-0.08)	(0.56)	(-0.07)	(-0.77)
TIMELINESS		0.001***		0.001***	-0.001	0.006***
		(4.36)		(5.52)	(-0.88)	(6.32)
FANGANG	0.404	0.001	-0.391	-0.002	0.004	-0.004
	(1.50)	(0.36)	(-0.92)	(-0.57)	(0.65)	(-0.40)
Follow	0.716***	-0.007***	-0.061	0.000	0.005	0.010**
	(4.88)	(-3.48)	(-0.16)	(0.12)	(1.3)	(2.38)
Observations	2352	2352	915	903	1804	854
R ² (Pseudo R ²)	0.048	0.135	0.115	0.118	0.0136	0.112
F-value(Wald chi ²)	10.67	38.79	9.83	5.36	42.79	73.11

Source: Authors

Table 5. The regression results for management expectation management

	Mandatory Forecasts			Voluntary Forecasts		
	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)	Model (6)
Variables	<i>TIMELINESS</i>	<i>ERROR</i>	<i>ACCURACY</i>	<i>TIMELINESS</i>	<i>ERROR</i>	<i>ACCURACY</i>
Constant	121.466***		0.374	73.978***	-0.161	
	(5.60)		(0.98)	(18.92)	(-0.62)	
AF_BIAS	3.856*	-0.270***		1.403***	-0.112***	
	(1.66)	(-5.74)		(2.71)	(-4.27)	
AF_DISPER			0.055**			0.079**
			(2.56)			(2.41)
SOE	-8.235***	0.084***	-0.087	0.179	-0.028***	0.223
	(-3.31)	(3.87)	(-1.06)	(0.46)	(-3.60)	(1.56)
SIZE	-5.323***	0.008	-0.111***	-0.326*	0.016	0.105
	(-5.30)	(0.46)	(-2.90)	(-1.75)	(1.24)	(1.32)
TQ	-0.215**	-0.004*	-0.025**	0.054	-0.021***	-0.014
	(-2.01)	(-1.85)	(-2.12)	(0.54)	(-5.47)	(-0.44)
STD_ROA	-19.583	0.739*	1.005	14.924***	0.160	1.806
	(-0.92)	(1.85)	(1.03)	(3.53)	(0.71)	(1.05)
HHI	13.821	-0.214**	-0.323	0.430	0.194	-0.744
	(0.87)	(-1.99)	(-0.66)	(0.18)	(1.12)	(-0.87)
OWNCON	18.455**	-0.259***	-0.167	-0.547	0.062	-0.115
	(2.35)	(-4.09)	(-0.61)	(-0.51)	(1.51)	(-0.32)
IO	8.617	-0.135***	-0.225	-0.006	0.025	0.097
	(1.42)	(-2.61)	(-1.15)	(-0.01)	(0.61)	(0.34)
FINANCE	6.560**	-0.104***	0.056	-0.364	0.005	-0.171
	(2.01)	(-4.31)	(0.64)	(-0.70)	(0.35)	(-1.00)
TIMELINESS		0.001***	-0.001		0.001***	0.006***
		(4.27)	(-1.17)		(6.75)	(5.38)
FANGANG	0.538**	-0.000	0.011	-0.012	-0.002	-0.006
	(2.31)	(-0.12)	(1.54)	(-0.40)	(-0.71)	(-0.58)
Observations	1901	1901	1438	853	844	796
R ² (Pseudo R ²)	0.039	0.130	0.0147	0.029	0.131	0.0967
F-value(Wald chi ²)	6.71	31.61	37.20	2.50	7.58	54.51

Source: Authors

HUANG, X. and J. ZHENG, 2017. Research into the Impact of Analysts' Forecasts on Management Earnings Forecasts - Evidence from China. *Littera Scripta* [online]. České Budějovice: Institute of Technology and Business in České Budějovice, **10**(1), 35-49 [accessed: 2017-06-27]. ISSN 1805-9112. Available at: Available at: http://journals.vstecb.cz/category/littera-scripta/10-rocnik-2017/1_2017/.

The Role of the Free Democratic Party (FDP) in Domestic West-German Politics, 1969 - 1974: Example of Environmental Policy

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Abstract

As soon as the Social Democratic Party (SPD) won the elections to the Federal Diet (the Bundestag) in 1969, negotiations on forming a possible coalition government commenced. In the autumn of that year an agreement was reached between Willy Brandt and Walter Scheel to create a social liberal coalition of the SPD and the Free Democratic Party (FDP), which held until 1974. The coalition eventually collapsed because it could not weather the effects of the first oil crisis on the German economy and the internal problems related to an affair developing around W. Brandt.

Even though it would be interesting to analyse the policies of the coalition government between 1969 and 1974 in their entirety, with W. Brandt's Ostpolitik and foreign policy being the most recognized legacy, this paper focuses on the FDP, the coalition partner that always stood in the shadow of the larger SPD. What remains relatively unknown and discussed is the transformation of the FDP after 1971, when the party adopted the concept of social liberalism as defined in its reform programme, the Freiburg Principles. The purpose of this article is to help readers understand the FDP's position within the coalition, whereby environmental policy is used as an example to prove that, despite being the less visible coalition partner, it achieved unprecedented successes in domestic policy. The main research questions are: What did the environmental policy represent to the contemporary government? What were its key defining documents? Who were the most important players in the legislative process? The research draws on primary sources hitherto untapped.

Keywords: environmental policy, environmental protection, scientification of politics, social liberalism, Umweltprogramm.

Introduction

The so-called long 1960s (1959 – 1973/1974¹) may be labelled as the most dynamic period² in the post war history of the Federal Republic of Germany. This "long" decade rode the wave of economic expansion which lasted to the end of 1973. The period was generally characterized by the unprecedented, almost euphoric, positive expectations for the future. The last few years of this period were best known for the foreign policy of Willy Brandt, who was the Federal Chancellor of the FRG between 1969 and 1974. His Ostpolitik resulted in a gradual improvement in relations with the country's eastern neighbours. What is less well known though, is the fact that at around the same time West Germany developed an environmental policy which became a role model for other European countries. At the very beginning of his term, Brandt gave a public speech stating the following: "We must continue in all our endeavours, which are on the one hand economically profitable and on the other, socially sustainable. There must exist a balance between the supply of private and public goods. One of the basic goods the state should provide is a clean and healthy environment."³ He therefore promised that his government would create an environmental policy for the FRG, but most importantly, assumed responsibility for creating such a policy.

This paper looks into the creation of the aforementioned West German environmental policy at the beginning of the 1970s, analyses its forms, and identifies those who played an important role in the legislative process that established it. The analysis provides answers to the following questions: What did the environmental policy mean for West Germany at the turn of the 1960s and 1970s? What were the key defining documents and tools? Who was behind its development? The goal of this paper is to prove that the dynamic period of 1969-1974 was not only significant for the foreign policy conducted by the SPD, but also that their coalition partner, the FDP, achieved considerable successes in domestic policy as exemplified by the environmental policy.

The author hereby acknowledges that this research was supported by the Grant Agency of Charles University, whose financial support was instrumental for writing this article (Reference No. 1426314).

Methods and Materials

The subject of this research is West German environmental and political history, in particular the development and the form of environmental policy between 1969 and 1974. The section on methodology introduces the concepts this paper works with, namely

¹ The beginning of this period is considered to be the SPD reform programme of Bad Godesberg, the end either the first oil crisis in 1973 or the collapse of the SPD-FDP coalition in 1974. See METZLER, Gabriele. *Konzeptionen politischen Handelns von Adenauer bis Brandt* (2005), pp. 11.

² This term was first used by the German historian Axel Schildt, See SCHILDT, Axel ed. (Hg.). *Dynamische Zeiten. Die 60er Jahre in den beiden deutschen Gesellschaften* (2000).

³ Willy Brandt's speech at the commencement of the European Year of the Environment, February 9 – 12, 1970. The European Year of the Environment was instigated by the European Council on several occasions between 1970 and 1995. The first year is considered to be the start of the environmental movement in Europe. Bundesarchiv Koblenz, Umw-Ber-13/72, B 106/29375, Umweltprogramm der Bundesrepublik.

environmental policy and the drive towards the politics of expertise (ger. Verwissenschaftlichung von Politik), as well as the main primary sources and literature which address the topic.

From the establishment of the FRG in 1949, different political parties used environmental protection as a tool with which to promote their image.⁴ Prior to W. Brandt's term as chancellor and the head of the SPD-FDP coalition, it had lacked purpose, which prevented it from being interpreted as a comprehensive environmental policy. Before analysing the development of the new policy, it is important to determine what the environmental policy meant for the coalition government in power and how it defined it.

"The environmental policy must be a policy for the people." It is with these words that Josef Ertl (FDP), Federal Minister for Food, Agriculture and Forestry, introduced the policy in July 1971. The minister, who was responsible for the conservation of nature and landscape, added "and it must never be just a fashionable term, but simply a question of our civilization's survival."⁵ The contemporary political rhetoric connected the question of the environment to the question of the survival of humanity. Even today, after almost fifty years of development, environmental protection is connected to a bleak future. One of many modern definitions outlines environmental policy as "a set of institutions and organizations the creator, vehicle, and sponsor of which is a state and the main purpose of which is to solve the conflicts arising from utilizing natural resources."⁶ An important guideline for the development of the environmental policy at the beginning of the 1970s was defining the environment as a system that consists of several parts, namely air, water, soil, waste, and artificial components created as a result of human activity.

In order for the environmental policy to be able to serve its purpose, the government needed to obtain legitimate authority. An important role in achieving this was played by the participation of experts (scientists and professionals) who were invited to craft the policy and take part in the political decision making process. It was the arguments supported by science which made the environmental policy trustworthy and which provided social consensus. The environmental policy of the FRG must therefore be seen as the result of the rise of the politics of expertise. This expert driven planning enjoyed its highest support from the autumn of 1969 onwards, when the SPD became the strongest political party; at its peak it was declared to be the foundation of all political decision making.

The German historian Gabriele Metzler considers the rise of the politics of expertise as confirmation that West Germany was a modern country at the end of the 1960s.⁷ She

⁴ This was typical of the SPD and its programmes for protecting air quality Grüne Charta von der Mainau and Blauer Himmel über Ruhrgebiet, both from 1961.

⁵ Bundesarchiv Koblenz, pamphlet „Umweltpolitik ist Politik für den Menschen“, auth. Josef Ertl, 15. Juli 1971, pp. 3.

⁶ Definition taken from SLAVÍKOVÁ, Lenka; VEJCHODSKÁ, Eliška; SLAVÍK, Jan et al. *Ekonomie životního prostředí – teorie a politika* (2012), pp. 148.

⁷ Taken from the famous speech of W. Brandt in the Federal Diet in 1969 during the election of a new chancellor, which he started with "Wir schaffen das moderne Deutschland!" (roughly translated as "We will

considers modern politics to be rational, based on scientific knowledge and methods and thus liberated from ideological influences typical for every era.⁸ A contemporary government document drafted by the FDP defined expert planning as something "which is no longer considered contradictory to a free market economy, but rather complementary, which has therefore become vital for a society's development."⁹

The rise of the politics of expertise is a topic which has been analysed in detail in scholarly literature most notably by the aforementioned G. Metzler, whose monograph from 2005, entitled *Konzeptionen politischen Handelns von Adenauer bis Brandt*, deserves particular praise.¹⁰ Contrary to this, the development of the environmental policy of the FRG has been all but neglected by scholars. There are well-known German writings and publications by environmental historians, including Frank Uekötter, Tobias Huff, Birgit Metzger, Jens Ivo Engels, Karl Ditt, Kai F. Hünemörder, Silke Mende, Jan-Henrik Meyer. They consider the industrial revolution to be the beginning of environmental history; the moment when human beings first started transforming the natural world and landscape.¹¹ Most of the published works dedicated to the environmental history of Germany focus on the latter period of the 1960s and 1970s as the era in which the most progressive development of environmental culture took place.¹² These are most often analyses carried out by non-governmental organizations.¹³ Most recently, the

create a modern Germany!") METZLER, Gabriele. *Konzeptionen politischen Handelns von Adenauer bis Brandt* (2005), pp. 10.

⁸ Ibid., pp. 11.

⁹ Archiv des Liberalismus, Friedrich-Naumann-Stiftung für die Freiheit Landesprogramm FDP, FDP Bundesvorstand, Protokolle, January – August, 1971, I., 174, Schleswig-Holstein, 19. August 1971.

¹⁰ It is my opinion that this monograph has not been surpassed by any other study despite the relatively long time that has elapsed since it was published. See METZLER, Gabriele. *Konzeptionen politischen Handelns von Adenauer bis Brandt* (2005); see also METZLER, Gabriele. *Am Ende aller Krisen? Politischen Denken und Handeln in der Bundesrepublik der sechziger Jahre*. In: *Historische Zeitschrift* Band 275 (2002), pp. 57-102. On the topic see also JARAUSCH, Konrad, H.: *Krise oder Aufbruch? Historische Annäherungen an die 1970er-Jahre*. In: *Contemporary History, Online-Ausgabe*, 3, H. 3 (2006); NÜTZENADEL, Alexander. *Stunde der Ökonomen: Wissenschaft, Politik und Expertenkultur in der Bundesrepublik 1949-1974* (2005).

¹¹ The topic of environmental pollution and other negative impacts of the industrial revolution is elaborated in a whole range of studies: on the universal negative impacts of the industrial revolution in the UK and Germany between 1880 and 1939 see DITT, Karl. *Zweite Industrialisierung und Konsum. Energieversorgung, Haushaltstechnik und Massenkultur am Beispiel nordenglischer und westfälischer Städte 1880-1939* (2011); on the issue of air pollution during the industrial revolution see BRIMBLECOMBE, Peter: *Die Apokalypse im Nebel. Der Londoner Smog im späten 19. Jahrhundert*. In: UEKÖTTER, F. ad. (ed.). *Wird Cassandra heiser? Die Geschichte falscher Ökoalarme* (2004), p. 42-51 ad.

¹² See HÜNEMÖRDER, Kai F. *Die Frühgeschichte der globalen Umweltkrise und die Formierung der deutschen Umweltpolitik (1950-1973)* (2004); HÜNEMÖRDER, Kai F. *Vom Expertennetzwerk zur Umweltpolitik: Frühe Umweltkonferenzen und die Ausweitung der öffentlichen Aufmerksamkeit für Umweltfragen in Europa (1959-1972)*. In: *Archiv für Sozialgeschichte* 43 (2003), pp. 275-296; DITT, Karl. *Die Anfänge der Umweltpolitik in der Bundesrepublik Deutschland während der 1960er Jahre und frühen 1970er Jahre*. In: FRESE, Matthias (ed.). *Demokratisierung und gesellschaftlicher Aufbruch: Die sechziger Jahre als Wendezeit der Bundesrepublik* (2003), pp. 305-347; ENGELS, Jens Ivo. *Naturpolitik in der Bundesrepublik: Ideenwelt und politische Verhaltensstile in Naturschutz und Umweltbewegung 1950 -1980* (2006).

¹³ See UEKÖTTER, Frank. *Deutschland in Grün. Eine zwiespältige Erfolgsgeschichte* (2015); UEKÖTTER, Frank. *Am Ende der Gewissheiten. Die Ökologische Frage im 21. Jahrhundert* (2011); METZGER, Birgit. *„Erst stirbt der Wald, dann du!“. Das Waldsterben als westdeutsches Politikum (1978-1986)* (2015); KIRCHHOF, Astrid Mignon; MEYER, Jan-Henrik. *Global Protest Against Nuclear Power. Transfer and Transnational Exchange in the 1970s and 1980s*. In: *Historical Social Research*, 39 (2014), pp. 165-190; MEYER, Jan-

publications on environmental history have started to focus on the connection between political regimes and environmental protection.¹⁴

This paper relies on typical sources with regards to the political history of the FRG during the period 1969 – 1974. These sources are mostly of either an official or private nature (private letters, memoirs on environmental policy development, personal notes of politicians). Some sources of a more narrative nature were also used (e.g. pamphlets published by ministries or the Federal Diet). The archival research was conducted in five separate German archives: Parliamentary Archives in Berlin; German Federal Archives in Koblenz; Willy Brandt's Archive in Bonn; SPD Archives in Bonn; and FDP Archives in Gummersbach.

West German Environmental Policy (Umweltpolitik)

To identify a certain event or date as the so-called zero hour of West German environmental policy would be inaccurate, since its roots are traceable to the time before Bismarck's Germany.¹⁵ However, those were still rather piecemeal environmental efforts. It is therefore impossible to speak of a comprehensive environmental policy at least prior to the 1960s. At this point, it is therefore necessary to determine how the environmental policy was developed, what the key defining documents and tools were, and who was behind its development.

In the first four months of 1969, when the SPD introduced its campaign manifesto for the elections to the Federal Diet, it completely lacked the term "environmental policy" (Umweltpolitik) and the term "protection of the environment" (Umweltschutz) occurred in only a few sentences. In October of the same year, the SPD received the highest number of votes and started looking for a coalition partner, which became the FDP. The FDP had suffered at the hands of the electorate. With only a 5.8% share of the votes, it barely passed the threshold to enter the Federal Diet. However, the coalition with the SPD paved the way for the party to take on some new, albeit rather marginal responsibilities. The SPD exclusively took on responsibility for foreign policy, which later brought international recognition for W. Brandt and even the Nobel Peace Prize. The FDP, after

Henrik: *Transnationale Geschichte. Eine Perspektive*. In: *Historische Mitteilungen der Ranke-Gesellschaft*, 26 (2014), pp. 366-382; MEYER, Jan-Henrik: „Where do we go from Wuhl?": *Transnational Anti-Nuclear Protest targeting European and International Organisations in the 1970s*. In: *Historical Social Research*, 39 (2014), pp. 212-235; MENDE, Silke. *Nicht rechts, nicht links, sondern vorn: Eine Geschichte der Gründungsgrünen* (2011).

¹⁴ See HUFF, Tobias *Natur und Industrie im Sozialismus. Eine Umweltgeschichte der DDR* (2015). Other similar published works include SPURNÝ, Matěj. *Most do budoucnosti. Laboratoř socialistické modernity na severu* (2016), a compilation of papers on the topic of environmental protection in the central Europe FÖRSTER, Horst (ed.): *Umweltgeschichte(n). Ostmitteleuropa von der Industrialisierung bis zum Postsozialismus* (2013).

¹⁵ See UEKÖTTER, Frank. *Am Ende der Gewissheiten. Die Ökologische Frage im 21. Jahrhundert* (2011), pp. 40-58, which explores different German and Prussian associations of the 19th century whose goal was predominantly environmental protection.

some negotiations, accepted responsibility for creating an environmental policy under the auspices of the Federal Ministry of the Interior led by Hans Dietrich Genscher (FDP).¹⁶

The FDP took on its new responsibility in, from today's vantage point, exceptionally modern fashion, which became a role model for other European countries for the 1970s and beyond. The first draft of the plan, the so-called Action Plan for the Protection of the Environment (ger. Sofortprogramm) was presented on 17 September, 1970. "In September 1970 the federal government presented the first batch of laws which needed to be passed or amended as part of the environmental policy."¹⁷ This is the sentence Genscher used to introduce the first draft of the environmental policy of the social liberal government. What made the Action Plan different from previously presented documents? It was mostly the scope of the measures and the adopted programmes. Until the 1970s, the programmes had always focused on one component of the environment (typically the protection of wildlife, air or water), whereas the Action Plan was a comprehensive long term plan. The main goal of the plan was to immediately pass four laws on the protection of the environment: the un-leaded fuel act, waste act, amendments to the unsatisfactory water source protection act and the air pollution limitation act.¹⁸

However important the Sofortprogramm was for the development of environmental policy, it was only a harbinger of things to come. On 14 October 1971, just a few months after it had been presented to the public, a more important Environmental Protection Plan (Umweltprogramm) was published. The 65-page draft was a "comprehensive concept of internal reforms aimed at protecting the environment."¹⁹ It analysed all the priorities and plans in the area of environmental protection and placed them in order of importance for the next 5 to 15 years. For the first time, it also included the definition of environmental policy as "a strategy based on planning measures for protecting the environment and a proactive attitude to protection of the environment with long lasting change being the final goal."²⁰

The whole document was built on five pillars of environmental policy, namely the: (1) long term planning of environmental protection; (2) introduction of the principle that the polluter pays; (3) use of environmentally friendly technology; (4) introduction of

¹⁶ As Genscher recalls in his memoirs: "The federal minister of the interior was in their time undoubtedly the most important minister of the era mainly due to the newly acquired responsibilities with regards to dealing with the issue of the Germans expelled after the second world war, or the new portfolio of environmental protection." GENSCHER, Hans-Dietrich. *Erinnerungen* (1995), pp. 125 – 138.

¹⁷ Bundesarchiv Koblenz, Umw-Ber-13/72, B 106/29375, foreword to the Umweltprogramm of 14 October, 1971, Umweltprogramm der Bundesrepublik.

¹⁸ Gradually, more acts were added to the pressing four, for example the obsolete Animal Protection Act which had been in effect since 1933, but which still had not been amended by 1972! Interestingly, this act was the only one on which the opposition party CDU/CSU cooperated. The reason being, that they had been proposing the act's amendment since 1961 when it led the government. Bundestagsarchiv, Parlamentsarchiv Berlin, Gesetzesmaterialien, Tierschutzgesetz vom 24 Juli, 1972, from the proceedings of the Federal Diet, 137th session in Bonn, 29 September, 1971

¹⁹ Bundesarchiv Koblenz, Umw-Ber-13/72, B 106/29375, Umweltprogramm der Bundesrepublik.

²⁰ Bundesarchiv Koblenz, Drucksache VI/2710, Deutscher Bundestag – 6. Wahlperiode, Umweltprogramm, pp. 7.

environmental education; and (5) international cooperation. Today, these principles may seem trivial and vague, but in reality the stance of the contemporary government reflected the state of knowledge and trends, whereby the aspiration was to find a balance between the social market economy and Keynesian-style planning of environmental protection whilst acknowledging the international implications of pollution. The most effective measures were deemed to be environmental taxes and fees; for the first time subsidizing environmentally friendly technologies was considered. Another important measure was tax incentives for investors considering the construction of environmentally beneficial engineering projects and the use of environmentally friendly technologies. The linchpin was also the participation of groups of experts in planning environmental protection (expert planning).

The question remains, however, which particular institutions and people were behind the development of the environmental policy. The purpose of this analysis is not to identify all the groups which influenced, in varying degrees, the environmental policy, but only those players that were active in the legislative process. Within this context, it is also important to take into consideration the influence of both society at large, which was reacting to the growing pessimism about the future, and foreign organizations, which were forcing the FRG to adopt international treaties and agreements on environmental protection.²¹

As previously mentioned, the main responsibility for the creation of the environmental policy was assumed by the FDP. The party, which had suffered at the ballot box in the 1969 election, had to accept voters' criticism and reform itself. It did so by adopting the so-called Freiburg Principles at its party convention in Freiburg on 25-27 September, 1971. This reform programme meant the party accepted the political ideology of social liberalism in line with the contemporary discourse of planning. Social liberalism was understood by the party as "freedom, which is no longer defined to be outside society and state, which is in opposition to individuals, but freedom for all independent individuals living within a state which takes care of them and as members of society." ²² The fourth and last point of the Freiburg Principles was dedicated to environmental policy.

The main representative of the FDP in the government became the Minister of the Interior, Hans-Dietrich Genscher (FDP), however the responsibility for environmental protection rested with the Minister for Food, Agriculture and Forestry, Josef Ertl (FDP). From the start, Genscher considered environmental protection to be a liberal party initiative and in accordance with the Freiburg Principles emphasized the need to preserve the market economy and was opposed to curtailing competition and free enterprise.²³ Some

²¹ Some of the most important ones being the OECD, NATO, European Council, UN and others.

²² Archiv des Liberalismus, Friedrich-Naumann-Stiftung für die Freiheit, Freiburg 25. – 27. Oktober 1971, Freiburger Thesen zur Gesellschaftspolitik der Freien Demokratischen Partei.

²³ For example from Genscher's declaration in *Süddeutsche Zeitung* of 7 May, 1971: "The cause of the environment's deterioration is not an individual entrepreneurs pursuit of profit. An entrepreneur only acts efficiently if they use all available technology for their production to lower their costs and the market economy demands, among other things, a behaviour friendly to the environment. Yes, truly environmentally

ministries also obtained significant new authority; the Federal Ministry of Finance with regards to water and air protection and waste management; the Federal Ministry of Transportation with regards to noise protection; some partial tasks were also delegated to the Federal Network Agency, the Federal Ministry of Education and Research, the Federal Ministry for Family Affairs, Senior Citizens, Women and Youth, and the Federal Ministry of Labour and Social Affairs.

In addition to the governmental institutions, there was one group that had great influence in crafting the legislation, the experts. The typical manifestation of the politics of expertise were institutes which were home to the most notable scientists working under the authority of the respective federal ministries. There were many such institutes (e.g. Federal Statistical Office in Wiesbaden under the Federal Ministry of the Interior, Federal Centre for Vegetation Ecology, Nature Conservation and Landscape Management in Bad Godesberg under the Federal Ministry of Food, Agriculture and Forestry, and others).²⁴ Furthermore, special expert groups were established to serve as advisory bodies, which were created and dissolved through changes in legislation (e.g. workgroup on waste management, workgroups for pollution monitoring, and others). New legislation was also discussed in permanent workgroups of the Federal Diet. Environmental concerns were most often discussed in the Internal Committee for "Environmental Protection" ("Umweltschutz"), the Committee on Family, Youth and Health, the Committee on Transportation, and the Committee on the Budget.²⁵

Besides the workgroups and advisory bodies operating officially under the respective federal ministries and the Federal Diet, the experience and knowledge of other non-governmental organizations, universities and research centres were also utilized in crafting the environmental policy. Of the many non-governmental organizations involved, the most important one was the German League for Nature and Conservation (Der Deutsche Naturschutzring). Private enterprises held a special position in the process as opponents to the legislation, since it logically implied greater bureaucracy and new fees and taxes. They participated in the legislative process through confederations of industry.

The expertise of the experts involved varied greatly depending on what legislative changes were required at a particular time. The experts involved in the rise of the politics of expertise were mostly natural scientists, physicians, physicists, lawyers and mathematicians, but also scholars (i.e. historians, philosophers, economists) and a special group of professionals drawn from confederations of industry. Interestingly, Peter Menke-Glückert, the state secretary of the Federal Ministry of the Interior and the person

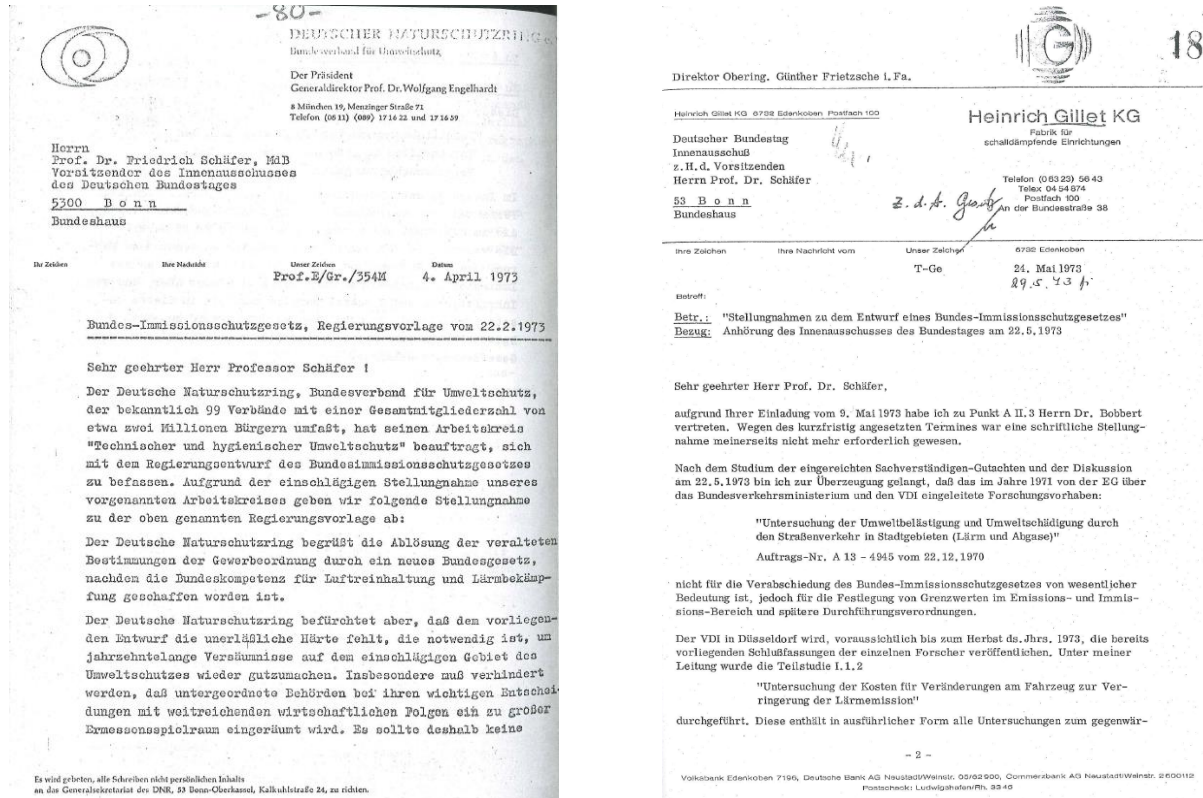
friendly even in private enterprise." or elsewhere in Genscher's memoirs: "Those who are able to use the latest environmentally friendly technology will control future markets." GENSCHER, Hans-Dietrich. *Erinnerungen* (1995), pp. 126.

²⁴ Bundesarchiv Koblenz, Drucksache VI/2710, Deutscher Bundestag – 6. Wahlperiode, Umweltprogramm, pp. 16-19.

²⁵ Archiv der sozialen Demokratie der Friedrich-Ebert-Stiftung, Deutscher Bundestag, 6. WP, Amtliches Protokoll der 10. Sitzung des Deutschen Bundestages vom Mittwoch, dem 12. November 1969, from the minutes of the SPD-FDP coalition meeting on the issue of the preparation of an environmental policy for the FRG of 12 November, 1969.

responsible for preparing the Umweltprogramm, set the number of experts on the Federal Ministry of the Interior's list at 462!²⁶ For illustrative purposes, two written statements are shown below. The first is from the German League for Nature and Conservation and the second from Heinrich Gillet KG, a selected member of a confederation of industry.

Figure 1: Examples of written statements from expert groups on the Pollution Limitation Act passed in 1974



Source: Deutscher Bundestag, Parlamentsarchiv, 7. Wahlperiode 1972, Bundesrat, BT: VII/116, BR: 27/73, Gesetz zum Schutz vor schädlichen Umwelteinwirkungen durch Luftverunreinigungen, Geräusche, Erschütterungen und ähnliche Vorgänge (Bundes-Immissionsschutzgesetz – BImSchG) vom 15. März 1974 (BGBl. I S. 721).

The experts also organized specialist events at universities, took part in discussion forums, and freely expressed their opinions in both the regular and specialized press.²⁷ In this way they influenced the public and persuaded people of the necessity to introduce environmental protection into their everyday lives. In effect they legitimized the whole process of politics becoming more environmentally focused and provided it credibility.

In summary, the most important role in the legislative process of passing the environmental policy was played by the FDP, which assumed responsibility for crafting

²⁶ See GENSCHER, Hans-Dietrich. *Erinnerungen*. Berlin, Wolf Jobst Siedler Verlag GmbH 1995, pp. 129.

²⁷ One example may be the public debate on the issue of health standards in noise protection which was held on 22 May, 1973 in Bonn. The debate was organized as a part of preparations for a new law on protection against noise pollution (it was passed on 15 May, 1974) and was chaired by Prof. Fred Angerer from the Technical University in Munich.

the new policy from the SPD. Without the influence of experts, the environmental policy would never have achieved such a wide consensus so quickly.

Conclusion

This paper sought to prove that the era of the late long 1960s was not only characterized by W. Brandt's foreign policy, but also by significant changes in domestic policy. One such example is that of the newly developing West German environmental policy, which was very modern by the standards of the time and based, in accordance with the contemporary belief, on expert planning.

The environmental policy at the beginning of the 1970s was mainly rooted in two documents: Sofortprogramm and Umweltprogramm, which were crafted by the SPD's coalition partner, the FDP. It should be noted that the issue of the environment was not considered a pressing priority. Nevertheless, the FDP succeeded in building the foundations of an environmental policy which became a role model for other states for decades. It is notable that despite the continuing scepticism regarding the relationship between human beings and nature, the policy was successfully implemented as part of a social market economy and, certain exceptions aside, did not curtail free enterprise. The responsible ministry was the Federal Ministry of the Interior led by H. D. Genscher of the FDP.

The other group that played a crucial role in legislative process of the environmental policy were the experts, who were part of every government decision making process between 1969 and 1974. They gave the environmental policy credibility, cooperated on crafting the main environmental protection plans and provided broad consensus quickly.

In 1973, as a result of the effects of the first oil crisis, a part of the environmental protection programmes became obsolete. More importantly, the role of experts changed due to the general public's loss of confidence in them. These developments saw the environmentalist movement take over the major role of protecting the environment for the remainder of the 1970s. This culminated in the establishment of the Green Party in 1980.

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Cognitive Processes as a Factor in the Development of the Literary and Creative Talents of Children

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Abstract

This paper describes and analyses the results of experimental courses designed to improve the role played by cognitive processes in the development of the literary and creative talents of young school children. It was proven that these talents can be developed through improvements in some of the structural components of these talents, in particular creative imagination, figurative thinking and logical memory. The individual influences of these components, as well as the interrelationships that exist between them, were studied. It was established that task-oriented and simultaneous activation of the processes of creative imagination, figurative thinking and logical memory in young school children during their studies greatly contributes to the development of their literary and creative talents.

Key words: creative imagination, figurative thinking, logical memory, literary and creative talents, development factor.

Introduction

A contemporary society that is characterized by swift changes still faces the problem of how to develop a creative personality capable of efficiently using acquired knowledge in different existential situations and which can act under atypical conditions. The solution to this problem requires the mechanisms for the development of creative talents to be studied, as well as the creation of the optimal conditions for these mechanisms to work. Analyses of theoretical and experimental investigations (Druzhinin 2005; Ilin 2011) show that where talents exist, these can only be developed during the course of activities and can only be educated on the grounds of the study of such activities. Today, studies which focus on the talents of children are usually conducted in connection with specific types of creative activities (musical, figurative, literary, etc.). The particular focus in this research is on the development of the literary and creative talents of children (according to age)

and the impact this has on their ability to independently and successfully narrate oral and written stories, fairytales and poems.

Different aspects of this problem were taken into consideration, namely the structure of these kinds of talents (Melik-Pashaev 1998), the conditions required for these talents to develop (Leontev 1998; Yakovleva 1996), and the age dynamics of their manifestation (Novlyanskaya and Kudina 2005). Analyses of research data on the structure of the literary and creative talents of individuals identify a wide range of components and combinations thereof for the successful realization of such talents, as well as for compensating for those that are less present. As a result, the following components of the structure of literary talents were assessed: impressionability, imagination, creative, verbal and logical memory, figurative thinking, and the ability to verbally narrate thoughts, sensations and images.

The empirical research conducted enabled the conditions that contribute to the development of the literary creativity in school children to be defined and determined, in particular the formation of new impressions, the compliance of literary topics with the age of the school children, the encouragement for the school children to join a creative team, the joint creativity of the school children and their teacher, etc. However, these conditions only provide the external environment for the literary and creative process. In addition, the factors that contribute to and create the internal environment for the creative activities of school children, and which brings these talents to life, have particularly concerns the role of cognitive processes (creative imagination, figurative thinking and logical memory) in the development of their talents. More specifically, it concerns the productive forms of their interactions which manifest themselves in the creative activities of school children when composing original texts, and their relevance in the organization and realization of such texts.

It should be noted that the aptitude of children for literary and creative activities has mainly been studied in adolescents and teenagers. Consideration has only been given to the issue of the development of the literary and creative talents of young school children by a few researchers (Staragina 2004). Unfortunately, the results have failed to gain sufficient support in the psychological and pedagogical fields. However, it is well known that in this age group children experience an intensive development in their cognitive processes (Soloveva 2003), which are considered to be the main components of their literary and creative talents.

Materials and Methods

The objective of this research was to conduct a study into the influence of cognitive processes on the optimization of the development of the literary and creative talents of school children.

The basis for the study is the assumption that creative imagination, figurative thinking and logical memory are the most important components of literary and creative talents: creative imagination contributes to the creation of new images; figurative thinking

specifies and corrects those images; logical memory, which serves as the basis for the ability to work with a text, acts as the productive function for the organization of the creative activities which focus on the design of original verbal messages. In addition, the task-oriented and simultaneous activation of the given cognitive interrelated processes in young school children during the course of their learning activities is a factor that optimizes the development process of their literary and creative talents.

In order to fully comprehend the role of creative imagination, figurative thinking and the logical forms of memory in the development of the literary and creative talents of young school children, it was necessary to determine the development levels with regards to these talents in children. For this purpose, a set of tests was carried out on school children prior to and after the end of a period of tuition. The school children in the study were pupils in four third-year classes (in total 110 pupils; aged 8-9 years) attending Comprehensive Secondary School No. 65 in the city of Kharkov, Ukraine. Up to the start of the study, they had all been following the standard curriculum.

The objective of the first set of tests was to determine the current development level of the school children with regards to their literary and creative talents prior to the start of a period of additional tuition. To achieve this, the pupils were asked to fulfill two tasks, namely to compose a fairy tale of their own, and subsequently to compose a fairy tale using a set of key words. The work done by the children was analyzed on the basis of the following criteria (Kushch, Artemov and Gregor 2016; Malykhina 2006): the availability of an idea and the successful realization of it; the level of plot originality; specific features of the composition; specific features of the language; the scope of the creative work and the coherency of the text.

The objective of the second set of tests was to determine the development levels of the cognitive processes of the young school children in terms of their creative imagination, creative thinking and logical memory.

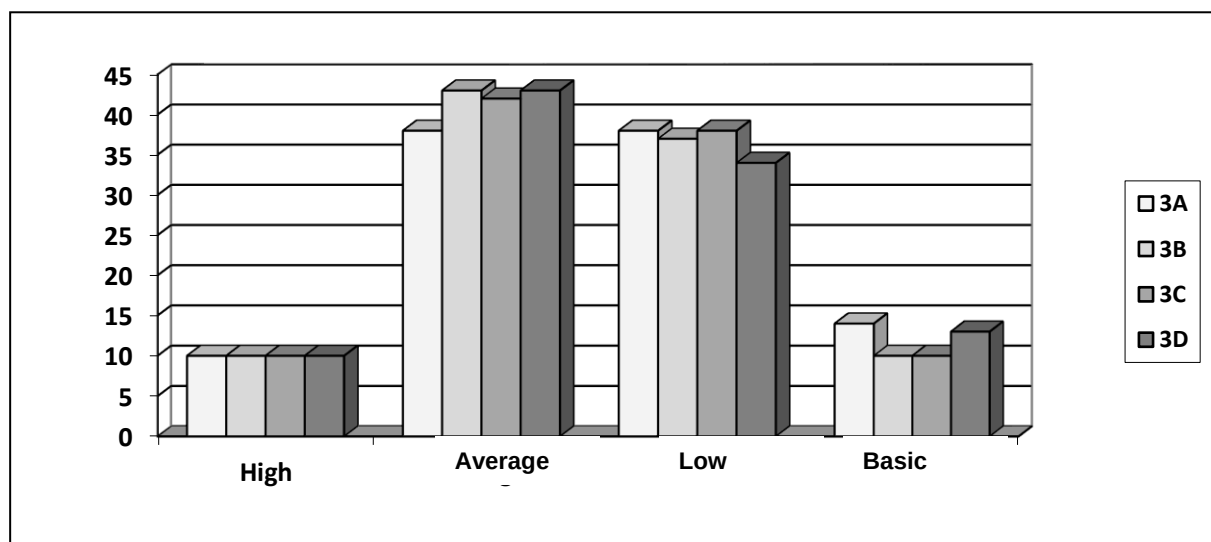
The psychodiagnostic part of the empirical research was performed using appropriate techniques, in particular the methods used by Bocharova (1997) for the study of logical memory, the methods used by Simanovskiy (1994) for the study of figurative thinking, the methods used by Loseva (2004) for the determination of the originality and flexibility of graphic images by P. Torrance, and the methods used by Terlets'ka (2006) for the revelation of individual specific features of literary creativity. The mathematical-statistical processing of the research data was performed using the Kolmogorov-Smirnova, Liliefors and Shapiro-Wilcox criteria, the non-parametric Mann-Whitney criterion, and the non-parametric Wilcoxon criterion for dependent samples (using STATISTICA 5.5 software).

Research Data

On the basis of the results of the conducted empirical research, four development levels were clearly defined with regards to the literary and creative talents of the young school children, namely:

- high development level (average 10% for all the classes) - characterized by an original idea, apt fairytale topic, clear-cut composition that covers logicity, consistent narration, the proportions of text parts, text completeness, etc. A specific feature of these creative works is that different verbal instruments (epithets, metaphors and iterations) are used;
- average development level (average 41% for all the classes) - characterized in both created texts by imperfections in the original idea or the topic. This means that there are either essential compositional drawbacks or the range of the verbal instruments used to express themselves is small, or that a well-constructed text lacks an original independent context i.e. there is a balance observed between creativity and succession;
- low development level (average 37% for all the classes) - characterized by succession at the stage of the origination of an idea and a topic, as well as at the stage of realization;
- basic development level (average 12% for all the classes) - characterized by writings that contain no idea and/or topic, although an attempt was made to construct a text.

Figure 1: Development levels with regards to the literary and creative talents of the tested school children (%) prior to additional tuition



Source: Authors

The results of the second set of tests are presented in Table1.

Table 1: Developments levels with regards to the cognitive processes of the tested school children (%) prior to additional tuition

Development level of cognitive processes	Logical memory			Figurative thinking			Creative imagination		
Classes	High	Aver.	Low	High	Aver.	Low	High	Aver.	Low
Form 3A	22	39	39	14	38	48	14	34	52
Form 3B	24	45	31	17	34	49	10	34	56
Form 3C	23	43	34	20	38	42	13	37	50
Form 3D	21	33	46	17	38	45	12	36	52

Source: Authors

On the basis of the results of the initial study into the development levels of the school children prior to additional tuition, the following conclusions can be drawn:

1. On the basis of the current form of education, approximately half of all the tested school children at the start of their studies in the third form were unable to compose a text with an original concept and form. The analysis showed that when writing an essay the school children were only able to do one thing well, namely to either devise an original topic of their own or make up their own story using appropriate fairytale techniques on the basis of a known idea or topic.
2. According to the standard curriculum, the creative imagination, figurative thinking and logical memory of school children should be developed in primary school during the course of their studies, which should be reflected in the three identified development levels: high, average and low. The percentage of tested school children with a low development level for the given cognitive processes was very high.
3. An analysis of the successfully fulfilled set of tests showed the presence of a certain interconnection between the successful literary creativity of the school children and their development level with regards to their creative imagination, figurative thinking and logical memory.

The obtained research data made it possible to formulate and develop an experiment. The objective of the experiment was to develop the literary and creative talents of the school children through the activation of their cognitive processes. The experiment consisted of three special courses, each delivered separately to one of the forms previously tested, namely forms 3A, 3B and 3V. One form, namely 3G, acted as a reference group.

The aim of the first course, delivered to Form 3A, was to provide simultaneous activation of their creative imagination, figurative thinking and logical memory. The content of the course was developed on the basis of the methods used for the development of figurative thinking and creative imagination by Simanovskiy (1994) and Zaika (1990; 1993) and the

methods for the development of logical memory by Bocharova (1997) and Voloshenko (1992). During the course, pupils were taught how to mark out features of objects, how to combine them, how to establish the interrelationships between phenomena, how to determine the type of text, how to draw up simple and compound text plans, and how to compose a text whilst adhering to a plan.

The aim of the second course, delivered to Form 3B, was to develop the creative imagination and figurative thinking of the school children on a task-oriented basis. The content of the course was developed on the basis of research data (Simanovskiy 1994; Zaika 1990 and 1993) on the activation of these cognitive processes. During the course, pupils were taught how to mark out different features of objects, how to combine them to create a new image, how to put a sufficient number of options forward to resolve problems, how to establish the interrelationships between phenomena, and how the consequences of events can be forecast.

The aim of the third course, delivered to Form 3C, was to develop the logical memory of the pupils by deliberately teaching them how to orient themselves in the structures of different types of texts. The content of the course was developed on the basis of the methods used by Bocharova (1997) and Voloshenko (1992) for the development of logical memory. During the course, pupils were taught how to mark out the main idea and the text type, how to draw up a plan (simple and compound) for different types of text, and how to compose a text whilst adhering to a plan.

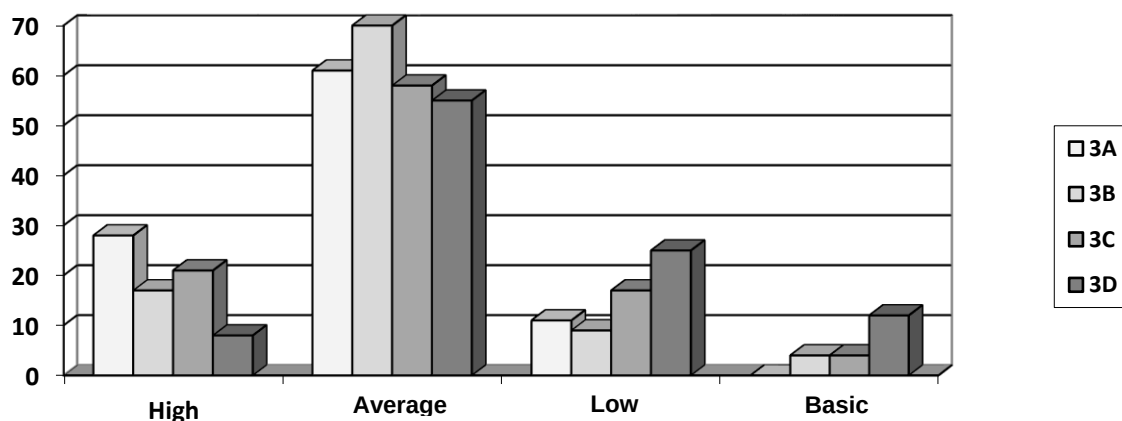
Upon completion of the courses, the classes were asked to complete the set of tests which they undertook at the beginning of the school year, again. The analysis of the data garnered shows that the aims of the courses, and thereby the objective of the experiment, were achieved. This is evidenced by the improvements in the development levels of the cognitive processes in those pupils that undertook the courses (Forms 3A, 3B and 3V) in comparison to the reference group that did not (see Table 2 and Figure 2).

Table 2: Developments levels with regards to the cognitive processes of the tested school children (%) after additional tuition

Development level of cognitive processes	Logical memory			Figurative thinking			Creative imagination		
	High	Aver.	Low	High	Aver.	Low	High	Aver.	Low
Form 3A	43	35	22	33	41	26	39	41	20
Form 3B	27.5	47	27.5	35	40	25	34	43	23
Form 3C	40	43	17	22	35	43	19	44	37
Form 3D	25	40	35	19	36	45	13	39	48

Source: Authors

Figure 2: Development levels with regards to the literary and creative talents of the tested school children (%) after additional tuition.



Source: Authors

Discussion

The pupils in Form 3A who were trained to simultaneously activate their creative imagination, figurative thinking and logical memory showed noticeable reliable changes in their development. Non-parametric Wilcoxon T-criterion for dependent samples were used to determine the following: the development of logical memory in terms of accuracy and coherency (at $T=12$, $p \leq 0.01$; $T=0.00$, $p \leq 0.01$); the development of figurative thinking with the ability of operating the imagined concept ($T=4.5$, $p \leq 0.01$); and creative imagination ($T=52$, $p \leq 0.01$). The number of original topics in the fairytales composed by the pupils increased, as did the indicators for the text arrangement. In particular, the school children took into account the requirements set for the composition: the proportions of text parts were subordinated to a common theme and the texts were characterized by logical completeness. On the whole, the number of children with a high development level with regards to their literary and creative talents increased by an average level of 20%, and the number of pupils with a low development level decreased by 20%. None of the pupils fell into the basic development category.

The pupils in Form 3B that underwent training in the task-oriented activation of their figurative thinking and creative imagination saw reliable changes in the development levels of the following specific cognitive processes: the development of figurative thinking with the ability to operate the imagined concept ($T=0.00$; $p \leq 0.01$); and creative imagination in terms of coherence and originality ($T=66$, $p \leq 0.01$; ($T=0.00$; $p \leq 0.01$ accordingly). In terms of their literary and creative talents, the work done resulted in the following: the number of school children with a high development level increased by a factor of 2; the number of children with a low development level noticeably decreased; and the percentage of children with only a basic development level for verbal creativity decreased threefold. This was evidenced by the increased number of fairytales written by the pupils independently and the increased number of original topics, even though the

majority of topics were not realized in full, and the text parts were not proportionate and texts were not always complete.

The pupils in Form 3C that were trained to develop their logical memory saw reliable changes in their development levels, in particular with regards to all the indicators for text reproduction (for completeness at $T=26$, $p \leq 0.01$; accuracy at $T=32$, $p \leq 0.01$; and coherency at $T=12$, $p \leq 0.01$). The development levels with regards to the other cognitive processes showed no essential changes, although better indicator values were achieved in comparison with the reference class. An analysis of the creative task to compose a fairytale showed an insignificant increase in the number of original topics. However, the values of the indicators improved for text construction, in particular coherency, realization of ideas, internal integrity, completeness and adequacy of the text parts. As for the development level of the children in the form with regards to their literary and creative talents, the number with a high development level increased twofold, the number of children with a low development level noticeably decreased, and the percentage of children with a basic development level decreased threefold.

The pupils in Form 3D i.e. the reference group, also showed certain changes in the development level of their cognitive processes, although these changes were insignificant. The results of Form 3D with regards to the development of their literary and creative talents actually showed no change, which was confirmed through the statistical analysis.

Conclusion

It was established through an experiment that creative imagination, figurative thinking and logical memory are some of the most important structural components that contribute to a child's literary and creative talents. It was also shown that the successful composition of a text depends to a large extent on the development level of these cognitive processes. The development of creative imagination and figurative thinking is characterized by the ability of independent thought and the originality of the artistic ideas that are developed and implemented. The development of logical memory is characterized by knowledge of the world, the text structure and the availability of skills to select and grasp information and to generate a coherent text from it. The task-oriented and simultaneous activation of these cognitive processes and their interrelationships during the educational activities of school children is therefore an important factor in optimizing the development process of their literary and creative talents.

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E-shops and customer feedback: experience by Czech B2C customers

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Abstract

This paper deals with customer feedback given to e-shops by Czech B2C customers. There are three aims: (1) to find out whether respondents have already given their feedback to an e-shop, (2) to investigate the nature of given feedback (with emphasis on possible gender difference: men vs women), and (3) to ascertain the nature of a reply to customer feedback. In order to get relevant data, a quantitative approach was used and data were collected by means of questionnaires. Findings show more than one half of customer has given feedback to an e-shop. Their feedback can be described as rather positive, dealing with bought products and also with speed of delivery, trying to help to the e-shop and also to other customers. As for reply to customer feedback, it seems that the character of the obtained reply could influence the level of customer satisfaction. Some recommendations for e-shops (e.g. managerial implications) were derived: to really send a reply (for a customer it is probably an indicator that feedback is taken seriously) and to formulate a reply more personally (to avoid general phrases).

Keywords: e-shops, Czech B2C customers, customer feedback, reply to customer feedback

Introduction

This paper is organized as follows: firstly, there is literature background focusing on key theoretical concepts for purposes of the subsequently presented research. Then material and used methods are described, incl. aims of this paper. The next section contains results which are discussed and enriched with comments in a subsequent section. This paper ends with usual necessities such as conclusion and list of references. It indicates discussion about feedback belongs to crucial topics when considering the level of business performance.

Feedback in general

There is a considerable amount of literature that recognizes the important role of feedback from many aspects. Benefits of creating feedback-friendly culture in organizations from a psychological point of view are emphasized by Baker et al. (2013).

Feedback is described as a great source of information (Dai 2016); it can be considered as a gift because it shows opportunities for growing (Cohn 2016) and how to better competitiveness (Usugami 2013), by finding out weaknesses (Moules 2012) which should be eliminated. It can be said well formulated feedback is able to cause performance improvements and so positively affects individual's learning (Mulder and Ellinger 2013). As a result, customer feedback also contributes to organisational learning (Caemmerer and Wilson 2010).

Customer feedback

Customer feedback is a marketing term (Beard 2014). Customer feedback can have a form of suggestions for product/service improvements, but it can be also complaints (Celuch, Robinson and Walsh 2015) which indicate a certain level of customer dissatisfaction (Ola 2016 or Cobb Walgren 2016 who deals with a somewhat special case: with complaining children in the role of customers). Besides suggestions and complaints, Pawar et al. (2015) state the third category of customer feedback can be called "appreciations". In this sense, Kipfelsberger, Herhausen and Bruch (2016) distinguish between positive and negative customer feedback – it can be deduced that complaints are negative feedback, appreciations are positive and suggestions can be considered rather neutral.

Kotler and Keller (2012, p. 141) point out listening to customers "is only part of the story". It means it is necessary to process obtained customer feedback – to utilize it.

There is no doubt customer feedback can help companies to identify their strengths and weaknesses (Solarová and Švec 2016). Therefore, companies seek for solutions which facilitate the process of collecting and further processing customer feedback. This is possible thanks to advances in information and communication technologies. For instance, Goncalves et al. (2011) claim using internet for obtaining customer feedback is cost effective – and it is obvious this is possible thanks to advances in communication technologies. Ordenes et al. (2014) or Büschken and Allenby (2016) deal with using information and communication technologies for purposes of processing customer feedback from a theoretical point of view, whereas some companies have already offered software tools for use in business practice (e.g. Staffino, s. r. o. 2017). Such software tools can be incorporated into a CRM system (mentioned by Assimakopoulos et al. 2015).

The need to have a particular system for processing and analysing customer feedback is apparent, especially because customers expect a reply to their feedback – this is very urgent in the case of negative customer feedback (i.e. complaints). According to Osarenkhoe (2016), service-minded and competent staff should be able to deal quickly with customer complaints. In other words, it is crucial to apply customer-oriented approach.

Customers can have various motives for giving feedback; their willingness should be also encouraged (Brownlee 2014) – Furgison (2015) states incentives are the easiest stimuli (e.g. it can have a form of a coupon). If their feedback leads to improvements, their willingness to give feedback can be interpreted as an effort to co-create value. Hence, customers can be considered as partial employees (Chiu, Kwag and Bae 2015). Customers belong to stakeholders of enterprises (Slabá, 2016) so it is obvious they will influence enterprises' actions.

Customer feedback is studied in many different industries – for example, Dinnen and Hassanien (2014) or Dah and Dumenya (2016) deal with feedback in hospitality industry whereas Celuch, Robinson and Walsh (2015) focus on customer feedback in retail etc. It indicates customer feedback is an important and actual topic.

E-shops

Thanks to advances in information and communication technologies, the way of shopping has changed (Saprikis 2015) not only in the Czech Republic, but all over the world (Pílik 2012). E-shops belong to everyday lives of many today's customers. According to Apek.cz (2017), 49% of Czech customers bought something online in the year 2016. When shopping online, men tend to spend more money than women. Czech people aged between 25 and 34 are the biggest shoppers whereas people at the age of 65+ are their opposite: they do not buy so often. (Čuchna 2016)

In the Czech Republic, there are more than 36 thousand e-shops. Czech customers spent in e-shops approximately 98 billion CZK in the year 2016 and they bought electronics at most (sales of electronics created 51% of total sales in e-shops). The share of e-commerce in total retail sales increased to 9.5 percent. (Byznys.ihned.cz 2017).

Materials and Methods

This paper presents a part of the conducted research focused on feedback which Czech customers give to e-shops. The aims of this paper are summarized in Table 1.

Tab. 1: Aims of this paper

Aim 1 => to find out whether respondents have already given their feedback to an e-shop	Aim 2 => to investigate the nature of given feedback (with emphasis on possible gender difference: men vs women), specifically: • <i>reasons for giving customer feedback</i> • <i>activity vs. passivity when giving customer feedback</i> • <i>subject of given customer feedback</i> • <i>character of given customer feedback</i>	Aim 3 => to ascertain the nature of a reply to customer feedback, namely: • <i>character of the obtained reply</i> • <i>speed of getting a reply</i> • <i>satisfaction with the received reply</i>
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Source: Authors

The purpose of the aims specified in Table 1 is to point out the experience (behaviour) of Czech customers when giving their feedback. Understanding specific reasons for giving customer feedback, knowledge whether customers are rather passive or active when giving their feedback, subject and character of their feedback are crucial for enterprises preparing tools in order to obtain customer feedback. On the other hand, it seems to be helpful for enterprises to know how the reply to customer feedback is perceived; then it is possible to adapt present customer feedback internal policy rules. It means the findings have the potential to be inspiration for enterprises.

In order to get relevant data, a quantitative approach was used and data were collected by means of questionnaires (methodologically described e.g. by Bryman and Bell 2015). Totally 322 completed questionnaires were obtained (144 of them were completed by men and 178 were completed by women). Questionnaires were distributed to individuals (e.g. B2C customers) from 19 years old (because there was an assumption they have certain experience with shopping and they are also able to formulate their feedback), with different level of education. Totally 420 questionnaires were obtained; however, only 322 of them were complete.

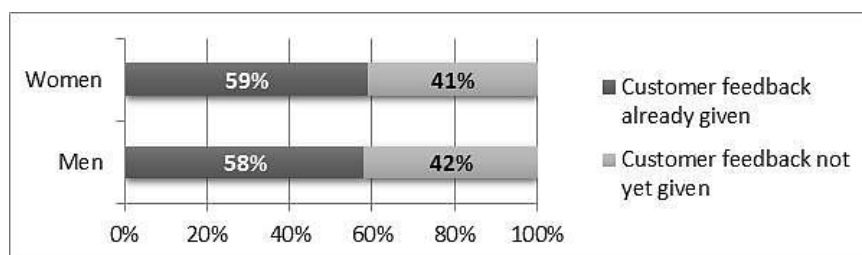
Chi-square goodness of fit test has shown this sample can be considered as balanced with regard to the above stated number of men and women (chi-square = 1.8; p-value = .18). All of the respondents were aged between 20 and 64. Data collection was conducted from November to December 2016.

Results

Graph 1 shows results relating to the question whether respondents have already given their feedback to an e-shop. At the beginning of the questionnaire, there was information that customer feedback may take the form of a variety of comments, suggestions but it can also be a complaint (= this was an explanation for respondents to be able to understand correctly the questions in the questionnaire).

It is obvious the majority of respondents has already given feedback (men: 58%, women: 59%). As for this case, results presented in Graph 1 indicate there is no statistical difference between men and women – this was confirmed also through Chi-square test of independence (chi-square = 0.0597; p-value = .81).

Graph 1: Giving customer feedback to e-shops

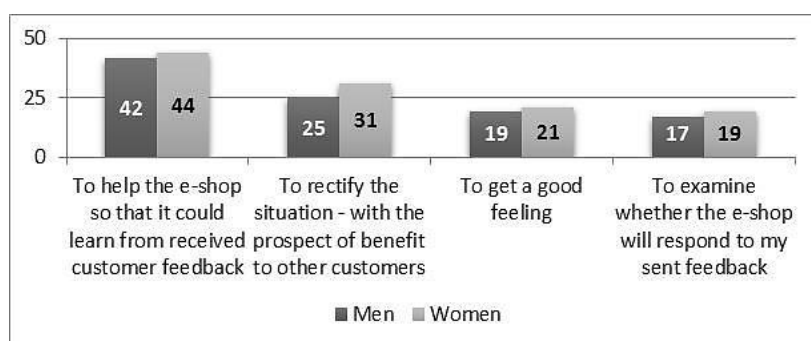


Source: Authors

Following questions were answered only by those respondents who have already given feedback to an e-shop. It means, data from 188 respondents (83 men and 105 women) were further processed. This subsample is again balanced with regard to the number of men and women (Chi-square goodness of fit test was used; chi-square = 1.29; p-value = .26). Respondents in this subsample were also aged between 20 and 64.

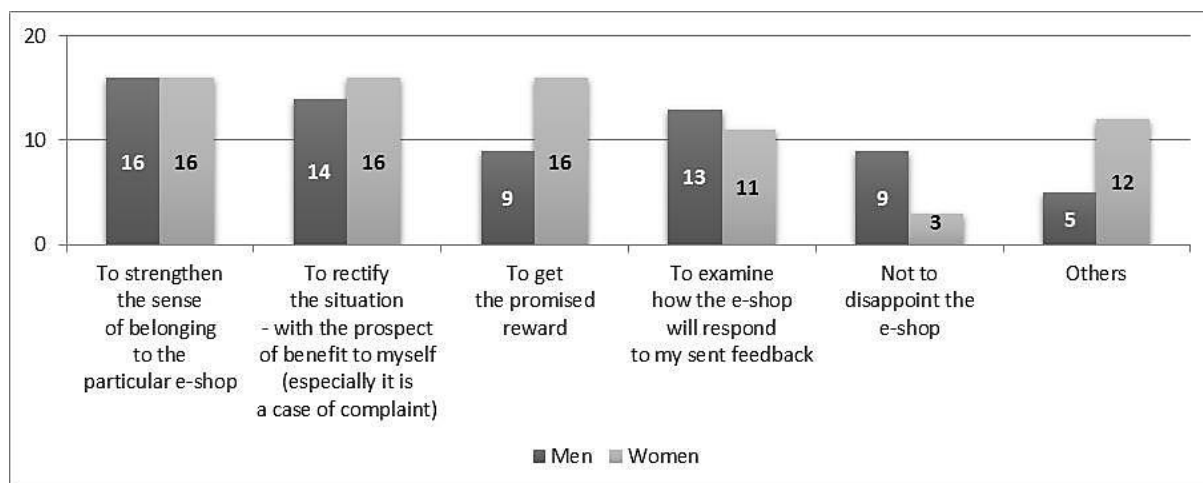
Graph 2 presents respondents' reasons for giving customer feedback to e-shops. Since respondents could mark more options, results are presented in the form of the bar chart.

Graph 2: The most frequent reasons for giving customer feedback to e-shops



Source: Authors

Graph 3: Further reasons for giving customer feedback to e-shops



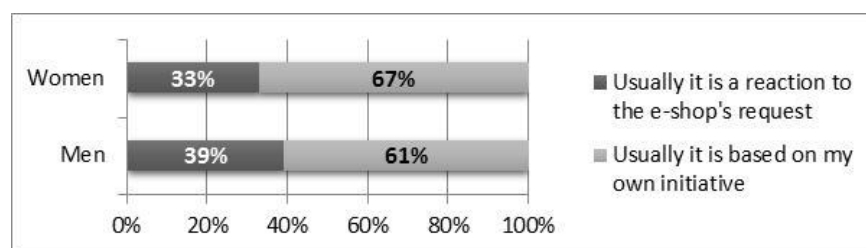
Source: Authors

It is apparent from Graph 2 that “to help the e-shop so that it could learn from received customer feedback” and “to rectify the situation – with the prospect of benefit to other customers” were the most frequent reasons for giving customer feedback. Further frequent reasons were “to get a good feeling” and “to examine whether the e-shop will respond to my sent feedback”. On the other hand, the less frequent reason is “not to disappoint the e-shop” – see Graph 3. As for the category “others”, respondents formulated answers in their own words very vaguely.

In order to find out whether there is a difference between reasons stated by men and women, Chi-square test of independence was used. The results of this test indicate there is no difference (chi-square = 5.45; p-value = .79).

The following Graph 4 shows how active or passive are respondents when giving customer feedback to e-shops. It is quite surprising that respondents give their feedback on their own initiative (men: 61%, women: 67%). Based on Graph 4 it is quite clear there is no statistical difference between man and women – this assumption was subsequently confirmed by means of Chi-square test of independence (chi-square = 0.55; p-value = .48).

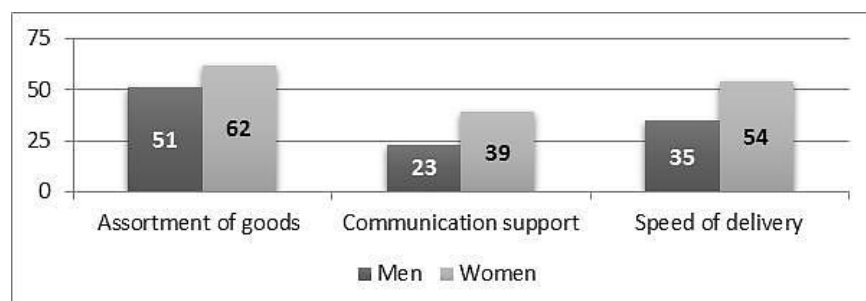
Graph 4: Initiative when giving customer feedback to e-shops



Source: Authors

Graph 5 presents **subject of given customer feedback**. Since respondents could mark more options, results are presented in the form of the bar chart.

Graph 5: Subject of given customer feedback



Source: Authors

It is obvious from Graph 5 that “assortment of goods” was the most frequent subject of given customer feedback. “Speed of delivery” was the second and “communication support” was the third. As for the category “others”, respondents stated their feedback concerned warranty claim, quality of purchased product, orientation on e-shop’s websites and accompanying services.

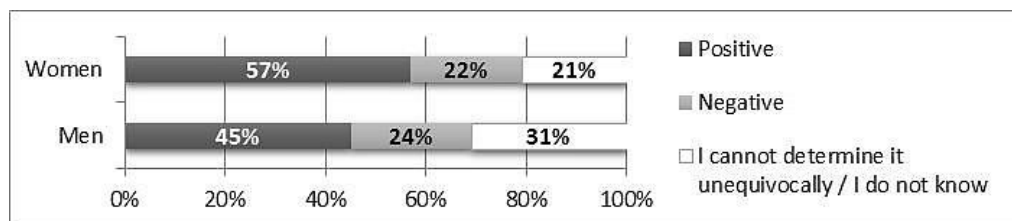
In order to find out whether there is a difference between subjects of feedback given by men and women, Chi-square of independence test was used. The results of this test indicate there is no difference (chi-square = 5.625; p-value = .13).

The following Graph 6 shows character of given customer feedback. Respondents evaluated whether their feedback was positive, negative or they are not able to determine

it retrospectively. The results indicate customer feedback was rather positive (men: 45%, women: 57%). Approximately one quarter of men and women stated their feedback was rather negative. The rest was not able to determine or did not know.

In order to find out whether there is really a difference between the character of given customer feedback expressed by men and women, Chi-square test of independence was used. The results of this test show there is no difference (chi-square = 3.469; p-value = .18).

Graph 6: Character of given customer feedback

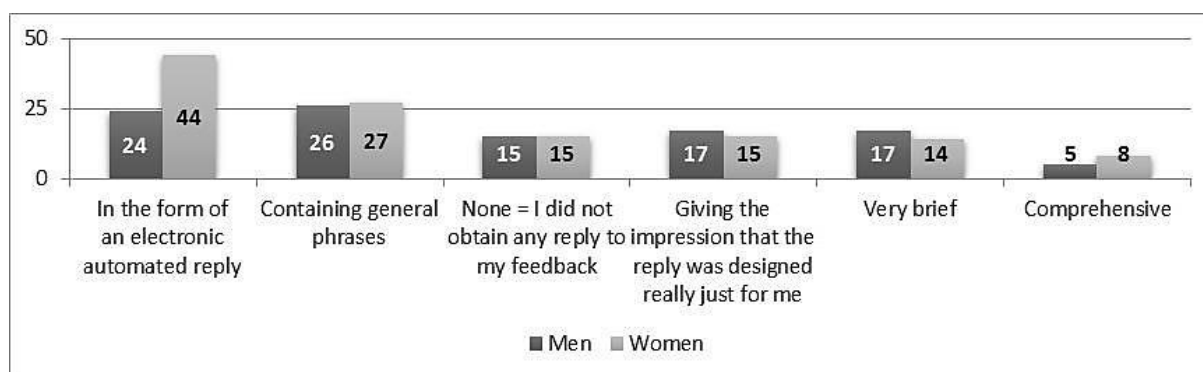


Source: Authors

The following Graph 7 presents character of the obtained reply to customer feedback. Since respondents could mark more options in order to describe the character of the obtained reply, results are presented in the form of the bar chart.

It is apparent from Graph 7 that obtained replies from e-shops were often “in the form of an electronic automated reply” and often they contained general phrases. Only in a few cases replies could be described as “comprehensive”. It is necessary to emphasize also the fact some respondents did not receive any reply.

Graph 7: Character of the obtained reply to customer feedback



Source: Authors

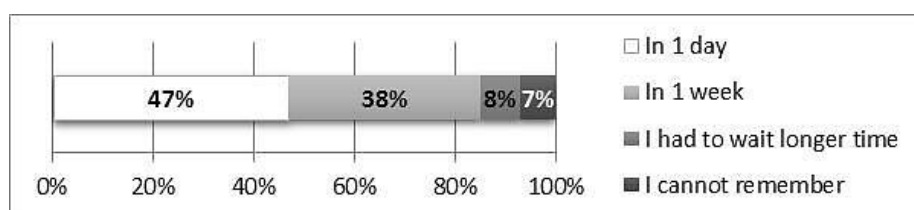
It is necessary to highlight respondents' evaluation of the obtained reply from e-shop is dependent on their subjective impression, i.e. it is a matter of their subjectivity (that was also the reason why respondents' answers were evaluated separately for men and women because there is an assumption that men could evaluate the obtained reply in a different way in comparison with women). In order to find out whether there is a difference, Chi-

square test of independence. The results of this test indicate there is no statistical difference (chi-square = 5.457; p-value = .36).

The following Graph 8 shows speed of getting a reply to customer feedback. This question was answered only by those respondents who received a reply to their sent customer feedback. It means, data concerning 158 respondents were analysed for purposes of Graph 8.

The majority of respondents (47%) stated they received a reply in one day and 38% of respondents got a reply in one week. The rest of respondents had to wait longer time or they cannot remember.

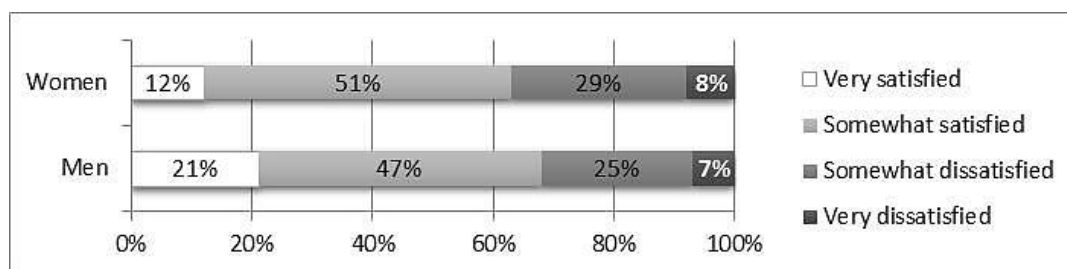
Graph 8: Speed of getting a reply to customer feedback



Source: Authors

The last Graph 9 presents respondents' satisfaction with the received reply to customer feedback. This question was also answered only by those respondents who received a reply to their sent customer feedback. It means, data concerning 158 respondents (68 men and 90 women) were analysed for purposes of Graph 9. This subsample can be considered as balanced with regard to the number of men and women (Chi-square goodness of fit test was used; chi-square = 1.5391; p-value = .21). Respondents in this subsample were aged again between 20 and 64.

Graph 9: Satisfaction with the received reply to customer feedback



Source: Authors

It is crucial to emphasize respondents' satisfaction with received reply is dependent on their subjective impression, i.e. it is a matter of their subjectivity (that was also the reason why respondents' answers were evaluated separately for men and women because there is an assumption that men could evaluate their level of satisfaction in a different way in comparison with women). In order to find out whether there is really a difference, Chi-

square test of independence was used. The results of this test indicate there is no statistical difference (chi-square = 2.0667; p-value = .56).

However, it is useful to have a closer look at results in Graph 9: the results show respondents were mostly "somewhat satisfied" (men: 47%, women: 51%). It is worth noting men seem to be more satisfied than women (21% of men were very satisfied whereas only 12% of women were very satisfied). 25% of men and 29% of women expressed a certain level of dissatisfaction (i.e. they were "somewhat dissatisfied").

Discussion

About 60% of customers give their feedback to an e-shop where these customers have made a purchase. Results show giving feedback does not depend on customer's gender – in this sense, it cannot be expected women will give much feedback than men. It means e-shops which focus on a segment of women cannot expect much or less feedback in comparison with e-shops which focus on a segment consisting of men. However, Mikhaylov and Mikhaylova (2015) state in their research study that customers' gender, (and also age and income level) predetermines whether the customer will or will not to give his/her feedback, especially to make a complaint.

As for reasons for giving customer feedback, the main motives seem to be quite altruistic since customers expressed their willingness to help the e-shops in order to improve e-shops' performance and also customers want to ensure better services for other customers (these motives are common for both men and women). This can sound quite surprisingly because from a psychological point of view it is generally assumed that first of all people act in order to better their own position or situation (e.g. Joshua 2011). The third frequent motive was connected with a prospect for customers themselves because they stated they want to get a good feeling through giving customer feedback.

Results indicate customers are rather active when giving their feedback (regardless of customer's gender) – this is quite surprising. There are many pieces of advice in the literature and also on the internet how to increase the amount of customer feedback (e.g. Celuch, Robinson and Walsh 2015; Toman 2015; Lake 2016; Cinanni 2016 or Hykel 2016). If customers were so active, and if they gave feedback purely on their own initiative, then it would not be necessary to deal with the question how to stimulate customers in order to get much feedback. Therefore, the above presented result seems to be slightly inconsistent.

Customer feedback mostly deals with assortment of goods or products which were purchased by customers (regardless of customer's gender). This is quite logical because the bought product is usually something tangible and visible – hence, it is expected customer feedback will be related to it. Besides this, speed of delivery is also an often stated subject of given customer feedback. When buying on the internet, speed of delivery belongs to crucial aspects (Čuchna 2016 or Bobalca 2015), so there is no wonder customer feedback contains also the issue of speed of delivery.

The majority of customers state their feedback was rather positive (irrespective of customer's gender). It is necessary to take into account a certain level of subjectivity when customers try to determine the character of their feedback. In the literature, researchers claim that customers usually give either very positive or very negative feedback (negative feedback has a form of a complaint – Osarenkhoe and Komunda 2013). Neutral feedback is not so common – customers do not tend to give feedback when they are not extremely satisfied or dissatisfied.

If customers obtained a reply to their feedback they often perceive it is a general reply which is probably sent to everyone. On the other hand, some replies gave the impression they were prepared just for the individual customer. It is also worth noting that some customers did not get any reply – and because they remembered it, it indicates they were waiting for a reply, but the e-shop has sent nothing. It is clear these results are affected by the memory of customers and also by subjective perception. However, some recommendations for e-shops can be derived: to really send a reply (for a customer it is probably an indicator that feedback is taken seriously) and to formulate a reply more personally (to avoid general phrases).

Speed of getting a reply to customer feedback could be related to the character of this reply. In order to test this assumption, additional Table 2 summarizes key variables.

Tab. 2: Speed of getting a reply vs character of the obtained reply to customer feedback

Speed of getting a reply	Character of the obtained reply	
	containing general phrases	giving the impression the reply was designed just for the individual customer
"In one day"	25	18
"In one week" or "I had to wait longer time"	21	12

Source: Authors

The tested assumption (which can be marked as working hypothesis 1) is that the longer time customers had to wait, the more personal the reply was. To find it out, Chi-square test of independence test was used: the results indicate there is no statistical difference (chi-square = 0.2361; p-value = .63). It means longer waiting did not cause more personalised reply.

Further, satisfaction with the received reply could have a relation to the character of this reply. Therefore, additional Table 3 was created to test this assumption (working hypothesis 2).

Tab. 3: Satisfaction with the received reply vs character of the obtained reply to customer feedback

Level of satisfaction	Character of the obtained reply	
	containing general phrases	giving the impression the reply was designed just for the individual customer
"Very satisfied" and "Somewhat satisfied"	26	27
"Very dissatisfied" and "Somewhat dissatisfied"	26	5

Source: Authors

The tested assumption is whether level of satisfaction is influenced by character of the obtained reply. Chi-square test of independence was used again: the results show there is statistical difference (chi-square = 10.0526; p-value = .002). It means the character of the obtained reply influences the level of customer satisfaction.

Similarly, satisfaction with the received reply could be related to the speed of getting this reply. In order to test this assumption (working hypothesis 3), the following Table 4 was created.

Tab. 4: Satisfaction with the received reply vs speed of getting a reply

Level of satisfaction	Speed of getting a reply	
	in 1 day	in 1 week or longer
"Very satisfied" and "Somewhat satisfied"	44	54
"Very dissatisfied" and "Somewhat dissatisfied"	19	28

Source: Own processing.

The tested assumption is whether level of satisfaction is influenced by speed of getting a reply. Chi-square test of independence was used: the results indicate there is not statistical difference (chi-square = 0.2586; p-value = .61). It means the speed of getting a reply does not influence the level of customer satisfaction.

It is obvious that testing working hypothesis 1 – 3 is only additional action for purposes of this discussion. In order to get more relevant results, a more comprehensive analysis is needed. Therefore, it can be an idea for future research.

Since better customer service can be considered as a marketing weapon (Majerčák, Weissová and Moravčíková 2014), any improvements that bring more value for customers are welcomed. The obtained customer feedback is a source of valuable inspiration which improvements are really required by customers. And in the upshot, meeting customer needs and wants is a basic principle of marketing (Gubíniová 2012).

Future research in this area could be focused on special groups of respondents, e.g. young men, housewives as special kinds of B2C customers. It means the same questions which are presented above could be used and then findings could be compared, including formulation of managerial implication.

Conclusion

More than one half of customers has given feedback to an e-shop. Customers are rather active when giving their feedback. As for reasons for giving customer feedback, the main motives seem to be quite altruistic since customers expressed their willingness to help the e-shops in order to improve e shops' performance and also customers want to ensure better services for other customers. Customer feedback mostly deals with products which were purchased by customers and also speed of delivery is an often stated subject of given customer feedback.

The majority of customers state their feedback was rather positive. However, it is necessary to take into account a certain level of subjectivity when customers try to determine the character of their feedback.

Additional assumptions emerged in the discussion that can be considered as ideas for future research, especially that the character of the obtained reply could influence the level of customer satisfaction.

Finally, some recommendations for e-shops can be derived: to really send a reply (for a customer it is probably an indicator that feedback is taken seriously) and to formulate a reply more personally (to avoid general phrases).

Acknowledgement

The scientific study resulted from scientific activities at the Institute of Technology and Business in České Budějovice.

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Institutional Environment and Agricultural Production in Post-communist Central European Countries

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Abstract

This paper examines the significance of the institutional environment on agricultural production in post-communist Central European countries. It adds to the extensive research conducted into agricultural production functions by introducing a model which explains aggregate agricultural production using various inputs as well as variables that represent the institutional environment. The results with regards to the elasticities of material inputs (land, labour, capital) differ from those in previous research due to the specifics of the sample. More importantly, this paper identifies several institutions relevant to the agricultural sector and shows that in transitional economies institutional variables play a significant role.

Keywords: agricultural productivity, institutions, transition, economic freedom, international comparison.

Introduction

The new institutional economics is based on the assumption that institutions predominantly determine economic and human development (Williamson and Mathers 2011; Rodrik, Subramanian and Trebbi 2004; Acemoglu, Johnson and Robinson 2001). The testing of this assumption is the subject of this paper. The study in particular focuses on agriculture in post-communist Central European countries, which have witnessed a period of profound institutional change.

It is important to acknowledge the role of agriculture for human subsistence. It provides food and resources for manufacturing. From a different perspective, agriculture employs a certain proportion of the population and the well-being of these people is closely tied

to the development of the sector. Any analysis of a country's development would be incomplete if it ignored the rural population and agriculture as its main occupation.

Agricultural production functions have been researched for some time. Recent studies in this field, notably those supported by the World Bank (e.g. Mundlak, Larson and Butzer 1997 and 2008), have employed institutional variables to some extent. However, the institutional variables used in the research were often inadequate, insufficient, or used in an inappropriate manner. For example, Vollrath (2007) uses a relevant measure for institutions, denoted as the "institutional quality index"; however, he extends the rating constructed for a specific time period to data representing a time span of 35 years. This index therefore does not reflect the institutional change that occurred over the time period.

The impact of the institutional environment on other economic variables is now widely recognized among economists. In the following analysis, we focus on three broad factors that affect the institutional environment, namely the rules affecting property rights, contracts and exchange, and relations between private persons and the government. These factors seem to have the most direct impact on economic activity. Property rights generally define who has the authority to make decisions about the use of particular assets. Limits on contractual freedoms put restrictions on which property rights can be traded among individuals and under what conditions. Finally, the government, which has the power to tax and regulate, can significantly affect the incentives to produce and trade.

The agricultural sector is specific. Although research conducted into the institutional environment and economic freedom suggests a positive relationship exists between these measures and economic performance (e.g. Gwartney and Lawson 2008; Gwartney, Lawson and Holcombe 1999), this may not exactly be the situation for agriculture. Important specific features of agriculture arise from and can be explained by the material conditions for agricultural production and the imperfections of the financial, insurance and factor markets in rural areas. According to Binswanger and Deininger (1997), agricultural production is characterized by heterogeneity, seasonality, spatial dispersion, and by large variations in weather and prices that affect similar producers within a region in the same way. The output and revenues of producers in the same area are covariant, which makes it difficult to provide efficient insurance on a regional scale. Moreover, the seasonality of agriculture requires hired labour, which does not share in the profits; thus, close supervision of labour is often needed which further increases costs.

The aforementioned issues are most salient in less developed countries. However, even in the most developed countries where they have succeeded in finding better arrangements to deal with the risks in agriculture, it remains true that agricultural producers require different policies than producers in other sectors of the economy.

Furthermore, since agriculture provides food and critical materials, governments are often willing to grant the sector special treatment.

Typically, the agricultural sector requires the domestic market to be protected against foreign competition, guaranteed prices and often direct monetary subsidies.¹ On the other hand, when it comes to business conduct, agricultural producers operate in similar ways to other producers i.e. they demand a flexible labour market, protection of property rights and the enforcement of contracts. We can therefore assume that most of the policies that are generally beneficial to business also help the agricultural sector, that is with a few exceptions, such as restrictions on international trade as is evidenced by current policies.

Finally, unlike previous studies (e.g. Mundlak, Larson and Butzer 1997 and 2008; Vollrath 2007) that focused on a broad cross-section of countries, this paper deals with a small and more homogeneous sample. Post-communist countries are quite homogeneous with regards to their recent history, the institutions that govern their agricultural operations and trade and also, to some extent, the level of development and technologies used in agricultural production, as well as the fact that they have all undergone substantial institutional change. This is not to deny the divergence that has occurred in the post-communist period as a result of the different ways of transformation (Lerman 2000 and 2001) and the differences in the initial endowment of land, labour and capital. The focus here is, however, on the impact of institutions on the operation of the agricultural sector rather than the fundamental institutional change that took place in the early years of the post-communist transition. We leave the discussion about the early reforms and land privatization schemes to other publications (e.g. Rozelle and Swinnen 2004; Tillack and Schulze 2000; Lerman 2001).

In summary, the following can be assumed about the impact of institutions on agricultural production. Firstly, the institutional environment matters. Although the impact may not be very sizeable, it should be large enough to be observed. Secondly, the impact of different policies is not uniform. Institutions can create a good business environment through the protection of property rights, access to credit and sensible regulations, which should boost agricultural production. On the other hand, government protection through the imposition of tariffs, non-tariff barriers and subsidies may also benefit the agricultural sector. Macours and Swinnen (2000) attribute most of the decline during the post-communist period to the deterioration of the agricultural terms of trade. Previous work (Jackson and Swinnen 1995) also points to price and trade liberalization among other factors. It is not necessarily true that the less government intervention the better. However, only some government interventions enhance agricultural production.

¹ The Common Agricultural Policy of the European Union may serve both as a catalogue of the frequently demanded policies and as an evidence that politicians are willing to grant the special treatment.

Model specification

Previous research into agricultural production functions was reviewed in Mundlak, Larson and Butzer (1997) and Mundlak (2000). In general, empirical studies suggest that the assumption of homogeneous technology represented by a production function applicable to all observations in a sample is not realistic and not supported by the data. It was therefore decided to follow the suggestion of Mundlak, Larson and Butzer (1997) to differentiate between functions estimated from observations within a country and time and those obtained from variability across countries and over time. However, the countries analysed in this study are quite homogeneous and the differences in technology and production functions are not necessarily too significant.

For the purpose of the econometric evaluation of the hypothesis about the significance of the institutional environment, a simplified model was used based on that used in Mundlak, Butzer and Larson (2008). This model is built on the assumption that at any time there are multiple techniques of production and that producers choose one technique with a choice of inputs and outputs. The production function is therefore a function of the output, state variables and inputs. The choice of technology depends on the state variables, as well as the choice of inputs.²

For the purpose of the econometric analysis, the production function may be approximated by a Cobb-Douglas-like production function, whereby the function implemented under state s is:

$$Y = \Gamma(s) X^{\beta(s)} e^u$$

where $\Gamma(s)$ represents the technology function and X is an array of inputs. As follows from the assumption with regards to the simultaneous choice of technology and inputs, both the vector of elasticities of different inputs β and the technology function are functions of state variables.

After logarithmic transformation ($y = \ln Y$, $\gamma(s) = \ln \Gamma(s)$, $x = \ln X$) this results in:

$$y = \gamma(s) + \beta(s) x + u$$

To simplify the analysis even further it was assumed, following previous literature (Mundlak, Butzer and Larson 2008), that the elasticities of different inputs do not depend on state variables, so that $\beta(s) = \beta$ and $\gamma(s)$ was linearized, i.e. $\gamma(s) = s \gamma$. By applying these assumptions, the equation of the production function to be estimated by OLS was obtained:

$$y_{it} = \beta_0 + \gamma S_{it} + \beta X_{it} + u_{it}$$

where β_0 is the intercept and u_{it} is the error term. Firstly, the function for the pooled data was estimated. Time dummies and country fixed effects were subsequently

² For details on the microeconomic model and more advanced econometric analysis of the production function see Mundlak, Butzer, and Larson (2008). An extensive discussion on the econometric estimates of the agricultural production function is provided in Mundlak, Larson, and Butzer (1999).

employed to obtain results that were cleaned of variability over time and between countries.

Data

Data from two different sources were used to estimate the production function. The data on agricultural inputs and output came from the database of the Food and Agriculture Organization (FAO). The measure of economic freedom was taken from the Index of Economic Freedom published jointly by the Heritage Foundation and the Wall Street Journal. The sample includes data from ten post-communist countries³ for the years 1995 to 2006. The starting year was selected on the basis of data availability. The last time period used in the analysis is 2006 because the transition of agriculture in the majority of the countries was already completed by then. Further developments would subsequently have been influenced by EU membership.

Agricultural output and inputs

Output is measured as "gross production" as reported by the FAO. These data are calculated using FAO indices of agricultural production that are based on the sum of price-weighted quantities of different agricultural commodities. The production quantities of each commodity are weighted by the 2004-2006 average international commodity prices and summed for each year. "Gross" means that the production is calculated without any deductions for feed and seed. Output is expressed in thousands of international dollars. The "international commodity prices" are used to facilitate an international comparison of productivity at the national level. International prices are expressed in so-called "international dollars" using the Geary-Khamis formula that assigns a single price to each commodity, so that, for example, one metric ton of wheat has the same price regardless of the country where it was produced.

Land is measured as "agricultural area" as reported by the FAO (ResourceSTAT). This category is the sum of areas of arable land, land under permanent crops and permanent meadows and pastures. Arable land is considered that which is under temporary agricultural crops, temporary meadows for mowing or pasture and gardens. Permanent crops are long-term crops which do not have to be replanted for several years (e.g. apple orchards, vineyards) and nurseries (except those for forest trees). Permanent meadows and pastures are those used permanently, i.e. five years or more, to grow forage crops. Data are expressed in 1000 hectares.

Labour is measured as the agricultural labour force or "total economically active population in agriculture" as reported by the FAO (PopSTAT). This refers to that part of the economically active population engaged in or seeking work in agriculture, hunting, fishing or forestry. Tractors are "agricultural tractors" as reported by the FAO

³ Bulgaria, Czech Republic, Estonia, Hungary, Lithuania, Latvia, Poland, Romania, Slovakia, and Slovenia.

(ResourceSTAT). The term as defined by the FAO refers to wheel and crawler or track-laying type tractors (excluding garden tractors) used in agriculture. Fertilizers stand for fertilizer consumption. This is the sum of nitrogenous fertilizers, phosphate fertilizers and potash consumption⁴ as reported by the FAO (ResourceSTAT). Data are expressed in metric tons. Due to a change in methodology in 2002, there is no continuous time series on this variable. Two series were therefore used in the analysis, namely the pre-2002 consumption and the post-2002 consumption of fertilizers.

Livestock is measured as the number of different animals kept for agricultural production expressed in cow equivalents. The original data came from the FAO database (Production). To calculate the aggregate numbers, the following weights were used: 1 horse = 1 mule = 1 buffalo = 1.25 cattle = 1.25 asses = 0.9 camels = 5 pigs = 10 sheep = 10 goats = 100 chickens = 100 ducks = 100 geese = 100 turkeys (Hayami and Ruttan, 1985).

Permanent crops and land equipped for irrigation were used as further measures (or rather proxies) of capital. "Permanent crops", as reported by the FAO (ResourceSTAT), are as defined above. The land equipped for irrigation is the "total area equipped for irrigation" as reported by the FAO (ResourceSTAT). It is the area equipped to provide water to crops via irrigation. This includes areas equipped for full and partial control irrigation, equipped lowland areas, pastures, and areas equipped for spate irrigation. Data for both variables are expressed in 1000 hectares.

In addition, three control variables were employed in the regression. First, the agricultural tradition of a country, which was approximated on the basis of the percentage of the agricultural population in the total population. Second and third, longitude and latitude, which were used as a proxy for the natural conditions of a country.

(Table 1 about here)

A measure of the institutional environment

Institutions are measured in terms of economic freedom. Data were taken as is from the Index of Economic Freedom (Miles, Holmes and O'Grady 2006). The index is calculated as an average of nine different components measuring different aspects of economic freedom. All partial indices are constructed to range from 0 to 100, whereby a higher score means more economic freedom. In the regression analysis both overall index and several partial indices were used.

The business freedom index reflects several factors that burden the starting up and closing down of a business, the index is based on the World Bank's Doing Business study. The trade freedom index uses a trade-weighted average tariff rate, plus a

⁴ These are the main types of fertilizers used in agriculture. They account for more than 50% of fertilizer consumption in the world. The same measure is used in Mundlak, Larson and Butzer (1997) and Vollrath (2007).

penalization for non-tariff barriers. The fiscal freedom index reflects top tax rates on personal and corporate income and total tax revenue as a percentage of GDP. The government spending index measures total government expenditure as a percentage of GDP. Both of these indices use non-linear (quadratic) formulae to penalize higher taxation or spending more severely.

Monetary freedom assesses price stability. The lower the inflation, the better the awarded score; a country may be penalized for extensive price controls. Financial freedom reflects the efficiency of banking and the independence of the financial sector from government control. The investment freedom index evaluates various restrictions on investments. It is produced by deducting several points from the ideal score for each particular restriction that is harmful to investors.

Property rights are evaluated categorically, with eleven different levels reflecting the various levels of protection of private property. Finally, freedom from corruption reflects perceived corruption in a country based on data from the Corruption Perceptions Index as produced by Transparency International.

The choice of particular institutions and the method of their quantification may be disputed. Several partial indices depend on subjective evaluations, although based on data from external sources other than the Heritage Foundation or the Wall Street Journal. Some partial indices are not really continuous, such as the property rights index, due to the nature of the evaluated institutions. The construction of the overall index could be criticized for the choice of particular aspects of the institutional environment and equal weights given to all partial indices. The decision to use the Index of Economic Freedom as is rather than to produce another measure for the institutional environment is justified due to the comparability of this research to other studies using the same measure.

Finally, membership of the European Union is considered to be another institutional variable because accession to the EU changed several aspects of the institutional environment, as well as the ability of the post-communist economies to trade with their European partners.

Regression results

The hypotheses were tested using the data described in the previous section. A simple plot of the relationship between various aspects of economic freedom and the agricultural productivity of land i.e. total production per hectare, suggests that the impact of different freedoms is diverse (Figure 1). Some of the partial indices showed a positive correlation with productivity, in particular the property rights index, business freedom and freedom from corruption. In contrast, other indices showed a negative correlation with productivity, namely trade freedom, investment freedom and the

freedom from government spending. The regression analysis that follows presents the impact of these freedoms net of other relevant factors.

(Figure 1 about here)

The model was tested with several specifications, of which the results are presented in Table 2. The first specification without any institutional variables made it possible to compare the results to previous analyses (see Mundlak 2000, for a summary). There was a significant difference in the elasticity of land. Previous studies using broad cross-sections of countries reported low elasticity of land, especially in the between-country analysis. This is chiefly due to differences in the use of land in different countries. The sample in this study is quite homogeneous, therefore the high elasticity of land is not surprising. Similar logic can be applied to the slightly higher coefficients for permanent crops and irrigated land; the elasticity of livestock was lower compared to previous studies. The elasticities of machinery and fertilizers were in line with previous research. Bearing in mind the specificity of the sample in this study, it was possible to proceed with testing the effect of the institutional environment.

(Table 2 about here)

Columns 2 and 3 include the institutional variables proposed above. The overall index, which lumps together different institutions with diverse effects (see Figure 1), shows a positive correlation with agricultural production. The magnitude may not seem impressive, 0.4% for each extra point in the economic freedom index. However, the improvement of the index score in several countries was considerable over the period 1996 - 2006 (e.g. Lithuania saw an improvement of almost 23 points). Similarly, the effect of EU membership was positive, with > 5% increase in agricultural production.

When the effect of particular indices was examined separately, not all of them appeared to be significant. The results confirm the rough estimates presented in Figure 1. Trade freedom and investment freedom showed a negative correlation with agricultural output. This confirms the train of thought that agriculture prospers better under protectionism than under free international trade and competition. In contrast, property rights, business freedom, financial freedom and fiscal freedom showed a positive correlation with agricultural output. Again, this is in line with the train of thought that farms do better if they can operate in an environment of secure property, reasonably low regulation, unimpeded access to credit and low taxation, even though the absolute values of coefficients were rather small, 0.2% or 0.3% for an extra point in the respective index.

In columns 4 and 5, time dummies and country fixed effects were used to control changes in technology over time and the specifics of the countries, respectively. Of course, since institutions in transition countries improve over time, there was a risk of undervaluing the effect of the institutional variables. However, for the most part the results did not differ from the previous regression; only the EU membership variable is

clearly absorbed by the time trend (this was as expected, since 8 out of the 10 countries in the sample entered the EU at the same time). In the last model specification, the effect of institutions was absorbed in the country fixed effects.

The analysis supports the hypothesis repeatedly discussed in literature about the nature of returns to scale in agriculture. It is frequently claimed that the agricultural production function has constant returns to scale. In this analysis, the sum of elasticities of material inputs is not statistically significantly different from 1, which is consistent with existing literature (Mundlak, Larson and Butzer 1997).

Discussion and conclusions

There are many other state variables that could (and maybe should) have been included in the presented analysis. As a technology measure, this may have included the peak yield and schooling (Mundlak, Larson and Butzer 1997 and 2008), research and development expenditure (Vollrath 2007) and land distribution (as shown in Vollrath 2004 and 2007). Physical environment measures include potential dry matter and water availability variables (Mundlak, Larson and Butzer 1997 and 2008) or some measures of land quality (used for example in Vollrath 2007; extensive analysis in Wiebe 2003).

The economic environment, or motivation, could also have been introduced using relative prices in the agricultural and non-agricultural sectors (i.e. trading terms of agriculture), price variability and inflation (Mundlak, Larson and Butzer 1997 and 2008). It would have also been possible to employ a variable for wealth or income distribution, such as the Gini coefficient (Allcott, Lederman and Lopez 2006). There are some alternative, or additional, institutional measures as well. These include variables for different forms of government (Przeworski and Limongi 1993), government expenditure, and legal origins (La Porta et al. 1998).

As previously stated, agriculture is specific. Fiscal policies are clearly relevant. However, the argument that less government spending is per se beneficial to agriculture is not clear cut. The structure of expenditure requires careful examination in order to assess its impact on rural economies. Similarly, government policies in the area of international trade need to be reviewed with regards to agriculture. Even though some economies may be generally open, with low tariffs and insignificant non-tariff barriers, agricultural products often have different regimes. With regards to legal protection, the enforcement of laws may be quite advanced in urban areas but insufficient in rural areas where most of the agricultural production takes place. Traditions and various informal rules may be of major significance here. This also applies to access to credit for farmers as compared to manufacturers.

The analysis justifies our interest in both production functions and the institutional environment. Indeed, it appears that institutions in post-communist countries did matter for agricultural production. Considering the extent of institutional change during

the post-communist transition, the effect on the agricultural sector was significant and sizeable. This study identified a group of institutions that promote agricultural production through the protection of property rights, by easing access to credit through a reasonably regulated financial market, and low taxation. In contrast, openness to foreign competition, neither in the form of foreign trade nor foreign investment, does not seem to be beneficial to agriculture. This is consistent with previous findings (Macours and Swinnen 2000). Although this paper analyses a specific historical event, the post-communist transition, it provides a more general insight into economic policies. Reformers should therefore be aware of the impact of different institutional changes.

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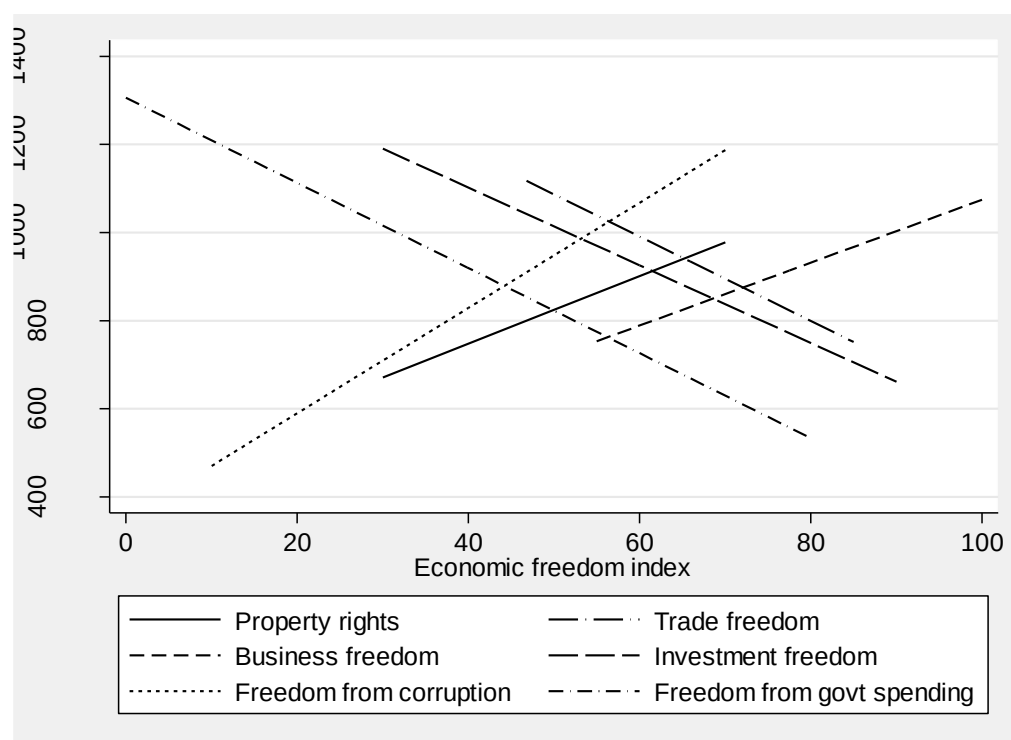
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Figure 1. Relationship between different economic freedoms and productivity (agricultural output per Ha), pooled data for all countries and time periods, linear fit

Source: Author

Table 1. Summary statistics for output, inputs and institutional variables

Variable	Mean	SD	Min	Max
Production per ha (intl. \$)	866.52	341.82	436.95	1734.52
Labour per 1000 ha (number)	91.73	48.18	22.40	227.80
Tractors per 1000 ha (number)	44.35	55.96	5.81	222
Fertilizers per 1000 ha (tons) (pre-2002)	57.95	36.78	12.01	157.19
Fertilizers per 1000 ha (tons) (post-2002)	70.82	21.84	24.48	135.78
Livestock per 1000 ha (cow equivalents)	382.53	188.41	195.89	943.67
% Permanent crops	2.61	1.56	0.69	6.46
% Land equipped for irrigation	4.49	6.63	0.03	22.49
Agricultural tradition (% of agric. population)	10.91	4.60	1.00	21.48
Latitude	49.56	6.85	34	59
Longitude	21.48	3.92	14.8	26
EU membership	0.2	.40	0	1
Index of Economic Freedom	61.10	7.69	42.9	77.7

Number of observations, N = 120 (in 10 countries and 12 annual periods, pooled)

Source: Author

Table 2. Regression results

Dependent variable: log Agricultural Output (1000 intl. \$)

All regressions are controlled for agricultural tradition, longitude and latitude.

Explanatory variable	(1)	(2)	(3)	(4)	(5)
log Land	0.516 *** (0.073)	0.514 *** (0.069)	0.533 *** (0.066)	0.504 *** (0.071)	0.273 (0.166)
log Labour	0.089 ** (0.035)	0.049 (0.034)	-0.024 (0.044)	-0.026 (0.046)	0.016 (0.074)
log Tractors	0.116 *** (0.028)	0.108 *** (0.026)	0.133 *** (0.034)	0.102 *** (0.046)	0.032 (0.058)
log Fertilizers (pre-2002)	0.099 *** (0.034)	0.068 * (0.041)	0.046 (0.041)	0.037 (0.039)	-0.007 (0.040)
log Fertilizers (post-2002)	0.104 *** (0.034)	0.071 * (0.040)	0.044 (0.041)	0.025 (0.041)	-0.009 (0.040)
log Livestock	-0.087 (0.071)	-0.007 (0.065)	0.081 (0.096)	0.149 (0.105)	0.355 ** (0.131)
log Permanent crops	0.202 *** (0.032)	0.195 *** (0.033)	0.143 *** (0.037)	0.154 *** (0.037)	0.048 * (0.023)
log Land equipped for irrigation	0.043 *** (0.011)	0.043 *** (0.012)	0.066 *** (0.015)	0.050 *** (0.014)	0.049 (0.010)
EU membership		0.051 * (0.029)	0.070 *** (0.026)	-0.002 (0.042)	0.071 ** (0.031)
Index of Economic Freedom		0.004 ** (0.002)			
- Business freedom			0.002 ** (0.001)	0.002 (0.001)	0.001 (0.001)
- Trade freedom			-0.002 * (0.001)	-0.001 (0.001)	-0.002 * (0.001)
- Fiscal freedom			0.003 *** (0.001)	0.003 ** (0.001)	0.001 (0.001)
- Freedom from govt. spending			-0.000 (0.001)	-0.001 (0.001)	0.001 (0.001)
- Monetary freedom			0.001 * (0.001)	0.000 (0.001)	0.001 (0.001)
- Investment freedom			-0.002 ** (0.001)	-0.002 ** (0.001)	-0.001 (0.001)
- Financial freedom			0.003 *** (0.001)	0.003 *** (0.001)	0.001 (0.001)
- Property rights			0.002 ** (0.001)	0.002 ** (0.001)	0.001 (0.001)
- Freedom from corruption			-0.001 (0.001)	-0.001 (0.001)	-0.001 (0.001)
Time and country effects	No	No	No	Time effects	Fixed effects
Adjusted R ²	0.995	0.996	0.997	0.997	0.970
Sum of elasticities of material inputs	1.082	1.041	1.024	0.996	0.776
N of observations	118	115	115	115	115

Standard errors (in parenthesis) are robust to heteroscedasticity. Single asterisk (*) denotes significance at 10%, double asterisk (**) denotes significance at 5%, triple asterisk (***) denotes significance at 1%. All figures are rounded to three decimal places.

Source: Author

MINÁRIK, P., 2017. Institutional Environment and Agricultural Production in Post-communist Central European Countries. *Littera Scripta* [online]. České Budějovice: Institute of Technology and Business in České Budějovice, **10**(1), 88-101 [accessed: 2017-06-27]. ISSN 1805-9112. Available at: http://journals.vstecb.cz/category/littera-scripta/10-rocnik-2017/1_2017/.

Analysis of Income and Profitability Indicators in Banking Sectors During the Period 1995 - 2009: Post-communist vs. OECD Countries

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Abstract

This article presents an analysis of income and profitability indicators for the banking sectors of six post-communist countries and compares them with a group of eighteen OECD countries without a “communist” past. The analysis focuses on five relative indicators (interest income/fees and commissions income; fees and commissions/bank assets; interest income/bank assets; profit/assets; fees and commissions/non-interest income), which are subsequently controlled with macroeconomic indicators (GDP, interest rate and inflation) for the period 1995 - 2009. The results of the econometric model corresponded with three out of the five assumptions made about the effects of post-communism. However, only the hypothesis that post-communist countries used their assets for higher net income from fees and commissions is significantly verified. Discrepancies were explained by x-inefficiencies on the cost side and a constant pressure on revenue stream diversification, which is in accordance with scholarly literature.

Key words: Bank, post-communist economy, profitability, interest income, non-interest income, fees and commissions.

Introduction

Retail banking in the Czech Republic can be characterized as being in very good shape and very profitable, whereby clients are considered to be very conservative in terms of their behaviour on the financial markets. The Czech banking market was, and still is considered to be a lucrative one with regards to the charging and collection of banking fees and commissions. Investors, mainly international financial groups, noticed similar characteristics in other post-communist economies as well. It is for this reason that the

privatization of the main banks in the 1990s went relatively smoothly¹. Their foreign owners can now rely on the repatriation of profits from post-communist markets to Western Europe during financial crises. As Claessens, et al. (2010) or Levine (2012) concluded, the 2007-2008 financial crisis has changed the conditions on financial (banking) markets in various countries around the world, including the countries in the dataset. It was therefore decided not to analyse the immediate post-crisis period, but to focus on the period towards the end of 2009 onwards.²

The rudiments for such research not only lie in scholarly literature, but also in personal experience in a post-communist economy. The aim of this study is to empirically test the proposed hypotheses using an econometric model to determine whether the data for a block of post-communist economies (banking markets) produces similar results for indicators of bank income and profitability, and whether these results correspond with the outputs for more developed countries from Western Europe and other parts of the world.

This paper consists of six sections. Section 1 provides an overview of scholarly literature and other materials that deal with issues such as banking in transition economies, diversification of banking income, processes of disintermediation and universalization, and the use of specific datasets and appropriate methods for this paper. Section 2 summarizes and explains the hypotheses and the applied methodology. The model is presented in Section 3, followed by the dataset in Section 4, and the results and their interpretation in Section 5. The conclusions are presented in the last section.

Literature review

In the past few decades, the extent of research into net interest margins, efficiency and general bank profitability has been extensive in scholarly literature. While interest income has traditionally been the core of banking activities (Stiroh 2006), DeYoung and Rice (2004a) found, using US data, that non-interest income has been playing an ever increasing role since the 1980s. Nevertheless, DeYoung and Rice (2004b) note that non-interest income serves more as an addition to, rather than the replacement of, interest income from intermediation activities.

However, the non-interest income of banks, in particular fees and commissions, remains a relatively unexplored area. The notable exceptions are Hannan (2006), Dvořák and Hanousek (2009), Tennant and Sutherland (2014), Ružicková and Teplý (2015) and Rais (2015). Nevertheless, these authors mostly focused on the impact of bank-specific determinants, rather than the impact of the environment banks operated in. Rais (2015) argues that the banking sectors are quite heterogeneous and that research should be focused on smaller blocks of relatively homogeneous countries. Tennant and Sutherland (2014, p. 186) found that fee-based profits are significantly affected by cultural issues.

¹ It goes without saying that massive state support was essential. This topic is analyzed in Rod (2015).

² The reaction of regulators in post-communist countries and their impact on the performance of the banking industry would be an interesting and challenging topic to analyze.

Specifically, they found that in countries where gender roles are blurred and society is more consensus-oriented, banks earned higher profits from fees and commissions, whilst these tended to be lower in countries where “such roles are clearly defined and the assertiveness and competitiveness associated with masculinity is dominant.” Their results imply that fee-based profits will be lower “in societies where competition is highly valued, and strong opposition to high fees is propelled by a culture of assertiveness.” This is consistent with our hypothesis on the effect of the communist legacy i.e. in communist societies the opposite was true and that the expectation is that this will only be eroded slowly over time.

After the collapse of centrally-managed economies, most post-communist states faced similar challenges. Overnight, the fall of communism dismantled the socialist system of coordination. Agents were not properly equipped to deal with such changes, and an appropriate system of market coordination still needed to be established (Redek and Sušjan 2005; Estrin and Mickiewicz 2011). The banking sectors were no exception. Whilst the research into the transition of the banking sectors in post-communist economies has been extensive, it has mainly focused on the cost efficiency of banks (e.g. Kraft and Tirtiroglu 1998; Matousek and Taci 2002; Nikiel and Opiela 2002; Hasan and Marton 2003; Fries and Taci 2005, etc.). The findings on the cost efficiency of privately owned and state owned banks were mixed. Nevertheless, all the authors that analysed the various post-communist countries were consistent in asserting that there were similar problems on the supply side and the demand side. Banks were underinvested, produced many x-inefficiencies and there was a lack of skilled managers and employees with knowledge of the market principles associated with the modern approach to banking. On the demand side, clients had no idea about banking services that were not provided by the state, no experience of competition on the market, no knowledge about the opportunities and threats related to banking, in particular about individual responsibility. All of these produced a huge level of rational ignorance. It led to banks utilizing the knowledge garnered from their foreign shareholders in Western Europe to take advantage of rationally ignorant clients with no information (Hainz 2003)³. Given the shared similarities in the banking sectors of post-communist countries, banks could therefore employ different profit generating strategies compared to banks in developed western countries.

In addition to the cultural and management issues common to post-communist countries, the banks’ abilities to generate fee-based profits could be significantly affected by the overall performance of the given economy. This effect can be captured through several channels, although the ultimate impact is not always clear. Tennant and Sutherland (2014) found a positive relationship between profits from fees and commissions and inflation volatility. They argue that when faced with lower or more volatile interest revenues due to inflation volatility, banks tend to rely more heavily on fee-based profits. In contrast, Hahm (2008) found that banks tend to have a higher proportion of non-

³ Further analyses of the struggles in post-communist countries are provided in, for example, Eyal et al. (1998), Hoskisson et al. (2000), or Brandt and Li (2003).

interest income in stable inflation environments. Similarly, while Hahm (2008) found that banks tended to diversify towards non-interest income as economic growth slows down, DeYoung and Rice (2004b) and Rais (2015) found some evidence that banks tend to generate higher amounts of non-interest income (or fee-based profits) in strong and growing economies. Similarly, banks operating in countries with better developed financial markets (Tennant and Sutherland 2014; Rais 2015) and stronger protection for investors (Rais 2015) tend to earn more profits from fees.

Method

On the basis of the literature review, the following hypotheses were formulated:

- 1) The banking markets in post-communist economies are characterized by common income and profitability indicators i.e. the post-communist banking markets can be viewed as one block.
- 2) Given the cultural differences, the income and profitability indicators in the block of post-communist countries are different to those in more developed Western European and other OECD⁴ countries.

On the basis of scholarly literature, indicators for income and profitability were conceived and the generated data tested to determine the within effects (post-communist and OECD countries separately) and between effects (post-communist vs. OECD countries)⁵. Furthermore, since fees can usually be modified in complex ways (one banking product can be readily connected with various fees), and given consumers' relative inexperience, we argue that banking fees and commissions were likely to have been the main tool for income diversification in post-communist economies. Therefore, their use would have been more widespread and intense than in other OECD countries, whereby the profitability indicators would be better.

Since the activities of universal banks are very complex, five different indicators were employed to capture the potential differences in profitability:

⁴ It is understood that all OECD countries are considered to be "developed" economies. However, the dataset covers the period 1995 – 2009 when some of the listed countries were not yet members of the OECD. It is for this reason that we distinguish between post-communist countries and other OECD countries (without central-planning experience). The paper uses data from 24 countries. Six countries were identified as post-communist (Czech Republic, Estonia, Poland, Russia, Slovakia and Slovenia), and the remaining 18 countries in the dataset as non-post-communist developed countries i.e. a benchmark for the comparison (Austria, Belgium, Denmark, Finland, France, Germany, Chile, Ireland, Italy, Japan, Luxembourg, Mexico, the Netherlands, Norway, South Korea, Spain, Sweden and Switzerland).

⁵ It is understood that the issue could be explained by the risk management of banks with regards to dealing with clients with no history i.e. banks used aggressive pricing strategies to cover potential credit defaults. However, several arguments can be raised: the consolidation of the banking sectors (governments provided state programmes and guarantees to cover the costs of banks, moral hazard activities included); continuity in banking (successors of state banks controlled a significant market share and quickly adopted market tools for risk management and implemented them for interest income and non-interest income generation); regulation (after affairs in the early 1990s, regulators focused heavily on the health of the financial sectors); prices, revenues and profits over time (despite increasing client histories and increased competition, banking fees increased and key income indicators did not follow expectations). Nonetheless, the issue of risk management in post-communist countries is of great interest for further research.

Net Interest Income on Net Fees and Commissions (INT-FEE)

As previously stated, interest income has traditionally been at the core of banking activities. Nevertheless, on the basis of the argument that banking fees and commissions were a more suitable tool to raise the profitability of banks in post-communist countries, the expectation is that the income from fees and commissions was therefore more dominant in these states.

To capture this effect, the *INT-FEE* indicator was used. It is calculated as the ratio of net interest income to net income from fees and commissions. According to theory, the ratio should be positive and above one because interest income forms one of the main activities of banks and fees and commissions only form a part of their non-interest income. However, even though the value should still be above one, the ratio should be lower for post-communist countries in comparison with other OECD countries.

Net Fees and Commissions on Assets (FEE-BAL)

This indicator shows how efficiently banks use their assets to generate income from fees and commissions. Fees and commissions are an important instrument in a bank's pricing policy (Matoušek and Taci 2004). The pricing policy of banks is the manifestation of their ability to use their assets to generate non-interest income i.e. to generate revenue that is less-risky, more stable⁶ and directly proportional to the amount of transactions accounted. However, banks work under several constraints – competition on the banking market and the level of financial literacy of consumers.

As detailed in the literature review and confirmed by Hedvičáková et al. (2011), consumers in post-communist countries showed relatively low levels of financial literacy. This is evidenced by the lack of experience of consumers with the operation of universal banks and non-banking competitors in (former) communist countries, and which is enhanced by the bad experiences with fraud and the bankruptcies of many banking and non-banking financial institutions during the early stages of the transition process. With regards to the diversification of financial services, bank clients were, and still are, rather conservative and prefer universal products supplied by universal banks. With regards to banking mobility, clients were, and still are, rather passive. The expectation is therefore that banks in post-communist countries were able to use fees and commissions more efficiently which is reflected in a higher *FEE-BAL* ratio.

Net Interest Income on Assets (INT-BAL)

The *FEE-BAL* (see above) indicator works on the premise that post-communist banking sectors generated suitable conditions for income diversification. However, interest income still remains at the core of banking activities. Information asymmetry between banks and clients (Hedvicakova et al. 2011) and/or the role of rational ignorance in consumers' perceptions of banks' pricing policies (Hedvicakova et al. 2012) also affects

⁶ Fees and commissions are also considered a tool for securing the greater stability of the banking sectors (Stiroh, 2004).

interest income. The assumption is that banks in post-communist countries operated with higher interest margins during the studied period.⁷

The *INT-BAL* indicator was used to test this hypothesis. It is calculated as a ratio of net interest income (interests receivable minus interests payable) to the annual sum of balance sheets (total assets or total liabilities). The expectation is that the ratio will be higher for the post-communist countries.

Return on Assets (ROA)

Return (profit) on assets was used to test the profitability of banks in general. This is a standard indicator which demonstrates the ability of a company to use assets and transform them into profit. The main part of a banks' balance sheet consists of deposits (liabilities) which are put on the market and transformed into credit facilities and loans. The expectation is that former communist countries generated higher ROA i.e. they were able to generate higher profits from their assets.

Share of Net Fees and Commissions in Non-Interest Income (FEE-N-INT)

Fees and commissions form the majority of non-interest income, but they are not the only part. A bank can provide other financial services, investment opportunities, brokering, bond issues for third parties, etc. These additional activities diversify banks' non-interest revenues. Banks can choose their strategy according to various factors – management of clients' risk, covering administrative costs related to entering a market, or factors on the demand side⁸. For whichever of these reasons, the assumption is that post-communist countries systematically faced similar conditions, leading to a higher proportion of fees and commissions. Fees were therefore either the only way in which banks could diversify their income, or there was no need to seek alternatives due to their ability to apply them.

Each indicator was tested to determine what the actual influence was of the post-communist experience. In line with Tennant and Sutherland (2014), Hahm (2008), DeYoung and Rice (2004b) and Rais (2015), the results were subsequently correlated with the figures for the annual growth rate of real GDP and the consumer price index. Furthermore, given the cross-subsidization hypothesis, which implies that there is a direct relationship between banks' decisions on interest rates and fees (Dvořák and Hanousek 2009; Lepetit et al. 2008; Tennant and Sutherland 2014; Rais 2015), the overnight interest rate provided by central banks to commercial banks was also controlled.

⁷ This hypothesis is not considered to contradict hypothesis 2. Banks could utilize information asymmetry, the conservatism of clients and rational ignorance for operating with higher interest margins, as well as for pricing strategies relating to fees and commissions. Interest income and income from fees and commissions were complementary in post-communist countries.

⁸ Arguments suggesting that higher fees and commissions were the result of the need to cover investments and other costs of the under-capitalized post-communist banking sectors may be relevant. However, the development of the profitability indicators does not reflect this. The issue is definitely one that requires additional research.

Model

In the simplest case, it would be possible to model the research using Pooled OLS, but this approach is not appropriate here. The hierarchical structure of the dataset demands the inclusion of an individual component that represents unobserved country factors (time-invariant). In this case, it is necessary to estimate, either on the basis of the Random Effects (RE) or Fixed Effects Estimator (FE). Due to the fact that one important explanatory variable (the communist regime indicator) is constant over time, the FE cannot be used because all time-invariant regressors would disappear.

Due to the hierarchical nature of the data (observations nested within countries), the model needs to account for unobserved fixed effects. Therefore, the model is formulated as:

$$y_{ij} = \beta_0 + \beta_1 x_{ij} + \beta_2 z_j + (u_j + e_{ij}) \quad (1)$$

$$E(u_j | x_{ij}, z_j) = E(e_{ij} | x_{ij}, z_j) = 0$$

where y_{ij} is the dependent variable, β_0 is the intercept, x_{ij} is a vector of time-varying covariates (measured at lower levels i.e. occasions) which consists of real GDP growth, interest rate and CPI. z_j is the time-invariant covariate measured at higher levels (countries), which indicates whether a country used to have a communist regime. The random part of the model consists of u_j and e_{ij} . u_j is the higher-level residual that allows for the dependence of the repeated indicators of a higher-level entity. e_{ij} is the occasion-level residual.

The residuals are assumed to be normally distributed with zero mean. Due to the fact that the exogeneity assumptions given above do not often hold (because covariates usually consist of two parts, the between effect that is specific to the higher-level entity and the within effect which represents the difference between occasions within the higher-level entities, and if these are not controlled out, part of their variance can be absorbed into the residuals leading to endogeneity (Bell and Jones 2014)), the usual approach is to use the FE (fixed effects) estimation which enables the higher-level variance to be controlled out. Unfortunately, this means that it is only possible to estimate the within effects since the between effects and any time-varying covariates are removed. Due to the fact that the interest in this study is in the time-invariant covariate (whether a country used to be communist), this approach is not suitable. The Bell and Jones (2014) reformulation of Mundlak (1978) was therefore used. This explicitly includes the between effects (higher-level means) in the equation and therefore requires the correct standard errors to be calculated (Bell and Jones 2014).

After some modifications the following equation is acquired:

$$y_{ij} = \beta_0 + \beta_1(x_{ij} - \bar{x}_j) + \beta_3 \bar{x}_j + \beta_2 z_j + (u_j + e_{ij}) \quad (2)$$

where $(x_{ij} - \bar{x}_j)$ represents the within effects (that are identical to the ones from the FE estimation) and $\bar{x}_j$ the between effects of the covariates. The model was estimated using Restricted Maximum Likelihood, which should have better properties for small samples than ML. The estimation was run on an unbalanced panel of 24 countries for the period 1995 – 2009. Given the time series nature of the data, it was also necessary to determine the order of integration in the variables, since the presence of non-stationary variables leads to biased standard errors (Mahadeva and Robinson, 2004). Unfortunately, the relatively small dimensions of both the time period (T) and the dataset (N) meant that existing unit root test provided particularly reliable results. Therefore, in order to assess the stationarity of the data, ADF – Fisher and LLC tests were used in conjunction with economic conjecture based on the findings about the nature of the used variables in previous literature. As a result, and as expected, all the dependent variables were found to be stationary. GDP per capita growth, CPI and the overnight interest rate were also found to be stationary. The stationarity of inflation is consistent with the findings of Im, Lee and Tieslau (2010) who found CPI to be stationary in OECD countries. The stationarity of interest rates is consistent with the findings of Lopez and Reyes (2009) and others. Furthermore, since GDP per capita is usually considered difference stationary, (though not without debate) its growth rate should be stationary.

Data

In the model, annual data from 24 countries was applied. The dataset covers the period from 1995 to 2009, which gives up to 314 observations. The data spread was specifically chosen because the banking statistics and performance indicators were affected to some degree by the impact of the “financial crisis” on the economies in 2009, as well as by ongoing regulation.

The income and profitability indicators were calculated as ratios (indices) on the basis of OECD data, which consisted of balance sheets and income statements for the entire banking sector in a given country.

The effect of “post-communism” is tested using a binary measure (1 = post-com; 0 = other OECD). The research goal was controlled against macroeconomic indicators, covering the economic cycle, money markets and inflation (Athanasoglou, et al., 2008). The indicator “gdp” (whereby w indicates the within effect and the mean the between effect) represents the annual growth of Real Gross Domestic Product in a given year and a given country. This variable controls the cyclical fluctuations for the observed indicators. The conditions on the “money markets” are represented by the indicator “inter” i.e. overnight interest rate (p.a.) provided by the central banks to commercial banks. This indicator de facto controls the price of money. The rate of inflation is represented by the indicator “cpi”, which is none other than the Consumer Price Index (level compared to the year 2005 =

100) in a given country and a given year⁹. This indicator controls whether the selected indicators follow changes in consumer prices.

The 18 countries in the dataset previously identified as being developed OECD countries, form the benchmark for the international comparison.

Results

The estimation results are presented in Table 1. The VPCs, which are standardized measures of the similarity between higher-level entities (Bell and Jones 2014), are relatively large for all the model specifications (1-5). This suggests that a large degree of variance occurs at higher levels, which implies that the use of the random effects model is a suitable approach.

When looking at specifications (1) to (5), it is clear that most of the between effects are insignificant. This implies that countries average values for the particular variables do not influence the dependent variable. The only exception is the between effect of the overnight interest rate for specification (3), which is significant and positive. Therefore, unsurprisingly, countries with higher average values for the overnight interest rate tend to have higher interest revenues given their assets (*INT-BAL1000*¹⁰).

With regards to the within effects, it can be stated that most of them are significant and have the expected sign. Conceivable explanations for each specification follow. Under specification (1), when GDP growth in a country increases, *INT-FEE* decreases (therefore, either net interest revenues decrease or net revenues from fees and commissions increase, or both). Similarly, as the CPI in a country increases, *INT-FEE* decreases. This can be explained by the fact that a key factor related to the interest revenue of commercial banks is a stable interest margin, which is dependent on many factors, whereas fees and commissions are generated directly by the pricing policies of individual banks. The results show that after an increase in the CPI, banks' interest margins remain relatively stable, whilst banks apparently reflect the increase in prices in their price lists and tariffs. On the other hand, as the interest rate in a country increases, *INT-FEE* increases as well. This is not unexpected because with an increasing interest rate, net interest revenues should increase in comparison with net revenues from fees and commissions. This result also supports the cross-subsidization hypothesis, which implies that there is a direct relationship between banks' decisions on interest rates and fees and commissions. When faced with potentially higher interest-based profits, banks may opt for a strategy of low fees in order to attract more customers and earn higher interest margins. Therefore, with an increase in interest rates, the share of fee-based profits may decrease in comparison with interest-based profits. Under specification (2), increasing GDP growth in a country results in an increase in the *FEE-BAL1000* indicator. This suggests that either net fees and commissions increase or assets decrease, or both. This is consistent with the findings of DeYoung and Rice (2004b) and Rais (2015), who found that banks tended to generate

¹⁰ Stationarity of the CPI data is discussed in Section 3.

¹⁰ For better interpretation, the data was multiplied by 1000.

higher amounts of non-interest income (or fee-based profits) in strong and growing economies. On the other hand, as the overnight interest rate in a country increases, *FEE-BAL1000* decreases. Similarly, as the CPI in a country increases, *FEE-BAL1000* also decreases. With an increasing overnight interest rate, *INT-BAL1000* increases, and as the CPI in a country increases, *INT-BAL1000* decreases.

Under specification (4), *ROA1000* increases with increasing GDP growth. Similarly, as the CPI in a country increases, *ROA1000* also increases. On the other hand, as the overnight interest rate in a country increases, *ROA1000* decreases. Finally, under specification (5), only the within effect of the CPI is significant. Therefore, as the CPI increases, so does *FEE-N-INT*.

While the above results are interesting and indicate how the respective indicators are influenced by the interest rate, inflation and GDP, the primary effect of interest is captured by the post-com variable. As is evident, it is insignificant for most of the specifications. This suggests that there isn't a statistically significant difference in the profitability indicator between former communist countries and other OECD countries. The only exception is specification (2), for which the post-com variable is significant at the 10% level. This suggests that banks in post-communist countries earned more from fees and commissions (given their level of assets) in comparison with other OECD countries. This result supports the hypothesis that lower financial literacy and the lack of experience of agents in the market facilitated the imposition of higher fees for customers by banks without them fearing the loss of their customer base to competitors. However, the insignificance in specification (5) suggests, contrary to expectations, that fees and commissions may not have been the only non-interest tool banks utilized to increase profits, and that in combination with higher fees, these activities also increased.

Nevertheless, the rest of the results complicate the interpretation, which generates room for further, more specific research into interest and non-interest revenue distribution. The insignificant result under specification (3) shows that the banks in post-communist countries were not earning more from interest in comparison with banks in the other OECD countries. This gives rise to an additional hypothesis that high interest margins could be easily detected by customers and compared with competitive products. The insignificance under specification (1) suggests that there is no difference in the *INT-FEE* ratios i.e. a certain level of interest revenues implies an adequate level of fees and commissions in both analyzed groups of countries. Furthermore, even without this contradiction in the results, the insignificance under specification (4) shows that while banks in post-communist countries may have earned more revenue from fees and commissions when utilizing their level of assets, they were also likely to have incurred some additional costs and were therefore unable to transform them into more profit.

Therefore, while it seems that the banks in post-communist countries were to some degree more effective in their use of fees and commissions in comparison with banks in other OECD countries, the results of this study indicate that there wasn't a significant difference in the profitability of the banks between the two groups of countries.

Table 1: Results

Dependent variable	<i>INT-FEE</i>	<i>FEE-BAL 1000</i>	<i>INT-BAL 1000</i>	<i>ROA 1000</i>	<i>FEE-N-INT</i>
Independent variable	(1)	(2)	(3)	(4)	(5)
cons	3.594112*** (.3685172)	5.919948*** (.524165)	18.98199*** (1.197623)	5.909658*** (.7711674)	.6095178*** (.0546454)
post-com	-1.135128 (.9133902)	2.411846* (1.2986)	.6238767 (2.968934)	-.617788 (1.927008)	-.2141027 (.1370321)
gdpw	- .0925115*** (.0226148)	.1372605*** (.0257902)	.0453196 (.0789188)	1.125765*** (.1130591)	.0074297 (.0069238)
interw	.0621434** (.0271125)	- .2031264*** (.0309195)	.1559361* (.0946147)	- .5008253*** (.1366589)	.0038385 (.0081568)
cpiw	- .0282445*** (.0094794)	- .0335782*** (.0108104)	- .1860834*** (.0330801)	.0816398* (.0479048)	.0072093** (.0028783)
cgdp_mean	.2087922 (.2634056)	-.4301969 (.3746542)	-.0456066 (.856029)	.2423743 (.5534997)	.0360175 (.0391505)
cinter_mean	.2162361 (.2019419)	.3677347 (.2871313)	2.216124*** (.6563794)	.4823742 (.4256327)	-.009298 (.0300962)
ccpi_mean	.0377371 (.0578705)	-.1102702 (.0821625)	-.1614606 (.1882164)	-.1553746 (.1253213)	-.0051929 (.008737)
Level 2: country var	2.115284 (.6324286)	4.34222 (1.282041)	22.20021 (6.698843)	7.55492 (7.55492)	.0408497 (.0141559)
Level 1: year var	1.095266 (.0909557)	1.424441 (.1182908)	13.33818 (1.107686)	27.16329 (2.25908)	.0983947 (.0082419)
Log restricted- likelihood	-494.75339	-541.30212	-885.48187	-975.04065	-98.12854
VPC	0.659	0.753	0.625	0.218	0.293
Restricted- deviance	989.50677	1082.6042	1770.9637	1950.0813	196.25708
Observations	314	314	314	313	309

*Note: Standard errors are given in parenthesis. ***, ** and * denote significance at 1%, 5% and 10% level. Following Bell and Jones (2014), the between effects (means) were calculated using the full data prior to list wise deletion and the within effects were calculated using the unit means of the cut down data. Furthermore, the between effects were centred using the grand mean (from the cut down data) to correct for the measurement error bias (Bell and Jones, 2014).*

Source: Own calculations

Conclusion

This article compares income and profitability indicators for the banking sectors in a block of post-communist countries with those for a group of OECD countries without experience of central planning. Five different indicators (ratios) were used, each calculated on the basis of annual banking sector balance sheets and financial statements. The study sought to determine if being identified as a “post-communist economy” had any effect on the income and profitability statistics of the banks, and to what extent the dependent variables were influenced by the annual growth of real GDP, the overnight interest rate provided by central banks to commercial banks, and the rate of inflation represented by the Consumer Price Index in a given country and in a given year.

The Random Effects Model was used because of the hierarchical heterogeneous nature of the dataset. Under this model, it is assumed that potentially unobserved effects, both fixed and random, can present themselves. The data sample was relatively small. As a result, the Restricted Maximum Likelihood (REML) estimator was applied instead of the Maximum Likelihood (ML). The reason for this, is that the former provides better small sample properties and generates a lower bias.

Whilst there was some evidence to suggest that banks in post-communist countries were more effective in their use of banking fees and commissions in comparison with banks in other OECD countries, most of the results were insignificant. It can therefore be concluded that the banks in post-communist countries were seemingly not more profitable than their counterparts in other OECD countries. Nevertheless, the small size of our dataset may have influenced the results. Therefore, a re-evaluation of our hypothesis at bank level, rather than at country level, may be a fruitful avenue for future research.

Acknowledgement

The paper was written under the institutional support of the Faculty of Social and Economic Studies at Jan Evangelista Purkyně University, Ústí n. Labem, Czech Republic.

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The Influence of the Social Environment on the Creative Activities of Secondary School Students

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Abstract

This paper focuses on the motivation of secondary school students to take part in (professional) creative activities and the influence their environment, both the school and family environment, has on this. This study is a response to the growing neoliberal trend to excessively individualize creative expression and activities and to entirely ignore social influences. At the same time, it takes into account the cultural heritage of the preceding generations, in which the roots of creative ability are anchored in society, and which individuals then process. Results are presented of empirical research into the influence of the social environment on the creative activities of the youth, which are subsequently correlated in order to determine the roots and social interdependence of creative activities. The results of the research confirmed the initial hypothesis that the creative efforts of secondary school students are based on the social background of their families and the schools they attend. At the same time, it was determined that the direct influence of family is not as substantial as expected, and that the indirect impact of the family environment is more significant.

Key words: Social pedagogy, creativity, social creativity, influence of the environment, influence of the macro-social and micro-social environment, correlation of the social environment and creativeness, professional and scientific creative activity of the youth.

Introduction

From social education practice, it is known that the influence of the environment, especially of the family and school environment, on the development and formation of

creativity¹ is very strong. Unfortunately, the intensity of the research in this sphere still does not correspond to its formative significance. Even though current findings, based on experience, are not questioned by anybody, many of them are based on the belle-lettres (for example, the influence of family on the genius Mozart, Beethoven, Michelangelo Buonarroti, and others) and on the works of generally respected educators rather than on real research and theoretically generalized experiences. This is all the more surprising because the question of the correlation between creativity and the environment is one of the principal problems of social creativity. However, when benchmarking social creativity on a worldwide level, it is less developed than individual creativity and the cognitive elements of creativity (Semrád 1998, 2009).

The lack of research into the influence of the environment on the development and application of creativity was already pointed out by researchers such as C.W. Taylor and F. Barron (1963, 1964, 1972), who put forward the first theories of creativity, as well as J. Hlavsa (1981, 1986) from the Czech Republic, and more recently by K.J. Szmidt (2001). The absence of systematic research into this issue has resulted in many myths and unfounded contentions, which have led to its overestimation and consequently to ill-considered steps in the upbringing and education of young people.

Attempts to define creativity have always been confronted by principle, theoretical and methodological problems. The reason for this is that creativity is a complicated phenomenon, which is characterized by a number of factors that are often conflicting. For example, from the viewpoint of the social aspects of creative activity, it requires infringement of the existing social standards and conventions, but only to the limits that society is able and willing to tolerate at the given time. The issue of creativity, as a subject of scientific research, is also developing over the course of time. Taking the theory of creativity out of the narrow psychological framework, as suggested by E. Necka (1995), enables creativity to be interpreted in a new way, which in turn requires existing knowledge to be reinterpreted too. The interpretation of creativity from the viewpoint of individual psychical processes, attaches less importance to the influence of the environment as it deserves. On the other hand, socially and politically oriented interpretations could overestimate the influence of the social environment.

It is for these reasons that attention is paid in this paper to the influence of the environment on the motivation of secondary school students to participate in Student Professional Activities (SOČ)². The assumption was made that in today's society, which

¹ Creativity is defined in this paper in line with J. Hlavsa, et al. (1981) as a manifestation of activities topped with something new, novel, socially acceptable, which for child and youth creativity is usually subjective. In agreement with A. Christie (1999/1987), the authors believe that "Creative desire can manifest itself in any way: embroidery, cooking interesting meals, painting, drawing, modelling and composing, as well as writing books and stories. The only difference is that some of these things are more uplifting for us than others."

² Student Professional Activities (SOČ) is a competition held under the auspices of the Ministry of Education (MŠMT). It is one of the most important activities for supporting the professional (scientific) creative activities of secondary school students. It covers all spheres of human knowledge, including the natural, technical and social sciences, as well as humanities. The participants select their own theme for their professional work and process it by means of professional scientific work. The participants present their final work within the framework of a public defence thereof in front of professional juries in school, district, regional and national

is viewed as socially and economically complicated, and in which the family has undergone considerable change (Kraus 2008, 2001, 2015), the influence of the micro-social environment, especially the family environment and to a lesser extent the school environment, is not as intensive as many experts suppose.

The objective of this paper

The objective of this paper is to present the results of empirical research into the influence of the social environment on the creative activity of youth, as represented by the SOČ competition, and relate it to current knowledge on the interrelationship that exists between them.

From various research investigations and monographs on creativity it is known that the quality and the way in which a society functions, i.e. the macro-environment, is one of the most influential means for facilitating the creativity of both individuals and social groups. Some studies suggest (Szobiová 1998) that much more attention is paid to the issue of the macro-social quality of life and its influence on development and the use of creativity than to the influence on the micro-social level, i.e. the nearest social environment. This is usually justified by the fact that in advanced countries this is an accepted characteristic of society.

Nevertheless, the question remains, whether the so-called advanced countries, which have many problems in the socio-economic sphere, have the economic resources at their disposal to implement proposals to counter this. According to the research conducted for this article, the problem is more complicated than it would at first appear. This is confirmed by the fact that the Student Professional Activities (SOČ) competition, Česká hlava (Czech Head), České hlavičky (Young Czech Heads), as well as a variety of music competitions, including international ones, which are organized, for example, within the framework of the Prague Spring festival, have been organized in the Czech Republic for a number of years. The progress achieved over the last twenty years is illustrated by the fact that the majority of these competitions are now also open to amateurs; entry is not restricted to those with a professional education, as was the case in the past. However, the main problem lies elsewhere. For example, I. Hurník (Sak 2011) suggests that, although we have a talented pool of children and youth, who are helped to develop through systematic education and an individual approach, very little is done to support them in the following phase to find worthwhile fulfilment.

competition rounds. The works of the most successful authors are sent to prestigious international competitions (INTEL, ISEF in USA, EU Contest in Europe and elsewhere), where they regularly take prominent places. The activities undertaken by SOČ can be compared to those in some of the most advanced countries in the world. The quality of some of the works can be compared with that required for a university qualification.

Research methodology

Domestic and foreign literature were referenced for the analysis of the state of knowledge of the issue under scrutiny. In addition, empirical research was conducted. This involved explorative methods, a questionnaire survey and moderated discussions. The respondents were the participants of the Student Professional Activities (SOČ), in particular those participating in the national round of the competition, i.e. those who were already familiar with and had the necessary experience of the process of selecting, processing and defending a professional theme. The research was carried out on the assumption that social influences on a student's decision to take part in the SOČ competition is negligible. The research was conducted in 2010. Research being referred to took place in previous years. Repeated research in 2016 confirmed the cited results. Is confirmed as unchanged importance for today and the results are the basis for monitoring in the future.

In total, 177 secondary school students from all regions of the Czech Republic participated in the study (of which 123 students took part in the natural sciences and technical branches of the competition, and 54 students in the social sciences and humanities branches). The majority of the respondents were between 18 and 19 years old (rounded average age: 18.7 years). It is not surprising that only more mature students, with a higher degree of experience in the sphere of study and the use of professional knowledge and skills, advanced to the top round of the competition.

With regards to the duration of the respondents' study at secondary school, the majority were third and fourth year students (expressed as an average: 3.4 years - adjusted for the four year duration of the secondary education accordingly).

With regards to gender, 61% of all the respondents were male and 39% female. Within the natural sciences and technical branches men formed the largest group (72%), with 28% female. Within the social sciences and humanities branches women formed the largest group (63%), with 37% male (see Table 1).

Table 1: Composition of the respondents

Composition of the respondents	In total		Of which			
			Natural sciences & technical branches		Social sciences & humanities branches	
All respondents	177	100%	123	69%	54	31%
Men	108	61 %	88	72 %	20	37 %
Women	69	39 %	35	28 %	34	63 %
Average age	18.7		18.7		18.6	

Source: Authors

In order to present a complete picture of the respondents, the types of schools the respondents attended was also monitored. The majority of respondents attended gymnasiums (grammar schools) over secondary technical schools (0.52:0.47). In the

case of the natural sciences and technical branches, the division between gymnasiums (grammar schools) and secondary technical schools with a graduation examination was 1:1. This was not the case for the social sciences and humanities (0.57:0.41) (see Table 2). The table does not contain the full number of respondents. The reason for this is that not everyone responded to the question. This is also the case in other tables due to the fact that multiple responses were possible.

Table 2: Types of schools respondents attended

Type of school respondents attended			Of which			
			Natural sciences & technical branches		Social sciences & humanities branches	
Gymnasium (grammar school)	92	52 %	61	50 %	31	57 %
Secondary professional school	84	47 %	62	50 %	22	41 %

Source: Authors

The results of the discussion

Our research shows that macro-social influences are more often anchored at the declarative level. This is even the case where efforts are made, for example by the Ministry of Education (MŠMT), to involve those education institutions supporting the development of talented youth into the evaluation criteria (e.g. the Excellence programme started by the Ministry of Education in 2011³).

On the basis of different concepts and various sources of materials, it is evident that there are active efforts in the decision-making sphere to assist society in becoming creative. However, in reality this is lacking in many educational and cultural institutions. Mass media exposure does not directly contribute to the stimulation of creativity. The contrary is true, the majority of the time the level of exposure only evokes a passive response from listeners and viewers; very few are stimulated to activity and creativity, and act accordingly.

In general, the politicians responsible for education are increasing their efforts to stimulate the creativity of teachers, as well as students, and in the future the broader population. These efforts are based on the principle of school (curriculum) reform, whereby it is possible to monitor (new) trends for supporting creativity and activities designed to develop a person's abilities (endowment and talent). In practice this involves the implementation of "framework education programmes" for different types of education and its transformation into school education programmes.

³ The basic objective of the programme is to increase and extend the quality of the support for talented students at secondary schools who are able to achieve excellent results ("Evaluation of students and schools pursuant to the competition results in 2011 – Excellence of secondary schools 2011, ref. number 20 036/2011-51" a pilot development programme aimed at improving the quality of education of talented students at secondary schools, with a view to markedly improving the financial recognition of school teachers on the basis of the results of students participating in competitions and exhibitions).

Unfortunately, the best intentions are not always realised. It is apparent that the success of such measures is very dependent on, for example, personnel, socio-economic circumstances, local conditions and the situation in the respective school. Teachers, for example, highlight the dissolution of the state-owned organization Komenium, which was responsible for the production of teaching aids. They must now source teaching aids elsewhere, unsure of whether the sellers are reputable and qualified to do so, which puts them at risk of purchasing unsatisfactory aids. Teachers also quite often have to create their own teaching aids, which leaves them with little energy to develop creativity within the education process itself (notwithstanding the professional, technical and technological level at the present stage of technological developments). On occasion, they must also search for aids in complicated catalogues in an effort to combine products that are not completely compatible, and of which the price is often beyond the reach of the school.

Officially, schools also have an unequivocal duty to support talented young people. This requirement is clearly not being fulfilled by all schools. The numbers of students in classes simply prevents the application of an individual approach to students and educational pre-concepts. There are many more examples like this. Nevertheless, the generally held view is that the influences at the macro-social level create the conditions for the "prepared ones" i.e. for those individuals and social groups that would be creative anyway, irrespective of the specific conditions at the time. Unfortunately, these individuals and groups form a very small section of society. It would therefore be in the interest of the development and perfection of society to encourage and support these individuals and social groups to become creative, even if they are not yet "ready" for it, but potentially could be according to certain characteristics they possess. This issue also relates to the stimulating effect the environment in which these people live has on them.

Within the aforementioned context, the macro-social level of society can either be favourable for the stimulation and development of creativity, or unfavourable by throwing up social barriers to it. In general, even though society may be open to creativity, the climate of creativity that certain individuals and social groups require may not yet have been created. For example, the appreciation of only some types of creative individuals (sportsmen, politicians, authors of popular music, etc.) is a consequence of general imperfections in the social conditions within a society.

The influences arising from the micro-social environment are even more unambiguous. Our research shows that the impulse for professional creative activity comes mainly from the school environment (see Table 3). In contrast, the role of family in this process is very limited. The principal role of teachers in motivating the students to take part in the SOČ competition was, as expected, significant and beyond all expectations. The respondents praised the professionalism of their teachers; they looked up to them as role models.

There is another significant qualitative dimension to the influence teachers have on initiating student interest in creative activities. The data presented in Tables 3 and 4

unambiguously show the dominant role secondary school teachers have in initiating a student's primary impulse to engage in such scientific work. However, the data also shows that the teachers left sufficient space for the students to make individual decisions on the selection and processing of their professional theme. In other words, the teachers acted as a facilitator and assistant in the cultivation of thoughts, ideas and conceptual approaches.

Table 3: Source of the impulse to undertake professional creative activities

Source of the impulse to undertake professional creative activities	In total		Of which			
			Natural sciences & technical branches		Social sciences & humanities branches	
teacher	154	87 %	104	85 %	50	93 %
classmates	16	9 %	12	10 %	4	7 %
Internet	3	2 %	3	2 %	0	0 %
elsewhere	16	9 %	13	11 %	3	6 %

Source: Authors

Table 4: Identification of the person who determined the theme of the professional activity

Person who determined theme of professional activity	In total		Of which			
			Natural sciences & technical branches		Social sciences & humanities branches	
respondent himself	136	77 %	88	72 %	48	89 %
teacher	25	14 %	20	16 %	5	9 %
somebody outside the school	19	11 %	18	15 %	1	2 %

Source: Authors

The next part of the study showed that family also has a role to play in influencing the future creativity of secondary school students. This is expressed in terms of the inspiration they give with regards to the future choice of profession (parents, grandparents, and in part siblings) and the type of secondary school education, as well as in terms of serving as a role model through the performance of their own profession. The influence of family is particularly intense around the decision-making processes concerning the type of education (Střelec 1996). Nevertheless, this influence was found to be less intense among the respondents who took part in the SOČ competition. The decision making role of parents in the group was more "by proxy" through the inspiration they provided. The influence of schoolmates and friends was also found to be high (higher than that of immediate family). A full 30% of respondents based their choice on the inspiration they drew from friends (for example from students in higher grades who had already taken part in professional creative activities and who had their first experience of "scientific" work). Behind this inspiration can also be social relations and peer groups. According to some authors (Blesste, Hlavsa, Thormannová 1979;

Szobiová 1998; Mayer 1999; Szmidt 2001 and others), creative individuals regard the quality of social relations as one of the conditions for stimulating and utilising their creativity. The quality of these relations is expressed in terms of mutual understanding, stimulation and activation, the finding of common ground, the declaration of similar values, as well as through the creative relationship with reality. In contrast, other authors believe that these opinions do not reflect reality because it is well known from social practice that creative people can be non-conformist, locking themselves away from society, distinctly introvert (e.g. Ďurič 1948; Dočkal 1987), and so on. However, what is not frequently taken into consideration is that introversion is a reaction to conditions within society and that a non-conformist stance is a creative reaction to this condition. Creative individuals often see things that other people do not or do not want to see in order not to create “problems” for themselves.

There is no evidence in our research to show that the respondents have a distaste for cooperating or communicating with other people or groups, or for exchanging opinions with them. However, it does show that real creative activity is primarily a matter for the individual and is often conducted in familiar surroundings – at home, rented accommodation, etc. The question is whether the qualitative change in society during the last part of the 20th century, in terms of ease of access to information, rapid communication, the ability to travel, and a certain “overpopulation” in public life, has resulted in creative people locking themselves up in search of privacy, or whether the opposite is true, that it motivates them to attempt to attach themselves to groups worldwide with a greater affinity to their own values, which subsequently stimulates them to undertake meaningful activity. It is well known that the motivation and emotions of human beings are conditioned by their social relations and vice versa (see Table 5).

The respondents in our research did not show any tendency to ignore the influence of other environments, to avoid life in groups, to not submit to accepted standards, or live in isolation. These findings can be put down to either one of two reasons. Firstly, the respondents are only at the start of their professional creative activities, or secondly, we still know very little about the status and the interaction of creative human beings in social groups. The latter reason means that all the research that has been conducted so far does not sufficiently reflect the radical changes in the way society functions (see Table 6, 7, 8).

Table 5: Respondents' evaluation of the benefit of Student Professional Activities for personal development

Evaluation of the benefit of <i>Student Professional Activities (SOČ)</i> for personal development	In total	Of which	
		Natural sciences & technical branches	Social sciences & humanities branches
Evaluation on a scale of 1 to 5 (1 = the best, 5 = the worst)	1.4	1.4	1.2

Source: Authors

Table 6: Source of the personal professional consultancy for processing of the professional work, as was chosen by participants of the professional creative activity

Professional consultant, work leader	In total		Of which	
			Natural sciences & technical branches	Social sciences & humanities branches
teacher	105	59 %	62	50 %
expert outside the school	74	42 %	63	51 %
nobody	13	7 %	10	8 %

Source: Authors

Table 7: Source of advice on the structure and content of the respondents' professional work

Adviser on the structure and content of the professional work	In total		Of which	
			Natural sciences & technical branches	Social sciences & humanities branches
consultant	117	66 %	80	65 %
methodical aids	44	25 %	28	23 %
something/someone else	29	16 %	24	20 %

Source: Authors

Table 8: Source of advice on the formal layout of the respondents' professional work

Adviser on the formal layout of the professional work	In total		Of which	
			Natural sciences & technical branches	Social sciences & humanities
consultant	94	53 %	64	52 %
methodical aids	49	28 %	31	25 %
something/someone else	51	29 %	37	30 %

Source: Authors

Unlike M. I. Stein (1964) suggests, our research did not reveal that the young people taking part in the SOČ competition have less intensive relations with their parents or grandparents, or that they are less likely to take part in group activities, or engage sooner in independent work. On the contrary, the respondents had equally warm and intense relations with their parents and grandparents as any other youth. However, they have a tendency towards greater independence and introversion, as well as a preference for experiencing life situations through participation in groups with the same values and are driven by a deeper motivation to perform. Their families encourage them, even if indirectly, in these creative efforts. It could be said that their parents and grandparents act as role models for the relationship between creativity and objective reality. They strive to cope with the potential creative activities regardless of the type of activity and the real result. As stated above, our research also did not reveal that the respondents' relationships with their parents and grandparents are less intensive. On the contrary, the majority of respondents highlighted the great care that was taken of them, in particular during their pre-school years, as well as during their formative years when a young person's personality is shaped. It was also not possible to unambiguously prove the results of research conducted in the 1980s, which showed that young people with a high degree of creativity described their homes as less happy than those of young people who did not evince to being creative. It should be noted at this point that this issue may also be connected with the high degree of sensitivity the majority of creative individuals have to their surroundings, which makes them naturally more critical. Nevertheless, the results of our research did not reveal such evaluations of family life and home background.

The hypothesis put forward by M. I. Stein (1964) that the future "creators" are less likely to participate in group activities and are more likely to focus on independent work, proved to be problematic too. Our research showed that the majority of respondents did indeed participate to a lesser extent in class based group activities, but that they participated with greater intensity in those groups with similar interests and value orientation. Within this context, and from the viewpoint of behavioural patterns, it would be interesting to determine how the individual's parents and grandparents were involved in motivating the young generation's creativity. G. Domino (1979) affirms that the parents of creative boys were more likely to be engaged in artistic activities themselves, whereas the parents of less creative individuals were more likely to be engaged in sport. From the viewpoint of the behavioural patterns according to gender, the author subsequently affirms that mothers play a greater role in developing the creativity of their sons, whereas fathers that of their daughters.

The issue of the creativity of the younger generation in relation to their academically and professionally educated parents is more complicated to address (see research by Kováč 1982; Dočkal 1986). It was not possible to unequivocally state that there was no influence on the creativity of the younger generation from parents with a university degree. However, it appears that a greater role is played by the fundamental values held

by parents on education and knowledge, irrespective of their achieved level of education or the nature of their professional activities.

The way in which someone is brought up is often highlighted as a factor for stimulating creativity and creative potential. Unfortunately, the categorization of upbringing styles gives a false impression of “make or break” closed systems. The responses from the young developing creative personalities affirm that a pure style of upbringing in an educational environment can only be achieved in isolated cases. From the findings obtained from this research it would appear that the application of both the democratic and authoritarian styles of upbringing are the best for motivating a child’s creativity. On the one hand, parents, grandparents or other educators must therefore insist on the fulfilment of their requirements without compromise (responsibility, cultivation of volition, developing a sense of system, etc.). On the other hand, they must provide the young person with sufficient freedom and liberty to make their own decisions, explore their surroundings and express their opinions, at the same time as proffering respect for unusual thoughts and providing assistance in overcoming difficulties and supporting self-belief and self-development.

When looking at the correlation between the environment and creativity, the tendency is to view those factors that support and motivate, or to the contrary, hinder and limit, the development and the utilisation of creativity, in black and white. Within this context, so-called classical schooling, as characterized by a tough drill, encyclopaedism, reproduction of the curriculum and memorization, runs opposite to those concepts of teaching that embrace liberalism in upbringing and education to support the development and utilisation of creativity. However, the latest research, including the research conducted for this study, confirms that without a certain systematic cognition and the creation of a knowledge base it is impossible to achieve higher levels of creativity. Even if a direct relationship did not exist between intelligence, education and creativity, without a solid knowledge base it is impossible to achieve higher degrees of professional creativity. Within the school environment it is clear that the teaching climate therefore plays an important role in developing the required knowledge base. To create a favourable atmosphere for the development of creativity, the expectations and efforts of the teacher must match those of the students, this in spite of the high demands placed on students to acquire the curriculum content. The importance of this is emphasized all the more by the extent and the consistency of the teacher’s own creativity. Ironically, excessive teacher activity can stifle or inhibit the creative efforts of certain students. Similar issues can also arise in the family. An excessively inspiring environment in the family can paradoxically cause passivity in its younger members.

Conclusion

The empirical research conducted for this paper sought to clarify the interrelationship between the development and utilisation of creativity and the social environment. The study was also a response to the growing neoliberal trend to excessively individualize creative expression and activities and to entirely ignore social influences. Under

neoliberalism, the basis for the organization and prosperity of society is exclusively formed by individual abilities and forces. However, from the culture heritage of preceding generations, we know that this is not true and that the main source of creativity has its roots in society and is transformed by the individual. These conflicts are evident in the problems that arise when attempting to define creativity; creativity is characterized by a number of factors that are often contradictory! For example, from the viewpoint of the social aspects of creative activity, it requires infringement of the existing social standards and conventions, but only to the limits that society is able and willing to tolerate at the given time.

Our research confirmed the initial hypothesis that a family's influence on the creative activity of students is not as significant as expected. Of greater importance was the indirect impact of the family. The role of Student Professional Activities (SOČ), as representative of the development of youth creativity in the Czech Republic, is anchored in the social environment. By conducting empirical research involving SOČ participants, an attempt was made to get to the roots of and determine the dependence of creative performances on the social environment. Our research confirmed the hypothesis that the creative efforts of those participating in the SOČ competition is based on the social background of their families and the schools which they attend.

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SEMRÁD, J. and M. ŠKRABAL, 2017. The Influence of the Social Enviroment on the Creative Activities of Secondary School Students. *Littera Scripta* [online]. České Budějovice: Institute of Technology and Business in České Budějovice, **10**(1), 117-130 [accessed: 2017-06-27]. ISSN 1805-9112. Available at: http://journals.vstecb.cz/category/littera-scripta/10-rocnik-2017/1_2017/.

“I Will Not Give Up”: A Case Study on Human Resource Practices with regards to People with Disabilities at the Nem Adom Fel Cafe and Bar in Hungary

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Abstract

Background: One of the biggest challenges for a person with disabilities is to find decent employment in order to be independent and economically active. This paper presents the professional inclusion of people with disabilities at a cafe in Budapest, Hungary.

Purpose: The objective of this paper to present the human resources practices at the Nem Adom Fel¹ Cafe and Bar. The mission of the Nem Adom Fel Cafe and Bar is to encourage the social integration and inclusion of people with disabilities by offering employment and providing opportunities to have a decent life style.

Methodology: The basis for this exploratory study was research conducted through a case study. Data collection was collected through semi-structured interviews, on-site observations and document analysis. Interviews with the employees and customers were carried out over a period of nine weeks at the cafe and adjoining foundation office. The data were cross-checked again with all the participants (employees only) to ensure reliability, validity and dependability.

Results: The findings of the project showcases the different dimensions of human resources practices in the cafe. These can be categorized as follows: (i) diversity of people, (ii) educational and professional qualifications, (iii)

¹ Nem Adom Fel is a Hungarian sentence which means “I will not give up”.

recruitment, selection and training procedure (iv) salary structure, remuneration and benefits, (v) job restrictions caused by specific disabilities, (vi) employer- employee relationship with regards to employees with or without disabilities and, (vii) the socio-economic viewpoint. The study has a number of limitations, for example the dearth of published articles in Hungary and the fact that the study cannot be generalized across Hungary as the sample size was small and the study was conducted at a cafe which only represents one particular industry.

Conclusion: This research is part of a PhD thesis which seeks to explore human resources practices focus on employees with disabilities and expected to provide a momentous addition to the disability movement all over the world. This case study also helps to bridge the gap and remove social barriers between employees with and without disabilities in terms of communication, stereotypes and perceptions.

Keywords: Aesthetic appearance, case study, diversity, Hungary, people with disabilities

Introduction

The 'right to work' is every citizens birth right including people with disabilities and the primary goal of every government is to safeguard the rights of it's people. Disability is a complex concept and one of the inevitable challenges faced by governments worldwide. A person can have physical, mental, sensory or intellectual limitations or combination of any of these limitations.

The objective of this paper is to present the human resources policies and procedures at the Nem Adom Fel Cafe and Bar in Hungary with regards to people with disabilities. In Hungary, there is a lack of research into the employability of people with disabilities publications on human resources practices adopted by organizations are scarce. This study focuses on employees (with or without disabilities) working in the cafe and the findings provides an interesting insights into the HR policies adopted and practiced at the cafe. This paper could be useful for employers, employees with or without disabilities, job recruiters, job seekers (individual with disabilities), strategists, project managers and others who are actively involved in the professional integration of people with disabilities.

This paper has been divided into several sections in order to create a clearer overview of the results of the case study at the centre of this research. The first section presents statistics to explain the actual situation of people with disabilities in Hungary and the world. The second section highlights international and Hungarian legislative initiatives that benefit both employers and employees with disabilities. The next section includes a description of the

methodological approach adopted for this study and a brief introduction to the Nem Adom Fel Cafe and Bar. This is followed by the detailed presentation and discussion of the key findings from which conclusions are drawn.

According to International Labour Organisation, there are approximately 1 billion people worldwide (15% of the world's population) live with some kind of disability, of which 78.5% fall into the working age category (ILO 2015). Europe as the world's third largest populated continent after Asia and Africa, it has been observed that there is a big employment gap between those people with and without disabilities whereby 64% of people without disabilities are employed and only 38% of disabled people are active in the labour market and earning an income (Kalef, Barrera and Heymann 2014).

The scenario in Hungary is very different. In total, there are total 490,578 people with disabilities (i.e. 4.9% of the total population) out of which 230,547 are men and 260,031 are women (KSH, 2011 and Jakab 2013). The overall employment rate in Hungary for those people in the age group 15-64 years is 57.2%, whereby for men is 62.5 %, and for women is 52.1% (Tóth and Lengyel, 2014). There are approximately 185,000 people with disabilities (in Hungarian terminology: people with a changed working capacity) in the age group of 15-64 years who are economically active, of which 139,000 are employed and 46,000 unemployed (KSH 2012).

The biggest challenge for any government is to provide employment for people with disabilities in rural areas. According to the ILO report, the majority of people with disabilities living in rural areas face socio-economic barriers to education, employment and economic accessibility (Eskola 2011). In Budapest, 64.8% of healthy & 21.2% of people with disabilities are employed. The situation in villages is more alarming situation, whereby 81.1% population of people with disabilities are not even present in the labour market (either as employed or active job seekers) (KSH 2012).

Global awareness is on the rise with regards to the inclusion and rights of people with disabilities in different walks of life. Disability policies and anti-discrimination laws that include disability in their chapters and constitutional procedures are the main key instruments drafted and adopted by governments and international bodies, e.g. ILO, WHO, etc.

The United Nations Convention on the Rights of Persons with Disabilities (CRPD), a United Nations initiative to recognize the equal rights of people with disabilities worldwide by mainstreaming disability at regional, national and international level through the promotion of large scale policies, plan and programs. Article 1 of the UNCRPD states "The purpose of the present Convention is to promote, protect and ensure the full and equal enjoyment of all human rights and fundamental freedoms by all persons with disabilities and to promote respect for their inherent dignity" (United Nations 2006, pp.5). According to latest reports published by the Office of the High Commissioner, 166 countries (state party) have ratified

the convention i.e. treaty has come into force , 21 countries have signed it but not ratified it yet and 11 countries have not expressed their consent (United Nations 2016). It is a two way process in which all state parties i.e. the countries which have ratified convention, have to submit status report every 4 years regarding the implementation of the procedural rights of people with disabilities, on the basis of which the committee gives advise or makes recommendations if any at all. On 20 July 2007, Hungary became the second country in the world to ratify UN Convention on the Rights of Persons with Disabilities on 20 July 2007 (Disabled World, n. d.).

The National Office for Rehabilitation and Social Affairs (NORSA), a branch of the Ministry of Human Resources of Hungary, is a medical, rehabilitation and social services establishment which manages, in addition to its other obligations the portfolio for the medical examination, comprehensive rehabilitation and social employment of people with disabilities. With regards to the rights of people with disabilities in Hungary, there are several acts such as The Act XXVI from 1998 on the Rights and Equal Opportunities of Persons with Disabilities, The Act CXXV from 2003 on Equal Treatment and Promotion of Equal Opportunities, The Act CXXV from 2009 on Hungarian Sign language and The Fundamental Law of Hungary from 2011, which are major instruments of Hungarian legislation with regards to the rights of people with disabilities (NORSA n. d. ; Hungary 2011 (a), Hungary 2011 (b); Hungary 2003; Hungary 1998) These Acts have been revised and amended from time to time to safeguard the interests of individuals with disabilities.

In 2000, the United Nations honoured the Hungarian government with the Roosevelt International Disability Award for drafting and adopting exclusive legislation, namely Act XXVI from 1998 on the Rights and Equal Opportunities of Persons with Disabilities (Act on the Rights of Persons with Disabilities) (United Nations 2000).

In Hungarian society as a whole, the government and employers in Hungary have an active role in the successful implementation and promotion of employment policies for people with disabilities. Like in other European countries, tax benefits for employers, subsidies, a quota system and housing and rehabilitation assistance form some of the most important financial and non-financial devices of the government (Jakab 2013). The Government of Hungary introduced rehabilitation cards to promote the employment of people with disabilities on the open labour market. The card system is beneficial to employers as the card gives immunity to employers against contribution tax (27%). By 2015, approximately 30,577 people with disabilities were registered under the system (Szekeres 2015). Another concept introduced by the government to promote employment is through the 'quota system', whereby employers are duty bound to maintain a 25:1 (5%) employment ratio i.e. with for every 25 persons with no disabilities employed by any organisation, there should be one employee with disabilities employed. If an employer fails to maintain this ratio they are penalized with a rehabilitation tax i.e. 964 500 HUF/person/year (Jakab 2013; Diossi 2011; Könczai and Horváth 2007).

The responsibility of a government is to implement, monitor and continuously update the short comings in the procedures, if any. The ILO (2007) in their report clearly state people with disabilities at work place are subject to discrimination when compared to people without disabilities i.e. low wages, stereotyped opinions about their work performance, segregated job responsibilities and work place environment concerns.

Methodology

Research Site Selection

The Nem Adom Fel Cafe and Bar was founded in the heart of Budapest in January 2016 and is run by people with disabilities. The Nem Adom Fel is a Hungarian proverb which means 'I will not give up'. This Cafe is an extension of the Nem Adom Fel Foundation which is not only actively engaged in raising the living standards of socially disadvantaged families but also helps them to discover their spiritual strength and inner capabilities. The cafeteria is colourful, well designed and is staff by those who project the "Nemadomfel spirit", which reflects the belief that anyone can be in any life situation, everyone has the fortitude and the ability to get the most out of themselves. The cafeteria serves as a social enterprise and employment hub for people with disabilities. It hosts cultural events, informal gatherings and more importantly, is a place where people can meet and greet people and share social responsibilities on a common platform.

Data collection and analysis

One of the authors identifies himself as a person with disabilities and chose to undertake a different approach contributing towards the professional integration and social inclusion of people with disabilities in the society. A case study approach was therefore the obvious choice for this research as it allowed the researchers to garner detailed information about the individuals and their relationship with the research topic, as was addressed by Sekaran (2003, p. 119), "the case study, which is an examination of studies done in other similar organizational situations, is also a method for solving problems, or for understanding phenomena of interest and generating further knowledge in that area". The main idea of this article is therefore to provide in-depth knowledge on the topic under-investigation and to conduct research in this area. This study which is part of the ongoing PhD thesis research, highlights the different dimensions of human resource management in the Nem Adom Fel Cafe and Bar. Yin (2009: 4) also agree that case study methodology is the best research instrument to understand realistic events in any organisation, "the case study method allows investigators to retain the holistic and meaningful characteristics of real-life events-such as individual life cycles, small group behaviour, organizational and managerial processes, change of neighborhood, school performance, international relations, and the maturation of industries".

Due to the qualitative in nature of the research and the need to explore the experiences of employees with disabilities; onsite observation, face-to-face semi structured interviews and document analysis were used to collect the data. Twenty five employees and twelve customers were interviewed over a nine week period at the cafe and adjoining foundation office.

A covering letter was emailed to the manager of the cafe requesting to grant permission to conduct a research in the Nem Adom Fel Cafe & Bar. The covering letter contained a brief introduction on the authors, the purpose of the study and detailed outline of the time duration and research methodology.

The research process started with an informal interview of the cafe manager in order to establish and understand the vision & mission of the foundation, overall structure of the cafe, duties of employees, etc. All the employees i.e. from the manager to the kitchen helpers and the customers were interviewed at the cafe over a period of nine weeks with the aim of collecting comprehensive and distinct information on the subject. The interviews were recorded with the prior permission of the participants and the author also took notes in order to later be able to cross reference them with the transcribed data. The length of the interviews ranged from 20 to 130 minutes for each session. The audio taped interviews were transcribed into codes and then manually categorized into themes relevant to the objectives, questions and available literature. The analyzed data were later compared with handwritten notes. The same information was shared with the participants to maintain the accuracy and the reliability of the data collected.

Before the start of each interview, a social worker approached an employee on behalf of the interviewer to determine whether they were comfortable in participating in a casual face-to-face interview with regards to their education, disability, personal and professional experiences. Initially, two employees refused to participate in interview sessions but later contacted social worker and expressed their desire to be part of the study. The social worker remained present during the majority of the interviews for two reasons. Firstly, due to one of the authors inability to communicate in Hungarian language. Secondly, to maintain a comfortable atmosphere throughout the interview because the same author belonged to a different ethnic group. All the participants during the interview were encouraged to speak their mind and from the heart out during the interview on the issues which they felt were important and which would help the authors to accomplish the objectives of their research. The interviews were carried out in English and Hungarian languages. The social worker, who was fluent in both languages, was able to translate the information from Hungarian into English language.

Tab. 1: Examples of questions posed during the semi-structured interviews.

Respondent details	Questions for respondents
<i>Manager and supervisors</i>	• Personal and professional details (age, gender, type of disability if any, educational background). • What is the mission of the NemAdom Fel Cafe and Bar? • How do you recruit people with disabilities and what are the selection criteria? • What are the HR policies of the organisation? • Please explain the corporate diversity of this cafe? • How do you train, motivate and support employees with disabilities? • Do you ask employees about their job preference? How do you delegate tasks and responsibilities? • How do you describe the relationship of between employees with disabilities with other employees and customers? • Please explain the financial and non-financial remuneration offered to employees? • Are customers aware that of this cafe and bar is an integrated workplace? • What are the challenges and benefits of having people with disabilities as employees?
<i>Employees</i>	• Personal and professional details (age, gender, type of disability if any, educational background). • Why did you want to work here? • How different it is working here to your previous employment? • Do you like working here? If yes, why?if not, why? • Are you receiving financial support from the government? • How is your relationship with the manager, other employees ? • What are the challenges and benefits of working here? • How did you findout about this organisation?
	• Personal and professional details (age, gender, type of disability if any, educational background and profession).

<i>Customers</i>	• How did you find out about this cafe? Do you know it is an integrated work place? Do you come here very often? • What is the best thing about this cafe? • Physical attractiveness, aesthetic and self presentation skills are a prerequisite for the service industry, What is your take on this? • What do you think about people with disabilities as employees?
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Source: Authors

All the participants were advised about the purpose of the study and were also advised to refrain themselves from answering any questions which would make them feel uncomfortable, for example, an employee refused to answer the question about how much Hungarian Forints (HUF) he received in financial support from the government in addition to his wages. The questions for managers, supervisors and employees were focused on human resources policies and practices (e. g., the personal challenges faced at work due to specific disabilities, understanding and relationship between employees with disabilities and other employees, wage structure, employability requirements for people with disabilities, customers behaviour and job satisfaction criteria), whereas the aim of customer interviews were more focused on getting feedback on the adequacy of the services provided by the cafe, reasons for visiting this cafe, their perception towards employees with disabilities in any organization and the importance of physical attractiveness, aesthetics and self presentation skills in services industry. The author reviewed the data from time to time to ensure their accuracy and reliability. During the entire period, authors also made observations of day-to-day operations in the cafe, in particular focusing on the behavior and interaction of employees with disabilities with other fellow colleagues and walk-in customers. All the employees wore clean uniforms, were courteous, pleasant, focused and organized. They performed their duties in accordance with instructions of the shift supervisor and independently handled the needs of their customers. At the end of all the interviews and observation sessions, an initial draft was shared with all the respondents to confirm the dependability of the data. The final draft was discussed with peers and researchers in order to have their feedback on the content and to gain additional insights.

Results

The interviews with the cafe manager, supervisors and other employees provided some insights into the employability of people with disabilities in the Nem Adom Fel Cafe and Bar. There were also few casual conversations with walk-in customers (randomly selected) at the bar. The purpose of interviewing the customers was to determine their outlook towards the concept of disability and how they perceive people with disabilities at work. In order to create a better overview of the issues, the rich insights which were derived from the interview and onsite observation were categorized under following headings (i) diversity of people, (ii) educational and professional qualifications, (iii) recruitment, selection and training procedure (iv) salary structure, remuneration and benefits, (v) job restrictions caused by specific disabilities, (vi) employer- employee relationship with regards to employees with and without disabilities, (vii) the socio-economic perspective. The authors decided to have pseudonyms for the respondents in order to ensure their anonymity. A number of quotes from participants are used in results section to bring out the 'deep' and 'true' facts and human emotions.

Diversity at Nem Adom Fel Cafe and Bar

There is a lot of diversity in Nem Adom Fel Cafe and Bar in terms to age, type of disability, gender, education, job responsibilities and work experience (see table 2). In total, 25 employees work at the cafe. Social workers and psychotherapist were recruited by the Nem Adom Fel foundation.

Table 2: Diversity (disability) of employees at the Nem Adom Fel Cafe and Bar.

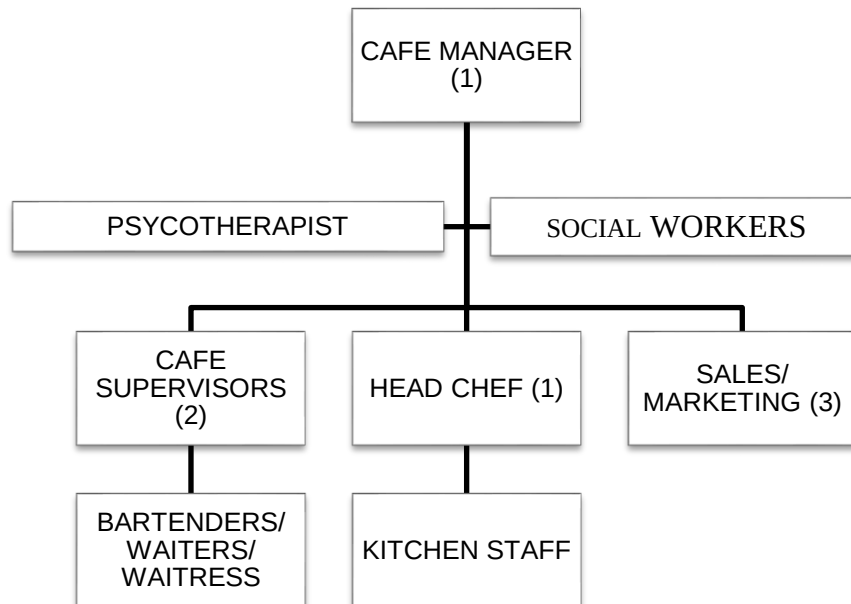
Type of disability	Male	Female
Orthopedic disability	1	
Visual disabilities	1	1
Hearing and speech disabilities		1
Mental or development or intellectual disabilities	6	8

Others (single or multiple-disabilities)	2	
Employees with no disabilities	1	4

Source: Author's own interpretation.

The hierarchical structure of the cafe is quite traditional, typical and simple to understand (see figure. 1).

Figure 1: Organizational chart of the Nem Adom Fel Cafe and Bar.



Source: Authors

Educational and professional qualifications

Findings shows that majority of the people with disabilities possess high school diplomas. Many of them have basic primary school education and a few have been awarded certificates for additional vocational courses, as recognized in the NQR (National Qualifications Register, in Hungarian the abbreviation is OKJ).

Table 3: Educational and professional achievements of the employees.

	Primary school (regular and integrated schools)	Secondary school (regular and integrated schools)	Additional qualifications (OKJ)/other vocational courses)	Under- graduate	Post- graduate
Employees with disabilities	8	12	7	-	-
Employees without disabilities	-	5	3	-	-

Source: Authors

Recruitment, selection, induction and training procedure.

The cafe manager explained that the cafe's terms and conditions of recruitment for the staff with or without disabilities were in the regulations set by the government of Hungary. There are different practices of recruitment at Nem Adom Fel Cafe and Bar. The candidates are recommended by current employees and friends but also through other non-governmental organizations. The cafe's Facebook page is also a popular platform for recruitment and is intensely browsed by applicants for job vacancies. The manager confirmed that the cafe does not face any challenges in the recruitment of people with disabilities because the location of cafe is very prominent in the city of Budapest and the reputation of the foundation also helps to attract good quality future employees.

There are currently 25 people employed in the cafe, comprising of a cafe manager, 2 shift supervisors, 3 sales & marketing executives, a head chef, waiters/waitresses and kitchen helpers. There are a few social workers and an in-house psychotherapist to assist if required. The major responsibilities of the manager are recruitment & training, safety compliance, cost control and the day-to-day management of the cafe.

Each supervisor works on alternate days and has the longest shifts when compared to those of the other employees. They work on the basis of alternating 2 or 3 day weeks i.e. supervisor A works 2 days for the first, whilst supervisor B for 3 days; the following week, A works for 3 days and B for 2 days.

The manager has confirmed that all the recruited staff did not have prior work experience in the hotel and catering industry. The initial training was provided by the sponsors to the manager and supervisors. The training programme is divided into job tasks & sub-tasks. The delegation of tasks and the duration of shift depends on the type of disability and person's individual capabilities. There are no fixed performance evaluation criteria at this cafe. There is a three day trial period during which candidates are evaluated for their potential and the skills. If the trial period is completed successfully, the new employee is asked to sign a contract and receives induction training. The new employees are placed on 3 months probation period during which their performance is assessed by the cafe manager and shift supervisors. So far, only three employees (two females and one male) were made redundant during the probation period due to their behavioural and non performance issues. Following the induction training, all the employees initially work for 4 hours a day (20 hours a week) regardless of the type and degree of disability. The work shift and job responsibilities are subject to change depending on employee's learning ability and job performance.

The most important and challenging job for the supervisor is to draw up the monthly work roster for employees. Employee S, who is the supervisor responsible for preparing monthly roster stated:

"All the employees are asked about their task and schedule preferences but it is very difficult to arrange a roster as per their request. There are lot of constraints for example, government regulations, employees with two jobs, personal capabilities and medical limitations, etc. We also have to make sure that there is balance in terms of job requirements and disability diversity".

Employees are advised by the supervisor to inform the management in advance if they have any holiday planned. This makes planning the roster more efficient and ensures a balanced roster for the month.

Salary structure, remuneration and benefits

All employees are entitled to a healthy meal and a drink in accordance with their contract. On top of this, all employees receive an extra 25% discount on food and beverages. The customers are very generous with the 'tips' and the cafe manager decides how these are divided among the employees subject to an individual's performance and the number of hours worked during the month. The tips are given in cash to the employees whereas the salary is directly credited to their respective bank accounts.

The salary varies from employee to employee, but basic criteria for determining it are previous work experience, skills, government regulations and employer- employee arrangements at the time of the interview. The fixed percentage of income tax is directly deducted from the salaries of all employees, however people with disabilities pay less tax.

The majority of employees receive financial support from the government based on type and degree of their disability and other criteria.

The 'the employee of the month' award is a motivational tool which is used to encourage a positive working environment and to boost the morale of the employees. Every month, a winner is announced who shows incredible will power, excellent customer handling skills and is a good team player. The 'employer of the month' does not only have their photo displayed on the notice board for the entire month, but also receives a certificate and gifts.

Job restrictions caused by specific disabilities

The management of the cafe provides all the necessary accommodation, working conditions, flexible working hours and operational facilities to its employees. The cafe manager, head chief and both supervisors (all being employees without disabilities) were asked to pin-point the problematic areas in terms of delegating job responsibilities. According to them, there are certain jobs which are not suitable for people with specific disabilities. For example, a person with a visual disability could not be recommended for work in the kitchen duty or a person with hearing and speech difficulties would have issues being a waitress/waiter as they are in direct contact with the customers, or employees with orthopedic disabilities could not perform tasks which requires the lifting of heavy objects. Employee I (Head chef) showed his objective concerns:

"This is a cafe and employees are expected to be fast and productive under pressure. Employees with disabilities work in a different manner and are somewhat slow in performing certain tasks. We have to take these limitations into consideration when assigning them any job. Employee A has a speech disability and that is the reason she has been assigned duties in the kitchen. Although she can understand people through lip reading, she prefers to stay in the kitchen to help me".

A person who has orthopaedic disabilities is not suitable for kitchen duties which involves the lifting of heavy utensils or the receiving of grocery deliveries, but they are definitely suitable for jobs as a receptionist, cash registerer or waiter/waitress (Bengisu and Balta, 2011).

Employer- employee relationship

The most challenging job for any manager in the services industry to maintain a harmony between the employees. Employee M, the manager of the cafe, has not experienced any friction between employees with or without disabilities so far, but is not surprised by the mixed responses from the employees : Can you describe what is your relationship is like with the manager and other employees? Since this cafe employs a diverse range of people in terms of age, type of disability and gender, therefore multi-dimensional opinions were to be expected. Employee T, for example hold down two jobs and he prefers the other job because

the employees (all employees without disabilities) in the other cafe are more relaxed when it comes to performing their duties. Employee T responded to the same question by saying:

“I love working in both cafes because both provide competitive salaries. However, my colleagues at the Nem Adom Fel Cafe and Bar are very focused and dedicated towards their job so we share a very formal rapport. We only exchange general greetings like ‘hello’ and ‘hi’. My colleagues at the other cafe are very pleasant and we discuss about lot of things while working together”.

On the contrary, Employee R holds a different opinion of his colleagues at the cafe. He also hold on two jobs and actively performs as a DJ for foundation related events and would like to continue with colleagues in Nem Adom Fel Cafe and Bar. He stated:

“The money I can earn more in my other job as a receptionist at the headquarters of one of the Budapest’s biggest retails stores is better. I also have a big desk with up-to-date gadgets but I have strong bond with my colleagues at the Nem Adom Fel Cafe and Bar.”

The professional relationship between employees with and without disabilities is another challenge faced by many employers. People with disabilities have the impression that many individuals without disabilities are not aware of the concept of disability and the challenges faced by them. Employee V, a waitress complained:

“Individuals without disabilities are not aware of the many problems we face (people with disabilities). For example, we (people with autism) are very sensitive to noise and this is one of the characteristic issues of my disability which needs to be addressed and conveyed to other people. Supervisors and other staff members need to be careful while communicating with us, especially me, as I become very nervous when someone is very loud around me or while talking to me.”

The cafe manager and supervisors have been trained by the social workers, psychotherapist and other professionals from various organizations in the concept of disability and how to deal with individuals with disabilities. Their job is not only to manage the cafe but also to take care of those employees who have different type of health limitations, their by handling concerns intelligently and delicately.

There are benefits to employing people with disabilities in any organization. This is confirmed in a review of studies and research articles, whereby every author has applauded the positive impact of people of people with disabilities. Employee I (employee with no disabilities and head chef) who has worked in London for 12 years in the same industry and was offered lot of professional opportunities to work in different restaurants in Hungary and who decided to work at this cafe because as he gets the real job satisfaction, gave the following positive statement:

“They (people with disabilities) are real people. They speak out their mind. There are no politics and negatives vibes. I agree it is sometimes challenging to work with them but it is nice to work with hardworking and focused individuals”.

Employers, managers and work colleagues defined people with disabilities as an asset and cite several benefits for including them in labour pool, such as loyalty (Alborno and Gaad 2012; Groschl 2007; Kregel 1999), reliable employees, (Alborno and Gaad 2012; Groschl 2007; Kregel 1999), cooperative (Groschl 2007), highly motivated and productive at tasks assigned (Kregel 1999), with low absenteeism (Hammett 2003) and helps in promoting organisational diversity (Hammett 2003), but few have concerns regarding the integration of individuals with disabilities in context to financials and organizational aspects for example, expensive to implement accommodations, low productivity outcome, specific disability restrictions, constant monitoring issues, changes in physical structure of working site (Groschl 2007). Furthermore, other perceptions include high costs and time duration associated with training individuals with disabilities and people with disabilities unable to handle multiple tasks (Groschl 2007; Groschl 2005).

The socio-economic viewpoint

Sponsors from different industries came together to support the noble cause of Nem Adom Fel foundation. The sponsors include Budapest Fovaros VIII. Kerulet Jozsefvarosi onkormanyzat, NESTT Magyarorszag, COSTA Coffee Hungary, Froccsterasz, Izlelo Etkezde and UniCredit Bank are supporting this cafe by providing F&B training, financial assistance and maintenance of documents.

Many authors have argued about whether aesthetic and physical perfection is one of the primary criteria for recruitment for people in the service industry, in particular within the hotel, retail and tourism industries. It has been highlighted in many studies that physical appearance, aesthetic and self-presentation skills are important to secure a decent job in hospitality and retail industry, and people with disabilities have to face such obstacles when entering the job market (Groschl 2012; Groschl 2007; Warhurst and Nickson 2007; Nickson, Warhurst and Dutton 2005; Witz, Warhurst and Nickson 2003). Groschl (2012) in his study states that there is not enough empirical data available to connect the aesthetic sophistication to job related accomplishments and advocates further research into the relationship between the appearance of an employee and selection procedures.

The customers perception of and behavior towards employees with disabilities is another important factor which may affect the future scope of business and morale of employees with disabilities. In order to fully understand this dilemma, customers were asked to share their views on the question: “Physical attractiveness, aesthetics and self presentation skills are a prerequisite for services industry, What is your take on this? The objective to of this question was to determine the differences in customers opinions on this onerous statement. There

were mixed to positive responses, with customers showing a great deal of empathy and human emotions while answering the question. One of the customers from Australia said:

“It looked like a normal restaurant when I entered but later I realized there was something different about this place. I am impressed with this initiative where people with disabilities are employed. I think physical beauty is important for any restaurant or hotel jobs but it does not bother me. I am happy as long as I am served well. However, it may be an area of concern for some other people”.

Another loyal customer who works in Germany shared her bad experience of another cafe where the hostess was pretty, but rude to her. According to the customer, looks are not everything, what matters is the behaviour of the individual. She said:

“The cafe which I had been going since to my childhood, is in District 8. I have so many beautiful memories attached to it. I have stopped going there since last year because of the hostess. I did not like her attitude towards me. The Nem Adom Fel Cafe and Bar has a calm atmosphere and I love the coffee here. These (people with disabilities) are challenged in some way, but they are always nice to me. I make a point of dropping in whenever I am in Budapest”.

The people’s attitude towards people with disabilities, either good or bad, leaves a long lasting impression on their souls and the personality of the disadvantaged community. This is even more significant especially in the case of services industry where there is direct contact between the two parties. The cafe manager shared her experiences since she joined this cafe. The majority are positive but there have been a few negative instances at the cafe. Her views on the negative attitudes and stereotypical behaviour are:

“We have all types of customers coming to the cafe and majority of them are aware of the mission of the cafe. There are some uncultured & abusive customers who are mean to our employees but we always support our team despite of the fact that we can do little about it. We cannot change the attitudes of people”.

Many authors in their research have raised many questions regarding the treatment people with disabilities experience at the workplace which have direct influences on their personal and professional survival in the corporate world. Positive experiences leads to higher self-esteem and improved self-confidence (Alborno and Gaad 2012), positive and committed attitude (Alborno and Gaad 2012), job loyalty towards employer (Hernandez et al. 2008); maintain a friendly working environment (Alborno and Gaad 2012), high job satisfaction (Alborno and Gaad 2012) and low absenteeism (Alborno and Gaad 2012; Hernandez et al. 2008), whereas negativity projects employee turnover (Schur et al 2009), loyalty issues (Schur et al 2009) and less job satisfaction (Schur et al 2009), decline in work productivity (Blanck et al. 2003).

The cafe has long list of loyal customers including national and international celebrities. For instance, the Facebook page of the Nem Adom Fel Cafe and Bar has more than 20,000 followers. The ex-founder of “Rehab Critical Mass”, Mr. Csaba Kiss, has been a prominent figure in the disability movement in the Hungary for many years and is also a loyal customer of this cafe. The 39 year old has tetraparesis disability and often pays a visit. The staff members of ‘Támogató szolgálat’ (which means support service in the Hungarian language) helps him with meals and drinks. He has a very good relationship with everyone at the cafe and loves the environment at the cafe. The támogató szolgálat, which an extension of the Nem Adom Fel foundation, has social workers in the cafe between 1300- 1500 hrs to help walk-in disadvantaged people.

Discussion

The face to face interviews with the manager, supervisors and the employees at the Nem Adom Fel Cafe and Bar helped us to gather a lot of valuable data with which to showcase the strengths and weakness of people with disabilities in the world of work.

To author’s knowledge, the exploratory research on this case study reflects the finite availability of research articles and the limited investigations carried out into the employability of people with disabilities in Hungary. The majority of information reviewed was collected from governmental documents, reports, studies and international articles published outside Hungary. These revealed surprising facts regarding the employability of individuals with disabilities in the hotel industry, but also by other companies in different industries who are proactively to recruit and professional integrate people with disabilities in Hungary such as IT, telecoms, finance, banking and engineering.

The educational achievements of majority of the employees are limited to elementary and secondary schools only. Many of them have OKJ diplomas i.e. vocational courses acquired through government recognized bodies which aim to integrate them into the labour market and which help to meet the job specific requirements of the employers.

With regards to working hours, all the employees work form 4-8 hours in a day in accordance with their contracts. Such a flexible working schedule allows them to develop extra skills and provides ample opportunities for them to diversify into different domains. It was also observed that a number of employees had second jobs and it does not restrict them to same industry. This exposes them to new knowledge and experiences, thereby broadening their horizons (Lavasani, Wahat and Ortega 2015).

Many of the respondents have claimed that this was their first job at the cafe and they felt very productive and very satisfied irrespective of the job profile, personal restrictions and working hours.

Bengisu and Balta (2011) suggests that the employers should not disfavour their employees at work, in particular while assigning jobs and responsibilities, but at the same time should not ignore bodily limitations of the people with disabilities. To do so could expose an organization and its people to different types of challenges and threats. For example, jobs with physical requirements cannot be delegated to people with orthopaedic disabilities, tasks which involves direct contact with customers are not suitable for individuals with hearing and speech disabilities and kitchen duties should be avoided for those people with visual disabilities. These pronouncements cannot be applied in general to people with disabilities but there could be exceptions on an individual's determination and experience doing a particular task. For example employee R who uses a wheel chair is a waiter in the cafe and he manages his assigned task very well.

In hotel and retail related jobs the emphasis is very on personal aesthetic and physical appearance, which poses the biggest challenge to these people entering such industries (Groschl 2007). One of the important highlights of this study was when walk-in customers shared their expectations with regards to what constitutes 'value for money' in cafe and bars. The finding shows that the customers expect good service, delectable cuisine and a relaxed atmosphere and do not consider aesthetic appearance is an important criteria when selecting a place to relax and to have a good time.

The main aim of any restaurant or cafe is to be financially profitable. However, this newly opened cafe embraces a different approach, one based on social principles. This is poignant given the fact this research purely focused on various dimensions of human resources management and not on the financial sustainability at a time when Hungary is going through an economic crisis. It is all more poignant because of the impact the Nem Adom Fel Cafe and Bar has already made on the people's perception and attitude towards people with disabilities, as directly observed during the entire study period. Through the cafe, the Nem Adom Fel Foundation has successfully managed to provide employment and skills development opportunities to disadvantaged members of the Hungarian society by enabling them to socially integrate and become active and proud citizens.

Conclusion

This case study has presents an overview of the current human resources practices in the small, yet influential, Nem Adom Fel Cafe and Bar located in the heart of Budapest. Governments all over the world should provide support and intervene to encourage such social causes. They do not only uplift the morale of people with disabilities but they also directly help to share out the responsibilities of the society and boost the economy of a country (Yusof, Ali and Salleh 2015; Kalef, Barrera and Haymann 2014). The wider scope of this study is to introduce the true intentions of the Nem Adom Cafe and Bar to people and organizations in different parts of the world. The main results shows that there is a great

deal of diversity in terms of age, gender, type of disability and educational accomplishments, that specific disabilities have an impact on delegation of jobs and that cordial relationships exists between people with and without disabilities.

Future research studies will involve exploratory case studies in organizations who also share the same vision as the Nem Adom Fel Cafe and Bar. These future studies will focus on different industries at various geographical locations in order to gain greater insights into the rights and professional position of people with disabilities.

There were some limitations to this study. Firstly, the lead author could not directly interview some of the employees and customers as he is not a native Hungarian language speaker. They were assisted during the interviews by a bilingual social worker who also helped with the translation of the data. The language barriers also had an impact on the observation procedure as author's inability to understand the local language i.e. employee-employee and customers-employee conversations. Secondly, there is dearth of published literature on disability in context to Hungary. Thirdly, the results of the study cannot be generally applied to other people with disabilities in Hungary because this study did not include all types of registered categories of disability and only represents a very small sample group and then only from one specific firm/ industry.

This exploratory study is part of PhD thesis project which seeks to emphasize on the integration and inclusion of people with disabilities at broad spectrum within organizations.

In general, initiatives like the Nem Adom Fel Cafe and Bar can lead to the start of a new movement, not only with regards to providing equal opportunities to people with disabilities in the work place, but also with regards to tackling stereotypes and changing the attitudes of people towards people with disabilities.

Acknowledgement

The authors would like to express their deep gratitude to Mr. Geza Dely, Chairman of Nem Adom Fel Foundation, Manager and the wonderful employees of the Nem Adom Fel Cafe and Bar for their valuable help, patience, motivation and immense co-operation shown during the research. Without their support it would not have been possible to conduct this research.

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Land Reform after 1945. The Inception of the unsuccessful collectivization in the German Democratic Republic

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Abstract

The study focuses on the issue of the land reform in the Eastern part of Germany, which was occupied by the Soviet army after 1945. The land reform was a key part of future collectivization in the German Democratic Republic (GDR). Many causes of the future failure of the collectivization can be found in the events after 1945. After 1945, the areas of East Germany became an area with a number of test runs of the socialist economic experiment. Agriculture was one of the main areas in which the KPD interest group tried to enforce its ideas about collective ownership and thereby gain a dominant position by creating a type of “inclusive” society that excluded big landowners who were the targets of the first stage of the “socialist revolution” in rural areas – the land reform.

Keywords: collectivization; land reform; communism; property-rights; new institutional economics; German Democratic Republic.

Introduction

The study focuses on the issue of the land reform in the Eastern part of Germany, which was occupied by the Soviet army after 1945. The land reform was a key part of future collectivization in the German Democratic Republic (GDR). Many causes of the future failure of the collectivization can be found in the events after 1945. The text focuses primarily on the following research question: why did structural changes and reforms after 1945 fail to create an efficient agricultural sector that would be able to problem-free supply urban agglomerations and increase the overall prosperity of the socialist society? Historical literature has up to now not been able to provide a satisfactory answer because the majority of economic historians avoid methodological concepts and still uses the positivist-descriptive approach of presenting historical realities, which is based on certain modifications of the initial professional historiography in the 19th century and is based on believing in objectivity, detailed description, and truthfulness of written sources (Raphael 2003; Soběhart 2009). However, the only result of this approach is a

detailed description of individual economic changes in the context of developing a nation state whose value lies only in gathering different statistical data and “discovering” new sources (Steiner 2013; Ambrosius, Plumpe and Tilly 2006; Soběhart, Kozmanová and Stellner 2013).

Another reason is the uncritical adoption of the neoclassical methodological approach to economy that presents itself as the reason for the victory of “capitalism” and market economy after 1990 (Hesse 2013; Kocka 2010). This approach is also supported by publications that compare the development of agriculture in GDR and the Federal Republic of Germany after 1945, which clearly states that the Western German market approach is more successful (Wehler 2004; Steiner 2004). This makes the fact even less surprising that the economic development of GDR was completely erased from the syntheses of German economic history because according a number of authors it cannot be used in solving current economic issues (Abelshauser 2004; Prolius 2006). The topic of collectivization thereby became a purely “historical topic” that is practically clarified and only missing partial studies that will always only confirm the starting hypothesis about the a priori failure of socialistic economy.

Materials and Methods

The first question that needs to be answered is how did political and economic institutions change in future GDR after 1945? What were the motivations of key interest groups? How did the everyday life in East Germany change under the influence of the “revolution” of formal and informal institutions after 1945? How did the process of collectivization impact the transformation of the agricultural sector in GDR? How effective were the selected measures, reforms, and decisions of main players? Did the institutional “revolution” after 1945 open the way to increasing the quality of life or did it lead to stagnation and poverty of the population?

The term “collectivization” is used only for agricultural changes in the 1950s and later. I, however, think that collectivization cannot be separated from the post-war land reform because the communists mainly created it. The land reform must be understood as a necessary prerequisite for the events in the 1950s. In this context, collectivization is one of the stages of post-war structural changes in agriculture, mostly in the areas of property-rights, the efficiency of the agricultural sector, and the rate of state interventions. The “fiasco of socialistic agriculture” had two main stages (Wehler 2008). The first stage was the previously mentioned land reform in 1945-46 and its impacts in connection with the inception of the GDR; the second stage was the “collectivization” between 1952-1961.

The land reform was one of the main topics that were discussed between German communist politicians in Moscow exile. Influenced by their Moscow comrades, the majority was inspired by the Soviet Union in the 1930s that was characterized by forced collectivization, expropriation, the fight against large landowners (kulaks), and reallocation of land ownership to landless people, small agricultural homesteads, and agricultural workers. These population groups were pragmatically supposed to support

communists in freed Germany. Until the end of the war, there was however no specific plan how the land reform should look like, when it should happen, or what priorities should be followed in the first post-war months (Schöne 2011).

The post-war situation in Germany was on first glance not ideal for any severe changes because rural areas were not adapting to the consequences of war – destroyed harvest, significant decline in cattle, destroyed farms and agricultural buildings, the lack of labor force, and damaged fertile soil (Steiner 2004; Buchheim 1999; Patel 2012). The first measures of the Soviet Military Administration in Germany (SVAG) also had negative influence. SVAG was the main administration and political authority in the Soviet Occupation Zone (SBZ). The areas of Soviet administration were further subordinate to land and province administrations that were lead by high-ranking officers of the Soviet military. These immediately ordered to require food, agricultural plants, agricultural machines, and to occupy the most preserved homesteads and agricultural buildings to serve as regional centers of Soviet self-rule. The interventions of the Soviet Occupation Zone in agriculture have to be evaluated in the context of the overall concept of Soviet approach to post-war Germany. According to the Soviet vision, Germany was primarily an area, which was to become a supplier of capital, technological, technical, and infrastructural help for restoring Soviet economy. Prosperity and the increase of the quality of life of German citizens were, therefore, never the first priority. What the Soviets were trying to achieve was the direct opposite: ruthless “robbing” of economic potential of the Soviet Zone (Bauerkämper 1999; Wolfrum 2008). That is why the SBZ had to face high reparations that were multiple times higher than reparations in the Western zones, dismantling of entire industrial zones, creating inter-German trade barriers, paralyzing the transportation infrastructure, outflow of capital to USSR, and confiscations by the Soviet military in rural areas. In this context, it is necessary to stress that the area of future East Germany was not “doomed” to lower quality of life from the start. It was rather the other way around. Central and Eastern German areas that were under the influence of SVAG after World War II were supported by a number of big enterprises of the chemical industry, high-quality light industry, highly developed heavy manufacturing, and primarily soft material mechanics enterprises that were some of the best in the world. Compared to other countries, even agriculture was much more effective and had a lot of experience with market agriculture, which further stresses the importance of institutions for agricultural growth of concrete regions (Judt 1995).

Regardless of the previously mentioned reasons and starting in the summer 1945, Soviet representatives, not only SVAG, but also primarily the political leadership in Moscow pushed the SBZ politicians to quickly introduce the land reform because it would win the Communist Party of Germany (KPD) loyal voter groups that would help establishing communists throughout the political spectrum (Bauerkämper 1999; Laufer 1996). The first Soviet proposal soon emerged demanding not only the punishment of main Nazi criminals and supporters of the NSDAP by expropriation and land confiscation, but primarily by collective expropriation of large farms with lands bigger than 100ha (Laufer 1996b). A very similar text emerges in the first official proclamation of KPD about the land

reform in June 1945 that also predetermined the language institutional platform in which the topic of land reform will be featured. Confiscation of all assets was planned primarily for all war criminals and Nazi bosses; it also planned to: "...Liquidierung des Großgrundbesitz, der großen Güter der Junker, Grafen und Fürsten und Übergabe ihres ganzen Grund und Bodens sowie des lebenden und toten Inventars an die Provinzial- bzw. Landesverwaltung zur Zuteilung an die durch den Krieg ruinierten und besitzlos gewordenen Bauern" (Weber 1987, p. 36).

The steps taken in August 1945 are very important. They ultimately defined the execution of the land reform in the Soviet Occupation Zone. Implementing the land reform had a crucial influence on the context of new interpretation of German history that soon became one of the key legitimization pillars of KPD ("Geschichtspolitik"). The land reform represented the compensation of the historical injustice towards the German farmer population that had been continuing since the German Peasants' War in the 16th century that created the main conflict between feudal landowners and right-less people without land, serfs, and subjects.

Not even these "rhetorical exercises" managed to hide a number of key factors. The first one was the use of "collective" guilt of all landowners of agricultural land bigger than 100ha. It times of functioning democracy, only an independent court can decide about the guilt or innocence of someone. Collective guilt is basically only "revenge" of the majority on a concrete "excluded" group regardless of its level of guilt. In the case of war criminals and top representatives of the NSDAP, the loss of property is justified unlike in the case of big landowners primarily when we realize that these steps had no lawful or legal basis but were populist declarations of the members of the communistic party (Rick 2016). The principle of collective guilt is also one of the main institutional failures because it destabilizes not only economic but political and social structures as well that experience a fundamental shock, which then reflects in their economic efficiency, political engagement, and social mobility. It also creates all kinds of human hate, revenge, and bad will against the groups that suddenly lost "institutional" protection.

Another characteristic connected to the land reform is "evoking" the notion of crisis and decline that can only be countered with higher activity of communistic institutions. Not only in the case of the land reform, it was not a "bottom-up" reform but rather a Soviet "top-down" order that was soon adopted by the KPD (Bauerkämper 1995; Schier 2001). Agriculture was facing a number of problems that were mostly in connection with the end of the war and SVAG activities in the Soviet Occupation Zone. The implementation of the land reform was also not widely publically supported but mainly accompanied by Soviet troops. The population was mainly passive and awaited what the high-praised reform of property-rights would bring (Schöne 2011; Rick 2016).

The implementation of a land fund was an institutional "innovation" that in its first stage gathered all the expropriated or confiscated land and land committees then decided who would be assigned with this land (Bauerkämper 1995; Schöne 2011; Rick 2016). It could seem at first glance that the land fund and land committees were only responsible for the

transfer of land from old owners to new ones without disturbing the institution of private ownership but the reality was completely different. The land fund primarily clearly stated that the owners of the land will not decide about the transfer of the lands while respecting market mechanisms but the state who defined its own rules about who will loose and who will get the land.

The following table shows how the influence of the land fund and land committees grew directly proportionally to the confiscated area in individual areas of SBZ:

Table 1: Expropriated or confiscated land by the land fund (total area in ha)

Original condition	SBZ (overall)	Mecklenburg	Brandenburg	Saxony-Anhalt	Saxony	Thuringia
Private property	2 649 099	861 571	739 383	572 702	302 220	173 223
State property	337 507	133 489	86 255	77 117	13 277	27 369
Settling companies/ Nazi institutes	22 764	4 991	10 617	4 963	1 636	557
State and private forests	200 247	50 139	77 309	52 026	14 121	6 632
Other property rights	88 465	23 388	34 265	12 949	17 554	309
Overall	3 298 082	1 073 578	947 829	719 777	348 808	208 090

Source: Results of the land reform, September 1945. In JUDT, Matthias (ed). DDR – Geschichte in Dokumenten. Beschlüsse, Berichte, interne Materialien und Alltagszeugnisse, Dok. 2, Bonn : Bundeszentrale für politische Bildung, p. 103.

In addition, the institute of private property-right was not maintained on several levels. The new owners did not become independent and fully-fledged landowners because they did not have the right to further sell, rent, or change the land. Private ownership of agricultural land was maintained, unlike the one of agricultural technology and machines. Under the pretense of the lack of such machines, all of them were transferred into the property of central organs, the so-called machine and tractor stations (MTS) that independently on the interests of the farmers decided about who will be lend a tractor, combine harvester, or sowing machine (Bauerkämper 1999). In this context, we speak about the implementation of a certain mix of property-rights where the private property-rights were modified and the “central” state property-rights were increasingly more enforced.

The land reform caused not only economic changes but a “social revolution” as well because it fundamentally restructured the traditional social structure of rural areas. In a short time, the state institutions abolished the privileged status of big landowners and

traditional agricultural families that often formed a type of “rural nobility” starting in the 19th century. The landowner of land bigger than 100ha were the most effected by this social discrimination as the table shows.

Table 2: The share of big land (in ha) in the overall area of agricultural land 1939 and 1946

Land	Year	Less than 1ha	1-5ha	5-10ha	10-20ha	20-50ha	50-100ha	100-200ha	More than 200ha
Brandenburg	1939	1,9	7,0	9,2	17,3	22,3	9,2	7,7	25,4
	1946	3,2	8,8	22,4	20,5	22,8	8,3	3,8	10,1
Mecklenburg-Vorpommern	1939	1,2	3,5	4,2	13,5	18,3	9,0	6,7	43,6
	1946	1,4	5,4	31,9	21,2	20,6	8,0	2,4	9,2
Saxony-Anhalt	1939	1,9	6,6	9,0	18,1	24,8	11,7	7,9	20,0
	1946	11,3	6,5	20,3	21,2	22,9	9,8	1,8	6,3
Thuringia	1939	4,4	19,1	19,4	26,0	16,2	6,1	5,2	3,7
	1946	12,0	16,7	21,7	27,4	15,7	4,1	1,4	1,0
Saxony	1939	3,8	12,5	15,2	26,9	19,1	8,8	7,2	6,5
	1946	3,0	14,4	23,5	28,1	22,3	6,7	0,9	1,1
SBZ in total	1939	2,4	8,7	10,4	19,4	20,6	9,2	7,1	22,3
	1946	5,9	9,4	24,1	22,9	21,3	7,8	2,2	6,3

Source: The share of big land (in ha) in the overall area of agricultural land 1939 and 1946. In. JUDT 1998, p. 110.

The biggest growth was in landowners between 5-10ha and 10-20ha who were to become the main support of KPD in rural areas.

The following Table 3 shows how new societal groups supported communists and which were the “inclusive” groups of socialistic society.

Tab. 3: Reallocation of land to new private owners (in brackets: number of new owners)

Land reallocation	SBZ (in total)	Mecklenburg	Brandenburg	Saxony-Anhalt	Saxony	Thuringia
People without land and agricultural workers	932 487 (119 121)	365 352 (38 286)	220 276 (27 665)	218 209 (33 383)	87 289 (13 742)	41 361 (6 045)
Small farmers	274 848 (82 483)	41 316 (10 867)	77 582 (20 821)	71 865 (20 359)	50 865 (17 553)	33 190 (12 883)
Displaced persons	763 596 (91 155)	365 943 (38 892)	208 812 (24 978)	114 227 (16 897)	51 573 (7 492)	23 041 (2 896)
Small renters	41 661 (43 231)	6 561 (3 428)	9 603 (7 004)	12 129 (12 057)	5 062 (6 516)	8 296 (14 226)
Persons working in other sectors	114 665 (183 261)	19 437 (9 842)	28 409 (27 251)	33 116 (63 319)	21 142 (55 772)	12 561 (27 077)
Increase of forest area of current owners	62 742 (39 838)	16 814 (13 204)	19 254 (8 379)	9 731 (6 374)	8 168 (5 091)	8 775 (6 590)
In total	2 189 999 (559 089)	815 423 (114 519)	563 936 (116 298)	459 287 (152 389)	224 129 (106 166)	127 224 (69 717)

Source: Reallocation of land to new private owners. In JUDT 1998, p. 104.

The land reform soon discovered a number of other significant problems that clearly showed the limits of this “socialistic revolution” in rural areas. Despite always repeating declarations that the Socialist Unity Party of Germany (SED) that was created by uniting the remaining allowed political groups in the area of the Soviet Occupation Zone was able to change the conservative rural area so incredibly, the everyday life was completely different than the communist high officials imagined mostly due to the fact that not even the communists had a clear idea of how the “right” situation in East German rural areas was supposed to look like.

The biggest issue was the lack of agricultural infrastructure and technological equipment to increase the efficiency and productivity of agricultural soil cultivation (Steiner 2004; Wehler 2004). Complete lack of heavy mechanization and beef and pork livestock caused that rural areas often returned to the past and had to employ hard manual labor. The so-called Neubauern (“new farmers”) faced the worst challenges (Hyeong-Soo 2012; Boldorf 2009) because they often did not have any experience with agriculture and thus became more often dependent on traditional farmer families who had the sufficient mechanization and livestock. This also showed another limit of the centralized planned economy because despite all of the promises from centralized institutions, including the machine and tractor stations, they were not able to secure enough machines for “favored” groups of new farmers (Bauerkämper 1999). Apart from the “new farmers,” displaced Germans from Poland and Czechoslovakia had the worst situation. They were also

supposed to be one of the privileged social groups. They arrived when the majority of the agricultural land was divided and they were also facing a negative and hostile attitude, not only from traditional village groups but also from the ones who arrived before them and now feared that they could lose their newly gained land, livestock, and agricultural buildings (Bauerkämper 1994).

Results

The results of the land reform were very unflattering. Soon, it was obvious that SED did not have a clear idea how to increase efficiency and productivity of agriculture because the preferred awarding of agricultural areas between 5-10ha did not lead to independence and prosperity of new agricultural homesteads but the other way around, to a drop of hectare profits, decrease of livestock, and dependence on the decisions of state agricultural institutions regarding assigning heavy machinery or promises of building new agricultural buildings. It was, therefore, not possible to fulfill the hectare profits defined by the central plans and even entire cities were soon endangered because they faced a lack of agricultural products (Scherstjanoi 1995). The situation in rural areas escalated at the turn of the 1940s and 50s and led to more and more former big landowners fleeing to the Federal Republic of Germany. New landowners also soon started to massively leave agricultural homesteads and move to urban areas because they hoped that they could find better and more lucrative employment in industrial branches (Bauerkämper 1999; Schöne 2005).

Conclusion

After 1945, the areas of East Germany became an area with a number of test runs of the socialist economic experiment. Agriculture was one of the main areas in which the KPD interest group tried to enforce its ideas about collective ownership and thereby gain a dominant position by creating a type of “inclusive” society that excluded big landowners who were the targets of the first stage of the “socialist revolution” in rural areas – the land reform. SED bet all on the political level of agricultural issue disregarding basic economic approaches; any kind of resistance was harshly punished.

The example of the land reform can also serve as a kind of case study of nonfunctional institutions in the context of centralized planned economy and offers several general conclusions. First, the issue of asymmetrical information in which the key information are not known to the individual members of the exchange but only to the state who misuses them to strengthen the position of a concrete interest group – the SED. Already after 1945, a type of “predatory state” became dominant in East Germany that took advantage of at that point functioning institutions and groups of society.

The process of land reform and subsequent collectivization also showed how important private ownership is for economic growth of each society. One of the adverse heritages of the communist era is the doubting of private ownership and belief in collective ownership. Not only the public choice theory but also getting to know the historical reality clearly

show that collective ownership causes poverty, inefficiency, a high loss rate, and immense transaction costs that apply to everyone who is not making the decisions.

The changes in agriculture in both parts of Germany also verify another premise of institutional economy, namely that no group of society is destined for poverty. The quality of life is always dependent on the decisions of concrete political representation. Wealth or poverty are thereby caused by concrete politicians and not the amount of raw materials, sufficient amount of agricultural soil, or good infrastructure. Communist economy offers a number of these bad economic and political decisions. On the other hand, the development after 1990 clearly showed that even bad economic decisions could be changed and adapted so that they lead to prosperity.

The last conclusion is aimed at the impossible perfect planning and control. The more advanced, complex, and interconnected the system is, the harder it is to manage, control, and command it. That is why I urge to critically assess the previous conclusions about communist economies because even the name centralized planned economy evokes something perfect and efficient (Wehler 2008). Yet the historical reality was the complete opposite. The more the regime enforced its will and reacted violently, the more grew the dissatisfaction of the population and its manifestation in public. That is why it is necessary to assess communist economies as a concourse of many immediate and ad-hoc decisions that did not correspond to a stable and thought-out plan.

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Relationships between exchange rates, economic growth and FDI in China: An empirical study based on the TVP-VAR model

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Abstract

This paper investigates the relationships between exchange rates, economic growth and foreign direct investment through a time-variant parameter VAR model using monthly data from China for the period 2001-2016. The focus is on the reaction of economic growth to a shock change in exchange rates or foreign direct investment. The dynamic impulse response function showed that the relationships do not instigate great change. A positive shock in the real exchange rate slows down FDI inflows, with no evidence to support the contractionary devaluation theory in China, which suggests that an increase in the real RMB exchange rate generally causes a negative influence on China's economic growth. The empirical results of this research contradict what intuition suggests and indicates that FDI has generated an ambiguous effect on economic growth in the past few years. Before 2008, shock changes in FDI would cause economic growth to lag for one period. Since then, the lag phenomenon has disappeared due to better regulation and a maturing financial market.

Keywords: economic growth, exchange rate, FDI, TVP-VAR model.

Introduction

Foreign direct investment plays an important role in China's economic growth. In recent times, exchange rate reforms in China have seen increased volatility in the RMB exchange rates and a global downturn in FDI caused by a slow recovery in the global economy. How exchange rates affect economic growth and FDI and how FDI affects economic growth has attracted the attention of many scholars.

A large amount of research has been dedicated to exploring the link between exchange rates and foreign direct investment (FDI), however, the various models and empirical studies have produced mixed conclusions. Most studies suggest that currency

depreciation may have a positive effect on FDI inflows. Cushman (1985) analyzed the relationship between exchange rates and foreign direct investment and put forward the theory that currency depreciation stimulates direct investment subject to the lower costs of locally produced goods. Froot and Stein (1991) established an imperfect capital model and found that the depreciation of the domestic currency would induce foreigners to acquire assets at a relatively cheap price, therefore making foreign direct investment more attractive. Blonigen (1997) argued that real currency depreciation was beneficial to acquisition FDI because it involves the transfer of specific assets which generate returns in currencies. Subsequent studies such as Guo and Trivedi (2002), Lee (2013) re-examined Blonigen's hypothesis by using panel data techniques and confirmed it. Many other articles also show that domestic currency devaluation encourages FDI inflows (see Xing 2006; Takagi and Shi 2011; Desatnicov and Akiba 2016). Nevertheless, contrasting opinions put forward in some previous research implies that there may be another mechanism hidden in this link. Campa (1993) showed that multinational corporations have overseas investments based on expected returns, whereby currency appreciation in the host country generates a positive effect on FDI. Benassy-Quere, et al. (2001) pointed out that exchange rates are a determinant of FDI and that currency appreciation in the host country expands the scale of the market, which promotes the inflow of FDI. Pan, et al. (2010, 2012) showed that RMB exchange rates can effectively attract FDI for the purpose of speculative activities.

Previous studies also generated different conclusions about the relationship between exchange rate and economic growth. The traditional view argues that currency appreciation is contractionary in that it raises the relative price of domestic goods which results in a decrease in exports and aggregate demand, which in turn leads to a decline in economic growth. Wei (2006) built a computational general equilibrium model to analyze how RMB appreciation influences China's economic growth. He found that it had an adverse effect on employment and that a large RMB appreciation was a disadvantage to China's economic growth. The results of a VAR model proposed by Shi (2007) supports this point of view. Similar results were determined by Zhao (2008). In contrast, after the Mexico and Southeast Asian financial crisis, the contractionary devaluation theory put forward by Krugman and Taylor (1978) gradually began to be explored by scholars. Krugman and Taylor (1978) found that depreciation could lead to a recession, whilst appreciation could stimulate economic growth. They argued that if imports exceed exports, currency depreciation would increase the price of traded goods, thereby reducing real domestic incomes, resulting in shrinking aggregate demand; the reverse was also true, namely that currency appreciation would expand aggregate demand if there was a trade surplus. In their examination of 12 developing countries, Edwards (1986) reported that devaluation generated a decline in aggregate output, which therefore provided support for a short-term contractionary devaluation hypothesis. Acar (2000) used data from 18 countries and built a fixed-effect model, of which the estimated results supported Edwards' conclusion. See also Kamin and Rogers (2000) and Yu (2016) for similar studies. Although the contractionary devaluation phenomenon is often

confirmed for developing countries (Kamin and Klau 1998), An, et al. (2014) found, through a VAR model, that it could also apply to developed countries.

In addition, the research focus on the link between FDI and economic growth is quite rich. Almost all existing studies support the view that FDI inflows contribute to economic growth in the host country. Gregorio (1992), based on data from twelve Latin American countries, found that FDI generates a positive effect on economic growth. Similar conclusions were also drawn in other articles (see Sui and Liu 2014; Pegkas 2015). However, little research shows that the relationship between FDI and economic growth is uncertain. Alfaro, et al. (2004) argued that although FDI was beneficial to countries with a well-developed financial market, FDI alone had an ambiguous effect on economic growth. Herzer, et al. (2008) analyzed the limitations of existing studies. Their cointegration analysis of 28 developing countries indicated that FDI had neither a long-term nor short-term positive effect on economic growth.

Although the available literature on the links between exchange rates and FDI, exchange rates and economic growth, and FDI and economic growth are quite widespread, very little research has explored these relationships under the combination of all three factors. However, the mechanism between these three factors is quite complicated and comprehensive research therefore needs to be objective. Pan and Guo (2012) studied the dynamic effects between RMB exchange rates, economic growth and FDI, and found, on the basis of a Pesaran bounds test, that a long-term equilibrium relationship existed between them. According to a Markov-Switching VAR model, Lan (2015) found a nonlinearity effect between RMB exchange rates, economic growth and FDI. The result showed that the relationship was influenced by the stage of the business cycle. As mentioned previously, those studies that explored the relationships between any two of the factors under discussion drew different conclusions, whereby neither theoretical nor empirical studies were consistent. One possible reason for this is that the previous research was rarely conducted from a comprehensive perspective. Another reason may be that almost all the studies so far were based on traditional econometric tools and only summarily took nonlinearity into consideration. In addition, there may be issues with the use of only annual or quarterly data, which risks neglecting detailed changes, as well as small sample sets that may have reduced the accuracy of the estimations. The aim of this paper is therefore to investigate how exchange rates and FDI influence China's economic growth from a comprehensive point of view, based on an analysis of monthly data from January 2001 through to August 2016 using a time-varying parameter VAR (TVP-VAR) model.

The rest of this paper is organized as follows. Section 2 introduces the methodology and data adopted in this article. The estimation parameters and impulse responses are presented in Section 3. This is followed in Section 4 by an analysis of the impulse response results and the hidden economic mechanism. The conclusions are presented in the final section.

Materials and Methods

This section provides a brief introduction to the methodology, data and sources.

Methodology

A TVP-VAR model allows us to capture the underlying structural changes without having to divide the data into several subsamples, which avoids the risk of losing information. According to this model, responses at different points in time are permitted, which makes it very useful for investigating the dynamic relationships between exchange rates, economic growth and FDI. For simplicity, the structural VAR model is defined as follows:

$$Ay_t = F_1y_{t-1} + F_2y_{t-2} + \dots + F_sy_{t-s} + u_t, \quad t = s + 1, \dots, n \quad (1)$$

where y_t is a $k \times 1$ vector of observed variables, $A, F_1, \dots, F_s$ are $k \times k$ matrices of coefficients, u_t is a $k \times 1$ structural shock and $u_t \sim N(0, \Sigma)$, where

$$\Sigma = \begin{pmatrix} \sigma_1 & 0 & \dots & 0 \\ 0 & \ddots & \ddots & \vdots \\ \vdots & \ddots & \ddots & 0 \\ 0 & \dots & 0 & \sigma_k \end{pmatrix}, A = \begin{pmatrix} 1 & 0 & \dots & 0 \\ a_{21} & \ddots & \ddots & \vdots \\ \vdots & \ddots & \ddots & 0 \\ a_{k1} & \dots & a_{k,k-1} & 1 \end{pmatrix}$$

The model (1) can be reduced to the following form:

$$y_t = B_1y_{t-1} + B_2y_{t-2} + \dots + B_sy_{t-s} + A^{-1}\Sigma\varepsilon_t, \quad \varepsilon_t \sim N(0, I_k) \quad (2)$$

where $B_i = A^{-1}F_i$, $i = 1, \dots, s$.

The model (2) can be further reduced to the following form:

$$y_t = X_t\beta + A^{-1}\Sigma\varepsilon_t \quad (3)$$

where $X_t = I_s \otimes (y'_{t-1}, \dots, y'_{t-s})$, $\otimes$ denotes the Kronecker product, and $\beta(k^2s \times 1 \text{ vector})$ is obtained by stacking the elements in the rows of B_i 's. In model (3), all the parameters are time-invariant, and the expression of this model to TVP-VAR with stochastic volatility is defined as follows:

$$y_t = X_t\beta_t + A_t^{-1}\Sigma_t\varepsilon_t, \quad t = s + 1, \dots, n \quad (4)$$

where β_t, A_t^{-1} and Σ_t are all time-varying. The TVP-VAR model takes into account specifications according to Primiceri (2005) and Nakajami (2011), such as matrix A_t being of the lower-triangular form,

$$h_t = (h_{1t}, \dots, h_{kt})' \text{ with } h_{jt} = \log \sigma_{jt}^2, \quad j = 1, \dots, k, \quad t = s + 1, \dots, n$$

and the assumption that the parameters follow a random walk process as follows:

$$\beta_{t+1} = \beta_t + u_{\beta t}, \quad a_{t+1} = a_t + u_{at}, \quad h_{t+1} = h_t + u_{ht},$$

$$\begin{pmatrix} \varepsilon_t \\ u_{\beta t} \\ u_{at} \\ u_{ht} \end{pmatrix} \sim N \left(0, \begin{pmatrix} \sigma_1 & 0 & 0 & 0 \\ 0 & \Sigma_\beta & 0 & 0 \\ 0 & 0 & \Sigma_a & 0 \\ 0 & 0 & 0 & \Sigma_h \end{pmatrix} \right), \quad t = s + 1, \dots, n$$

where $\beta_{t+1} \sim N(u_{\beta_0}, \Sigma_{\beta_0})$, $a_{t+1} \sim N(u_{a_0}, \Sigma_{a_0})$, $h_{t+1} \sim N(u_{h_0}, \Sigma_{h_0})$, Σ_a and Σ_h were assumed to be diagonal matrixes for simplicity's sake. The specification of the random walk process permits the coefficients to change temporarily or permanently, which helped to determine whether the nonlinearity was generated by a structural break or a gradual change, either of which are often hidden in the economic data generating process.

Data

To explore the relationships between exchange rates, economic growth and FDI in China, monthly data were used from January 2001 through to August 2016. The analysis was based on the following three time series. The first was for the real effective exchange rate index of China. This index was taken from International Finance Statistics (IFS), which effectively describe the exchange rate fluctuations. The second was for industrial added value as published by the National Bureau of Statistics of China, which is an alternative indicator to GDP for economic growth. Because this data was no longer published after 2006, we calculated the remaining missing data according to the existing data and corresponding industrial added value growth rate, which is accepted practice for adopting such data in research. The third was for foreign direct investment, whereby actual foreign direct investment, as published by the National Bureau of Statistics of China was applied as the indicator. The latter two variables were adjusted by the price index to generate real numbers. The seasonal effects were removed by using the US census bureau X13 seasonal adjustment procedure. All the variables were specified in natural logarithms.

Results

Stability of the model

Before estimating the TVP-VAR model, a unit root test was conducted to determine whether the three variables were stationary. The ADF statistics in Table 1 indicate that all the variables are stationary after difference. We therefore used the difference of the real effective exchange rate index (RE), industrial added value (IND) and real foreign direct investment (FDI) to establish the model. This variable set represents the rate of change of the corresponding variables.

Table 1: Unit root test results

Variables	(C,T,P)	ADF statistics	Conclusion
RE	(C,0,14)	-10.37***	Stationary
IND	(C,0,14)	-25.72***	Stationary
FDI	(C,0,14)	-13.39***	Stationary

Source: Authors

Note: All three variables are log-difference; ***, **, * means the null hypothesis was rejected at a significance level of 1%, 5% or 10% respectively; (C,T,P) represents the intercept, time trend and max lag order of the tested equations, whereby the lag order was selected according to Schwarz Criterion (SC).

All the variables were stationary. As a result, a three-variable TVP-VAR model could be established and estimated. In order to estimate the parameters of the TVP-VAR model, the following priors were assumed:

$$(\Sigma_{\beta})_i^{-2} \sim \text{Gamma}(40, 0.02), (\Sigma_{\alpha})_i^{-2} \sim \text{Gamma}(40, 0.02), (\Sigma_h)_i^{-2} \sim \text{Gamma}(40, 0.02)$$

where $(\Sigma_{\beta})_i$ is the i-th element in the covariance matrices, and the initial values of the set parameters were: $\mu_{\beta_0} = \mu_{\alpha_0} = \mu_{h_0} = 0, \Sigma_{\beta_0} = \Sigma_{\alpha_0} = \Sigma_{h_0} = 10 \times I$. The lags for this TVP-VAR model were 2. The Markov Chain Monte Carlo (MCMC) algorithm was applied to compute the estimation. In total, 10,000 samples were acquired after the first 1,000 samples were burned-in. All the procedures were run in MATLAB. The estimation results are presented in Table 2. The results shows that the null hypothesis of convergence to the posterior distribution could not be rejected according to Geweke convergence diagnostics statistics (CD statistics), and that almost all the inefficiency factors were less than 100, which shows the effectiveness of the MCMC algorithm. Although the inefficiency factors of $(\Sigma_h)_2$ is more than 100, we also had about 200(=20000/100.08) unrelated samples, which is sufficient for posterior inference. Figure 1 presents the results of sample paths, which show the volatility of the clustering phenomena and the convergence of all the parameters towards the mean value in Table2, which implies that the MCMC algorithm efficiently generates posterior draws.

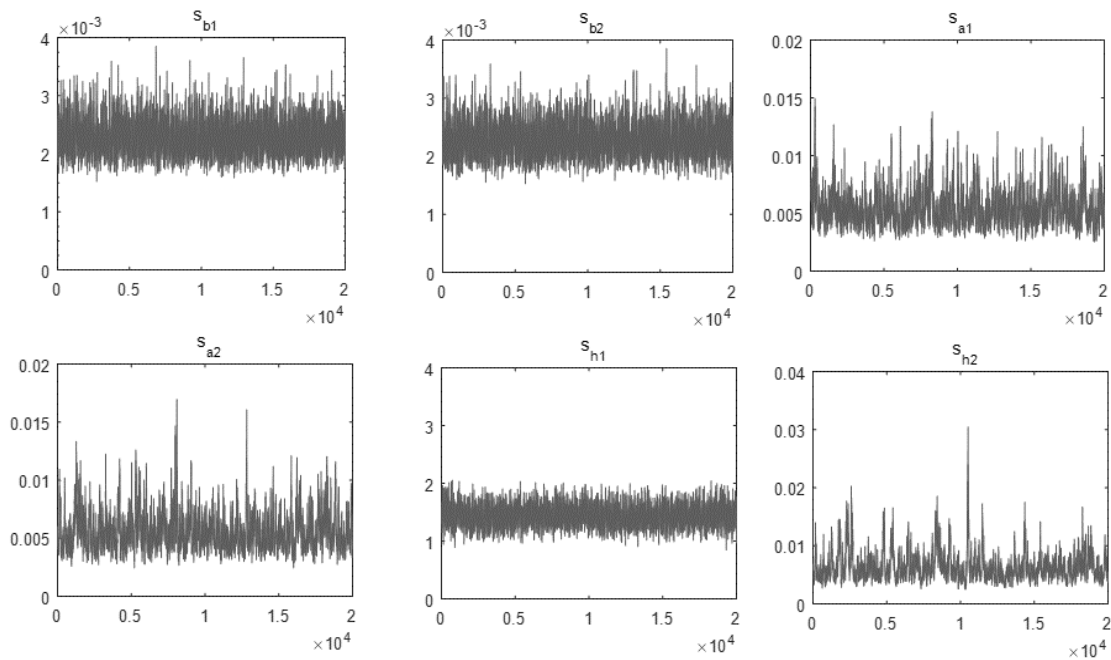
Table 2. Estimation results for the parameters in the TVP-VAR model

Parameter	Mean	St.dev.	95 percent interval	CD statistics	Inefficiency
$(\Sigma_{\beta})_1$	0.0023	0.0003	[0.0018, 0.0029]	0.002	9.03
$(\Sigma_{\beta})_2$	0.0023	0.0003	[0.0018, 0.0029]	0.960	7.51
$(\Sigma_{\alpha})_1$	0.0054	0.0015	[0.0034, 0.0092]	0.269	56.62
$(\Sigma_{\alpha})_2$	0.0056	0.0016	[0.0034, 0.0094]	0.538	57.74
$(\Sigma_h)_1$	1.4312	0.1669	[1.1136, 1.7736]	0.302	13.72
$(\Sigma_h)_2$	0.0064	0.0024	[0.0035, 0.0130]	0.753	100.08

Source: Authors

Note: The estimates of Σ_{β} and Σ_{α} are multiplied by 100.

Figure 1: Estimation results for the parameters in the TVP-VAR model



Source: Authors

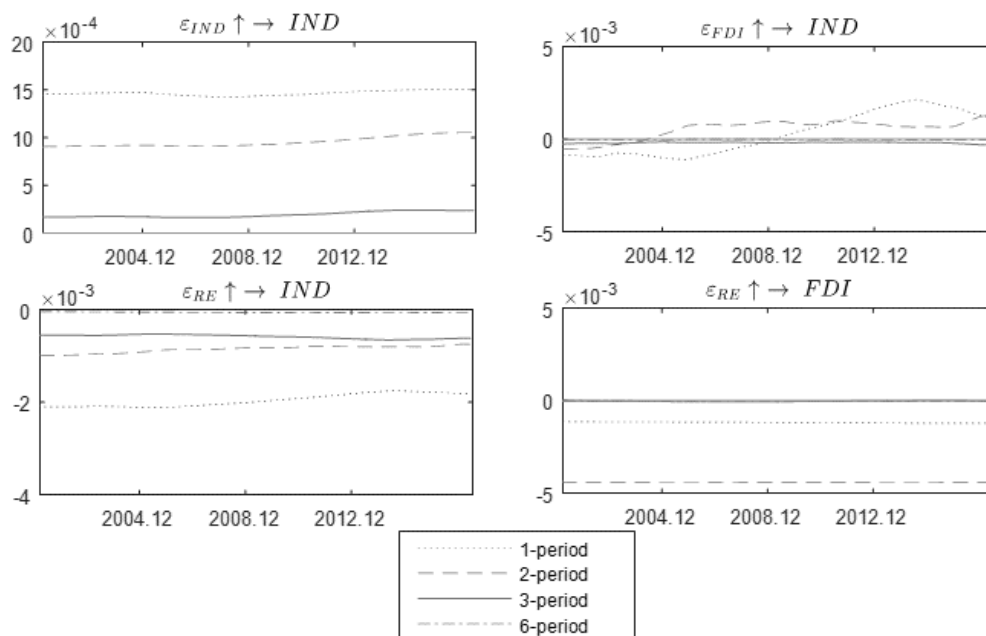
Impulse response results

Under the TVP-VAR model, the impulse response can be drawn at all points in time, whilst the standard VAR model with constant parameters can only capture the impulse response for each variable.

Figure 2 shows the time-varying impulse response of economic growth following a shock change in the real exchange rate and foreign direct investment (the response of FDI to the

real exchange rate is also presented). The time-variant responses to the shock are presented for one month, two months, a quarter and half a year. As is evident, the trend in the four curves in Figure 2 are relatively stationary. This means that there was not a structural break in the relationships between exchange rates, economic growth and FDI and there is a long-term equilibrium between them. These results are consistent with those in previous research (Pan et al., 2012). It is clear that there is a decline in economic growth when a positive shock from real exchange rates is experienced. Our results therefore support the traditional view that currency appreciation has a contractionary effect. If the results of previous research based on Chinese data are taken into consideration, we do not therefore believe that the contractionary devaluation phenomena (Krugman 1978) has been experienced in China yet. What has been noticeable is that the negative effect has been lower in recent years when the shock occurred, which may be due to the gradual maturing of China's financial market. What is also evident is that the FDI inflows also decrease after a shock change in exchange rates, which are consistent with the popular view. Unlike intuition suggests, FDI has generated an ambiguous effect on economic growth in the past few years. Before 2008, a shock change in FDI would see output lag in one period, only for FDI to then go on to stimulate economic growth. However, this lag phenomenon has disappeared in recent years, whereby an increase in FDI is always conducive to economic growth.

Figure 2. Impulse responses for different periods

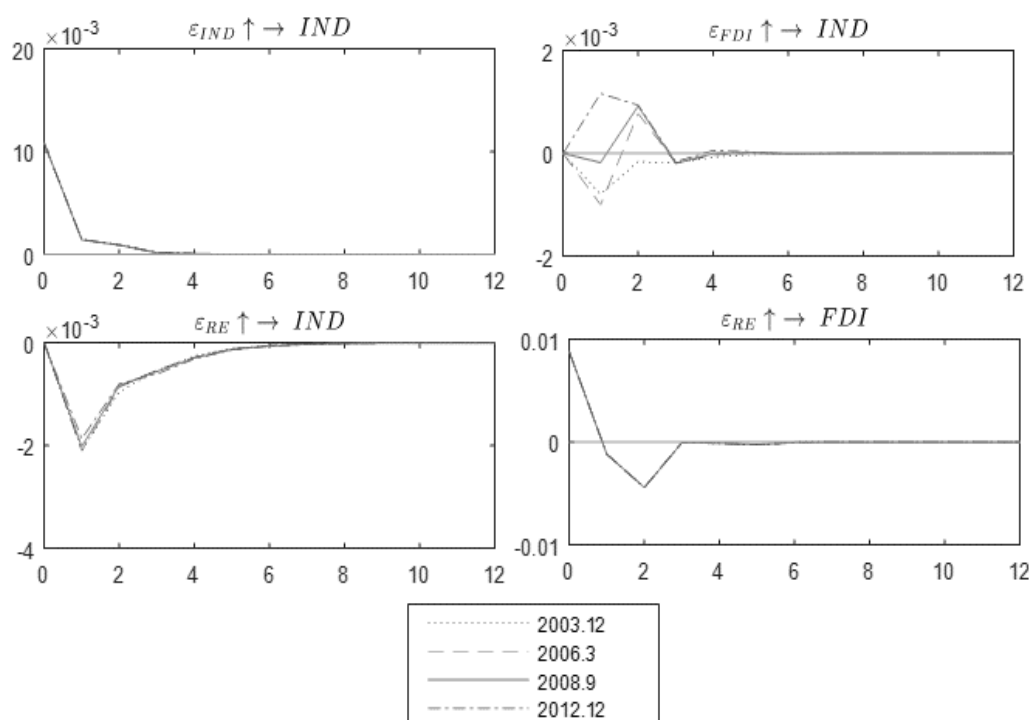


Source: Authors

Furthermore, the robustness of our results was evidenced through complete impulses at different points of time. Figure 3 presents the equidistant impulse responses. Taking into

consideration that China implemented exchange rate reforms in 2005, as well as the onslaught of the financial crisis in 2007, we choose December 2003, March 2006, September 2008, and December 2012 as the representative points at which to determine whether a structural break was hidden in the equilibrium. The convergence of these four curves reflects the preceding results and also implies robustness.

Figure 3: Impulse responses at specific points in time



Source: Authors

Discussion

The empirical results produced by the TVP-VAR model do not exactly reflect those in previous studies. Where Pan and Guo (2012) showed that the appreciation of the RMB exchange rate has a significant effect on the inflow of FDI and has a strong tightening effect on economic growth, our research draws the conclusion that exchange rate appreciation is disadvantageous to FDI inflows. We believe that this inconsistency is a consequence of the different research framework and that the TVP-VAR model could therefore reflect the dynamic mechanism hidden in the economic phenomenon.

As the impulse response results show in the previous section, the impulse responses for economic growth to a positive real exchange rate shock support the traditional view that currency appreciation is contractionary and has been relevant to China since the early 2000s. On the one hand, even though it is clear that international trade plays an important role in China's economic growth, as evidenced by the large trade surplus, economic theory

tells us that a positive exchange rate shock would generate negative effects on net exports, which would reduce economic growth. However, in reality, China exports mainly two categories of products, namely primary products and processed products. Whereas a real increase in the exchange rate would reduce the exports of the former, it would have little effect on the latter because the production of these types of products requires the import of intermediate products. During the financial crisis, the RMB exchange rate continued to appreciate, resulting in the closing down of many export focused businesses located in coastal areas, which had a negative impact on economic growth. In turn, this change in economic growth had an effect on domestic consumption and imports, which resulted in a feedback effect on the exchange rate. On the other hand, as the figure above shows, the increase in the exchange rate led to a decline in foreign direct investment, whilst FDI is generally considered to be beneficial to economic growth. According to our research, these multiplier effects would see a positive real exchange rate shock producing a negative impact on economic growth, which would last for approximately six months. In reality, a real exchange rate shock may also have influenced hot money, which may in turn have further affected the domestic financial market, however, this did not happen because China implemented rigid capital controls on foreign capital. As a result, our model did not focus on this impact and mainly studied the direct and indirect influence on FDI when economic growth receives a positive real exchange rate shock.

Our research supports the argument that currency appreciation decreases FDI inflows, which is conducive with previous theory (Cushman 1985; Froot and Stein 1991), whereby slowing economic growth caused by currency appreciation weakens the attractiveness of FDI. Finally, the empirical results show that FDI has generated an ambiguous effect on economic growth in the past few years. As previously mentioned, a positive FDI shock has a negative impact on economic growth in the form of lag in one period. We believe that this phenomenon can be explained for two reasons. Firstly, China implemented many policies to attract FDI, whereby some local governments gave very preferential terms to foreign businesses during negotiations. As the foreign capital flowed into China, local industries lost their advantage, which resulted in a short-term negative effect on economic growth. However, capital driven FDI inflows can have a positive impact on the host country's economic growth as local industries begin to benefit from the positive impact of increased production. This was confirmed by Liang (2017) using data from China's manufacturing firms. It is therefore possible to state that FDI inflows are generally beneficial to China's economic growth. However, as Alfaro, et al. (2004) argue, without a well developed financial market the host country would not be able to effectively utilize the foreign investment. Through an empirical analysis, Adams and Opoku (2015) also founded that FDI only generated a significant growth effect if effective regulations are in place. It is for this reason, the advent of stringent regulation and a more effective financial market, that the phenomenon has disappeared in recent years.

The results of the TVP-VAR model reveal a dynamic time-varying effect between the real RMB exchange rate, FDI and economic growth. The real exchange rate not only had a contractionary effect by affecting imports and exports, but also by negatively impacting

on FDI, which impacted further on economic growth, even though FDI inflows have been generally advantageous to economic growth since 2008. Although many other factors are hidden in the economic mechanism, these were not included in the model for simplicity's sake. The results of the VAR model could even be regarded as the final outcome generated by these hidden factors.

Conclusion

This paper investigates the relationships between real exchange rates, economic growth and foreign direct investment in China. According to the TVP-VAR model, there is no great change between these three variables. Even though the negative effect became gradually lower when economic growth received a positive shock from changes in the real exchange rate, there is no evidence to support the contractionary devaluation theory in China i.e. currency appreciation is still disadvantageous to economic growth and FDI inflows. Unlike intuition suggests, FDI has generated an ambiguous effect on economic growth in the past few years. Before 2008, an FDI shock would cause economic growth to lag by one period. We believe that this is the result of positive government policies, which may have hurt local industries in the short-term, and the theoretical principle that without a well developed financial market host countries are not able to effectively utilize foreign investment (Alfaro et al., 2004). However, as regulation became more stringent and the financial market more effective, this phenomenon has disappeared in recent years. We tried to analyze how exchange rates and FDI affect China's economic growth from a comprehensive point of view, however, the real world is much more complicated and requires the consideration of a large number of variables. This shortcoming in this research is also where future research opportunities lie.

Acknowledgement

The authors would hereby like to thank the editors, Marianna Psarska and Tomas Klietnik for their valuable input, and the Natural Science Foundation of Beijing for their financial support (No.9152007).

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Review

**CAHA, Zdeněk, Jan URBAN. A Code of Ethics as an
Organizational Management Tool and its Use in the Czech
Republic, 2017. Lüdenscheid: RAM-Verlag.
ISBN 978-3-942303-50-7.**

Mario Bogdanović

University of Split

A code of ethics is a strategically important document for any business because it has the role of (de)activating human resources, thereby either speeding up or slowing down the achievement of desired company goals. A sound code of ethics can be seen as an important management tool in terms of its ability to develop and form company culture, improve the behaviour of employees and the relationships between them, as well as its ability to bring improvements to the wider economy and society as a whole. The topic of the reviewed publication, which deals with codes of ethics in the theoretical, practical and research sense, is not only very apt for companies in the Czech Republic, but also for business organizations throughout the world.

The structure of the publication is methodologically and pedagogically appropriate and consists of six main parts, namely: 1) Importance of business ethics within the context of business ethics and ethical organizational management; 2) Comparative analyses of typical structure and contents of codes of ethics; 3) Insights into the enforcement of code of ethics, including the practical tools for their implementation in companies; 4) Summary of current knowledge (achieved by means of quantitative research) with regards to making codes of ethics more effective; 5) Quantitative research in the form of a questionnaire survey among companies of different sizes from different industrial sectors in the Czech Republic; 6) Summary of the main results of the quantitative research.

The reviewed publication introduces, analyses and evaluates the main principles behind the creation, promotion and enforcement of a code of ethics within an organization, and determines how widespread this management tool is among Czech companies, including the differences in its application in various types of companies. The book utilizes an integral approach, which includes discussion (e.g. on the strengths and weaknesses of codes of ethics), appropriate qualitative methodology (verbal-logical methods) and

quantitative methodology (descriptive and inferential statistics), and comparative analyses (e.g. of codes of ethics within ethical organizational management), as well as make links between these and other related management tools. This methodological approach combined with the theoretical, practical and research approach, gives this book additional quality. This quality is enhanced by the fact that the book's contents go beyond theoretical explication by providing a broad analysis of the issues surrounding the enforcement of codes of ethics, and includes practical tools for their implementation in companies. The book also refers to very relevant domestic and foreign specialized literature, including sources from renowned databases.

The empirical part of the book deals with the link between company size and the prevalence of a code of ethics, and whether the presence of a code of ethics has an effect on the economic results of companies. The publication provides a comprehensive overview of the main issues with regards to ethical management, the application of codes of ethics in contemporary and future businesses, as well as presents a unique empirical picture of the current use of codes of ethics in the Czech Republic. The publication also has heuristic value because it can stimulate other researchers from other higher education establishments to research the same and/or similar issues relating to codes of ethics, as well as stimulate new ideas in the field of business ethics.

This publication, with its clear in-depth analysis of the main issues surrounding codes of ethics, including the practical materials for improving understanding of ethical company management, should be welcomed. In my opinion, the quality of the theoretical, practical and research approach means that this book can not only be applied by companies in the Czech Republic, but also by those in other countries as a managerial tool for improving the ethical behaviour and efficacy of business organizations. I believe that this book, entitled "A Code of Ethics as an Organizational Management Tool and its Use in the Czech Republic", fills a gap in knowledge in the area of Business Ethics, in particular with regards to the specialist topic Codes of Ethics. This book also presents current issues with regards to codes of ethics in the Czech Republic, which are also relevant to companies throughout the world. It is therefore my opinion, on the basis of the arguments set out above, that there is a social need to print and publish this reviewed book. I hereby therefore fully endorse its publication.

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Conference Review

The 14th International Scientific Conference “Human Resources Management: Current Trends, Challenges and Inspirations”

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The 14th international scientific conference “Human Resources Management: Current Trends, Challenges and Inspirations” took place on 20th – 21st April 2017 in Trenčianske Teplice, Slovak Republic, in the beautiful surroundings of Hotel Krym. The main objective of the conference was the mutual exchange of new scientific findings and practical experience in the field of Human Resources Management and other relevant topics. The conference, which was organised by Alexander Dubček of the University of Trenčín, Faculty of Social and Economic Relations, was divided into two themed parts. The first one was led by Prof. Rolf Karbach and by associate professor Tatiana Masárová, the second one by Prof. Sergej Vojtovič and Prof. Jaroslav Holomek. The members of the Scientific Board were drawn from the Slovak Republic, Czech Republic, Germany, Spain, Lithuania and Hungary. All the contributions were very good. Of particular interest were contributions such as “Personal background of start-ups” by Prof. Ing. Štefan Slávik, CSc. (University of Economics in Bratislava, Slovak Republic), “Potential entrepreneurial motivation of economics students in Slovakia: what are the HRM implications for entrepreneurial politics and practice?” by associate professor Mario Bogdanović, Ph.D. (Faculty of Economics, University of Split, Republic of Croatia), and “WORK 4.0. - Standard and non-standard methods” by associate professor Ing. Otakar Němec, CSc. (University of Economics, Prague, Czech Republic).

Mgr. Zdeněk Caha, MBA, Ph.D., Institute of Technology and Business in České Budějovice, Faculty of Corporate Strategy, Department of Management.

Review

**VÁCHAL, Jan et al., Jihočeský kraj v globální ekonomice,
2016. Praha:Setoutbooks. ISBN 978-86277-82-0.**

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The book of Jan Váchal and the team, which was created within the framework of a project aimed at supporting the pedagogical work of the Department of Management of the Technical and Economic University in České Budějovice, as well as within the other scientific activities of this school, analyzes the main cross-sectional economic areas as well as the key branches of the South Bohemian Region. It focuses on the period from the accession to the European Union to the present, and besides its own analysis of the state and development of the South Bohemian economy, it focuses on the influence of globalization on the South Bohemian Region and its international economic relations.

Apart from the introduction and conclusion, the book is divided into fifteen chapters. The initial chapter deals with the effects of international markets on the South Bohemian regional market, both on the goods and services market and on the labor market and capital markets. The second chapter analyzes the development of the labor market in the South Bohemian Region, including the effectiveness of employment policy. It also deals with the analysis of the causes of unemployment and the specifics of employment in the border areas of the region.

The third chapter analyzes small and medium enterprises in the South Bohemian Region, which forms the core of its economy. It outlines its advantages and disadvantages in comparison with the European Union and deals with the financing of small and medium-sized enterprises. Another chapter of the book deals with the analysis of innovative activities of South Bohemian companies and their comparison with other regions of the Czech Republic.

The aim of the fifth chapter was to analyze the development of agricultural production and the food industry in the South Bohemian region after joining the European Union, among other things in connection with the importance of this sector in the South Bohemian economy. It is followed by a chapter devoted to the perception of regional production, especially in the field of food products, and the application of regional foods in the context of modern gastronomy.

The seventh chapter deals with another of the major branches of the South Bohemian economy, namely tourism, its development and marketing communication. In connection with the importance of this sector, attention is also paid to services closely related to the tourism industry.

The other three chapters of the book are devoted to the international aspects of the South Bohemian economy, namely the financial analysis of export companies in the South Bohemian region, the evaluation of the level, potential and possibilities of foreign investment support in the South Bohemian region and the economic relations of the South Bohemian Region and Russia.

The eleventh chapter of the book deals with the analysis of the marketing activities of small and medium-sized enterprises in the South Bohemian Region as well as with the management of their relations with the stakeholders. It takes into account the different approaches of individual companies in this area depending on their type.

The four final chapters of the book are devoted to the issue of human resource management and development in the South Bohemian economic region, including investment in human capital. Particular attention is paid to the language training of employees in South Bohemian enterprises and institutions.

The book is based on a wide range of sources, both sources and databases of public and in-house materials, and data obtained through own questionnaires. Methodologically, the book uses economic, statistical and historical analyzes, including international comparisons.

The book of a large team of authors under the leadership of Jan Váchal should be appreciated for its empirical approach as well as a number of original analyses and comparisons. Its concept, content and form corresponds to the intention of its authors to provide an overview of the economy of the South Bohemian Region as well as its international position, both theoretically and practically, including the point of view of managerial practice. The individual chapters of the book give an exhaustive view of the main features of the South Bohemian economy and its specific position given by historical traditions, economic and enterprise composition and geographic location. The appreciation deserves the emphasis that the book focuses on the issue of the workforce, both from the point of view of its employment, as well as from the point of view of the corporate management of human resources and their development.

An analytically focused publication of the team of authors from the Technical and Economic University can be welcomed also in view of its still rather rare interest in the position of the regional economy in international relations, also in terms of its global competitiveness and its factors. Given that the publication was created in cooperation with the South Bohemian enterprises that provided a number of data, other South Bohemian and national institutions, it should be appreciated as an example of the cooperation of academic institutions with private and public sphere, which is also relevant to the academic workplace.

The clear and in-depth elaboration of the book's topic makes it a useful study and practical material for better understanding and understanding of the South Bohemian region.

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Conference review

The 13th Annual Prague Conference on Political Economy

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The 13th Annual Prague Conference on Political Economy (PCPE) took place at the CEVRO Institute in Prague between March 17 and March 19, 2017. Four sessions were scheduled, approximately 100 people were in attendance and 54 people presented their thoughts in four panels. These annual conferences are quite unique because it emphasized the idea of gathering in a friendly environment, holding meetings, and exchanging ideas. The conferences feature the standard process of presenting and discussing ideas but a lot of people attend them simply to hear ideas, which are not considered a part of mainstream political economics. PCPE is traditionally aimed at liberty-oriented thinking that flourished in Central Europe at the beginning of the 20th century. The conferences' specific focus is, therefore, on the Austrian economics and the genius economists Carl Menger, Eugen von Böhm-Bawerk, Franz Čuhel, Friedrich von Wieser, Ludwig von Mises, Friedrich Hayek, and others.

This year's Memorial lecture speakers were two scholars active in Philosophy, Politics, Economics, and Law (PPE&L). This interdisciplinary framework deals with topics of political economy of freedom. The first speaker was the American economist Jeffrey Tucker (Director of Content for the Foundation for Economic Education) who presented his Franz Čuhel Memorial Lecture titled "What Mises Learned about Politics: 1919-1947." Tucker based his lecture on the research of the intellectual biography of Mises. For Tucker, Mises was a remarkable thinker and he regards his work as monumental. Mises published works contain interesting political economy analyses and clear political warnings against state regulations and public institutions. Mises's political vision is applying the market principles to the institution of government. This idea is embodied in his great publication called "Liberalism" published in 1927 (Mises 2010). His work of genius "Human Action" published in 1940 (Mises 1966) was a must have book in American political and intellectual life. Mises' message

to free society is clear - to go from the totalitarian science of political imposition to the good science of human action¹.

Bruce Caldwell (Director of Center for the History of Political Economy at Duke University) delivered the second presentation as a part of his Friedrich von Wieser Memorial Lecture "Hayekian Ideas for Today." His inspiration for the lecture lies in Hayek's big four works "Fatal Conceit" (Hayek 1991), "Road to Serfdom" (Hayek 2007), "Constitution of liberty" (Hayek 2011), and "Law, Legislation, and Liberty" (Hayek 1982). Similarly to Tucker's lecture, we learned a lot about the nature and limits of economics. We have to start thinking more clearly; we have to stop thinking that we have all the necessary knowledge about preferences, endowments, and technology to predict the future. He recommends using basic intuition, which is based on well-taught economic principles, such as price mechanisms and ideas that see market as a process of discovery where economy should be allowed to develop in a spontaneous order. It is simply because states do not always have the best information and history is full of injustices caused by government failures.

Both speakers are great thinkers and their presentations were in the tradition and framework of the conference. Traditional conference presentations started and in the majority of panels, presenters experienced rather strong libertarian critique the next day. Participants were from around the world. Some Czech and international doctoral students also participated, as well as students of the newly established international PPE study program, which was opened at the CEVRO Institute. Their contributions were very well prepared and their projects and ideas can be further developed into interesting papers and international projects. Mr. Rok Novak (CEVRO Institute) presented an idea of Informed Democratic Participation as a Public Good Problem; Mr. Casey Pender presented ideas about Money Supply Elasticity in the world of Free Market Banking.

The most problematic part of the conference is the lack of recorded knowledge and related missed potential of narrow and for some academics provocative framework of Austrian Economics. There were attempts to create audio recordings in the past but they are insufficient and not user friendly. These conferences promote "the advancement of liberty-oriented research programs" but have been missing a tool or instrument to create research programs or project proposals. The organizers of the conference also choose not to record the knowledge using standard conference proceedings. Proceedings are deemed unnecessary. They are, however, sometimes the only way to summarize the contribution of the conference to science and further promote ideas of liberty-oriented thinking and good science of human action.

¹ This distinction between political science and science of human action can be found in one of his last works "The Ultimate Foundation of Economic Science: An Essay on Method" first published in 1962, Mises (2006).

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